

# **Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises**

**Dissertation**

submitted to the  
Faculty of Economics and Business Administration at the  
University of Düsseldorf

to obtain the degree of Doctor of Business Administration  
(doctor rerum politicarum – Dr. rer. pol.)

presented by

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May 2015

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## List of Abbreviations

bn.....	billion
CATPCA.....	categorical principal component analysis
CD.....	cultural distance
CEO.....	chief executive officer
CMB.....	common method bias
e.g. ....	exempli gratia/for example
etc. ....	et cetera/and so on
et al. ....	et alia/and others
FDI.....	foreign direct investment
I.....	<i>i</i> th of the nine cultural dimensions
i.e. ....	id est/that is
IP-theory.....	process model of internationalization
MNE.....	multinational enterprise
n.....	number of sample size
OLI.....	Ownership, Location, Internalization
p.....	significance level
p. ....	page
PCA.....	principal component analysis
POLCON.....	Political Constrain Index
RBV.....	resource based view
R <sup>2</sup> .....	R-squared
R&D.....	Research and Development
SD.....	standard deviation
SME.....	small and medium-sized enterprise
TCE.....	transaction cost economics
TMT.....	top management team
USA.....	United States of America
V.....	variance
VIF.....	variance inflation factor
χ <sup>2</sup> .....	Chi-squared
Δ.....	delta
%.....	percent
Σ.....	sigma sign/sum

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## **A. Introduction**

### **1. Focus of the Thesis**

Many firms expand their geographic scope from domestic to foreign markets (Lu & Beamish, 2006). In general, firms benefit from internationalization as it provides them with enhanced managerial skills and capabilities, facilitates a better use of resources and offers them a greater degree of flexibility when undertaking diversified business risks (Pinho, 2007). In addition, by increasing its involvement in foreign markets, a firm can benefit from international competition and, in consequence, become a stronger player in its home market (Pinho, 2007).

Once a firm decides to enter an international market it must choose an appropriate form of operation or entry mode (Nakos & Brouthers, 2002). Firms can select among several modes of foreign entry, including exporting, contractual agreements (e.g., licensing), joint venturing, acquiring an existing company, and establishing a wholly-owned greenfield investment from scratch (Pan & Tse, 2000). The foreign market entry mode choice represents an important strategic decision (Lu, 2002), particularly for small and medium-sized enterprises (SMEs). It determines the firm's degree of resource commitment to the foreign market (Hill, Hwang, & Kim, 1990), the risks the firm will bear in the host country (Hill et al., 1990; Hill & Kim, 1988), and the level of control a firm can exercise over its foreign activities (Anderson & Gatignon, 1986).

It is well known that SMEs are not just smaller versions of large multinational enterprises (MNEs) (Brouthers & Nakos, 2004; Maekelburger, Schwens, & Kabst, 2012), but differ in terms of various aspects, which influence managerial decisions, and, ultimately the way internationalization is conducted. Such particularities of SMEs and the consequences of those characteristics for the firm's foreign market entry mode choice, necessitate the investigation of SMEs' choice behavior (Brouthers, Brouthers, & Werner, 1996).

Due to their smaller size, SMEs are less susceptible to inertia than larger MNEs and are able to adapt more rapidly and flexible to different market conditions than MNEs (Aragón-Correa, Hurtado-Torres,

Sharma, & García-Morales, 2008; Gassmann & Keupp, 2007). In many instances, the CEO is solely accountable and many SMEs are closely held and owner-managed (Fernández & Nieto, 2006). Thus, SMEs leadership can decide more flexible and with a higher level of managerial discretion compared to large MNEs (Hyvarinen, 1990), which usually have largely dispersed shareholders and employed managers. Accordingly, SMEs enjoy faster decision processes and more informal and efficient information flows (Berends, Jelinek, Reymen, & Stultiëns, 2014). Consequently, information, which is gathered during internationalization, is processed more efficiently and learning effects are stronger than in MNEs.

Additionally, SMEs play a particularly important role in Germany as 99.7% of all German firms are SMEs (Günterberg & Kayser, 2004; Simon, 1996). Moreover, the “traditional German Mittelstand” employs 60.8% of all German employees contributing to the social insurance system and, thus, represents a major employer in the German economy (Günterberg, 2012). In addition, German SMEs are major drivers of process- and product innovations (Maaß & Führmann, 2012), which makes the understanding of their foreign market entry mode choice even more critical. Given these characteristics, SMEs have been considered as the backbone of the German economy (Simon, 1996).

However, despite the firms’ positive characteristics and the potential advantages of internationalization, internationalization, indeed, remains still a challenge for SMEs (Jones & Coviello, 2005). Smaller firms face disadvantages when compared to MNEs, particularly because of their limited financial and personnel resources (Nakos & Brouthers, 2002). Resource constraints can limit SMEs’ ability to commit strongly to a foreign market by choosing high-commitment foreign market entry modes like full acquisitions (Ripollés, Blesa, & Monferrer, 2012). The resource disadvantage of SMEs makes them also highly sensitive to external conditions (Cheng & Yu, 2008; Erramilli & D’Souza, 1995). In consequence, SMEs have to find an entry mode that allows them to deal effectively with the risks that arise in the host country. In addition to the liabilities of smallness, SMEs face a higher risk of failure due the liability of foreignness (Zaheer, 1995). In conclusion, it remains difficult for many SMEs to internationalize, which makes it worthwhile to identify factors that affect the access of SMEs to international markets (Fernández & Nieto, 2006).



This thesis focuses on internationally active SMEs and their foreign market entry mode choice. In detail, the thesis analyzes the influence of specific characteristics of SMEs on the firm's choice of an appropriate foreign market entry mode. Such characteristics are, for example, the lack of resources, the sensitivity to external challenges, the special ownership structure, and management characteristics. Considering the specific characteristics of SMEs and the benefits and challenges arising from internationalization, the understanding of how SMEs enter foreign markets raises several questions, which I will outline in the following.

## **2. Research Gaps**

With the rise of international business, SMEs take an increasingly active role in international markets. Previous research has looked at the antecedents and the process of SMEs' internationalization. However, despite the many studies covering SME internationalization, there are many questions left unanswered. Reviewing the existing literature in this field, three research gaps have been identified which will be elaborated on in the following:

1. What is the current state of knowledge about foreign market entry mode choice of SMEs?
2. How does international (equity) experience impact SME foreign market entry mode choice?
3. What is the role of the CEO in the foreign market entry mode decision of SMEs?

First, the international business literature focuses primarily on SMEs' export activities analyzing the differences between exporters and non-exporters, the antecedents and the process of exporting, as well as the exporting performance (Andersen, 1993; Leonidou, 2004; Leonidou, Katsikeas, & Piercy, 1998). Because of resource constraints, scholars argue that SMEs tend to prefer non-equity entry modes (Lu & Beamish, 2006; Zacharakis, 1997). "Scholars who have called for further research into internationalizing SMEs' entry mode have challenged the traditional portrayal of SMEs as best suited simply for exporting owing to their resource constraints; SMEs do have multiple other entry modes to choose from" (Prashantham, 2011, p. 4). Previous literature also examined other operation modes (apart from exporting) such as foreign direct investment (FDI) (for a review see Coviello & McAuley,

1999). Establishing subsidiaries in foreign markets provides the opportunity for SMEs to internalize the transaction-related risks and to gain competitive advantages by protecting their assets (Lu & Beamish, 2006; Schwens, Eiche, & Kabst, 2011). More recently, the literature considers the degree of internationalization and its performance implications (e.g., Pangarkar, 2008), the geographic diversification (e.g., Hashai, 2011), as well as the growth potential for the small firm through foreign expansion (e.g., Hashai & Delios, 2011).

International expansion represents a multidimensional construct (Lu & Beamish, 2006) and several theories and conceptual frameworks have been developed outlining a firm's decision to initiate the internationalization process (Nakos & Brouthers, 2002). The *first literature gap* refers to the current state of knowledge about foreign market entry mode choice of SMEs. While research on international expansion and foreign market entry is well established within the international business literature, to date, the focus is primarily on large MNEs and ignores the activities of smaller firms (Brouthers et al., 1996). This limitation is problematic, as knowledge obtained in the context of large MNEs cannot simply be transferred to the SME context (Shuman & Seeger, 1986).

An increasing trend toward internationalization among SMEs has caused scholars to repeat the call for more research in the context of SMEs (e.g., Burgel & Murray, 2000; Jones, 1999; Zacharakis, 1997). However, the research field is not only unclear about the *theoretical frameworks* that explain SME foreign market entry mode choice, but also about the *contextual dimensions* that have been studied. However, given the *SME-specific characteristics*, which are pertinent to decisions firms make about their entry mode, the investigation of this firm type merits further research attention.

Second, the most popular theory used to explain firms' internationalization is the *process model of internationalization (IP-theory)* (Johanson & Vahlne, 1977, 1990, 2009; Johanson & Wiedersheim-Paul, 1975). The IP-theory assumes that internationalization is the consequence of a series of incremental decisions, through which firms reduce the given uncertainty (arising from the host country) due to the lack of knowledge about how to conduct business in a foreign market (Aharoni, 1966; Hadjikhani, 1997). Based on the behavioral theory of the firm (Aharoni, 1966; Cyert & March, 1963), the Uppsala model predicts that firms increase their resource commitments to foreign markets as their

local market experience grows (Johanson & Vahlne, 1977). The process model of internationalization by Johanson and Wiedersheim-Paul (1975) proposes an incremental development of firms along the four stages of the so called “establishment chain” (p. 307): (1) no regular export activities, (2) export via independent representatives/agents, (3) sales subsidiary and (4) production/manufacturing. Moreover, firms venture from geographically, institutionally, and culturally proximate countries to distant ones, and increase their foreign exposure and resource commitment gradually within and across countries (Hadjikhani, 1997; Johanson & Vahlne, 1977; Pedersen & Petersen, 1998; Petersen, Pedersen, & Lyles, 2008).

One of the most important ways of knowledge accumulation unfolds through international equity modes the firm has chosen in previous international activities. A significant body of literature focusing on large MNEs investigates the role of international equity experience in firms’ internationalization (e.g., Barkema, Bell, & Pennings, 1996; Hutzschenreuter & Voll, 2008; Lu, 2002). While the literature on large MNE internationalization provides important contributions, results cannot be transferred to the context of SMEs without adaptation. Given SMEs’ specific characteristics, foreign market entry mode choice creates substantial challenges for them with regard to finding the right commitment to the foreign market in order to gain control over risks prevailing in the host country.

Hence, *the second area needing more research attention* is how international (equity) experience impacts SME foreign market entry mode choice. Although much is known about the influence of international experience (in general) on SME entry mode choice, little is known about the role of international equity experience in such firms’ mode decision. More specific, little is known about *how different forms of international equity experience feed forward into subsequent entry mode decisions*. However, SMEs’ types of international equity experience might allow them to reduce uncertainty in their foreign market entry mode choice.

Third, knowledge is highly dependent on individuals. Researchers have highlighted the responsibilities of global teams, expatriates, or middle managers of MNEs in transmitting experiential knowledge (e.g., Harzing, 2001; Holtbrugge & Berg, 2004). Other scholars emphasize the importance of CEO demographic characteristics in strategic decisions, particular when choosing an appropriate foreign

market entry mode (e.g., Herrmann & Datta, 2006; Nielsen & Nielsen, 2011). Similar to the internationalization process model, models that explain firms' internationalization behavior by focusing on the firms' individual decision maker(s), draw on the behavioral theory of the firm. Viewing the internationalization decision as "strategic choices made by executives" (Hambrick & Mason, 1984, p. 195) that reflect the idiosyncrasies of decision makers, scholars view the outcome of strategic decisions as an interplay of executives' experiences. The changed reality of increased globalization in industries increases the pressures on CEOs to internationalize their firms (Herrmann & Datta, 2002). Derived from Hambrick and Mason (1984), the *upper echelons theory* does not regard the flows of information and decision-making as being detached from the people involved but rather emphasizes the demographics, cognitions, and values of the top management and how they impact strategic decision-making. The theory states that organizational outcomes can be (partially) predicted from managerial backgrounds (Hambrick & Mason, 1984).

Extant research provides important contributions to understand how CEO demographics influence foreign market entry mode choice of large MNEs. However, in the context of SMEs, studying CEO demographics gains importance as in many instances the CEO is solely accountable and many SMEs are closely held and owner-managed (Fernández & Nieto, 2006). To this end, "the CEO of an SME is invariably the person who has the authority for all major decisions taken." (Mesquita & Lazzarini, 2008, p. 306). Thus, aspects that are directly related with CEOs' demographics play a particularly pertinent role in SME foreign market entry mode choice (Herrmann & Datta, 2006; Tihanyi, Ellstrand, Daily, & Dalton, 2000). Yet, the literature focusing on SMEs is limited in this context.

*The third identified gap in the literature* on SME foreign market entry mode choice refers to the *role of the CEO in the foreign market entry mode decision*. It has been highlighted that the CEO is inseparably connected to the foreign market entry mode choice and research elaborates on the impact of CEO demographics during that strategic decision. However, research is based on samples of large MNEs. Due to SMEs' special ownership structure, the CEO in such firms is usually solely accountable opposed to large MNEs in which a whole top-management team usually makes strategic decisions. Hence, the CEO in SMEs plays a key role, which merits further research attention.

Based on the three identified research gaps, I will develop the research objectives of this doctoral thesis in the following

### **3. Research Objectives and Contributions**

This thesis contributes to existing research by deepening the understanding of SME foreign market entry mode choice by focusing on their particularities, which are likely to differentiate their choice from the one of large MNEs. In particular, this doctoral thesis concentrates on three major research objectives.

- The first objective is to review the current state of the SME foreign market entry mode choice research, and based on this review, to identify gaps in the literature in order to map future research directions.
- The second objective is to examine the impact of international equity experience (in terms of accumulated cultural distance from equity investments, equity mode experience, and pace of prior equity experience) on SME foreign market entry mode choice.
- The third objective is to examine the impact of CEO age, firm tenure and international experience on SME equity foreign market entry mode choice and how these associations are jointly moderated by organizational and environmental factors.

Accordingly, this thesis consists of three papers, which have been written as independent studies. Table 1 shows the title of the respective study, the specific research aim, the contribution of each study, the theoretical foundation applied in the paper, the core constructs used in the analyses, the methodology applied in the respective study and the sample used to test the theoretical predictions empirically. In the following, I will describe the structure of the studies in more detail and state how each of them contributes to the literature and knowledge on SME entry mode choice.

**Table A – 1: Research Objectives and Contributions**

	Title	Research Objective	Contribution	Theoretical Background	Core Constructs	Methodology	Sample	Status
<b>Study 1</b>	Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises: A Systematic Review and Future Research Agenda	To review the current state of SME foreign market entry mode choice research, and based on this review, to identify gaps in the literature in order to map future research directions	The study contributes... 1. by summarizing the current state of the field by reviewing 33 articles in terms of theoretical framework and empirical research design 2. by discussing major findings and revealing gaps in the literature, we thereby examine the extent to which the three characteristics of SMEs have been considered on SME entry mode research 3. by offering theoretical and methodological directions to guide scholarship	None	None	Systematic review	33 studies on SME foreign market entry mode choice	IBR
<b>Study 2</b>	The Role of International Equity Experience in Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises	To examine the impact of international equity experience in terms of accumulated cultural distance from equity investments (i.e., the (accumulated) distance between the location of all prior foreign markets entered by means of equity modes and the most recently entered foreign market), equity mode experience (i.e., the number of previous international markets entered by means of equity modes relative to the number of all international markets served by the SME), and pace of prior equity experience (i.e., the number of prior equity foreign market entries per unit of time) on SME foreign market entry mode choice	The study contributes... 1. by specifically tailoring the theoretical rationale presented in the paper to the context of SMEs 2. by seeking to explain other major strategic decisions SMEs have to take in their internationalization	Process model of internationalization	Dependent variable: entry mode choice (binary: equity vs. Non-equity) Independent variables: accumulated cultural distance from prior equity investments, equity mode experience, pace of equity experience	Binary logistic regression models	125 German SMEs	R&R JIM
<b>Study 3</b>	CEO Demographics and SME Foreign Market Entry Mode Choice: The Moderating Effect of Geographical Experience and Host-Country Political Risk	To examine the impact of CEO age, firm tenure and international experience on SME equity foreign market entry mode choice and how these associations are jointly moderated by organizational and environmental factors	The study contributes... 1. by reflecting on boundary conditions of the relationship between CEO demographics and foreign market entry mode choice 2. by tailoring our research to the context of SMEs	Upper echelons theory	Dependent variable: entry mode choice (binary: equity vs. Non-equity) Independent variables: CEO age, CEO firm tenure, CEO international experience Moderators: Geographic experience of the firm, host-country political risk (PLOCON)	Triple interactive effects in binary logistic regression models	85 German SMEs	2nd R&R IMR

### **3.1 Foreign Market Entry Mode Choice of SMEs: A Systematic Review and Future Research Agenda**

The aim of the first study is to review the current state of SME foreign market entry mode choice research and identify gaps in the literature in order to map future research directions in this domain. Despite significant differences between SMEs and large MNEs, the majority of extant foreign market entry mode choice literature has focused on MNEs. The current state of knowledge regarding SME entry mode choice is equivocal.

We systematically review 33 published articles (from 1986 to 2012) on SME foreign market entry mode choice with regard to the theoretical frameworks applied to explain SMEs' choice and with regard to the contextual dimensions that have been studied. Based on the review we make specific suggestions for the development of this literature going forward.

The study contributes to the literature by reviewing and assessing the current state of research on SME entry mode choice and by developing a roadmap for future research. Moreover, the study focuses on SMEs and, by taking a closer look at such firms' specific characteristics (i.e., lack of resources, sensitivity to external challenges, specific ownership structure and management characteristics), the respective study enhances existing knowledge beyond what we know about large MNEs.

### **3.2 The Role of International Equity Experience in Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises**

The aim of the second study is to examine different dimensions of SMEs' prior international equity experience in terms of accumulated cultural distance from equity investments, equity mode experience, and pace of prior equity experience on SME's most recent foreign market entry mode choice.

International equity experience is an important concept for firms' strategic decisions as firms acquire a significant proportion of knowledge from this experience. Firms are directly exposed to customers, institutions and business partners. To this end, international equity experience encompasses the accumulation of knowledge as well as capabilities obtained from foreign equity investments. International

equity experience also involves significant financial and personal resources, which is why it is an intense form of experience. Based on arguments obtained from extant internationalization literature of large MNEs, we conceptualize the relationships of international equity experience and SME foreign market entry choice by specifically taking SME characteristics into consideration.

We validate our research model on a dataset of 125 German SMEs. To examine the influence of prior equity international experience on SME foreign market entry mode choice, we use binary logistic models. We empirically find that SMEs follow one dominant internationalization pattern: they enter foreign markets at a high pace via high-commitment modes.

We contribute to the literature as we specifically tailor our theoretical argumentations to the context of SMEs. We argue that the specific characteristics of SMEs have a substantial impact on the way the three international equity experience constructs impact SME entry mode choice (in terms of dynamic adjustment costs, imprinting and time compression diseconomies). Moreover, the theoretical knowledge developed in this paper will help researchers seeking to explain other major strategic decisions SMEs have to take in their internationalization such as location choice or timing of internationalization.

### **3.3 CEO Demographics and SME Foreign Market Entry Mode Choice: The Moderating Effect of Geographical Experience and Host-Country Political Risk**

The third study contextualizes the relationship between CEO demographics (i.e., CEO age, CEO firm tenure and CEO international experience) and the foreign market entry mode decision of SMEs. In specific, we introduce geographical experience of the firm on the organizational level and political risk on the environmental level as important boundary conditions determining the level of the individual's managerial discretion influencing firms' choice of an appropriate entry mode.

Drawing on upper echelons theory, we link CEO demographics to the degree of risk a firm is exposed to in the host country determining the foreign market entry mode choice and the information needs when considering different mode types, before we develop our research model. Based on arguments



borrowed by the concept of managerial discretion, we conceptualize the interrelationships between CEO demographics and firm-level experience and environmental challenges.

Testing our hypotheses on a sample of German SMEs (n=85), our empirical results validate that the influences of CEO age and CEO firm tenure on the foreign market entry mode choice vary by the joint effect of SME's (organizational) geographical experience and the level of political risk prevailing in the foreign market environment.

We contribute to the literature by reflecting on the boundary conditions of the relationship between CEO demographics and foreign market entry mode choice. Moreover, we contribute to existing research by specifically tailoring our research model to the context of SMEs, by examining firms' prior international experience and host-country political risk – key inherent characteristics of SMEs.

#### **4. Further Remarks**

The three studies this dissertation consists of deepen our understanding of the previously mentioned research issues with regards to internationally active SMEs. I finally highlight the original sources of publication or the current state of the three papers included in this dissertation.

Study 1: Laufs, Katharina and Schwens, Christian (2014), "Foreign Market Entry Mode Choice of SMEs: A Systematic Review and Future Research Agenda", *International Business Review*, 23 (6), 1109-1126 (<http://dx.doi.org/10.1016/j.ibusrev.2014.03.006>).

Study 2: Laufs, Katharina; Schwens, Christian and Baum, Matthias, "The Role of International Equity Experience in Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises", Unpublished working paper (Went through first round of revisions with *Journal of International Marketing*).

Study 3: Laufs, Katharina; Bembom, Michael and Schwens, Christian, "CEO Demographics and SME Foreign Market Entry Mode Choice: The Moderating Effect of Geographical Experience and Host-Country Political Risk", Unpublished working paper (Second round of revisions in *International Marketing Review*).

## **B. Study 1: Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises: A Systematic Review and Future Research Agenda<sup>1</sup>**

### **1. Introduction**

Internationalizing companies have to find a suitable organizational structure in order to manage foreign activities effectively when they enter foreign markets (Anderson & Gatignon, 1986). Firms can choose among several modes of foreign market entry, including exporting, contractual agreements (e.g., licensing), joint venturing, acquiring an existing company, and establishing a wholly-owned greenfield investment from scratch (Pan & Tse, 2000). The choice of a suitable foreign market entry mode is an important strategic decision (Lu, 2002). Foreign market entry mode choice determines the firm's degree of *resource commitment* to the foreign market (Hill et al., 1990), the *risks* the firm will bear in the host country (Hill et al., 1990; Hill & Kim, 1988), and the level of *control* a firm can exercise over its foreign activities (Anderson & Gatignon, 1986). Changing an initially chosen entry mode can be costly and time-consuming (Kumar & Subramaniam, 1997), so the wrong entry mode can negatively impact the firm's performance (Lu & Beamish, 2001; Nakos & Brouthers, 2002).

Small- and medium-sized enterprises (SMEs), as opposed to large multinational enterprises (MNEs), have *specific characteristics* that are likely to influence their foreign market entry mode choice in terms of the level of commitment to the foreign market, how they deal with risks in the host country, and the controllability of foreign market activities. Among these characteristics are SMEs' *limited financial and personnel resources* (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002). Resource constraints can limit SMEs ability to *commit* strongly to a foreign market by choosing high-commitment foreign market entry modes like full acquisitions (Ripollés et al., 2012). Research has also shown that SMEs have a high level of *sensitivity to external influences* (Cheng & Yu, 2008; Erramilli & D'Souza, 1995), making it particularly important that SMEs find an entry mode that allows them to deal effectively with the *risks* that arise in the host country. SMEs also differ from large

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<sup>1</sup> Together with Schwens, Christian | the paper was presented at the European International Business Academy (EIBA) Annual Meeting, Bremen, Germany, 2013.

MNEs in terms of their *ownership structure and management characteristics* (Cheng, 2008; Pinho, 2007), as many SMEs are family-owned and/or owner-managed. Therefore, their choice of entry mode may differ (from that of large MNEs), as family-owned firms are often less willing to share *control* with a partner (e.g., in an equity joint venture) (Fernández & Nieto, 2006).

Adhering to the specific characteristics of SMEs, scholars posited that SMEs are less prone to choose higher-commitment entry modes (Zacharakis, 1997). However, literature has also shown that some SMEs – in particular those with prior international experience – have the ability to opt for higher-commitment entry modes such as acquisitions (e.g., Brouthers & Nakos, 2004; Maekelburger et al., 2012). To date, knowledge about the critical decision how SMEs enter foreign markets is limited, at least in part because research in this area on SMEs is far more restricted than are studies that investigate large MNEs (e.g., Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Brouthers & Hennart, 2007). This limitation is problematic, as knowledge obtained in the context of large MNEs cannot simply be transferred to the SME context (Shuman & Seeger, 1986). As early as 1996, Brouthers et al. contended that entry mode studies concentrated on large MNEs and ignored the activities of smaller firms. An increasing trend toward internationalization among SMEs has caused scholars to repeat the call for more research in the context of SMEs (Burgel & Murray, 2000; Jones, 1999; Zacharakis, 1997).

The current state of knowledge about SME foreign market entry mode choice is equivocal. Two deficits in the research in particular inform the present research: First, the field is unclear regarding theoretical development. While studies that draw on *theoretical frameworks* to explain SME foreign market entry mode choice are overall limited, studies that do draw on theory largely apply the same theories that have been used to explain large MNE entry mode choice. The generalizability of theory is important, but given the characteristics of SMEs (e.g., limited resources, sensitivity to external influences), it is important to reflect on the boundary conditions of existing theory and to examine potential sources of variation (Maekelburger et al., 2012). The second deficit in the research that has particularly informed the present research is the lack of clarity in current knowledge regarding the *contextual dimensions* that have been studied. Studies have focused on various home and host markets and indus-

tries, studied different dimensions of psychic distance, and concentrated on firms with various ages. However, existing knowledge concerning the degree to which the studies' designs allowed the researcher to delve deeply into the SME-specific characteristics is unclear.

The aim of the present paper is to review the current state of SME foreign market entry mode choice research and, based on this review, to identify gaps in the literature in order to map productive future research directions. More specifically, we examine the current state of the research in terms of theoretical frameworks used and contextual dimensions studied. Based on our review, we identify gaps in the literature by examining the extent to which the characteristics of SMEs (i.e., lack of resources, sensitivity to external influences, ownership structure and management characteristics) have been considered in SME entry mode research. We focus on these characteristics, as they directly impact an SME's ability to commit to the host country market, to deal with risks abroad, and to maintain control over the foreign activities. All these characteristics represent key aspects of firms' decisions regarding how to enter foreign markets. Based on the gaps we identify, we develop a roadmap for future research to fill these gaps that follows the structure of the SME-specific characteristics. Thus, our roadmap for future research is specifically tailored to the SME context.

We contribute to the literature by reviewing and assessing the current state of research on SME foreign market entry mode and by delineating an outlook for future research. Most existing reviews focus on large MNEs (e.g., Brouthers & Hennart, 2007; Canabal & White, 2008; Morschett, Schramm-Klein, & Swoboda, 2010; Slangen & Hennart, 2007) and give limited consideration to SMEs. However, given the SME-specific characteristics, which are pertinent to decisions firms make about their entry mode, it is important to focus on this type of firm. Hence, we do not "focus on sample setting – for the sake of sample setting" (Shaver, 2013, p. 25); instead, we focus on SMEs in order to enhance existing knowledge beyond what we know about large MNEs and to inform the overall domain of entry mode choice for future theoretical development and contextualization. The laudable review by Coviello and McAuley (1999) was published almost 15 years ago and focuses on general internationalization issues of the smaller firm (including a few topics related to entry mode). We update this ef-

fort by conducting an inventory of the state of the art of the literature on SME foreign market entry mode choice and make specific suggestions for the development of this literature going forward.

We proceed as follows: the next section provides the background literature and is followed by a description of our methodology. Then we review the current state, as reflected by thirty-three selected articles on SME foreign market entry mode choice and identify gaps in this literature. Based on our review, we develop a roadmap for future research. The paper closes by addressing limitations and some concluding remarks.

## **2. Background Literature**

### **2.1 Commitment, Risk, and Control in Foreign Market Entry Mode Choice**

Foreign market entry mode choice determines the level of resource commitment, risk, and control a firm undertakes in its foreign market activities (Anderson & Gatignon, 1986; Hill et al., 1990). That is, some entry modes require a large commitment of resources to the host country, while others allow resource commitments to be shared among partners. For example, establishing a wholly-owned foreign greenfield investment from scratch requires a high level of resource commitment, as the internationalizing firm has to shoulder all of the costs of establishing a new firm and serving the foreign market (Hill et al., 1990). However, contractual agreements like licensing limit a firm's resource commitment to monitoring the personnel in their new work environment (Hill et al., 1990). The level of resource commitment required in a joint venture lies somewhere between these two extremes, depending on the type of joint venture (i.e., minority, majority, or equity joint venture) (Hill et al., 1990).

Inseparably connected with the resource commitment, foreign market entry mode choice determines the level of risk to which the firm is exposed in the international setting (Hill et al., 1990; Hill & Kim, 1988). The more resources the firm commits, the greater the risk of losing valuable resources if the foreign market engagement fails. For example, a firm that undertakes a costly greenfield investment in the host country has a greater risk of losing significant resources than does a firm that establishes a licensing agreement with a partner in the same host country. On the other hand, a high-commitment

mode (such as the establishment of a wholly-owned subsidiary) can reduce the risk of unintended knowledge diffusion (of, for example, a firm-specific technology). The propensity of such diffusion is much more likely when a partner is involved (e.g., in a franchising agreement or joint venture).

Entry modes also involve varying levels of control over foreign market activities (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Hill et al., 1990), as control is determined by the firm's level of responsibility for operational and strategic decision-making in the foreign market (Anderson & Gatignon, 1986). For example, when acquiring a host country firm, a firm may delegate certain strategic decisions to the foreign subsidiary, but the acquirer maintains overall control (Hill et al., 1990). In the case of contractual agreements, control can be achieved by means of contract enforcement but only to the extent to which hazards are contractually safeguarded a priori. The danger of ex post opportunistic behavior limits the firm's control in contractual agreements. The level of control in a joint venture lies between that of contractual agreement and acquisition and is contingent on the type of ownership and the number of parties involved, although control must be shared with venture partners in any case (Hill et al., 1990).

Overall, the SME literature operationalizes foreign market entry mode choice by adhering to the commitment, risk, and control dimensions. However, researchers measure foreign market entry modes in a variety of ways, with most studies applying a dichotomous measurement; that is, the dichotomous choice between equity entry modes and non-equity entry modes, where equity modes require a high level of resource commitment, risk, and control in the foreign market (e.g., Maekelburger et al., 2012; Nakos & Brouthers, 2002). Other studies, such as Erramilli (1991), distinguish between full and shared control modes, focusing only on the firm's level of control in the host market. Still other studies (e.g., Meliá, Pérez, & Dobón, 2010) treat the choice of entry mode as a metric that encompasses the amount of resources committed to the foreign market, which increases the level of risk and control.

## **2.2 Characteristics of SMEs**

Three of SMEs' characteristics have direct relationships with these firms' levels of resource commitment, risk, and control, which affect their entry mode decision. First, SMEs are at a resource disad-

vantage compared to large MNEs (Erramilli & D'Souza, 1993, 1995). Research posits that resource scarcity limits smaller firms' ability to reach more advanced and committed stages of internationalization (e.g., Buckley, 1989; Calof, 1994; Johanson & Vahlne, 1977). Compared to large companies, SMEs have more difficulty sending their employees to a foreign country for an extended period of time (Calof, 1994), and they may not have the financial resources to establish a competent managerial-control structure in another country (Calof, 1994). Therefore, successful entry into foreign markets remains a challenge for smaller firms (Lu & Beamish, 2001), particularly because SMEs are not restricted to low-investment modes (although most frequently used) but are sometimes also able to choose modes with a higher investment intensity (e.g., Pavitt, Robson, & Townsend, 1987; Yap & Souder, 1994).

The second characteristic is that SMEs are highly sensitive to external challenges (e.g., Lu, 2002; Schwens et al., 2011). International markets' technological, political, and institutional environments and market changes (Cheng & Yu, 2008) contribute to unpredictability. The literature on SME entry mode choice reveals that SMEs' decision process differs from that of large MNEs, particularly when the external context is unpredictable (Erramilli & D'Souza, 1993, 1995). The high sensitivity to external challenges makes it difficult for SMEs to find an entry mode that allows them to deal effectively with the risks in the host country.

Third, SMEs vary from other types of firms in terms of their ownership structure. Considering that many SMEs are family-owned, it is likely that their strategic orientation, particularly with respect to internationalization, is inseparable from the owners'/founders' personal objectives, which often reflect their personal needs, values, beliefs, and philosophies (Kotey, 2005). Thus, personal dispositions including demographics and personality traits determine the extent to which decision-makers perceive that they can control internationalization activities, a contingency directly related with the entry mode choice. Moreover, family businesses are characterized by long-term orientation, which affects how strategic decisions like the choice of a foreign market entry mode are made (Fernández & Nieto, 2006). For example, research has revealed that family-owned firms are less willing to share control in

such modes as equity joint ventures because decision makers' business and personal objectives are often mingled (Fernández & Nieto, 2006).

Given the characteristics of SMEs and the consequences of those characteristics for the firm's foreign market entry mode choice, it is particularly pertinent to investigate SMEs' behavior making that choice (Brouthers et al., 1996). However, the current state of the research in this domain is equivocal. Therefore, it is useful to clarify the current knowledge in terms of the theoretical frameworks and the contextual dimensions applied and to determine the degree to which the literature has accounted for SMEs' characteristics – a goal we seek to fulfill with the following review.

### **3. Methodology**

To provide a comprehensive review, we searched online databases and article reference lists to identify all articles published on SME foreign market entry mode choice between 1986 and 2012. We chose 1986 as a starting point for our review, as it was in this year that *Journal of International Business Studies* published Anderson and Gatignon's (1986) article on large firms' foreign market entry mode choice. A fixed time frame for the literature search permits a reasonable number of studies to be identified and provides insights into the overall evolutionary development of the state of knowledge in the field. The major source of information used to identify the studies eligible for this review was the EBSCO database, which identifies relevant articles published in the domains of international business, international marketing, small business management, and entrepreneurship – domains in which articles on the topic of interest have appeared. The keywords we searched included “small and medium-sized enterprises,” “internationalization of SMEs,” and “foreign market entry mode choice” (to name a few).

To ensure complete coverage of this kind of research, we also conducted a manual issue-by-issue search of the last twenty-five years of leading journals, including *Academy of Management Journal*, *Entrepreneurship: Theory and Practice*, *International Business Review*, *International Marketing Review*, *Journal of Business Research*, *Journal of Business Venturing*, *Journal of International Business Studies*, *Journal of International Entrepreneurship*, *Journal of International Management*, *Journal of International Marketing*, *Journal of Management Studies*, *Journal of Marketing*, *Journal of Small*



*Business Management*, and *Journal of World Business*. We identified additional studies through manual cross-referencing. Books, book chapters, conference papers, periodicals, and working papers were not included in our review, as such research usually goes through a less rigorous peer-review process, and they are less readily available (Podsakoff, Mackenzie, Bachrach, & Podsakoff, 2005).

Studies eligible for review had to fulfill three main criteria: their focus had to be on SMEs (including studies that compared SMEs with MNEs), their focus had to be on examining the choice of a foreign market entry mode, and they had to be an empirical (qualitative and quantitative) study published between 1986 and 2012.

Therefore, our review excludes papers that focus on SMEs' general internationalization behavior (e.g., Amal & Filho, 2010; Andersson, Gabrielsson, & Victor, 2004; Crick & Spence, 2005; Fernández-Ortiz & Lombardo, 2009; Hutchinson, Quinn, & Alexander, 2005; Mariotti & Piscitello, 2001). As the review focuses on understanding the SMEs' choice of modes with which to enter foreign markets, we excluded papers that examine only one mode of entry. For example, we excluded the SME export literature that uses the concept of export liberally while neglecting the choice of several possible modes of foreign market entry (e.g., Calof, 1994; Golovko & Valentini, 2011; Pope, 2002; Wolff & Pett, 2000).

In the end, we accepted thirty-three articles for final review<sup>2</sup>. In a manner similar to that pursued by Brouthers and Hennart (2007), Canabal and White (2008) and Coviello and Jones (2004), we content-analyzed each article in terms of theoretical framework and contextual dimensions (i.e., geographic focus in terms of home or host markets, dimensions of psychic distance, industry, and firm age).

#### **4. Results and Development of a Roadmap for Future Research**

Table 1 displays the evolutionary development of the field. Of the thirty-three articles identified, seven studies appeared between 1989 and 2000. As illustrated in Table 1, the early empirical literature con-

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<sup>2</sup> We also found four conceptual studies that examine SME entry mode choice: Hill et al. (1990), Ekeledo and Sivakumar (1998), Görg (2000), and Decker and Zhao (2004). As the majority of extant literature is empirical and an essential part of our review is to examine the studies in terms of contextual dimensions, we focus on empirical studies only.

cerning foreign market entry mode choice of SMEs began with Erramilli's (1989) examination of entry mode choice in service industries. Between 2000 and 2012, research in this area gained momentum, with twenty-six additional articles published, the majority of which appeared in the *International Business Review* (four articles), followed by the *Academy of Management Journal*, *Entrepreneurship: Theory and Practice*, *International Marketing Review*, *Journal of International Business Studies*, and *Journal of International Entrepreneurship* (three articles each).

**Table B – 1: Summary of SME Entry Mode Choice Articles by Source and Year**

YEAR	AMJ	APBR	BJM	ET&P	IBR	IJCM	IMR	JBR	JEC	JIBS	JIE	JIM	JM	JMS	JSBM	SIJ	SMJ	TIBR	TOT
1989							1												1
1990																			0
1991										1									1
1992								1											1
1993				1	1								1						3
1994																			0
1995																			0
1996					1														1
1997																			0
1998																			0
1999																			0
2000	2											2							4
2001	1	1							1								1		4
2002				1															1
2003																			0
2004				1															1
2005							1								1				2
2006										1	2						1		4
2007							1												1
2008					1	1					1		1						4
2009																			0
2010																1			1
2011			1										1						2
2012					1					1									2
<b>TOT</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>33</b>

AMJ= Academy of Management Journal, APBR= Asia Pacific Business Review, BJM= British Journal of Management, ET&P= Entrepreneurship: Theory and Practice, IBR= International Business Review, IJCM= International Journal of Commerce and Management, IMR= International Marketing Review, JBR= Journal of Business Research, JEC= Journal of Enterprising Culture, JIBS= Journal of International Business Studies, JIE= Journal of International Entrepreneurship, JIM= Journal of International Marketing, JM= Journal of Marketing, JMS= Journal of Management Studies, JSBM= Journal of Small Business Management, JWB= Journal of World Business, SIJ= Service Industries Journal, SMJ= Strategic Management Journal, TIBR= Thunderbird International Business Review

Table 2 provides a comprehensive summary of the identified studies' main characteristics in terms of theoretical framework and contextual dimensions, while Table 3 outlines the respective studies' research questions and major findings.

**Table B – 2: Main Characteristics of the Studies**

Study	Year	Journal <sup>1</sup>	Theoretical Framework <sup>2</sup>		Geographic focus <sup>3</sup>			Contextual Dimensions	
			Theory	Home markets	Host markets	Dimensions of psychic distance	Industry	Firm Age	
Erramilli	1989	IMR	TCE	US	Various	-	Service firms	-	
Erramilli	1991	JIBS	N.a.	US	Various	Cultural & geographic distance	Service firms	-	
Erramilli	1992	JBR	N.a.	US	Various	-	Service firms	-	
Erramilli & Rao	1993	JM	TCE	US	Various	Cultural distance	Service firms	-	
Erramilli & D'Souza	1993	ET&P	N.a.	US	Various	Cultural distance	Service firms	-	
Gronhang & Kvitastein	1993	IBR	N.a.	NOR	Various	Cultural & geographic distance	Mixed	-	
Brouthers et al.	1996	IBR	OLI	US	Various	-	Service firms (softw.)	-	
Burgel & Murray	2000	JIM	TCE/ Stage/ Org. Cap.	UK	Various	Cultural & geographic distance	Service firms (tech)	5,8	
Crick & Jones	2000	JIM	N.a.	UK	Various	Cultural & geographic distance	Service firms (tech)	<40	
Shrader et al.	2000	AMJ	N.a.	US	Various	-	Mixed	-	
Zahra et al.	2000	AMJ	N.a.	US	Various	Cultural & geographic distance	Service firms (tech)	3,4	
Shi et al.	2001	APBR	OLI	HK	CHN	-	Manufacturing firms	-	
Choo & Mazzaro	2001	JEC	N.a.	AUS/ SGP	Various	-	Mixed	19	
Shrader	2001	AMJ	TCE	US	Various	-	Manufacturing firms	<6	
Lu & Beamish	2001	SMJ	N.a.	JPN	Various	Cultural distance	Mixed	-	
Nakos & Brouthers	2002	ET&P	OLI	GR	CEE	-	Mixed	-	
Brouthers & Nakos	2004	ET&P	TCE	GR/ NL	CEE	-	Mixed	-	
Rasheed	2005	JSBM	N.a.	US	Various	-	Manufacturing firms	-	
Blomstermo et al.	2005	IMR	N.a.	SE	Various	-	Service firms	-	
Fernández & Nieto	2006	JIBS	N.a.	ESP	Various	Cultural distance	Service firms	16,39	
Lu & Beamish	2006	JIE	N.a.	JPN	Various	Geographic distance	Mixed	-	
Zain & Ng	2006	TIBR	Network Theory	MY	Various	-	Service firms (softw.)	16,25	
Ojala & Tyrväinen	2006	JIE	N.a.	FI	JPN	-	Service firms (softw.)	-	
Pinho	2007	IMR	OLI	P	Various	Cultural distance	Mixed	-	
Li & Qian	2008	JIE	TCE/ RBV/ Social Capability	N.a.	Various	Cultural distance	Service firms (tech)	-	
Cheng & Yu	2008	IBR	Institutional Theory/ Stage	RC	SEA/ CHN	-	Manufacturing firms	-	
Cheng	2008	IJCM	TCE/ Stage/ Org. Cap./ Bargaining Power	RC	CHN, ASEAN, JPN, NAFTA, EU	Cultural distance	Manufacturing firms	-	
Brouthers et al.	2008	JMS	TCE/ Real Option Theory	GR/NL	CEE	-	Mixed	-	
Ripollés Meliá et al.	2010	SIJ	N.a.	ESP	Various	Cultural distance	Service firms	-	
Schwens et al.	2011	JMS	Institutional Theory	GER	Various	Cultural distance	Mixed	-	
Prashantham	2011	BJM	Social Capability	IND	Various	-	Service firms (softw.)	8,3	
Ripollés et al.	2012	IBR	N.a.	ESP	Various	Cultural & geographic distance	Mixed	4,38	
Maaelburger et al.	2012	JIBS	TCE	GER	Various	Cultural distance	Mixed	-	

<sup>1</sup> AMJ= Academy of Management Journal, APBR= Asia Pacific Business Review, BJM= British Journal of Management, ET&P= Entrepreneurship: Theory and Practice, IBR= International Business Review, IJCM= International Journal of Commerce and Management, IMR= International Marketing Review, JBR= Journal of Business Research, JEC= Journal of Entering Culture, JIBS= Journal of International Business Studies, JIE= Journal of International Entrepreneurship, JIM= Journal of International Marketing, JM= Journal of Marketing, JMS= Journal of Management Studies, JSBM= Journal of Small Business Management, JWB= Journal of World Business, SIJ= Service Industries Journal, SMJ= Strategic Management Journal, TIBR= Thunderbird International Business Review

<sup>2</sup> OLI=Ownership, Location, Internalization, Org.Cap.=Organizational Capability, RBV=Resource-based View, TCE=Transaction Cost Economics, Stage=Stage Theory

<sup>3</sup> ASEAN= Association of Southeast Asian Nations, AUS= Australia, CEE= Central and Eastern Europe, CHN= China, ESP= Spain, EU= European Union, FI= Finland, GER= Germany, GR= Greece, HK= Hong Kong, IND= India, JPN= Japan, MY= Malaysia, NL= the Netherlands, NAFTA= North American Free Trade Agreement (Canada, USA, Mexico), NOR= Norway, P= Portugal, RC= Republic of China (Taiwan), SE= Sweden, SEA= Southeast Asia, SGP= Singapore, UK= United Kingdom, US= United States

**Table B – 3: Research Questions and Results of the Studies**

Study	Year	Research questions / Major research focus	Major Findings
Erramilli	1989	How do service firms enter foreign markets? How does the entry behavior vary across different industries in the service sector?	Firms' foreign entry behavior is characterized by diversity due to unique characteristics: intangibility, perishability, heterogeneity and inseparability - Entry mode in the hard services is similar to the manufacturing sector - Soft services firms are more restricted in their entry mode choice (i.e., contractual entry, licensing or franchising, FDI)
Erramilli	1991	What is the impact of experience on the service firm's foreign market entry behavior?	- Less experienced service firms prefer foreign markets similar to their home country. With increased experience they enter more geographically and culturally distant markets - Relationship between experience and desire for control may be U-shaped: Service firms demand high control modes in the early and late stages of their international evolution
Erramilli	1992	What effects do external and internal environmental factors have on the service firm's decision to integrate or not to integrate its international business operations in a given entry situation?	- Service firms choose integration modes when foreign market size, unavailability of host country associates, and the firm's policy on maintaining control over foreign operations all become more influential in its entry mode choice process - Service firm's ability and tendency to integrate decreases when host-country restrictions on foreign ownership, environmental risk, and internal resource constraints all increase in importance and influence in its entry mode choice process
Erramilli & Rao	1993	How do service firms choose between full-control and shared-control entry modes?	- The relationship between asset specificity and entry mode choice is moderated by numerous factors that either raise the costs of integration or decreases the firm's ability to establish full-control modes - When costs are low or the ability to integrate is high, firms characterized by low asset specificity establish full-control modes - As costs increase, low-specificity firms will increasingly choose shared-control modes
Erramilli & D'Souza	1993	Investigates foreign market entry behavior of small service firms	- Differences in entry mode choice between small and larger firms are insignificant at lower level of capital intensity - Small firms seem to show greater preferences for similar markets when capital intensity is high - When capital intensity is high, small firms prefer FDI modes significantly less than larger firms
Gronhaug & Kvitastein	1993	Focus on a set of factors (related to the firm, its management, characteristics of its product offerings and the market entered) which may influence the firm's choice of institutional arrangements to handle foreign business (subsidiary vs. agent)	- Negative relationship between resources (firm size) and company-owned subsidiary - No influence of management characteristics (i.e., education and international experience) - Most firms operated in markets very similar to each other (context-specific knowledge)
Brouthers et al.	1996	Investigation of entry mode selection activities of SME service firms by applying the eclectic theory	- As a firm's ownership advantages increase so does firm's use of more integrated entry modes - As a firm's perception of locational advantages increases so does its use of more integrated entry modes
Burgel & Murray	2000	Determination what modes of foreign market entry small technology-based start-ups chose and what the primary reasons for their elected choices were (intermediaries vs. export)	- The majority of firms choose countries in Western Europe for their first market entry - Young firms choose entry modes that were not resource intensive (preference for intermediaries)
Crick & Jones	2000	Examination of SME overseas market expansion strategies of firms involved in technological innovation and - among others - studying the rationale for initial market selection and mode of market entry	- Management's international experience had a significant impact on the choice of entry mode - Policymakers should consider an integrated perspective in firms' internationalization by offering appropriate support mechanisms as managers consider and undertake modes of entry other than exporting
Shrader et al.	2000	How do firms already experiencing the risks of relatively small size and newness also successfully manage the additional strategic risks of entering foreign markets so early in their existence?	- Key decision makers, ownership, managerial know-how, networking, had an important influence on the nature and pace of internationalization - New ventures experiencing accelerated internationalization in a single foreign country can manage risks by simultaneously determining trade-offs among three risk factors: the economic and political riskiness of the country entered, the degree of commitment to the foreign location, and the percentage of foreign revenues exposure in that country - The management team's international, marketing and prior new venture experience significantly influenced degree of foreign market revenue exposure and commitment
Zahra et al.	2000	Examination of the effects of international expansion, as measured by international diversity and mode of market entry, on a firm's technological learning and the effects of this learning on the firm's financial performance	- Lower control modes of entry have a negative effect on speed - Knowledge integration increases the breadth and depth of the technological learning - Technological learning enhances a company's performance
Shi et al.	2001	What factors influence small Hong Kong manufacturing firms' choice of investment entry modes into Mainland China? (wholly-owned subsidiary vs. joint venture)	- Strategic variables: Hong Kong SMEs following an export-oriented strategy prefer WOS to JV, while firms following a market-seeking strategy prefer JV - Effects of firm-specific variables are mixed: International experience does not seem to affect the selection of FDI entry mode, firms with no or little host country experience prefer WOS to JV, firms with a relationship in China prefer JV to WOS - TCE-variables: No significant effects
Choo & Mazzarol	2001	Examination of the impact on performance by the choice of market entry modes of SMEs between Australia and Singapore	- Success is related to commitment and control over the export channel
Shrader	2001	Application of TCE to explore factors moderating the relationship between collaboration and performance in foreign markets among a sample of international new ventures	- R&D intensity and advertising intensity are significant moderators of this relationship; however they were not significantly related to the use or nouse of collaboration
Lu & Beamish	2001	Exploration of the effects of internationalization, an entrepreneurial strategy employed by SMEs, on firm performance	- Alliances with partners with local knowledge can be an effective strategy to overcome the deficiencies SMEs face in resources and capabilities

Study	Year	Research questions / Major research focus	Major Findings
Nakos & Brouthers	2002	Determination if Dunning's OLI framework is applicable to SME entry mode selection	- Dunning's eclectic framework did a good job of predicting SME entry mode selection in CEE markets (85%) - However, not all of the OLI factors appeared to be important for SMEs (Ownership: international experience was not significant predictor)
Brouthers & Nakos	2004	Application of TCE to SME entry mode choices - Determination if SME transaction cost mode choices provide superior performance to other mode choices	- TCE did a good job of explaining SME mode choice and SMEs that used transaction cost-predicted mode choices performed significantly better than firms using other modes - Mode performance and mode choice may be closely related
Rasheed	2005	Examination how performance outcomes vary between equity and non equity entry modes depending on the effects of domestic and foreign environmental factors	- Firms will have a higher rate of international revenue growth using non equity-based (exporting) foreign market entry modes in growing domestic environments - International revenue growth is higher for equity-based modes when foreign market risks are high
Blomstermo et al.	2005	Examination of the relationship between foreign market entry modes and hard- and soft-services - Investigation which foreign market entry modes service firms opt for and if this is influenced by systematic differences between types of service industries	- Soft-service firms are much more likely than hard service firms to choose a high-control entry mode over a low-control entry mode - As cultural distance increases, the likelihood of this choice increases even more
Fernández & Nieto	2006	Analysis of the relationship between the internationalization strategies of SMEs and types of ownership	- Internationalization is negatively related to family ownership and positively related to corporate ownership - The presence of a corporate blockholder in family firms encourages internationalization - Ownership type influences the decision to internationalize
Lu & Beamish	2006	Examination of the effect of two internationalization strategies, exporting and FDI, on SME performance (ROA), the moderating influence of SME age at the time of its internationalization	- Exporting activity has a positive impact on growth, but a negative impact on profitability - FDI activity has a positive relationship with growth, but a U-curve relationship with profitability - An SME's age when it starts to make FDI has a negative moderating impact on the relationship between FDI and firm growth and profitability
Zain & Ng	2006	1. How is the internationalization process of SMEs manifested in their choices of foreign markets and modes of entry? 2. How do network relationships of SMEs impact their international market development? 3. How do network relationships of SMEs impact their marketing-related activities within international markets?	- Foreign market entry mode choice is facilitated by network contacts - Network relationships helped the software firms in encouraging them to engage in higher-commitment modes
Ojala & Tyrväinen	2006	Connection between a small software firm's business model (product strategy, revenue logic, distribution model, service & implementation model) and the choice of entry mode	- Product strategy of software firms has a strong connection to the selected entry mode, while the use of a certain distribution model does not seem to be connected to the choice of entry mode
Pinho	2007	Do ownership-specific advantages impact on entry mode decisions? Do market-/location-specific advantages impact on entry mode decisions? To which extent do managerial and ownership dimensions impact on the choice of an equity entry mode?	- The firm's international experience, its ability to innovate, the market potential for growth and market-specific knowledge are key predictors for choosing an equity entry mode - SMEs are rather flexible in nature, minimizing the relevance of the perceived risk associated with the host country
Li & Qian	2008	Comparison of large firms against SMEs in technology industries and assessment of the differences between them in the choices between partnership and self-reliance entry modes	- With violent market dynamism, entry mode choice of SMEs and MNEs differ (MNEs: self-reliance entry modes, SMEs: partnership entry modes) - When high promotional effort is required, entry mode choice of SMEs and MNEs do not differ (partnership entry modes)
Cheng & Yu	2008	1. Investigation of the concerns underlying SMEs' decision to go abroad as well as how the timing of initiating internationalization relates to institutional change, 2. Examination of the idea that the style of SMEs' internationalization, reflected by the pace, scale and content of institutional change, would tend to be more radical if SMEs are more acutely aware of institutional pressures	- SMEs facing greater institutional pressures tend to expand abroad earlier and internationalize in a more radical style - SMEs are very sensitive to their external environments and will respond to institutional pressures from the home country by moving aggressively to internationalize
Cheng	2008	Examination of the determinants of the choice of ownership-based entry mode strategy for SMEs in international markets	- Equity joint ventures may be the favored entry mode for less experienced SMEs to reduce cultural barriers
Brouthers et al.	2008	To add a real option perspective providing a method for balancing the desire to minimize exposure to uncertainty while preserving an option to take advantage of upside benefits to predict a firm's mode choice	- Firms that used the combined real option/transaction cost predicted choices had significantly higher levels of subsidiary performance satisfaction than firms that did not
Ripolles Meliá et al.	2010	Examination of how innovation can help service SMEs to enter foreign markets more quickly and what the effects of a more rapid international involvement are?	- Innovation orientation accelerates the firms' internationalization time; innovative firms opt for high-control entry modes in foreign markets - Two different models of internationalisation within the services sector: firms either adopt a gradual process or attempt to benefit from a rapid transition period of internationalization
Schwens et al.	2011	Examination of informal institutional distance and formal institutional risk as moderators on the relationship between frequently examined decision-making criteria and the entry mode decision of SMEs	- Major decision-making criteria of entry mode choice are contingent on the moderating effect of institutional context
Prashantham	2011	What enables some internationalizing SMEs to become micromultinationals rather than pure exporter?	- Higher stocks of cross-border social capital facilitate the adoption of higher-commitment entry modes
Ripolles et al.	2012	Analysis of company-specific factors that can enhance the choice of higher-resource-commitment entry modes in International New Ventures	- International market orientation as a key aspect in INVs' choice of entry modes involving higher commitment of resources - Entrepreneurial orientation and early international entry act as antecedents to the development of an international market orientation
Maackelburger et al.	2012	Contextualization of the relationship between asset specificity and foreign market entry mode choice in the context of SMEs by introducing knowledge safeguards (international experience, host-country networks, imitation) and institutional safeguards (property rights protection, cultural proximity)	- Knowledge safeguards and institutional safeguards weaken the effect of asset specificity on the choice of equity foreign market entry modes

Next, we discuss the current state of the research in a systematic way. We first discuss issues related to the theoretical framework used and then focus on issues regarding contextual dimensions. We further identify gaps in the literature that relate specifically to SME-specific characteristics (i.e., lack of resources, sensitivity to external influences, and ownership structure and management characteristics) and develop a roadmap for future scholarly inquiry.

#### **4.1 Theoretical Framework**

Out of the thirty-three articles we obtained, seventeen are grounded in a theoretical framework (Table 2). In these articles, four theoretical frameworks dominate: Transaction Cost Economics (Williamson, 1985, 1991, 1998), the Eclectic Paradigm (Dunning, 1988), Institutional Theory (North, 1990; Scott, 1995), and Social Capital Theory/Network Theory (Adler & Kwon, 2002; Coleman, 1990).

##### *4.1.1 Transaction Cost Economics (TCE)*

As illustrated in Table 2, TCE is the most widely used theoretical perspective in the general research on the international entry mode choice (Brouthers & Hennart, 2007) and in studies that have an SME focus (e.g., Brouthers & Nakos, 2004; Shrader, 2001). According to TCE, companies choose a certain organizational structure in order to minimize controlling and monitoring costs. TCE draws on three main causes, that is, asset specificity, uncertainty (both behavioral and environmental), and frequency creating market transaction and control costs (Williamson, 1985).

The studies that use TCE logic suggest that SME foreign market entry mode choice depends largely on the degree of the foreign investment's asset specificity (Figure 1). A general notion is that the higher the specificity of an investment, the higher the firm's commitment in terms of entry mode that allows the SME to internalize the investment risk. Adhering to both behavioral and environmental uncertainty, TCE-based articles examine the impact of external uncertainties (in particular cultural distance) on SME foreign market entry mode choice (Figure 1). Further, these studies examine the impact of international experience as a mechanism allowing to reduce the internal uncertainty that limits the firms' foreign market entry mode choice (Figure 1). Finally, studies like Erramilli and Rao (1993)

examine how high-commitment entry modes like greenfield investments and acquisitions allow SMEs to obtain control over activities in the host country.

However, considering the characteristics of SMEs that distinguish them from large MNEs, several research gaps related to TCE-based logic are holding the field back. For example, the question how SMEs can use an entry mode to transfer and protect their assets remains unanswered. Finding an answer to this question is imperative as SMEs often have difficulties with protective higher-commitment entry modes like greenfield investments and acquisitions due to their lack of resources.

To answer this research question, we recommend that future TCE-based studies further contextualize the relationship between various forms of asset specificity, such as human and financial assets, and foreign market entry mode choice of SMEs. This recommendation is consistent with Maekelburger et al. (2012), who expanded TCE logic by means of typical SME resources (e.g., international experience, international networks) functioning as alternative safeguards (to internalization by costly high-commitment entry modes) against expropriation of firm-specific assets. We encourage future research to contextualize TCE-grounded relationships further and to reflect more on the boundary conditions of associations.

Given that SMEs are particularly sensitive to institutional challenges, the existing literature has largely refrained from detailed analyses of other types of external uncertainty (than e.g., cultural distance) that impact SME entry mode choice (Cheng & Yu, 2008; Erramilli & D'Souza, 1995). On a related topic, it remains unanswered how SMEs' types of international experience (in terms of mode experience, country experience, etc.) allow SMEs to reduce uncertainty in their foreign market entry mode choice.

To close this gap, we encourage future research to disentangle the types of external uncertainties and to examine their differentiated impact on TCE-based relationships. We also encourage future research to disentangle the international experience construct, which TCE-based research has shown to be an important safeguard against the internal uncertainties that impact SME entry mode choice. To move this literature forward we suggest delving more deeply into where (in which country/region), when (at

what time), and how (by which modes) SMEs obtained their prior international experience and how such knowledge feeds into their future entry mode decisions.

Furthermore, the TCE-based literature has remained rather silent concerning how and to what degree various ownership structures allow SMEs to exert control over their activities in the host country. We admit that the limited consideration of ownership structures is a general shortcoming of TCE-based research opposed to, for example, literature drawing on the eclectic paradigm. However, TCE-based research is also able to account for the influence of different types of ownership by considering various forms of ownership (e.g., joint ventures, acquisitions, wholly-owned subsidiaries, licensing agreements). Thus, we plea for a more nuanced foreign market entry mode perspective in TCE-grounded work as it will contribute to explaining how different types of ownership enable firms to exert different levels of control over activities in the host country.

#### *4.1.2 Eclectic Paradigm (i.e., OLI Framework)*

Dunning's (1988) eclectic paradigm combines insights from resource-based, institutional and transaction cost theories (Brouthers & Hennart, 2007). Referred to our research context, the paradigm states that firms choose the most appropriate entry mode into an international market by considering advantages as they relate to three factors that make up the OLI framework: ownership (O), location (L), and internalization (I) (Dunning, 1988). Ownership advantages are firm-specific competitive advantages (resource-based view), which must be unique and sustainable (e.g., a firm's international experience, the ability to differentiate a product or service). Location advantages are country-specific (institutional theory) advantages of the international market. Internalization (transaction cost theory) advantages are the benefits a firm obtains by choosing a high-commitment entry mode rather than internationalizing through partnership arrangements (Dunning, 1988).

Drawing on the OLI framework, studies have found that SMEs can internalize host country related risks and contingencies by means of high-commitment entry modes (Nakos & Brouthers, 2002) and that SMEs' perceptions about the host country's risk significantly influences their entry mode choice (Figure 1). In considering the ownership structure of the firms, Pinho (2007) examines differences in



the foreign entry mode choice of family-owned SMEs versus that of non-family-owned SMEs. Finally, some studies conclude that the level of ownership and locational advantages enhance SMEs' propensity to choose entry modes with higher levels of commitment (e.g., Shi, Ho, & Siu, 2001).

However, several issues related to SME specifics are holding the theoretical development back. For instance, it remains unclear whether financially resource-constrained SMEs have access to other assets that would allow them to control their foreign market activities. Such assets could diminish the need for internalization (by means of costly, high-commitment modes like greenfield investments) of host country activities. Similar as in the section on TCE-grounded works, we recommend that future studies close this gap and explore alternative mechanisms to reduce host country risks making internalization less relevant.

With regard to SMEs' sensitivity to external influences, the fundamental question leaving open space for new research is how different types of location-related risks impact SME entry mode choice differently. However, inconclusive findings on the impact of external influences on SME foreign market entry mode choice are currently holding back the field, so a reconciliation of findings remains necessary in order to overcome inconclusive results. We, therefore, recommend that future OLI-grounded studies examine different types of location-based risks and how they affect SME entry mode choice differently.

With regard to ownership status, the study by Pinho (2007) delves deeply into the effect of the firm's ownership status on foreign market entry mode choice, however the study remains an exception in this direction. It is surprising that studies that have drawn on OLI have largely neglected to examine the company ownership dimension and its role in SME foreign market entry mode research. We encourage future literature to close this gap by focusing on the ownership status of the firm, a key distinguishing characteristic of SMEs.

#### *4.1.3 Institutional Theory*

Institutional theory suggests that a country's institutional environment affects a firm's scope of action because the environment reflects the "rules of the game" (Brouthers & Hennart, 2007, p. 405) accord-

ing to which firms must behave. New institutionalism distinguishes between formal and informal institutions (North, 1990); while informal institutions contain primarily patterns of behavior in a certain culture, formal institutions are determined in political rules or legal decisions (Peng, 2000). New institutional theory suggests that a country's institutional environment consists of the regulatory, cognitive and normative dimensions (Scott, 1995). The regulatory dimension implies the rules and laws responsible for the society's stability. The cognitive dimension refers to the cognitive structures in society that are taken for granted. Finally, the normative dimension encompasses the society's social values, culture and norms (Yiu & Makino, 2002). According to new institutional theory, a firm entering a foreign market strives for legitimacy and acceptance by conforming with the host country conditions and expectations (Yiu & Makino, 2002).

Studies have revealed that challenges arising from the host country context stress the company's resource base, impacting SMEs' foreign market entry mode choice (e.g., Schwens et al., 2011). Furthermore, studies that draw on institutional logic have revealed that foreign market entry mode choice of SMEs varies from that of large MNEs, particularly when the firm is exposed to high levels of risk in the foreign market (Cheng & Yu, 2008). Institutionally grounded studies also demonstrate that high-commitment entry modes like acquisitions and greenfield investments improve SMEs' control over the institutional challenges that arise in the host country (Brouthers & Nakos, 2004; Cheng & Yu, 2008; Rasheed, 2005).

According to extant literature, one way to deal with the institutional challenges that arise in the host country is to diversify risk by operating in multiple markets (Mudambi & Mudambi, 2002). However, in light of the SME-specific characteristics, several key questions remain unanswered and leave open space for new research. For example, one fundamental question is whether and how SMEs can diversify risk in response to challenges that arise from the institutional context, despite their limited resources. Therefore, it is important to examine whether and how SMEs can bundle their resources in order to diversify risk across several countries and how such efforts impact the firms' foreign market entry mode choice. For example, answering whether diversification is related to the choice of less costly lower-commitment modes is important for future scholarly inquiry.

Moreover and with regard to SMEs' sensitivity to external challenges, the literature focuses on the host country's institutional context, leaving out how formal and informal domestic institutions impact SMEs' foreign market entry mode choice. Both the domestic and the foreign market determine the rules of the game for an SME and, hence, it is questionable why literature has only focused on one side of the coin until to date. To account for this deficit, we call for studies that examine institutional challenges that arise from the domestic market and how these challenges impact SME's mode choice. Although institutional theory emphasizes the importance of legitimacy and acceptance, we know relatively little regarding this issue in SME foreign market entry mode choice literature. To start closing this research gap, we call for future research examining how SMEs are able to obtain legitimacy in the host country and how they conform to the rules and belief system prevalent in the host country.

Finally, the literature has neglected how firms with different ownership structures react to institutional challenges differently, an issue that is particularly pertinent to SMEs, where the ownership status has been shown to have a major effect on strategic decisions. Therefore, we need considerably more knowledge regarding how SMEs with different ownership structures deal with formal and informal institutional challenges differently and how these differences influence their foreign market entry mode decision.

#### *4.1.4 Social Capability/Network Theory*

Social capability refers to firms' ability to acquire and exploit resources from business networks (Chetty & Agndal, 2007). Referring to the present research context, entry mode choice is contingent on a firm's network relationships (e.g., with customers, suppliers, competitors), rather than solely on firm-specific advantages. Social capability and network theory has relationships with other theoretical approaches dominant in the foreign market entry mode choice literature. For instance, network theory reflects the "hybrid form" of TCE. By means of network relationships opportunistic behavior is expected to be controlled and minimized (Coviello & Munro, 1997). Moreover, social capital helps to reduce external uncertainties associated with contractual hazards, as social ties are based on trust (Prashantham, 2011). Reflecting on institutional theory, social capital reduces barriers to international-

ization (Prashantham, 2011) as network relationships help the firm “to establish the right to do business in the new market” (Yiu & Makino, 2002, p. 670).

The few studies that draw on social capability or network perspectives in examining SMEs’ entry mode choice argue that social networks allow SMEs to substitute their own lack of resources with the network partners’ resources, enabling the SME to commit more strongly to the host country in terms of entry mode (Ripollés et al., 2012). Network-based studies also show that SMEs can employ social capital to learn about conditions in the host country so they can overcome the challenges that can arise in the foreign market and make higher-level commitments abroad (Prashantham, 2011).

While the literature demonstrates that networks are an important resource for SMEs, it falls shorter to provide a detailed analysis of how the characteristics of the network (e.g., network strength, network size, network density) impact SME foreign market entry mode choice differently. We, therefore, recommend that future research examine in a detailed way how different network dimensions (e.g., density, position in the network, cohesion, network strength, network size) influence the company’s resource stock and the resulting foreign market entry mode choice.

Moreover, taking into account SMEs’ sensitivity vis-à-vis external uncertainties and the importance of social capital/networks for SMEs, the literature has not determined the mechanism by which social capital/networks allow SMEs to overcome such external challenges. To learn more about the precise mechanism and how networks are beneficial in overcoming external uncertainties, future research should delve more deeply into network characteristics and how they function in interaction with institutional challenges impacting the entry mode choice.

With regard to ownership structure, it also remains unclear how firms’ ownership status determines how SMEs employ their network contacts in order to benefit from external knowledge and contacts in their foreign market entry mode decision. Future research should examine these contingencies including determining how ownership structure impacts the application of networks in SME foreign market entry mode choice differently.

#### 4.1.5 *Beyond Existing Theories*

Based on our review of the theoretical frameworks applied in extant literature on SME foreign market entry mode choice, we conclude that the field is characterized by theoretical paucity. Our review demonstrates that most researchers choose a mix of theories or even refrain from drawing on theoretical frameworks at all. The laudable studies that ground their argumentations in solid theoretical frameworks have largely focused on theoretical frameworks and approaches that have proven to work well for larger firms as well (e.g., TCE). While this approach confirms the overall generalizability and robustness of theories in explaining different phenomena in different contexts, it also shows that the current state regarding theories in the field is underdeveloped. Using the three SME-specific characteristics, we suggest employment of new theories.

Sixteen of the studies in our review lack a clear and concise theoretical foundation. The majority of these studies discuss theory (e.g., stage theory, learning theory) in their introductions or literature reviews (e.g., Shrader, Oviatt, & McDougall, 2000; Zahra, Ireland, & Hitt, 2000), but they refrain from detailed theoretical argumentation in developing hypotheses.

This lack of theoretical rigor is surprising, given the multiple gaps in the literature that go beyond the existing theories' foci and call for new theories to be applied. For example, in terms of SMEs' lack of resources, knowledge is limited regarding how firms develop the necessary capabilities and resources for their foreign market entry mode decisions. The literature is also comparatively silent about how SMEs acquire the necessary knowledge about the foreign market, which is a critical resource in overall internationalization decisions (Johanson & Vahlne, 1977). However, the current state of the literature reveals a dearth of knowledge about the resources and capabilities that allow SMEs to obtain sustainable competitive advantages abroad.

We encourage future research to apply the *resource-based view (RBV)* in research related to SME foreign market entry mode choice. The key premise of the RBV is that firms achieve sustained competitive advantage based on their idiosyncratic resources and capabilities (Barney, 1991; Wernerfelt, 1984). Both tangible and intangible resources can represent a firm's strengths and weaknesses

(Wernerfelt, 1984). Resource scarcity relates to SME foreign market entry mode choice by limiting their ability to reach more advanced stages of internationalization (e.g., Buckley, 1989; Johanson & Vahlne, 1977). For example, SMEs are less likely than larger firms to have the ability to send their own employees to a foreign country for an extended period of time (Calof, 1994). Moreover, they may not have the financial resources to establish a competent managerial control structure in another country (Lu & Beamish, 2001). On the other hand, SMEs can reach advanced, high-commitment stages of foreign market entry (e.g., Pavitt et al., 1987; Yap & Souder, 1994). Therefore, a fundamental issue to be addressed is how SMEs develop their resources and capabilities in order to commit successfully and strongly to foreign markets.

Further and also related to the lack of resources as a key characteristic of SMEs, knowledge about the host country (i.e., foreign market knowledge) is a critical resource for firms in choosing a foreign market entry mode (Johanson & Vahlne, 1977). Foreign market knowledge enables firms to assess the potential risks and returns of a foreign market (Schwens & Kabst, 2011), so it is fundamental to understand how SMEs learn and acquire the necessary knowledge about the host country prior to venturing abroad.

We argue that *learning theory* (Easterby-Smith, Burgoyne, & Araujo, 2001; Sharma, 2011) is promising in its ability to move the literature of SME foreign market entry mode choice forward. For example, to close existing gaps it is imperative to examine, a) how firms acquire the knowledge required to make the entry mode decision (types and sources of learning), b) what kind of knowledge firms must acquire in order to make their choice of entry mode (content of learning), c) which actors primarily invest in knowledge acquisition about the host country's contingencies (who is learning), d) how new knowledge is integrated and exploited by the firm (absorption and exploitation of learning), and e) the effectiveness and efficiency of learning (what are the outcomes of learning) (Cohen & Levinthal, 1990; Huber, 1991; Levitt & March, 1988; Schwens & Kabst, 2009).

With regard to SMEs' sensitivity to external challenges, it remains unclear how SMEs and their major actors (e.g., the CEO) make decisions in uncertain situations. Existing theoretical rationale is limited in this regard, which is surprising given the strong focus on a few or even a single decision-maker in

the SME context. We recommend that future research apply *effectuation logic* (Sarasvathy, 2001, 2008) as an alternative theoretical lens to the study of SME foreign market entry mode choice.

To deal with uncertainty, a traditional view in the internationalization literature is that firms make their decisions based on planned approaches, such as a profound market analysis, prior to entering a host country (Johanson & Vahlne, 1977). SMEs that follow such a planned approach make their entry mode choice based on a predefined plan and complete information, but sufficient information is difficult for resource-constrained SMEs to obtain. Effectuation – the logic of the entrepreneurial expertise – rests on the assumption that people do not need to predict the future if they can control it (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009). Hence, the effectuation approach assumes that the future is unpredictable, so firms deal with uncertainties like those that arise in international markets by relying on what they can control, rather than trying to predict the unpredictable (Mitchell et al., 2007). Therefore, firms rely on given means rather than pre-defined goals, consider affordable loss rather than the expected return from an investment, act cooperative rather than competitive by involving partners, and exploit unexpected contingencies rather than trying to avoid them. Effectuation logic takes a set of means or tools as given and focuses on selecting among the possible effects that can be created with that set of means (Sarasvathy, 2001, p. 245). Therefore, effectuation is a promising concept in situations characterized by high levels of uncertainty, such as entry into a foreign market (Autio, George, & Alexy, 2011; Johanson & Vahlne, 1977), which exposes an SME to high levels of uncertainty. Applying effectuation logic and contrasting it with traditional internationalization theories may offer an explanation for how SMEs can deal with uncertainties in entering foreign markets. The work by Harms and Schiele (2012) is a first important step into this direction. We encourage future literature to delve deeper into this direction.

In terms of ownership structure, the literature on SME foreign market entry mode choice has largely neglected the role of the firm's main owners and decision-makers. For example, it remains unclear how CEO demographics (e.g., age, education), cognitions, values, and personality traits (e.g., narcissism, overconfidence) influence SMEs' strategic decisions. Given the influence of a single or a few decision-makers in SMEs, it is important to focus on these main actors. We recommend that future

research on SME foreign market entry mode choice place the ownership structure and top management characteristics in focus. For example, the CEO, who is often either a member of the SMEs' founding family or the founder himself or herself, plays a central role in strategic decisions, such as those related to the company's internationalization.

*Upper echelons theory*, which focuses on the demographics, cognitions and values of the top management (e.g., Hambrick & Mason, 1984), is a promising theoretical lens through which to clarify how SMEs' top management impacts SME entry mode choice. According to upper echelons theory, key strategic decisions are a reflection of the values and cognitive biases of powerful actors in the firm. These decision-makers' psychological constructs (e.g., experiences, cognitions, values) impact how conditions and stimuli are filtered, interpreted, and disseminated to reach a final decision (Hambrick, 2007). Therefore, consistent with the theory, we argue that we "must consider the biases and dispositions of their [the SMEs'] most powerful actors – their top executives" (Hambrick, 2007, p. 334) if we are to understand SME foreign market entry mode choice. This view is consistent with Reuber and Fischer (1997), who argue that research tends to be based on top management teams (TMTs) in large firms, although the relationship between top management experience and organizational outcomes might be more important in SMEs. This is because SMEs may depend more heavily on the dominant role of founding team members (e.g., in family firms). In line with Reuber and Fischer (1997), we recommend that future research apply upper echelons theory to explain SME internationalization in general and foreign market entry mode choice in particular. Such efforts would include investigating CEOs' demographics (e.g., age, seniority, functional experience) and personality characteristics (e.g., overconfidence, narcissism, hubris or self-efficacy) and how they impact the foreign market entry mode choice of SMEs.

In summary, we call for differentiated research that considers SMEs' lack of resources, sensitivity to external uncertainties, and type of ownership in order to clarify how SMEs choose their foreign market entry mode. Our review of the theoretical frameworks revealed that topics for future research derived from the different theories are sometimes interrelated and can be derived from different theoretical perspectives (however, with different foci and implications depending on the respective theoretical



framework). A reason for this is that the different theories cannot be regarded as ‘independent silos’, but they are conceptually interlinked (e.g., TCE and OLI). Thus, the gaps identified and the suggestions for future research are comprehensive and complementary as supported by different theoretical views. This underlines the importance to delve deeper into the topics at hand in the sense of an overall research agenda.

## 4.2 Contextual Dimensions

This section reviews the current state of contextual dimensions by assessing the selected articles in terms of SMEs’ home/host markets, psychic distance, industry, and firm age. As in the previous section, we identify gaps in the literature by considering the degree to which SME-specific characteristics are accounted for in the studies’ contextual dimensions. Based on the gaps identified, we derive how the literature can benefit from advancements in contextual dimensions, with a particular focus on SME-specific characteristics.

### 4.2.1 Home Markets

The home country environment, which determines a firm’s institutional context, consists of an opportunity set that is determined by production factors (e.g., a country’s physical infrastructure, labor quality) and institutions (e.g., credibility and effectiveness of a country’s bureaucratic infrastructure) (Wan & Hoskisson, 2003). Since firms seek to capture profitable opportunities as defined by their opportunity set (North, 1990), their foreign market entry mode choice is likely to be contingent on the home country environment.

In our review we found the *home market* that is most commonly studied is the United States, followed by Spain, Greece, the Netherlands, the United Kingdom, Japan, Germany, and the Republic of China. Few studies investigate SME entry mode decisions from other countries, including Norway, Sweden, China (Hong Kong), Australia, Singapore, Portugal, Finland, Malaysia, and India (Figure 1). Studies that examine the SMEs’ home countries largely refrain from analyzing detailed characteristics of home countries or their impact on SME foreign market entry mode choice. An exception is Rasheed

(2005), who emphasizes that the local environment is a primary source for the resources SMEs use for their foreign market entry. Moreover, Cheng and Yu (2008) find that institutional pressures in the domestic market may also affect SMEs' foreign market entry mode choice.

However, with regard to the SME specific lack of resources, there is dearth of literature that considers the extent to which an SME's home market is a source for additional resources. Wan and Hoskisson (2003) highlight the country's infrastructure as an important resource in a firm's internationalization. However, studies that examine, for example, how public subsidies, support programs, or agencies in the domestic market impact SME foreign market entry mode choice are all but absent. Such support programs may encourage SMEs in their foreign market entry mode choice and compensating for their lack of resources and other difficulties associated with operating abroad (Guler & Guillén, 2010). It would be fruitful for future research to examine, for example, how public subsidies, support programs, or support agencies in a firm's domestic market impact an SME's entry mode decision. Moreover, we recommend that future studies consider undertaking comparative study of support programs in various home countries and their influence on SME entry mode choice.

With regard to SMEs' sensitivity to the external context, there is also a paucity of literature that examines the effect of home market factors on the foreign market entry mode decision of SMEs. For example, our review reveals a lack of studies that examine SMEs from developing countries. This is surprising as firms from developing countries differ from firms in developed economies in terms of the constraints they face including the effectiveness of regulations to promote SME internationalization. Therefore, it remains unclear how these regulations impact SMEs, which tend to be highly sensitive to external uncertainties. Given SMEs' particular sensitivity to such institutional factors, we encourage future studies to explore the impact of home country regulations and policy conditions on the foreign market entry mode choice of SMEs from developed and developing countries (e.g., Colombia versus the Netherlands, Brazil versus Slovenia, Indonesia versus Austria).

Closely related to this gap and with regard to SMEs' special ownership structure, it remains unclear how support programs vary for SMEs with different ownership status and how such support programs influence the foreign market entry mode decisions. Therefore, studying the impact of home market

regulations (e.g., for family versus non-family businesses) and how they impact firms' entry mode choice is expected to be promising.

#### 4.2.2 *Host Markets*

The host country determines the formal (e.g., political risks) and informal (e.g., culture) institutional context with which a firm must deal in a foreign country. These conditions may affect SME foreign market entry mode choice (Schwens et al., 2011).

In terms of *host markets*, the majority of articles investigate SMEs' entry into multiple countries, while only few focus on a specific country or region (Figure 1). For example, Brouthers, Brouthers, and Werner (2008), Nakos and Brouthers (2002) and Brouthers and Nakos (2004) investigate Greek and Dutch SMEs that entered Central and Eastern Europe.

However, considering SMEs' specific characteristics, several questions remain unanswered. Foreign entry mode choice depends largely on a firm's resource base, as resources usually determine the firm's level of commitment in the foreign market. However, it remains unclear how public subsidies or support programs in the host country affect SMEs' mode choice. Host country support agencies can often assist SMEs in their attempts to enter international markets, so they function as a mechanism with which to overcome SMEs' lack of resources. Therefore, future studies could examine both home country and host country support programs and how they influence SME foreign market entry mode choice.

With regard to SMEs' sensitivity to external risks, studies have not yet revealed how countries' economic, legal, political, or trade policies affect SME foreign market entry mode choice differently. To overcome this research deficit, we call for more studies that investigate entries into such neglected regions as Africa in order to determine to what extent host country regulations impact SMEs' choice of entry mode. Another promising avenue through which to move the field forward is studies that compare the choice of entry mode from a single home market into various host markets and to consider home-host-country dyads (e.g., US firms venturing into India, Brazil, Russia, or China). All of these

suggestions will enhance our understanding regarding SMEs' sensitivity to external challenges and how these firms will react in terms of their entry mode decisions.

Finally, our review revealed a lack of studies that consider SMEs' ownership structure and how ownership structure impacts SMEs' entry mode choice in various host markets. For example, one question to be answered concerns how firms with different ownership status overcome restrictions in different host markets.

#### 4.2.3 *Psychic Distance*

Psychic distance defines "the sum of factors preventing the flow of information to and from the market" (Johanson & Vahlne, 1977, p. 24). The concept of psychic distance emphasizes the extent to which environmental differences (e.g., culture, language, geographic distance) between home and host countries inhibit information flow and create barriers to learning in these markets (Dikova, 2009; Hennart, 1988). These barriers may have an important impact on foreign market entry mode choice.

Several studies in our review examine the role of psychic distance in terms of cultural distance, geographic distance, or both and their effect on SME foreign market entry mode choice (e.g., Burgel & Murray, 2000; Erramilli, 1991; Erramilli & D'Souza, 1993; Nakos & Brouthers, 2002; Pinho, 2007; Zahra et al., 2000). The majority of studies reveal that SMEs tend to prefer lower-commitment entry modes (e.g., licensing) when psychic distance is high in order to reduce risks and avoid costly resource losses in case of failure. Erramilli (1991) and Erramilli and D'Souza (1993) conclude that SMEs tend to enter less psychically distant markets because their lack of resources does not allow them to overcome the challenges related to high psychic distance.

However, findings regarding the impact of psychic distance on SME foreign market entry mode choice remain largely inconclusive (e.g., Burgel & Murray, 2000; Erramilli, 1991; Nakos & Brouthers, 2002). As psychic distance determines the level of resources a firm has to commit to the foreign market (Dow & Larimo, 2011; Johanson & Vahlne, 1977), it is important in the context of SMEs. However, how home-host country differences stress SMEs' resource endowments in their foreign markets and how SMEs can obtain knowledge about the foreign market when psychic distance is high remain

unclear. To contribute to closing this gap, we suggest that studies drawing on the construct of added cultural distance (Hutzschenreuter & Voll, 2008) would be fruitful in illustrating how SMEs build on the knowledge they gain from international activities in neighboring countries or regions. Moreover, we call for studies that investigate how SMEs use knowledge from neighboring countries to make new entry decisions.

Considering SMEs' sensitivity to their external context, studies that examine other dimensions of psychic distance (beyond culture) and their effect on SME foreign market entry mode choice are notable in their absence. Other dimensions of particular importance include geographic distance and communication barriers. To address this deficit, we suggest, consistent with Harzing (2003), to consider the impact of various forms of psychic distance, such as geographic distance or the role of communication barriers, and their impact on SME foreign market entry mode choice. This research will complement existing results, which has focused primarily on cultural distance.

With regard to SMEs' ownership structure, the field has not yet established whether ownership status determines advantages or disadvantages in overcoming the challenges that arise from psychic distance. Further, how the composition of the TMT affects how SMEs seek to overcome these challenges through their foreign market entry mode choice remains unresolved. We, therefore, suggest that future studies examine how SMEs with different ownership structures and TMT dispositions deal differently with the challenges that arise from psychic distance.

#### *4.2.4 Industry*

The industry defines the characteristics that shape the competitive strategy of a group of firms that produces products that are close substitutes for each other (Porter, 1980). The industry in which a firm operates determines the degree of competition (e.g., Greve, 2000), the necessity for innovation (e.g., Knight & Cavusgil, 2004; Meliá et al., 2010), and product characteristics (e.g., Brouthers & Brouthers, 2003; Sanchez-Peinado, Pla-Barber, & Hébert, 2007), all of which are relevant to a firm's foreign market entry mode choice.

The literature has revealed that SME foreign market entry mode choice depends on the firm's industry (Erramilli & D'Souza, 1993; Ripollés et al., 2012; Shrader et al., 2000). Our review revealed that the majority of studies focus on service industries (many with a technological focus), while some examine firms in the manufacturing sector, and a few consider mixed industry samples (Table 2). Erramilli (1989, 1991, 1992), Erramilli and Rao (1993), and Erramilli and D'Souza (1993) emphasize the difference between service and manufacturing firms in choosing a suitable foreign market entry mode. Li and Qian (2008) test for disparities between the mode choices of service and manufacturing firms. The consensus of the extant research is that the behavior of manufacturing firms in choosing how to enter foreign markets may not be fully applicable to service firms (e.g., Blomstermo, Sharma, & Sallis, 2005). Thus, the foreign market entry mode choice is contingent on a firm's industry.

Studies that delve deeply into industry characteristics and their impact on SME foreign market entry mode choice are largely lacking. In terms of the SME-specific characteristics, the literature has shown that firms in more concentrated industries enjoy higher relative margins, which enhances firms' resource endowment (Sharma, 2011). However, whether and how firms from industries with other concentration ratios encounter differences in their resource endowments that impact their foreign market entry mode remain open questions. As the role of industry structure is of particular interest for small firms' internationalization (Fernhaber, McDougall, & Oviatt, 2007), we encourage future research to delve more deeply into differences in behavior related to entry mode across different industries and sectors. For example, studies may focus on the impact of selected industry characteristics (e.g., concentration, degree of competition, density, uncertainty, and profitability) on the foreign market entry mode choice of SMEs. Industries with high levels of concentration may discourage SMEs from choosing to enter foreign markets, as they may not be able to compete against large MNEs internationally. Similarly, high concentration ratios may expose SMEs to a better resource endowment influencing their foreign market entry mode choices.

As for SMEs' sensitivity to their external environments, there is a lack of studies that examine industry-specific conditions (e.g., industry norms, pollution standards, labor regulations) and their impact

on SME foreign market entry mode choice. These particularities may influence SME foreign market entry mode choice and we encourage future studies to examine such contingencies.

It also remains unclear how the effect of SMEs' ownership structures and TMT characteristics on their foreign market entry mode choice varies according to different industries – a promising future research area. For example, in some industries managers may have higher levels of managerial discretion (than in others) influencing their scope of action, which can impact important strategic decisions such as foreign market entry mode choice.

#### *4.2.5 Firm Age*

Firm age is a critical contextual dimension in SME foreign market entry mode choice literature. The firm's age has been frequently applied as a sampling criterion in particular for those studies focusing on SMEs that internationalize early or even nearly from their inception. This phenomenon of firms internationalizing right from or shortly after their birth – often referred to as “born globals” or international new ventures (e.g., Knight & Cavusgil, 2004; Oviatt & McDougall, 1994) – distinguishes early internationalizing firms from companies that follow a slower and more incremental route to internationalization (e.g., Johanson & Vahlne, 1977). The study by McDougall (1989) gave birth to the research field of International Entrepreneurship focusing on young and small firms internationalizing proactively and rapidly (for a recent comprehensive review of this literature see Jones, Coviello, & Tang, 2011).

The majority of studies in our review examine traditional and older SMEs (e.g., Choo & Mazzarol, 2001; Crick & Jones, 2000; Fernández & Nieto, 2006; Zain & Ng, 2006) and their foreign market entry mode choice. Comparatively few studies examine new ventures' entry mode choice (Burgel & Murray, 2000; Prashantham, 2011; Ripollés et al., 2012; Shrader, 2001; Zahra et al., 2000). Those articles that do look at new ventures find that early and rapidly internationalizing firms often enter foreign markets by means of lower-commitment modes, such as through distributors or by means of exporting (e.g., Burgel & Murray, 2000; Shrader, 2001). The studies also emphasize that firms that internationalize nearly from inception suffer from liabilities of newness as an additional burden in

their foreign market entry mode choice (Burgel & Murray, 2000; Zhou, Wu, & Luo, 2007). On the other hand, the literature emphasizes that early and rapidly internationalizing firms enjoy some learning advantages of newness (Autio, Sapienza, & Almeida, 2000). These learning advantages of newness enable the firms to identify, value, select, and assimilate new knowledge faster than older companies that often suffer from inertia and dusty routines.

However, several issues related to the SME-specific characteristics remain largely untouched. In terms of SMEs' lack of resources, the question how liabilities of smallness and the learning advantages of newness that early internationalizing firms enjoy compensate for each other in SME foreign market entry mode is largely unresolved. Another open question concerns how young firms with limited resources – such as “born globals” – can develop the necessary absorptive capacity to acquire adequate knowledge to make their foreign market entry mode choice. Young firms that venture abroad right from inception follow an entrepreneurial approach to internationalization (Jones et al., 2011; Knight & Cavusgil, 2004; Schwens & Kabst, 2009) that exposes the firm to particular challenges. Given the limited number of studies that examine young SMEs' foreign market entry mode choice, we encourage scholars to have a stronger research focus on younger SMEs (such as “born-globals”) and the resources upon which they take the foreign market entry mode decision.

SMEs are limited in their resources, but this limitation is even more severe when the company is just a few years old as in the case of international new ventures (e.g., Oviatt & McDougall, 1994) or “born-globals” (Knight & Cavusgil, 2004). A useful avenue for future scholarship is to compare younger and older SMEs. Such research could examine how the learning advantages of newness (and the absence thereof) and the liabilities of smallness affect the choice of entry mode of younger (as opposed to older) firms. Further, the comparison of younger and older SMEs may provide insights regarding the firms' differences in terms of how they identify, value, select, and assimilate new knowledge (Cohen & Levinthal, 1990) relevant to their foreign market entry mode choice.

Regarding SMEs' sensitivity to external contexts, several questions remain unanswered. There is a gap in the literature concerning how SMEs that internationalize early react to institutional challenges differently from SMEs that internationalize later. On a related topic, it remains unclear, how different



domestic institutional challenges influence the foreign market entry mode choice of early and rapidly internationalizing SMEs.

To close this gap, we encourage future studies to examine how formal and informal institutional challenges affect the foreign market entry mode choice of older, as opposed to younger, SMEs differently. For example, firms that internationalize at a young age might profit from learning advantages (Autio et al., 2000) and so be able to adapt to a new institutional context faster and more efficiently. In contrast, older firms may use their prior routines and processes in the new context, which may hamper the firm's ability to enter a foreign market successfully. We also encourage future research to investigate the foreign market entry mode choice of early internationalizing SMEs from emerging markets, like India or China. Prashantham (2011), for example, stated that firms from emerging economies tend to operate in underdeveloped markets. This raises the question how young and early internationalizing SMEs from emerging economies enter developed markets such as the USA.

Finally, considering SMEs' ownership structure, the question which TMT personality traits impact early foreign market entry and the choice of mode remains unclear. We, therefore, propose that future research examines the impact of the personality characteristics of the TMT on SME foreign market entry mode choice and the contingency of this association on firm age. The international entrepreneurship literature (Jones et al., 2011; Rialp, Rialp, & Knight, 2005) has emphasized the role of the TMT and the company's founder, but we know relatively little regarding how owners, founders, or top managers impact younger and older SMEs' foreign market entry mode choice differently. In summary, studying firm age is not only an important additional contextual dimension. However, it allows to further integrate the traditional literature from the field of international business and the newly emerging literature from the domain of International Entrepreneurship including the discussion on "born global" firms.

Figure 1 summarizes and complements Tables 2 and 3 by presenting the current state of research into SME foreign market entry mode. Figure 1 is a visual guide to the current state of research in terms of theoretical frameworks used and contextual dimensions investigated (similar to Jones et al. (2011)).

Figure 2 shows a roadmap for future scholarly inquiry that is tailored to the three specific characteristics of SMEs, with the goal of closing the identified gaps.

**Figure B – 1: Current State of SME Foreign Market Entry Mode Choice Research**

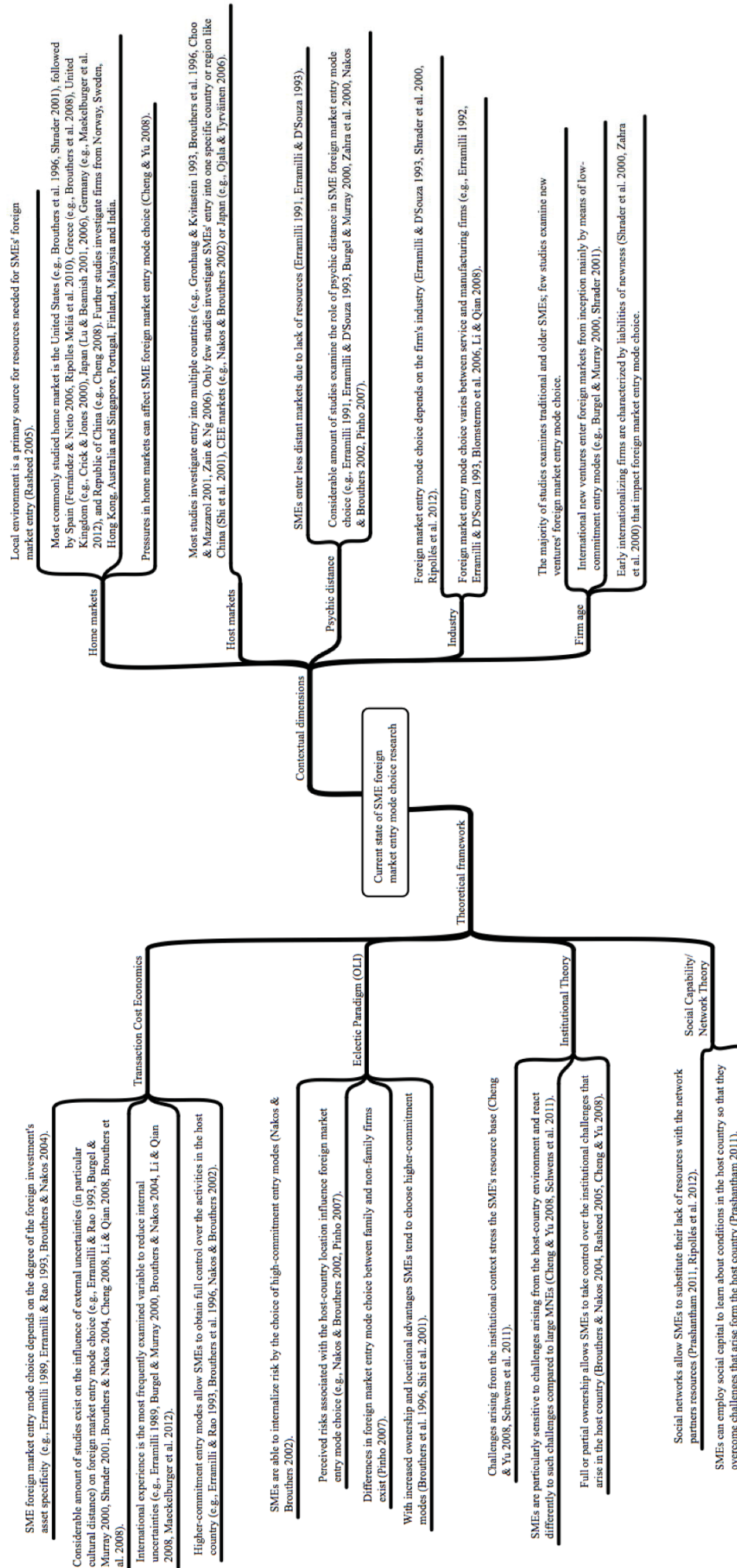
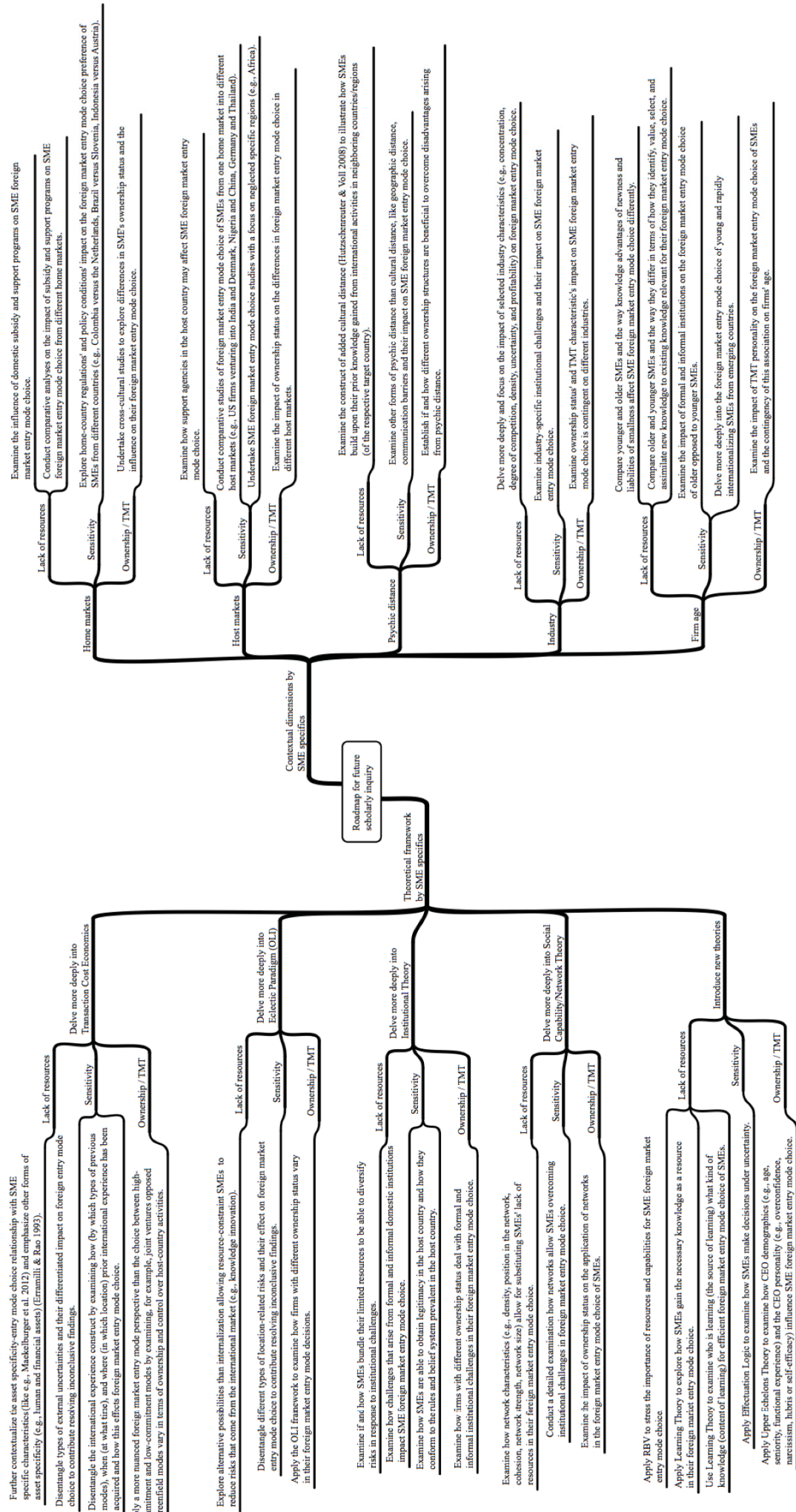


Figure B – 2: Roadmap for Future Scholarly Inquiry



## **5. Limitations**

Our paper has several limitations. First, our ability to obtain relevant studies to review was challenged by the fact that many existing studies focus on MNE foreign market entry mode choice. Even though many studies address primarily large MNEs, their samples may also include some smaller firms. To include relevant articles in our review, we chose only those studies that focus on SMEs or compare SMEs to large MNEs, an important limitation in our study. Second, we conducted an issue-by-issue search of leading journals in the field, but there may be additional relevant journals that we did not examine issue-by-issue. As the issue-by-issue search is only one measure by which to identify relevant articles – we also performed keyword searches, checked relevant articles' reference lists etc. – we are confident in the comprehensiveness of articles we included in our paper. Third, our review focuses on SMEs exclusively, so it excludes knowledge obtained by studies that focus on large MNEs that may also be relevant in the SME context. Therefore, our review does not claim to be exhaustive but only to supplement the knowledge generated by more general review articles on the choice of entry mode (Brouthers & Hennart, 2007; Canabal & White, 2008; Morschett et al., 2010).

## **6. Conclusion**

The present paper's goal was to review the current state of SME foreign market entry mode choice research and, based on this review, to identify gaps in the literature in order to map productive future research directions. Our review of 33 studies emphasizes the importance of foreign market entry mode choice in the context of SMEs. Drawing on three specific characteristics of SMEs (lack of resources, sensitivity to external challenges, special ownership structure/TMT characteristics), it becomes evident, however, that the field is far from being concluded and suffers from several shortcomings. To this end, we have suggested a roadmap for future scholarly in this important domain. Beyond the findings and recommendations obtained from our review, we suggest that future research topics should emerge from dialogue between research and practice to ensure a theoretically grounded and practically relevant advancement of the literature.

## C. Study 2: The Role of International Equity Experience in Foreign Market Entry Mode Choice of Small and Medium-Sized Enterprises<sup>3</sup>

### 1. Introduction

The accumulation of knowledge from prior international activities of firms plays an important role in international management (Johanson & Vahlne, 1977, 1990, 2009). The rationale is that firms with greater levels of knowledge accumulated in international operations usually have developed capabilities for processing routines and managing international operations (Chandler & Hanks, 1994) and, therefore, for coping with uncertainty arising from the host country (Hadjikhani, Hadjikhani, & Thilenius, 2014; Hilmersson & Jansson, 2012). In this regard, international equity experience (i.e., the accrual of knowledge as well as capabilities obtained from foreign equity investments involving significant financial and managerial resources (Anderson & Gatignon, 1986; Clarke, Tamaschke, & Liesch, 2013)) represents the most extensive form of accumulating knowledge abroad (Gao, Pan, Lu, & Tao, 2008). International equity experience may accrue significant knowledge gains as firms are directly exposed to customers, institutions and business partners (Zahra et al., 2000).

Extant literature examines the impact of different forms of international equity experience in the internationalization of large multinational enterprises (MNEs). In this regard, studies examine the added cultural distance that firms accumulated over time in their prior equity investments and how added cultural distance impacts performance (Hutzschenreuter & Voll, 2008) and subsequent international expansion (Hutzschenreuter, Voll, & Verbeke, 2011). Other studies consider the effect of specific mode experiences and how they impact foreign subsidiary survival and profitability (Delios & Beamish, 2001) or the choice between an equity joint venture or a wholly-owned subsidiary (Slangen & Van Tulder, 2009). In addition, studies focus on the role of the number of prior equity foreign market entries per unit of time and how high diversity and high depth of past experience influence firms'

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<sup>3</sup> Together with Schwens, Christian and Baum, Matthias (University of Kaiserslautern) | the paper was presented at the European International Business Academy (EIBA) Annual Meeting, Uppsala, Sweden, 2014.

internationalization speed (Casillas & Moreno-Menéndez, 2014) and how a faster foreign expansion pace moderates the impact of a firm's foreign subsidiaries on its performance (Vermeulen & Barkema, 2002).

Despite considerable contributions regarding the effect of international equity experience in the internationalization of large MNEs, knowledge from the context of small and medium-sized enterprises (SMEs) is limited. However, the role of international equity experience is peculiar as SMEs significantly differ from large MNEs. In particular, SMEs differ from large MNEs in terms of ownership and organizational structures (flexibility and flat hierarchies) (Gassmann & Keupp, 2007), resource endowment (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002), sensitivity to external conditions (Cheng & Yu, 2008), regionalized internationalization (Lopez, Kundu, & Ciravegna, 2009) and learning processes (De Clercq, Sapienza, Yavuz, & Zhou, 2012). These specifics may vary the role of international equity experience in important strategic decisions of SMEs; yet, we still have little theoretical understanding regarding these peculiarities and underlying theoretical mechanisms.

The present paper examines the impact of international equity experience on the foreign market entry mode choice of SMEs. Foreign market entry mode choice encompasses “the form of operation firms use to enter foreign markets” (Brouthers & Hennart, 2007, p. 395). It is one of the most important strategic decisions firms have to take when venturing abroad (Lu, 2002). Firms making their foreign market entry mode choice can select among several modes of entry, including exporting, contractual agreements (e.g., licensing), joint venturing, acquiring an existing company, and establishing a wholly-owned greenfield investment from scratch (Pan & Tse, 2000). In line with previous research on SME foreign market entry mode choice (e.g., Maekelburger et al., 2012; Nakos & Brouthers, 2002), we investigate the dichotomous choice between equity (e.g., equity joint ventures, acquisitions or wholly-owned subsidiaries) and non-equity based entry modes (e.g., exports, contractual agreements).

More specific, we focus on the effects of a) *accumulated cultural distance* from equity investments<sup>4</sup> (i.e., the (accumulated) distance between the location of all prior foreign markets entered by means of equity modes and the most recently entered foreign market), b) *equity mode experience* (i.e., the number of previous international markets entered by means of equity modes relative to the number of all international markets served by the SME), and c) *pace of prior equity experience* (i.e., the number of prior equity foreign market entries per unit of time) on SME's most recent foreign market entry mode choice. We validate our research model on a dataset of 125 German SMEs.

We offer two major contributions to the literature. First, we specifically tailor our theoretical arguments to the context of SMEs. We argue that the specific characteristics of SMEs have a substantial impact on the manner the three international equity experience constructs impact SME foreign market entry mode choice. We establish that the SME specific characteristics incur substantial effects on the *dynamic adjustment costs* (Tan & Mahoney, 2005) occurring when firms accumulate cultural distance during equity investments impacting the manner in which accumulated cultural distance impacts SME entry mode choice. Second, we outline that SME specific characteristics influence the way in which knowledge obtained from equity mode experiences becomes routinized and *imprinted* (Lu, 2002) having consequences for subsequent SME foreign market entry mode choice. Finally, we argue that the manner in which *time compression diseconomies* (Dierickx & Cool, 1989; Jiang, Beamish, & Makino, 2013) (depending on the pace to which prior equity experience is collected) feed forward into subsequent SME foreign market entry mode choice is dependent on SME specific characteristics.

Second, we contribute to the growing literature focusing on SME foreign market entry mode choice.

While extant knowledge on the foreign market entry mode choice of large MNEs is exhaustive (e.g.,

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<sup>4</sup> Hutzschenreuter and Voll (2008) examine, amongst others, the added cultural distance resulting from international expansion moves. That is, the smallest distance from every newly established subsidiary to all already existing subsidiaries. Hence the added cultural distance of a single expansion step entails its distance to the closest existing subsidiary. In this study, we examine the *accumulated cultural distance* taken on by each SME, that is, we summed up the added cultural distance of each international equity entry undertaken by the firm and then divided that sum by the number of years since the firms' first international equity entry (as is consistent with Hutzschenreuter and Voll's (2008) level of added cultural distance per unit of time). We focus on the accumulated cultural distance from prior equity investments as we explore how prior international equity experience of the SMEs feeds forward into subsequent entry mode choice.



Cho & Padmanabhan, 2005; Guillén, 2003; Padmanabhan & Cho, 1999; Zhao, Luo, & Suh, 2004), the current state of knowledge on SME foreign market entry mode choice is comparably more limited (Laufs & Schwens, 2014). Specifically, we contribute to this literature by answering the question “how SMEs’ types of international experience (in terms of mode experience, country experience, etc.) allow SMEs to reduce uncertainty in their foreign market entry mode choice“ (Laufs & Schwens, 2014, p. 1116). While our paper specifically contributes to SME foreign market entry mode choice literature, we envisage the theoretical knowledge developed in this paper to be broader and to inform literature seeking to explain other major strategic decisions SMEs have to take in their internationalization such as location choice (Chen & Chen, 1998; Nakos & Brouthers, 2002; Pinho, 2007) or timing of internationalization (Buckley & Casson, 1981; Tuppara, Saarenketo, Puumalainen, Jantunen, & Kyläheiko, 2008).

## **2. Theoretical Background**

### **2.1 The Importance of International Equity Experience**

The process model of internationalization (IP-theory) (Johanson & Vahlne, 1977, 1990, 2009) assumes that firms’ international expansion encompasses a series of incremental investments that reduce the uncertainty embedded in cross-border activity (Aharoni, 1966). According to the theory, firms commit increasing amounts of resources to subsequent market entries as their foreign market knowledge grows (Johanson & Vahlne, 1977). Knowledge is accumulated by experiential learning (Johanson & Vahlne, 1977) and helps firms to deal with uncertainty in international markets (Buckley, Devinney, & Louviere, 2007). Firms may effectively handle uncertainty in the international context by focussing on experiential knowledge acquisition from a cumulative, path-dependent process where each additional step adds to the firm’s knowledge base (Casillas & Acedo, 2013; Chandra, Styles, & Wilkonson, 2012), impacting subsequent internationalization steps.

One of the most important ways of knowledge accumulation unfolds through international equity entry modes the firm has chosen in previous international activities. International equity entry modes

encompass the acquisition of an existing firm abroad, the establishment of a greenfield investment in a foreign country or the formation of an international joint venture. The more often a firm has pursued equity entry modes in the past, the more knowledge is created about establishing such high commitment modes (Dikova & Van Witteloostuijn, 2007; Lu, 2002). Moreover, international equity experience is context specific, which means that it matters if a firm has created knowledge in a similar environment or in a different one. Finally, international equity experience is routine-based in such that establishing the same entry mode in different environments allows the firm to develop expert knowledge with a respective entry mode. As learning is inherently incremental, the speed with which firms expand internationally is of increasing interest in present research (e.g., Barkema et al., 1996; Chetty, Johanson, & Martin, 2014). Firms have to decide upon the speed at which to develop internationally – a key aspect of firms' international strategy that determines how firms balance their resources (Chetty et al., 2014).

To sum up, international equity experience is an intense form of knowledge accumulation as it encompasses a) knowledge about the location in which the previous entry mode has been established (i.e., the *accumulated cultural distance* from equity investments), b) structural knowledge obtained from different types of modes used in prior foreign market entries and penetrations (i.e., *equity mode experience*), and routine-based knowledge depending on the pace at which prior entry modes have been established (*pace of equity experience*) (Jiang et al., 2013; Johanson & Vahlne, 1977, 1990).

## 2.2 International Equity Experience and Large MNEs' Internationalization

Adhering to the imperative role of international equity experience, a significant body of literature focusing on *large MNEs* investigates the role of accumulated distance from equity investments, equity mode experience, and the pace of equity experience in firms' internationalization.

Concerning the role of accumulated cultural distance from equity investments of large MNEs, prior literature (e.g., Hutzschenreuter & Voll, 2008) argues that the usefulness of accumulated international experience from earlier activities depends on the added cultural distance – the similarity between the

newly entered foreign market culture and the culture of existing markets. Consequently, what “matters in the case of a new entry is not so much the distance between the home country A and the host country B, but between the newly entered host country B and the host country C, where the firm already has substantial experience and that shows the lowest distance to the newly entered country B” (Tung & Verbeke, 2010, pp. 1268-1269). Hence, added cultural distance encompasses additional complexity resulting from the cultural, geographical or institutional distance (Ghemawat, 2001) between prior markets (a firm has international activities in) and a new foreign market. In a similar vein, Dow and Larimo (2009) argue that firms that concentrate their international activities regionally might be able to transfer their prior knowledge to a new familiar market within the same region and thus profit from reduced added cultural distance. Other studies show that cultural distance negatively affects a firm’s ability to learn from prior expansions (Barkema et al., 1996; Zeng, Shenkar, Lee, & Song, 2013). The primary underlying theoretical mechanism to explain these findings is that firms have to adapt their competencies to each new international market in the presence of high cultural distance incurring *substantial adjustment costs* (Tan & Mahoney, 2005) as firms have to increase their existing resource base and develop new organizational capabilities in differentiating contexts (Hutzschenreuter et al., 2011). Cultural distance makes prior experience less valuable by “eroding the applicability” of the firm’s competencies (Barkema, Shenkar, Vermeulen, & Bell, 1997, p. 428).

Furthermore, MNE literature suggests that equity entry mode experience leads to an increased tendency of choosing the same mode in subsequent entry mode steps (Cho & Padmanabhan, 2005; Delios & Beamish, 2001; Dikova & Van Witteloostuijn, 2007; Padmanabhan & Cho, 1999; Slangen & Hennart, 2008; Slangen & Van Tulder, 2009; Yiu & Makino, 2002). The experience obtained from prior equity modes a firm has established in previous internationalization steps indicates the structural knowledge the firm acquired in other countries (Casillas & Moreno-Menéndez, 2014) feeding forward into subsequent internationalization steps. The underlying theoretical mechanism is that a frequent adoption of the same entry mode structure provides the firm with radical learning and knowledge accumulation resulting in specific routines (Gao et al., 2008). This is consistent with Lu (2002) arguing that previously adopting multiple entry modes with the same structure causes “*imprinting*” which is “a process

of institutionalization that creates reality for a firm in its own internal environment” (p. 22). Lu (2002) further argues that as the frequency of adoption of a practice grows, it becomes a “taken for granted” (p. 22) approach that becomes difficult to change. Thus, once a practice or decision has been implemented, it reduces the likelihood of alternatives being used in future decisions, leading to a greater propensity to use the same entry mode in subsequent entries.

Finally, extant literature focusing on large MNEs investigates the pace at which firms expand internationally by means of equity modes (e.g., Barkema et al., 1996; Chetty et al., 2014). The speed at which firms develop internationally determines how firms balance their resources (Chetty et al., 2014). Hence, experiential learning depends on how fast a firm is able to develop new capabilities for subsequent market entries (Johanson & Vahlne, 1977, 1990). Vermeulen and Barkema (2002), for example, find that a faster pace of foreign expansion negatively moderates the (positive) impact of the foreign operations of an MNE on its profitability. Barkema and Drogendijk (2007) find that incremental expansion in foreign settings may increase local learning and success. The primary underlying theoretical argument is that firms internationalizing at a high pace suffer from *time compression diseconomies* (Dierickx & Cool, 1989; Jiang et al., 2013). Time compression diseconomies entail that the faster resources are developed, the higher costs a firm would incur (Jiang et al., 2013; Knott, Bryce, & Posen, 2003). Firms need time in order to identify, value, and select (Cohen & Levinthal, 1990) prior knowledge (generated from prior international activities) and to assimilate this knowledge to existing knowledge (Vermeulen & Barkema, 2002).

We conclude that extant literature on large MNE internationalization provides important contributions to explain the imperative role of international equity experience (collected in different locations, by means of different modes, and at a varying pace) in firm internationalization. We seek to forward this discussion by expanding it towards SMEs – a context which so far attracted only limited research attention. The limited consideration is surprising given SMEs’ peculiarities as outlined in the next section.

### 2.3 Specific Characteristics of SMEs

SMEs are not just smaller versions of MNEs (Welsh & White, 1981) but they show distinct features, which coin managerial decisions, learning processes and, ultimately, the way internationalization is conducted. Such particularities of SMEs make it less likely that empirical findings on MNE internationalization can be transferred into the SME context without any theoretical adaption.

The most salient distinctions between SMEs and MNEs impacting on internationalization processes exist with regard to ownership, organizational structures (flexibility and flat hierarchies) (Gassmann & Keupp, 2007), resource endowment (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002), sensitivity to external conditions (Cheng & Yu, 2008), regionalized internationalization (Lopez et al., 2009) and learning processes (De Clercq et al., 2012). SMEs often have a *concentrated ownership structure* and more likely to employ *owner-managers* leading the firm. Thus, SME leadership can decide more flexibly and has a higher level of managerial discretion compared to large MNEs (Hyvarinen, 1990), which usually have largely dispersed shareholders and employed managers. This has two important implications for the internationalization of SMEs. First, SMEs' owner-managers will very carefully weight risks vs. benefits of international market entry and try to reduce risky decisions (Jones & Butler, 1992), because it is their own stakes they are losing if a market entry does not pay off. Second, as power and discretion are more centered within SMEs, decision patterns are more stable and commitments more enduring than in the case of large firms in which different parties try to gain control. Moreover, principal-agent problems and information asymmetries between owners and managers are reduced or become completely obsolete in SMEs (Atkins & Lowe, 1994). SMEs, accordingly, enjoy faster decision processes and more informal and efficient information flows (Berends et al., 2014). Consequently, information, which is gathered during internationalization is processed more efficiently and learning effects should be more pronounced than in MNEs where managers might try to highlight (conceal) specific information that do (not) contribute to their personal goals.

In addition, the *organizational structure* within SMEs differs from that of MNEs. SMEs are, due to their smaller size, less susceptible to inertia than larger MNEs and are more flexible (Gassmann &

Keupp, 2007). Information disseminates more quickly within smaller organizations (Aragón-Correa et al., 2008) and existing structures are more agile than in large “goliaths”. Because of flatter hierarchies and more direct information routes, SMEs can learn more effectively (Jones & Mcpherson, 2006) from international markets and establish new routines about foreign market entry more quickly than their larger counterparts. Accordingly, SMEs can create learning advantages due to their enhanced flexibility (De Clercq et al., 2012).

The above characteristics might be considered as comparative advantages of SMEs. However, SMEs also face disadvantages when compared to MNEs, particularly because of their *limited resource endowment* (Nakos & Brouthers, 2002). SMEs have more pronounced resource constraints than large MNEs who can more easily dispose, transfer or even generate resources. Moreover, larger firms have more slack resources than SMEs (Sui & Baum, 2014). This allows MNEs to perform high- commitment foreign market entries more easily than SMEs and, if necessary, to reinvest into foreign activities if the assumed resource requirements do not suffice. MNEs usually are less limited in their marketing budget, and possess more established brands and market reputation than SMEs (Jarillo, 1989; Singh, Gaur, & Schmidt, 2008), making it easier to internationalize. MNEs also have lower barriers in generating additional resources (Zacharakis, 1997), because they usually have better access to financial markets and can provide more securities to investors than SMEs.

The resource advantages of MNEs make them also less *sensitive* to external conditions and allow for a globalized internationalization. SMEs have to rely more strongly on the external resources and have less agency and power during their interactions with foreign institutions. Therefore, SMEs have an incentive to focus on *regionalized internationalization* (Sui, Yu, & Baum, 2012), allowing them to avoid liabilities of inter-regional foreignness (Rugman & Verbeke, 2007), to govern their foreign market operations more efficiently and to realize learning effects more quickly due to comparable institutional settings (Sui & Baum, 2014). MNEs can use their power to set SMEs at a disadvantage (Wright, Westhead, & Ucbasaran, 2007) and negotiate on another level with governmental officials. This helps MNEs to reduce external uncertainty and secure their investments abroad against external

shocks or entries of competitors. Accordingly, SMEs have to rely on alternative mechanisms in order to establish competitive advantage such as regional internationalization.

Because of the specific characteristics of SMEs, we argue that different dimensions of international equity experience have a different impact on SMEs' foreign market entry mode choice. More specific, in the next section we develop our hypotheses and argue that the underlying theoretical mechanisms of dynamic adjustment costs, imprinting, and time compression diseconomies that have proven in prior internationalization of MNEs literature unfold a different effect in the SME context given the specific characteristics of SMEs.

### **3. Hypotheses**

Given their specific characteristics, foreign market entry mode choice creates substantial challenges for SMEs with regard to finding the right commitment to the foreign market in order to gain control over risks prevailing in the host country. Prior literature states that these difficulties are particularly pronounced in situations where the cultural distance between the home country A and the host country B is high (Ghemawat, 2001). Like any firm, SMEs need to adjust their organizational coordination and control approaches to fit the culture prevailing in the new local context (Gómez-Mejía & Palich, 1997). Finding the most appropriate entry mode can be facilitated by means of existing knowledge obtained from prior equity entries in similar cultural settings. This view is consistent with prior literature arguing that the usefulness of previously accumulated knowledge and experience is determined by the similarity of the new setting in comparison to those settings already experienced by the company (Cohen & Levinthal, 1990; Halebian & Finkelstein, 1999).

Hutzschenreuter et al. (2011) examine the impact of added cultural distance and cultural diversity on international expansion patterns of large MNEs. The authors argue that high levels of added cultural distance lead to dynamic adjustment costs, which may disrupt current operations, mainly because of two reasons. First, the new environment is complex, and, thus, the firm must recombine its extant scarce resource base. Second, the firm must build new organizational capabilities for an investment in

a culturally distant country, which may quickly exhaust the pool of resources to support international expansion. Both aspects are particularly pertinent in the context of SMEs as dynamic adjustment costs can easily overburden the (per se) limited resource base of the firm.

However, SME research repeatedly provides evidence for more concentrated regional activity versus a broader multinational spread (Hejazi, 2007; Lopez et al., 2009; Rugman, Oh, & Lim, 2012). According to this literature, the distance accumulated by SMEs through prior entries is the sum of multiple smaller distances in a limited geographic range rather than (fewer) large distances between distinct regions. Lopez et al. (2009), for example, find that small firms internationalize in a regional context, engaging only in activities in nearby countries within a region (Nachum, Zaheer, & Gross, 2008). Regional geographic diversification is based on the principle that coordination costs associated with managing across more geographic locations can be minimized. This occurs by obtaining (1) more tacit benefits that occur with accumulated learning within the same geographic region, and (2) more efficiency benefits that occur with the likelihood of having greater managerial control on the costs associated with cross-border activities (Delios & Beamish, 1999; Johanson & Vahlne, 1977). For example, countries within a given region such as Europe can be relatively similar in terms of economic development, and psychic distance. Plus, due to the relatively close geographic distance, products, knowledge, people and capital flow are easier between countries within the same region than between regions (Rugman & Verbeke, 2004). Because regional diversification may also reduce the managerial costs of coordination, transportation, communication, distribution and knowledge-sharing across different countries (Grant, 1987), SMEs' dynamic adjustment costs remain low despite high levels of accumulated distance. SMEs may significantly benefit from prior knowledge gained in close markets (Eriksson, Johanson, Majkgard, & Sharma, 1997; Fletcher & Harris, 2012) and this knowledge impacts the willingness to commit stronger to new markets, via equity-based entry modes. This is consistent with Autio et al. (2000) suggesting that the generation of new organizational knowledge is maximized in domains close to the domain of existing knowledge.

Moreover, SMEs' organizational structure, particularly their flat hierarchies allows the firm to develop organizational capabilities for the new foreign market more easily. New information related to



cultural differences might diffuse and process more quickly in SMEs. To this end, new foreign market entries may not disrupt current operations, keeping dynamic adjustment costs at a lower level. Hence, we expect SMEs to enter countries at higher rates of commitment (as is the case for equity foreign market entry modes) in the presence of high added cultural distance accumulated from prior equity investments as SMEs are primarily regional internationalizers and possess flatter hierarchies compared to large MNEs. Thus, we hypothesize:

**Hypothesis 1:** The accumulated cultural distance from prior equity investments is positively related to subsequent equity foreign market entry mode choice (opposed to non-equity foreign market entry mode choice).

SMEs accumulate structural knowledge from equity modes of operation used in the past helping them to develop new resources and capabilities to exploit foreign operations in the future (Casillas & Moreno-Menéndez, 2014). At the same time, firms tend to exploit the knowledge learned in previous modes of operation in their new international operations (Barkema et al., 1997). A higher amount of equity mode experience may accrue more knowledge than a lower amount of equity entry modes in a firm's internationalization portfolio, because higher commitment entry modes are closer to the foreign market and provide firms with more chances for radical learning (Zahra et al., 2000). To this end, SMEs' frequency of adapting equity modes creates a process of imprinting that becomes difficult to change and increases the propensity of opting for the same entry mode in subsequent entries (Lu, 2002).

It has been argued that a high commitment of resources in a new foreign market implies new challenges for the firm and therefore represents a higher level of uncertainty (Casillas & Moreno-Menéndez, 2014). However, SMEs' tendency for regional diversification helps to deal with uncertainty arising from external challenges. Regional diversification helps firms to reduce managerial, technological, and coordination complexities, and to ease the transfer and sharing of marketing techniques, human resources, and technologies (Markides & Williamson, 1994). Likewise, organizational structures and corporate control mechanisms need only small adjustment when firms are dealing with a

more limited number of foreign settings (Ruigrok & Wagner, 2003). Moreover, knowledge-based resources that have been accumulated in similar environments can be combined and integrated relatively easy to create new competencies (Eisenhardt & Martin, 2000). Thus, regional diversification allows SMEs to bundle their already scarce resources to higher commitment entry modes.

Moreover, SMEs with an entry mode structure in favor of equity entry modes are more likely to have generated procedural knowledge in establishing high commitment entry modes, leading to the notion of imprinting. Conversely, SMEs that have predominantly relied on non-equity entry modes in the past, will find it comparatively harder to establish equity-based entry modes for the next international expansion step. Accordingly, it is likely that entry mode choices are path dependent (Chang & Rosenzweig, 2001) and that SMEs choose future international market entries on the basis of their structural entry mode history. This is also consistent with Epple, Argote, and Devadas (1991) who argue that through direct experience firms might be able to standardize the task by applying equity-based market entry modes. Thus, we hypothesize:

**Hypothesis 2:** The prior equity mode experience is positively related to subsequent equity foreign market entry mode choice (opposed to non-equity foreign market entry mode choice).

Firms have to decide upon the pace at which they develop their equity foreign market activities. A high pace of internationalization is an important managerial challenge that firms face in their expansion process. Firms have to balance their resources (Chetty et al., 2014) and, hence, have to make sure not to overburden the organization. This is particularly relevant for SMEs suffering from limited resources.

Studies investigating the pace of large MNEs argue that a high pace of internationalization enhances time compression diseconomies, which in turn leads to lower performance (Jiang et al., 2013; Vermeulen & Barkema, 2002). Even though an increased pace of equity entry modes strains SMEs managerial and process resources (Chetty & Campbell-Hunt, 2003), SMEs might possess some advantages over large MNEs that allows them to enter foreign markets at a higher pace with additional equity entries and without suffering from time compression diseconomies to a large extent.

First, SMEs tend to follow a regional approach of internationalization, meaning that differences between countries within a limited number of regions are relatively small and, thus, firms have only to manage the differences between a few regions (Qian, Li, Li, & Qian, 2008). A regional diversification strategy allows a firm to more readily build, integrate, and reconfigure different resources and capabilities that are located in different geographically close countries and distribute the accumulated costs of learning elsewhere within the region (Goerzen & Beamish, 2003; Qian et al., 2008). Hence, SMEs have only to undergo through relatively small operation adjustments, which keep time compression diseconomies low and, hence, speed up process adaptations for subsequent foreign market entries.

Second, SMEs' organizational flexibility supports the "speed-enhancing" mechanisms of regionalization, as flat hierarchies enable SMEs to integrate new knowledge (obtained from additional international engagements) into the existing knowledge base of the firms more quickly. SMEs also learn with an accelerated speed and develop capabilities needed to successfully manage equity-based entry modes. Repetitive equity-based entries lead to experiential learning about foreign modes of operation, whereby the firms develop the necessary capabilities to increase their commitment to foreign markets via the choice of equity modes (Petersen et al., 2008). In this regard, SMEs are faster able to integrate new knowledge (obtained from additional international engagements) into the existing knowledge base of the firm, which again keeps time compression diseconomies at a lower level and enables such firms to enter foreign markets at a high pace.

Third, SMEs might profit from their special ownership structure in order to increase the speed of subsequent internationalization steps. As SMEs' decision-making is concentrated only on one or few decision maker/s – opposed to large MNEs in which strategic decisions usually have to run through several top management teams – decision processes in SMEs tend to be prompt. The specific characteristics may reduce time compression diseconomies, allowing the firm to establish equity entry modes at a higher pace. To this end, employing equity entry modes at a high pace also leads to an imprinting process and allows the firm to profit from radical learning, which increases the propensity of opting for an equity entry mode in subsequent internationalization steps. Moreover, according to the strategic choice rationale (Mudambi & Zahra, 2007; Sui & Baum, 2014) firms self-select into

fitting strategy patterns. SMEs will therefore choose an appropriate entry mode strategy according to their internal resource base and external conditions. While pursuing a specific strategy SMEs acquire additional resources and capabilities, which are conducive for this specific strategy pattern (Hashai, 2011) and thus help them to continue with this approach. SMEs, which have collected experience in establishing equity modes in the past, have strong routines in establishing high-commitment entry modes. Thus, the chosen pace of equity entry modes indicates the future likelihood of operating equity-based entry modes, leading us to hypothesize:

**Hypothesis 3:** The pace of prior equity experience is positively related to subsequent equity foreign market entry mode choice (opposed to non-equity foreign market entry mode choice).

## 4. Methods

### 4.1 Data

Our empirical analysis draws on data gathered from German SMEs. According to the classification of the German Institute for SMEs (Günterberg & Kayser, 2004), we define SMEs as companies with up to 500 employees. Furthermore, we selected only companies that had experienced some form of international activity. Using the established AMADEUS database, we have drawn 1,730 companies that fulfilled both criteria. We sent standardized questionnaires to firm owners and CEOs, as they are mostly responsible for key strategic decision-making processes in SMEs (such as firm internationalization strategies) and, hence, have the best knowledge to answer these questions. The sample included only German firms, and all questions were in German. We took into consideration the established back-translation literature and used internationally accepted items (Brislin, 1970; Van de Veijver & Hambleton, 1996). We received 192 questionnaires representing a response rate of 11.1%. Because of missing data, our final analyses included 125 companies. The average company size was 196 employees and nearly 41% of the respondents reported that their last foreign market entry was executed via an equity-based entry mode. Therefore both groups, SMEs applying non-equity and SMEs using equity modes, had a comparable size, which allows for more stable statistical estimations. This also for-

wards the relevance of observing entry modes in an SME sample and showed that SMEs do not only pursue non-equity entry modes but also equity entry modes. Finally, we controlled for nonresponse bias following Armstrong and Overton (1977), comparing early and late respondents in terms of selected constructs. A t-test revealed no significant differences suggesting that nonresponse bias is not a major threat for our analyses.

## 4.2 Measurements

We measured our dependent variable *foreign market entry mode choice* dichotomously as we distinguished between equity foreign market entry modes (coded as 1), including equity joint ventures and wholly owned subsidiaries, and non-equity foreign market entry modes (coded as 0), including exports and contractual agreements. This measurement is consistent with prior literature (e.g., Brouthers & Nakos, 2004; Erramilli & D'Souza, 1993; Maekelburger et al., 2012; Nakos & Brouthers, 2002; Pan & Tse, 2000). Our dependent variable, foreign market entry mode choice, refers to the most recent foreign market entry of the respective SME.

Our independent variables are prior equity location choices, prior equity mode structure, and pace of prior equity internationalization.<sup>5</sup> To reflect the increase in cultural distance in the portfolio of foreign markets served by the SME, we analyzed the *accumulated cultural distance from equity investments* (Hutzschenreuter & Voll, 2008) between the countries in which each firm operated since their first foreign entry via equity mode. Following Hutzschenreuter et al. (2011), this calculation involved adapting the procedure used by Kogut and Singh (1988) to calculate a measure of cultural distance between pairs of countries based on the nine dimensions of the GLOBE project (House, 2004).

$$CD_i = \sum_{i=1}^9 \left[ (I_{ij} - I_{ig})^2 / V_i \right] / 9$$

<sup>5</sup> On average the firms in our sample had international activities in 27 different foreign countries. To measure our prior experience variables we focus on those markets where the respective SME had prior equity activities relative to the total number of foreign markets served by the SMEs. We decided for this approach as prior literature has shown that equity modes are more closely related to the international market and its customers (Zahra et al., 2000) and form the relevant type of prior experience as increased commitment to the international market closes knowledge gaps more efficiently (Johanson & Vahlne, 1977; Petersen et al., 2008).

According to this formula, the distance between two countries can be computed as the average of the differences between these countries for each relevant cultural dimension while controlling for the variance of each dimension. Similarly to Hutzschenreuter and Voll (2008), where country scores were not available for a host country, we carefully examined country characteristics such as legal system, religions, languages, and ethnicity using data from the *CIA World Factbook* and assigned scores using averages of the available scores of countries with similar characteristics. According to Hutzschenreuter and Voll (2008), the added cultural distance resulting from a firm's international expansion move, was computed for every newly established equity-based entry into a foreign market as the smallest distance to all already existing equity-based entries in foreign markets. Hence the added cultural distance of a single expansion step is its distance to the closest existing foreign market operated via equity mode in the internationalization portfolio of the SME. To measure the accumulated cultural distance from equity investments of a given time period, we summed up the added cultural distance of all expansion steps to new foreign markets and divided them by each firm's internationalization time period (year of last equity entry minus year of first equity entry).

According to Vermeulen and Barkema (2002) a firm's *pace of prior equity experience* indicates how many foreign equity-based entries a firm undertakes in a certain period of time. Therefore, to measure pace, the average number of equity-based entries per year was computed, i.e. the number of foreign equity-based entries divided by the number of years since the firm's first foreign equity-based entry.

We measured the firm's *prior equity mode experience* by dividing the number of foreign equity-based markets of each SME by its total number of international markets served by the SME. A large equity ratio indicates that the firm has great experience establishing equity-based modes in foreign markets relative to its full prior international market portfolio.

Finally, we included several control variables in our analyses. The availability of resources determines the SMEs' foreign market entry mode choice to a great extent (Maekelburger et al., 2012). We therefore included *firm size* as a proxy for resource availability, since large-firm entry mode studies have found that firms with greater resources (larger firms) tend to prefer equity modes of entry, while

firms with fewer resources (smaller firms) tend to prefer non-equity modes (Contractor, 1984). In line with previous research (e.g., Brouthers & Nakos, 2004), we used the absolute number of employees to measure firm size. Firm age is a critical variable when examining SME foreign market entry mode choice (Autio et al., 2000). Extant research detects differences in the internationalization behavior of younger and older firms (e.g., Ursic & Czinkota, 1984), which is why we included *firm age* as a control variable in our analysis measured by the number of years from firm inception until the timing of data collection. Studying SMEs, our third control variable was *family business*, measured dichotomously (1=family business, 0=non-family business). For SMEs, internationalization is an important strategic decision that is inseparably connected from the personal objectives of the owners reflecting their own personal needs, values beliefs and philosophies (Kotey, 2005). To this end, we considered it important to control whether the firm is a family business or not. We further controlled for firms in high-tech industries compared to non-high-tech firms since scholars such as Burgel and Murray (2000) and Shrader (2001) identify differences in these industries with regard to entry mode choice. We include *high-tech business* as a dichotomous control variable (1=high-tech, 0=non-high-tech). We further included *specific investments* as a control variable, as they are specific to a transaction and might lose value in alternative use (Williamson, 1991). Thus, firms tend to protect their specific investments by internalization. Furthermore, we control for the firm's uncertainty during foreign market entry, as SMEs are particularly sensitive to external challenges arising from the host environment (Lu, Zhou, Bruton, & Li, 2010). We measure *uncertainty* on a 5-point Likert scale by asking the CEOs to indicate the extent to which it was difficult to forecast the turnover in the foreign market (1=disagree, 5=agree). *Cultural distance* is related to differences between the home and host country in terms of culture and ideology. In our study, cultural distance is measured by indices from the GLOBE study (House, 2004). Based on the GLOBE indices we applied the Kogut and Singh (1988) index to display the construct of cultural distance between the home country – in our case Germany and the most recent foreign market entered by the firm. Furthermore, we controlled for the *host market size*, because extant research has identified host market size to be an important factor in the choice of modes of foreign entry (Barkema & Vermeulen, 1998; Slangen, 2011). As in Slangen (2011) and Tsang and Yip (2007), we measured host market size through the host country's GDP (in constant 2005 (interna-

tional dollars) in the year of entry as reported in the *World Development Indicators*. Finally, we included a set of motives as control variables. The structure and impact of motives play a major role in internationalization (Sarkar & Cavusgil, 1996; Williams, 1992). Therefore we included *cost advantage* and *market exploitation* as internationalization motives. We measured each motive on a 5-point Likert scale by asking respondents, to which extent cost advantages and market exploitation motivated their last foreign market decision.

### 4.3 Assessing Common Method Bias

As we gathered data from a single respondent using a single methodology (online-questionnaire), it may be susceptible to common method bias (CMB) (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003; Podsakoff & Organ, 1986). We established multiple strategies in order to minimize and control for this risk as proposed by Chang, van Witteloostuijn, and Eden (2010). First, the dependent variable reflects an objective choice (i.e., it was the last foreign market entry pursued by an equity or a non-equity mode) and not a subjective perception of the CEO (e.g. if the resource commitment or performance was good or bad). More objective choices are less susceptible to CMB than perceptual measurements (Brouthers & Brouthers, 2003) because most sources of CMB (e.g. consistency motif, implicit theories, leniency bias) are less likely to be in effect (for a comprehensive review about CMB please see also Podsakoff et al. (2003) or Podsakoff, MacKenzie, and Podsakoff (2012)). In addition, our independent variables prior equity mode structure and pace of prior equity internationalization are also more objective measurements and not perceptual in nature. Further, we obtained our independent variable, accumulated cultural distance from prior equity investments, from secondary data, namely the GLOBE scores, rather than relying on respondents' perceptions. Therefore, the risk of CMB is already reduced by the nature of our measurements and by using multiple data sources (Brouthers & Brouthers, 2003; Podsakoff & Organ, 1986).

Additionally, we employed the Harman's-One-Factor-Test to assess the extent of CMB (Podsakoff et al., 2003; Podsakoff & Organ, 1986). In this test all variables of interest are included into a non-rotated principal component factor analysis (PCA). CMB is likely to be present if only one factor was



extracted from the PCA, which accounts for a dominant share of the variance (above 50%). Since some variables in our model are categorical, we use the CATPCA package in SPSS, which allows for including categorical and interval scaled variables (Meulman, Van Der Kooij, & Heiser, 2004). The PCA extracted five factors with eigenvalues greater than 1 of which the largest explained only 18.1% of the variance. This lends support to our assumption that CMB is not a major issue in the present research.

#### **4.4 Analysis and Results**

Table 1 presents the results of our multicollinearity analysis. All values stayed well below the threshold of 0.7 (Anderson, Sweeney, & Williams, 1996). This finding was confirmed by calculating the variance inflation factors (VIFs) to test the potential impact of collinearity. All values remained below the critical threshold of 2.5 (Allison, 1999). Hence, we do not assume multicollinearity to be a major problem in our analysis.

**Table C – 1: Mean Values, Standard Deviations, Variance Inflation Factor and Correlations**

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	15
Mean Values	0.408	196.32	56.11	0.650	0.430	2.27	3.54	2.338	68680 <sup>1</sup>	2.240	4.110	0.229	0.315	0.624
Standard deviations (s.d.)	0.493	140.66	44.50	0.480	0.497	0.901	0.857	1.245	364500 <sup>1</sup>	1.011	0.891	0.270	0.441	1.178
VIF	-	1.180	1.328	1.148	1.204	1.230	1.103	1.077	1.054	1.169	1.117	1.303	1.275	1.352
Entry mode	1													
Firm size	0.204 *	1												
Firm age	-0.105	0.294 **	1											
Family business	-0.070	0.106	0.299 **	1										
High-tech business	-0.034	0.139	-0.090	-0.101	1									
Specific investments	0.238 **	0.055	-0.172	-0.113	0.275 **	1								
Uncertainty	-0.066	-0.016	0.055	-0.037	0.094	-0.101	1							
Cultural distance	-0.139	-0.016	0.011	-0.074	-0.003	-0.019	0.073	1						
Host market size	0.064	0.029	-0.090	0.001	-0.011	0.013	-0.078	0.064	1					
Motive: cost advantage	0.368 **	0.034	-0.128	0.026	-0.015	0.264 **	-0.153	-0.042	-0.010	1				
Motive: market exploitation	0.097	0.168	0.090	-0.020	0.163	-0.028	0.130	-0.002	0.063	-0.129	1			
Prior equity mode experience	0.392 **	-0.075	-0.148	-0.116	-0.103	0.077	0.114	-0.204 *	-0.070	0.072	0.059	1		
Pace of prior equity experience	0.330 **	-0.027	-0.198 *	0.016	0.031	0.101	-0.015	-0.052	0.084	0.165	-0.063	0.222 *	1	
Accumulated cultural distance	0.189 *	0.048	-0.095	0.014	-0.042	-0.045	-0.031	-0.151	-0.060	-0.046	0.086	0.346 **	0.364 **	1

\*\*\*p≤.001; \*\*p≤.01; \*p≤.05

<sup>1</sup> in bn

Given the dichotomous nature of our dependent variable (foreign market entry mode choice), we established a binary logit model to test our hypotheses. We followed a hierarchical approach, that is, in Model 1 we included the control variables only and in Model 2 we additionally included our three independent variables. Table 2 gives our empirical results.

Our findings in Model 1 show that the control variables account for a variance explanation of 25.0% (Cox & Snell) or 33.7% (Nagelkerke) respectively. The results in Model 1 further display that firm size has a significant and positive influence on the subsequent equity foreign market entry mode choice of SMEs (.004,  $p \leq .1$ ). This finding supports prior literature indicating that the availability of resources is an important aspect for the choice of costly equity foreign market entry modes (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002). Further, our findings in Model 1 display that the control variable high-tech business (-.805,  $p \leq .1$ ) and specific investment (.501,  $p \leq .1$ ) have a significant influence on SMEs' subsequent equity foreign market entry mode choice. The positive impact of specific investments on equity entry mode choice is consistent with the majority of prior entry mode choice literature. However, the statistically weak effect is to some extent surprising given the prominence of this construct in prior entry mode choice literature. However, it resembles the inconclusive findings regarding this key construct in foreign market entry mode choice literature (e.g., Brouthers & Brouthers, 2003; Delios & Beamish, 1999; Erramilli & Rao, 1993; Gatignon & Anderson, 1988; Taylor, Zou, & Osland, 1998). We further find the motive cost reduction to have a strong positive influence on firms' subsequent equity foreign market entry mode choice (.841,  $p \leq .001$ ). Thus, SMEs venturing abroad for the purpose of reducing costs seem to more likely employ equity modes. One reason for this finding could be that cost reduction often implies transferring production capacities into countries with lower cost structures. The transfer of production capacities is most likely possible by means of equity modes such as the establishment of a wholly-owned production subsidiary.

In Model 2, we included our independent variables accumulated cultural distance from prior equity investments, prior equity mode experience, and pace of prior equity experience. The variance explanation increased significantly from 25.0% to 39.0% (Cox & Snell) and from 33.7% to 52.6% (Nagelkerke) respectively, supporting the importance of international equity experience variables for

explaining SME foreign market entry mode choice. Our findings show that accumulated cultural distance from prior equity investments does not significantly influence SMEs' subsequent equity entry mode choice leading us to reject our hypothesis 1. However, we do find prior equity mode experience (3.554,  $p \leq .001$ ) and pace of prior equity experience (1.793,  $p \leq .01$ ) to have a significant and positive influence on SMEs' subsequent equity foreign market entry mode choice lending support to our hypotheses 2 and 3. Consistent with Model 1, the control variables firm size (.005,  $p \leq .01$ ) and the motive cost advantage (0.938,  $p \leq .001$ ) significantly and positively influence SME equity entry mode choice. The next chapter discusses our findings in greater detail and in light of the prior literature.

**Table C – 2: Results of Binary Logistic Regression**

Variables	Model 1	Model 2
<b>Independent Variables</b>		
Accumulated cultural distance from prior equity investments		-0.028
Prior equity mode experience		3.554 ***
Pace of prior equity experience		1.793 **
<b>Control Variables</b>		
Firm size	0.004 †	0.005 **
Firm age	-0.007	-0.002
Family business	-0.374	-0.363
High-tech business	-0.805 †	-0.639
Specific investments	0.501 †	0.453
Uncertainty	0.039	-0.205
Cultural distance	-0.302	-0.112
Host market size	0.001	0.001
Motive: cost advantage	0.816 ***	0.938 ***
Motive: market exploitation	0.404	0.465
<b>Model Fit</b>		
Model $\chi^2$	35.931 ***	61.772 ***
$\Delta$ Model $\chi^2$	-	25.841
R <sup>2</sup> (Cox & Snell)	0.250	0.390
$\Delta$ R <sup>2</sup> (Cox & Snell)	-	0.140
R <sup>2</sup> (Nagelkerke)	0.337	0.526
$\Delta$ R <sup>2</sup> (Nagelkerke)	-	0.189
Correct Classification	71.2%	78.4%

\*\*\* $p \leq .001$ ; \*\* $p \leq .01$ ; \* $p \leq .05$ ; † $p \leq .10$

## 5. Discussion

Despite constrained resources (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002) and sensitivity to external conditions (Cheng & Yu, 2008) SMEs enter foreign markets by equity modes (Brouthers & Nakos, 2004; Maekelburger et al., 2012). In our paper, we sought to resolve the question how SMEs are able to do so, despite all odds. For this purpose we developed and tested theory as to the effect of international equity experience on SMEs' propensity to enter a foreign market using equity entry modes. We drew on IP-theory (Johanson & Vahlne, 1977, 1990) and literature about large MNEs entry mode choice and transferred these thoughts to the SME context, considering the specifics of SMEs as opposed to large MNEs. In doing so, we identified three distinct forms of SMEs' international equity experience which separately and independently inform the choice of equity entry modes: 1) knowledge about the location in which the previous entry mode has been established (i.e., the *accumulated cultural distance* from equity investments), 2) structural knowledge obtained from different types of modes used in prior foreign market entries and penetrations (i.e., *equity mode experience*), and 3) routine-based knowledge depending on the pace at which prior entry modes have been established (*pace of equity experience*).

This study provides two main contributions to the entry mode choice literature and beyond. Our first contribution lies in identifying, theoretically developing and empirically testing the distinct effects of the three above-mentioned forms of international equity experience of SMEs on the choice of equity entry modes. Regarding the first hypothesis, we assumed that higher accumulated cultural distance leads the firm to opt for equity foreign market entry modes, due to SMEs' regional international orientation. German SMEs seem to concentrate their international activities in nearby countries within Europe (64% of the firms in our survey). Venturing abroad regionally, SMEs have lower operation costs (e.g., for administration and control) than if they were operating in countries widely spread across different regions (Qian et al., 2008). Since many firms detect favorable conditions in their home regions in order to develop specific advantages from their home region, they might not be motivated to take risks in foreign regions (Rugman & Verbeke, 2007). However, we could not confirm the postu-

lated positive impact of accumulated cultural distance from prior equity investments on SMEs' subsequent equity entry mode choice. One possible explanation for this finding might be that firms have to deal with relatively few challenges regarding competitors and customer preferences at lower levels of international diversification. Thus, German SMEs that operate mainly in countries within Europe, obtain less experience and have "narrower mental models" (Qian et al., 2008, p. 200) because they confront only a limited number of (new) challenges (Barkema & Vermeulen, 1998; Qian et al., 2008). Hence, managers of SMEs receive only a small amount of new information (Barkema & Vermeulen, 1998), which does not represent "real" new knowledge. Based on the little amount of new information obtained from low levels of regional diversification, it is likely that it not sufficient for the SMEs to opt for equity-based entry modes in subsequent internationalization steps.

In our second hypothesis, we establish that previous equity mode experiences have a routinizing and imprinting effect (Lu, 2002), thus, influencing subsequent SME foreign market entry mode choices. In this regard, our results confirm our theoretical rationale and show that the equity mode experience in SMEs' internationalization portfolio influences the SME's choice of an equity-based mode in its subsequent internationalization steps. We detected that German SMEs stick to one dominant internationalization path in subsequent periods. This view is consistent with the paper by Hashai (2011) and with notions about the structural path dependency of FDI choices (Chang & Rosenzweig, 2001). Extant research has argued that resource constraints may limit SMEs to commit strongly to a foreign market (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002) and that SMEs are highly sensitive to external influences that may enhance the risk of choosing an appropriate entry mode (Cheng & Yu, 2008; Erramilli & D'Souza, 1995). If SMEs have established more equity-based entry modes in the past, they have created processes, which allow them to manage future equity-based entry modes more efficiently and thus reduce the risk of any additional equity-based foreign market entry.

Confirming our third hypothesis, we find that the pace of prior equity expansion steps plays an important role in SME foreign market entry mode choice (Chetty et al., 2014). While time-compression diseconomies lead to a negative effect of pace on equity entry mode for large MNEs, our study shows that the pace of previous equity entries has a positive effect on SMEs' propensity to choose an equity

entry mode. When the infrastructure of the firm is adapted to support international operations, it is much more easier to “plug-in” and add more international activities into this infrastructure (Hashai, 2011). This line of thinking has some resemblance to the work by Jensen and Szulanski (2007, p. 1717) that used the word “template” for “details and nuances of how the work gets done in what sequence, and how various components and subroutines are interconnected”. They point out that firms commonly reuse their templates and routines rather than conduct local adaptation when entering new markets. The underlying logic is that when SMEs enter a new market they use existing templates or routines that are tested and have proven successful (Pedersen & Shaver, 2011). Our findings strongly support this argument and provide a valuable expansion to the study by Jensen and Szulanski (2007) displaying the effect can also unfold in an SME context.

This study also offered a contribution to the growing literature on SME foreign market entry mode choice. Previous studies predominantly focused on the foreign market entry mode choice of large MNEs while our knowledge on SME foreign market entry mode choice is still quite limited (Laufs & Schwens, 2014). Specifically, we contribute to this literature by observing “how SMEs’ types of international experience (in terms of mode experience, country experience, etc.) allow SMEs to reduce uncertainty in their foreign market entry mode choice“ (Laufs & Schwens, 2014, p. 1116). By decomposing international equity experience, we were able to bring separate mechanisms of international experience to a test. This allows us to further fine-grain the theoretical rationale behind the influence of international equity experience on firms’ strategic decisions. As our results show, the different types of international equity experience do not exert a uniform effect on SME equity mode choice but yield effects of differing significance and magnitude.

This might also inform research beyond SME entry mode choice, as international (equity) experience is argued to be a major driver of other strategic decisions such as location choice (Chen & Chen, 1998; Nakos & Brouthers, 2002; Pinho, 2007) or timing of internationalization (Buckley & Casson, 1981; Tuppura et al., 2008). These research streams, however, also reported ambiguous results on the effects of international experience. One reason for these ambiguous findings could be, that international (equity) experience usually was not treated as multi-dimensional construct, as we purport in our study,

thus different types of international (equity) experience might have been confounded, thus concealing the separate effects of different experience types. A study by Baum and colleagues (2011) already hints at this puzzle, by showing that different sorts of prior international experience lead to different types of international new venturing. Accordingly, our study might provide fruitful ground for future studies on SME internationalization in general.

## **6. Limitations and Implications**

Despite its contributions, the present study contains several limitations. We examined foreign market entry mode choice of German SMEs. It might be that investment choices from German SMEs differ somehow from other SMEs from other countries, e.g., firms from less developed countries or firms from other regions than Europe. Although this study shows first explanations for SME foreign market entry mode choice by considering different types of prior international equity experience, future studies might duplicate this approach by using a sample from developing countries or from other regions than Europe. Moreover, we encourage future research to delve deeper into the internationalization paths of SMEs with a particular regionalization focus. Furthermore, we focused on the effect of experience-based learning. Huber (1991) identified other sources of knowledge being significantly relevant, although the literature has considered that experiential learning constitutes the main source of knowledge in the internationalization process (Johanson & Vahlne, 1977). Given the strong increase in model fit when including the international equity experience variables, we think that our study still provides a significant contribution for explaining previously equivocal predictions on SME entry mode choice. Future studies may build on our findings by integrating additional sources of experience like learning from others (Schwens & Kabst, 2009).

Another limitation is that we relied on accumulated cultural distance in our analysis for representing the complexity of different international expansion steps. Although this is in line with previous research (e.g., Gómez-Mejía & Palich, 1997; Hutzschenreuter & Voll, 2008), other characteristics of host countries might influence complexity as well. Studies have shown that the turbulence of the local environment (e.g., Luo & Peng, 1999) or pending international trade agreements (e.g., Gómez-Mejía



& Palich, 1997) might all be important factors accounting for complexity. Moreover, by focusing only on cultural distance as one form of distance, we disregarded other forms such as geographical, economic, or institutional distance (Ghemawat, 2001) which might create similar challenges. Studies focusing on other sources of distance than culture might thus be interesting supplements for our findings.

Another important limitation of our study is that we did not consider if the effect of prior equity (mode) experience might be dependent on the prior success or failure of an entry mode. To this end, we have no information about the quality of prior equity experience in terms of positivity or negativity. On a related topic, studies find that a wrong entry mode can negatively impact the firm's performance or even the survival of the resource-constrained, highly sensitive SME (Lu & Beamish, 2001; Nakos & Brouthers, 2002; Sapienza, Autio, George, & Zahra, 2006). Hence, we encourage future studies to broaden the scope of our analysis and incorporate the quality of prior equity experience in terms of positivity and negativity as it represents an important avenue for future research.

Finally, our dependent variable is defined as equity vs. non-equity entry modes. This approach is in line with previous literature on entry mode and SMEs' entry mode in particular (Brouthers & Nakos, 2004; Laufs & Schwens, 2014). However, future research might try to obtain large-scale quantitative data in order to achieve a more fine-grained segmentation of entry mode choices (e.g., differentiating joint-ventures from greenfield investments or acquisitions within the category of equity modes). This could be informative for researchers and practitioners since cooperative forms of market entry require different sorts of capabilities within and among firms. The role of social capital and learning from others might be fruitful thoughts for additional research in this regard.

Owners and managers of SMEs involved in or considering international expansion may benefit from the findings of this study in several ways. First, our findings indicate that SMEs which are often resource constrained and, therefore, tend to choose low-commitment modes (Brouthers & Nakos, 2004) are able to commit strongly to a foreign market. By focusing on one dominant internationalization path, SMEs are able to leverage their scant resources and commit strongly to a foreign market. Se-

cond, our study demonstrated that the accumulation of international equity experience, in terms of modes of operation and pace of internationalization mainly influences the foreign market entry mode decision. That is, routine building and the establishment of structures facilitate internationalization activities of SMEs. SMEs might develop capabilities along their expansion moves, which are applicable to similar contexts, i.e., similar countries.

## **7. Conclusion**

SMEs are not smaller versions of MNEs, nor are their entry mode decisions. In our paper, we show that SMEs entry mode choice largely depends on different types of international equity experience and that these types do not exert a uniform effect. Knowledge about the location in which the previous entry modes have been established (measured as accumulated cultural distance from equity investments) did not have a significant effect, while the structural knowledge (measured as equity mode experience), and routine-based knowledge (measured as the pace of equity experience) both yield positive effects for SMEs' subsequent equity entry mode choice. Accordingly, we forward the discourse about SME entry mode choice and show that previous results about large MNEs are only in part applicable for explaining how SMEs are capable to exert equity mode foreign market entries.

## **D. Study 3: CEO Demographics and SME Foreign Market Entry Mode Choice: The Moderating Effect of Geographical Experience and Host-Country Political Risk<sup>6</sup>**

### **1. Introduction**

One of the most critical strategic decisions when firms seek to internationalize is the choice of a foreign market mode for entering the host country market (Agarwal & Ramaswami, 1992). Firms can decide between equity entry modes comprising joint ventures, acquisitions or the establishment of a wholly-owned greenfield investment and non-equity entry modes including exporting or contractual agreements in terms of licensing or franchising (Pan & Tse, 2000). The choice of a suitable foreign market is important as it determines – amongst others – the risks the firm will have to bear in the host country (Hill et al., 1990) as well as the CEO's information-processing demands (Herrmann & Datta, 2006; Hill et al., 1990).

According to *upper echelons theory* (Hambrick & Mason, 1984), important strategic decisions (such as the choice of a firm's foreign market entry mode) are essentially taken by the firm's top management. Upper echelons theory considers the organization and its major strategic decisions as a reflection of its top management. More specific, the theory emphasizes the *demographics*, cognitions and values of the top management and how they impact strategic decision-making (e.g., Hambrick & Mason, 1984). However, top management does not take strategic decisions in isolation but rather the context surrounding the individuals influences their decision-making. Adhering to this complexity, Hambrick and Finkelstein (1987) develop upper echelons theory further by introducing the concept of *managerial discretion*. Managerial discretion determines the "latitude of action" (Finkelstein & Boyd, 1998, p. 179) a major decision maker has in his/her decision making. The level of managerial discretion is determined by the organizational and external environmental context that surrounds the indi-

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<sup>6</sup> Together with Bembom, Michael and Schwens, Christian | the paper was presented at the European International Business Academy (EIBA) Annual Meeting, Uppsala, Sweden, 2014.

vidual and, hence, impacts the manner in which individual characteristics of CEOs affect major strategic decisions (Hambrick, 2007).

Drawing on upper echelons theory the present paper examines the impact of CEO age, CEO firm tenure and CEO international experience on SME equity foreign market entry mode choice and – consistent with the concept of managerial discretion – how these associations are jointly moderated by the firm's geographical experience on the organizational level and by political risk prevalent in the host market on the environmental level. We theoretically establish that CEO age, CEO tenure and CEO international experience influence the extent to which CEOs are willing to take risks and are able to process information demands impacting the choice of foreign market entry mode choice. However, we do not consider this underlying theoretical mechanism to unfold in isolation, but consistent with the theory we argue that the willingness to take risks and the ability to process information is contingent on the joint interaction of geographical experience on the organizational level and host-country political risk on the environmental level enhancing or limiting the individual's freedom of action (i.e., managerial discretion).

Two major research deficits inform the present research. First, while some studies investigate the impact of CEO demographics on foreign market entry mode choice in the context of large multinational enterprises (MNEs), studies considering these relationships in the context of SMEs are limited. Drawing on a sample of 271 MNEs, Herrmann and Datta (2002) examine the relationship between CEO demographics and the preference for full-control entry modes. The study by Nielsen and Nielsen (2011) focuses on the individual international experience of 165 main decision makers of large Swiss MNEs and examines the impact of such experience on the preference for full-control over shared-control entry modes. Herrmann and Datta (2006) investigate the impact of CEO age, tenure, international experience and functional experience on the choice between acquisitions, greenfield investments, and joint ventures among a sample of 78 firms. To sum up, the existing studies provide important contributions to understand how CEO demographics influence foreign market entry mode choice of large MNEs. However, studying CEO demographics is of specific relevance when considering SMEs as in many instances the CEO is solely accountable and many SMEs are closely held and

owner-managed (Fernández & Nieto, 2006). This view is consistent with Mesquita and Lazzarini (2008) stating that “the CEO of an SME is invariably the person who has the authority for all major decisions taken.” (p. 306). Thus, aspects that are directly related with CEOs’ demographics play a particularly pertinent role in SME foreign market entry mode choice (Herrmann & Datta, 2006; Tihanyi et al., 2000). Yet, the literature focusing on SMEs is limited in this context.

Second, the above studies focus on examining the direct impact of CEO demographics on firms’ foreign market entry mode choice while studies reflecting on the boundary conditions of these associations are scant. Arguing from an upper echelons perspective, however, studying the context surrounding the CEO demographics and SME foreign market entry mode choice relationship is important as it determines the level of managerial discretion the CEO has in his/her decision-making. Depending on the organizational and environmental context, the individual may have more or less freedom of action varying the strength to which the CEO demographics can influence important strategic decisions. A reflection on the boundary conditions is furthermore particularly pronounced in the SME context, as SMEs typically suffer from limited (financial and personnel) resources on the organizational level and they are particularly sensitive to challenges arising from the external environmental context (Schwens et al., 2011) making our research peculiar in an SME context.

We contribute to the existing literature in two major ways: First, we contribute to extant research by reflecting on the boundary conditions of the relationship between CEO demographics and foreign market entry mode choice. To this end, we investigate the joint moderating impact of geographical experience of the firm on the organizational level and host-country political risk on the environmental level. We theoretically establish that accumulated international experience in the foreign market has a considerable impact on managerial discretion as it might reduce risks and information demands related with foreign market entry (Henisz, 2000; Johanson & Vahlne, 1977). Furthermore, we state that the political risk prevalent in the foreign market determines uncertainties arising from external challenges and thus increases information demands (Schwens et al., 2011) considerably limiting an individual’s latitude of action. Hence, as an underlying theoretical rationale we develop how the level of managerial discretion (derived from upper echelons theory) varies the impact of CEO demographics on SME

foreign market entry mode choice through changes in perceived risk and information-processing demands.

Second, we contribute to the literature by specifically tailoring our research to the context of SMEs. We consider geographical experience of the firm and political risk as central moderating factors of the association between CEO age, firm tenure and individual international experience and SME foreign market entry mode choice. Prior literature emphasizes both moderating factors as key inherent SME characteristics. For example, studies show that SMEs mostly suffer from limited international experience (Lu & Beamish, 2001). This lack of knowledge about foreign markets leads to high uncertainty and may influence the level of managerial discretion and, hence, plays a central role in SMEs' foreign market entry mode decisions (Maekelburger et al., 2012). Moreover, compared to large multinational enterprises (MNEs), SMEs are internationally less diversified and lack a strong resource base (Aw & Batra, 1998; Mudambi & Mudambi, 2002). Due to their lack of resources, SMEs often react particularly sensitive to challenges arising from the external environment such as political risks (Cheng & Yu, 2008; Schwens et al., 2011). We tailor our research to these SME specific circumstances.

Our paper is structured as follows: Next, we establish the theoretical background of the study and develop our hypotheses. We then validate our research model on a dataset of German SMEs. After discussing our empirical findings in light of extant literature, we conclude our study and point at implications for future research and limitations of the study.

## **2. Theoretical Background**

### **2.1 Risk and Information-Processing Demands in Foreign Market Entry Mode Choice**

Amongst others, foreign market entry mode choice determines the degree of risk a firm is exposed to in the host country (Anderson & Gatignon, 1986; Hill et al., 1990). For example, the more resources the firm commits to the host country, the greater the risk of losing valuable resources if the foreign market engagement fails (Hill et al., 1990). At the same time, the potential loss of resources commit-

ted may enhance firms' exit barriers, hence reducing the firm's strategic flexibility in terms of other investments (Harrigan, 1981).

Also associated with the foreign market entry mode choice is the firm's (or its major decision maker's respectively) information needs when considering different mode types (Herrmann & Datta, 2002; Herrmann & Datta, 2006). Equity investments (e.g., the choice of a wholly-owned greenfield investment) require firms to engage in greater levels of information gathering and processing in terms of quality and complexity of information needed. Information related with host country markets, competitive conditions, legal and social norms, and cultural differences (Herrmann & Datta, 2006) are of prime importance for the firm and represent the foundation of their decision-making (Herrmann & Datta, 2002; Hill et al., 1990). Moreover, misinterpretation of information can greatly increase the probability of poor investment decisions (Agarwal & Ramaswami, 1992). In this regard, information gathering may decrease the perceived risk in the unknown environment (Pan & Tse, 2000). In contrast, non-equity entry modes, like exporting, do not require as much information about the foreign market as such modes do not require high levels of resource commitment to the foreign market and, therefore, entail weaker commitments of the firm to the host country market (Agarwal & Ramaswami, 1992; Herrmann & Datta, 2006).

Specifically in the context of SMEs, a wrong entry mode decision may lead to damages with serious consequences because of their lack of resources (Buckley, 1989; Calof, 1994; Cheng & Yu, 2008). The relative amount of resources an SME commits to a foreign market is considerably higher for SMEs in comparison to large MNEs as the latter firm type is usually equipped with more slack resources. Thus, a wrong entry mode decision may negatively influence the growth and/or even the survival of the small firm (Sapienza et al., 2006). Therefore, the foreign market entry mode decision is of paramount importance and represents a complex task for SMEs. Equity investments, in particular, demand a high resource commitment, representing high degrees of risk and requiring high information-processing demands for the firm in the foreign market (Pan & Tse, 2000).

## 2.2 Development of the Research Model

The present study draws on upper echelons theory and examines the impact of CEO age, CEO tenure, and CEO international experience on SME foreign market entry mode choice and how these associations are jointly moderated by geographical experience of the firm on the organizational level and by political risk on the environmental level.

According to *upper echelons theory* (Hambrick & Mason, 1984), strategic decision-making is amongst others reflected by the demographics of powerful actors in the organization. For example, decision-makers' demographics such as age or firm tenure impact the manner in which conditions and stimuli are filtered, interpreted, and disseminated to reach a final decision (Hambrick, 2007). Strategic choices entail a large behavioral component and, hence, they reflect to some extent the idiosyncrasies of decision makers (Hambrick & Mason, 1984). As the strategic decision process represents a complex situation, the decision maker underlies cognitive constraints that hamper the manager in scanning every aspect of the organization and environment in their decision-making (Hambrick & Mason, 1984). Indicators for cognitive capabilities that the CEO brings to such a situation are observable managerial characteristics. Examples of such characteristics are age, tenure in the organization and international experience (Hambrick & Mason, 1984). Following this rationale, using CEOs' demographic characteristics in order to predict strategic decisions found favor in several research areas (Hambrick & Mason, 1984).

In the present research, we focus on CEO age, CEO tenure, and CEO international experience for several reasons. All three constructs belong to the most commonly examined demographic characteristics affecting CEO's strategic decision-making (Bantel & Jackson, 1989; Datta & Rajagopalan, 1998; Hambrick & Mason, 1984; Wiersema & Bantel, 1992) and firms' entry mode choice (Herrmann & Datta, 2002; Herrmann & Datta, 2006; Nielsen & Nielsen, 2011). Furthermore, extant literature shows that CEO age (Deakin, Aitken, Robbins, & Sahakian, 2004; Taylor, 1975), tenure (Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992), and international experience (Athanasios & Nigh, 2002; Carpenter, Sanders, & Gregersen, 2001) influence the risk-taking propensity of individuals as



well as the individuals' information-processing demands when taking important strategic decisions. Both aspects play a particularly pertinent role in firms' foreign market entry mode choice and, hence, we consider it likely that the individual's age, tenure and international experience are important demographics that influence SME foreign market entry mode choice.

However, we do not consider the impact of age, tenure, and individual international experience on foreign market entry mode choice of SMEs in isolation, but we reflect on the context surrounding these associations. Emphasizing the context is highly consistent with Hambrick and Finkelstein (1987) who develop upper echelons theory further by introducing the concept of *managerial discretion*. Discretion entails the freedom of actions during strategic decision processes (Hambrick & Finkelstein, 1987). Such freedom represents a contingency framework of individual, organizational and environmental factors. Managerial discretion determines the extent to which the CEO controls the future of the firm (Finkelstein & Boyd, 1998). Thus, demographics of the manager may determine strategic decisions if organizational and environmental factors ensure a high level of managerial discretion. At the same time, these settings might decrease managerial discretion and limit managers in their freedom to take decisions. In this case, assumptions made by the upper echelons theory are only applicable to a lesser extent and the impact of managers' demographic characteristics on strategic decisions decreases.

A chief executive's degree of discretion depends on organizational characteristics (Hambrick & Finkelstein, 1987). Thus, a chief executive's display of actions is determined by the degree to which the organization itself allows the chief executive to formulate several possibilities for actions and to execute those actions. In this regard, the organization itself may have characteristics that limit or enhance the chief executive's discretion. Hambrick and Finkelstein (1987) argue that the resources an organization has to draw upon might significantly influence the availability of managerial discretion. Thus, organizations with a large resource base may profit from a wide range of options concerning their decision-making (Cyert & March, 1963). Referred to our research context of SME foreign market entry mode choice, *geographical experience of the firm* is an organizational characteristic and significant resource that determines managerial discretion. The foreign market entry mode decision

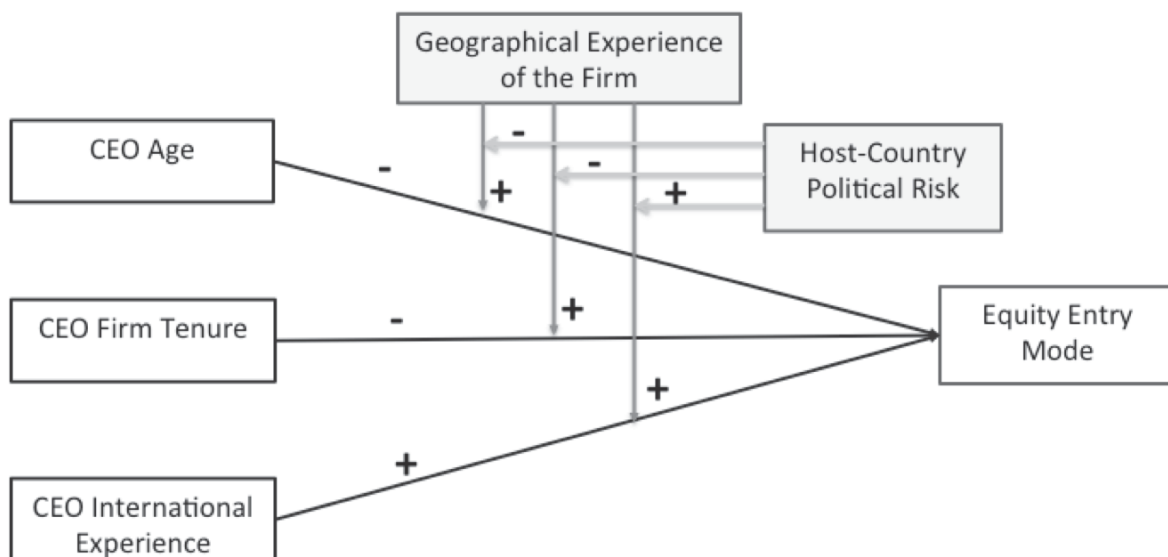
depends largely on the knowledge the firm has in the respective market or target region (Agarwal & Ramaswami, 1992; Henisz, 2000; Johanson & Vahlne, 1977). Adhering to the importance of the construct, international experience (respectively, geographical experience) is the most frequently observed variable in international entry mode research (Canabal & White, 2008). As most SMEs are characterized by less (geographical) international experience and knowledge compared to large MNEs, which would allow them to deal with uncertainty arising from the international market, the examination of geographical experience of the firm is of paramount importance in the context of SMEs (Lu & Beamish, 2001). The management of uncertainty, arising from the host country and decisions on market commitments, are built on experiences the firm gains by doing business internationally (Hadjikhani et al., 2014).

Beyond the organizational level, the chief executive's level of managerial discretion is determined by the degree to which the environment allows variety and change (Hambrick & Finkelstein, 1987). This view is consistent with studies that show that individual and organizational factors, combined with environmental factors, influence strategic decisions (e.g., Hambrick & Mason, 1984; Peng, Wang, & Jiang, 2008). Referred to our research context, extant research identifies *political risk* in the foreign market to influence the firm's foreign market entry mode decision (Kobrin, Basek, Blank, & Palombara, 1980). Political risk results from underdeveloped political, economic and legal rules (Henisz, 2000; Meyer, Estrin, Bhaumik, & Peng, 2009), which may hinder firms to commit strongly to the foreign market. Contrary, stable rules and predictable systems provide security of business transactions (Gelbuda, Meyer, & Delios, 2008) which may facilitate entry in the foreign market. The host government's capability to stick to laws and rules in the foreign market has a great impact on strategic decisions (Kobrin et al., 1980), especially for SMEs as they reduce their uncertainty arising from external challenges. If the legal system of the foreign market allows politicians to act unilateral and change laws without resistance, that means, that future laws and rules might be volatile (Delios & Henisz, 2003), political developments are unpredictable. Thus, firms are unable to predict future developments in such situations (Maekelburger et al., 2012). Because SMEs suffer from resource constraints (Nakos & Brouters, 2002), this firm type reacts sensitive to challenges arising from the inter-

national context (Brouthers & Nakos, 2004; Schwens et al., 2011). Therefore, SMEs may not be able to diversify risks resulting from institutional challenges (Brouthers & Nakos, 2004; Erramilli & Rao, 1993). Consequently, high degrees of political risk in foreign markets reduce the level of managerial discretion and might influence SMEs in choosing a foreign market entry mode (Cheng & Yu, 2008).

In summary of the above discussion, Figure 1 illustrates our research model. We study the impact of CEO age, firm tenure, and individual international experience on SMEs' foreign market entry mode choice and how these associations are jointly moderated by firms' prior geographical experience and the political risk prevailing in the host country (technically by means of triple interaction effects). In the following section, we further develop the research model's underlying theoretical rationale by developing detailed hypotheses.

**Figure D – 1: Research Model**



### 3. Hypotheses

Upper echelons research (e.g., Herrmann & Datta, 2002; Wiersema & Bantel, 1992) assumes *CEO age* to influence a person's propensity for risk taking and change and the capacity for information processing and analysis (Herrmann & Datta, 2006). Consistent with this rationale, we argue that CEO age

is relevant for the foreign market entry mode choice, because with increasing age, CEOs tend to avoid risky decisions, such as the choice of an equity investment, and are less able to handle the information needed about the foreign market and international operations (Child, 1974; Hambrick & Mason, 1984; Hart & Mellors, 1970). The reason for this risk aversion is that older executives may have less physical and mental strengths (Child, 1974) or may be less able to comprehend new ideas and learn new behaviors (Chown, 1960), which in turn enhances internal uncertainty. Furthermore, managerial age is negatively associated with the ability to integrate new information in making decisions and with confidence in decisions (Taylor, 1975). Finally, older executives may be at a point in their lives at which financial security and career security are important. In this regard, a wrong entry mode decision might lead to job losses and, therefore, endanger CEO's financial status and career security (Hambrick & Mason, 1984). Consequently, older executives tend to avoid risky actions that might disrupt their security or status (Carlsson & Karlsson, 1970) by choosing non-equity entry modes.

However, we do not argue that CEO age is solely accountable for variations in SME foreign market entry mode choice, but that the organizational context matters. To this end, the presence of organizational *geographical experience* might mitigate the negative relationship between CEO age and the foreign market entry mode decision. Prior geographical experience of the firm leads to international knowledge (Casillas & Acedo, 2013; Chandra et al., 2012; Yu, 1990), and, thus, reduces the perceived risks arising from the international context (Sanchez-Peinado et al., 2007). Contrary, less geographical experience of the firm may also lead to an overestimation of risks arising from the host country, whereby potential revenues might be underestimated or not be recognized at all (Davidson, 1982; Erramilli, 1991). As older CEOs tend to avoid risky equity investments, they may fear wrong decision-making, however organizational geographical experience provides a large amount of information needed for the entry mode decision. Thus, the knowledge might be applicable to new international settings and the CEO might not have to process a large amount of information limiting the older CEOs' information-processing challenges hindering them in choosing equity entry modes. Thus, firms' geographical experience might diminish the fear of the CEO choosing an equity-based entry mode (Forsgren, 2002).

To further contextualize the associations, we argue that the interactive effect between CEO age and organizational geographical experience to predict SME foreign market entry mode choice is additionally influenced by the *political risk* prevalent in the host country. We argue that geographical experience of the firm has a particular impact on the relationship between CEO age and foreign market entry mode choice in the existence of political risk in the foreign market. In presence of high levels of political risk in the foreign market geographical experience of the firm becomes even more important for older CEOs as future developments become unpredictable and the positive effect of geographical experience on the risk-taking propensity and information-processing demands of the older CEO diminishes. Political risks create unforeseeable changes for older CEOs in the foreign markets, so that the chief executive becomes more insecure and, hence, is not able to apply the international experience appropriately (Johanson & Vahlne, 1977) leading to a strengthening effect of the underlying mechanisms, which in turn leads to a negative direct impact of CEO age on SME foreign market entry mode choice. Consequently, high political risk reduces managerial discretion and negatively impacts the combinatory effect of CEO age and organizational geographical experience. In summary of the above argumentations we hypothesize:

**Hypothesis 1:** Geographical experience of the firm weakens the negative influence of CEO age on the subsequent equity foreign market entry mode choice of SMEs; however, this relationship becomes weaker in the presence of high political risks prevailing in the host country market.

*CEO firm tenure* has an impact on the equity entry mode choice of SMEs (Hambrick & Mason, 1984). Although, greater firm experience may increase CEO's awareness of complex managerial environments, scholars suggest that CEOs with longer firm tenure refrain from risky strategic decisions (Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992), by favoring non-equity entry modes (Herrmann & Datta, 2002). CEOs with longer firm tenure tend to adopt approaches or enact strategies that they are more comfortable with (Herrmann & Datta, 2002), because they often have restricted information sources and engage in less information gathering and analysis (Miller, 1991; Tushman & Romanelli, 1985). They are greatly committed to the organizational status quo (Hambrick, Geletkanycz, & Fredrickson, 1993) leading to less risky decision-making. CEOs with increasing firm

tenure tend to have a narrower, more limited knowledge base (Rajagopalan & Datta, 1996) restricting their perceptions about complex tasks (Chaganti & Sambharya, 1987; Thomas, Litschert, & Ramaswamy, 1991). On the other hand, we argue that chief executives with short tenure tend to make more changes in the firm's structure, procedures and people (Hambrick & Mason, 1984), which is why they tend to favor riskier ventures. Plus, Finkelstein and Hambrick (1990) state that executives with short firm tenures have fresh, diverse information and are more willing to take risks.

We further argue that the presence of *geographical experience of the firm* weakens the negative relationship between CEO firm tenure and the equity entry mode decision. As firms with high geographical experience have a substantial knowledge base, CEOs with longer tenure might have access to such international knowledge and apply the needed information in new international settings. By doing so, CEOs acquire greater task knowledge and expertise (Herrmann & Datta, 2002) and might feel more confident in choosing more risky strategies, in terms of equity-based entry modes. With regard to the information-processing demands, existent international knowledge might allow CEOs with higher tenure to process new information more efficiently, as they become more familiar with the decision process (Herrmann & Datta, 2002). Thus, prior geographical experience reduces the negative association between CEO firm tenure and foreign market entry mode choice.

The combinatory effect between CEO firm tenure and geographical experience of the firm to predict SME foreign market entry mode choice is further influenced by the *political risk* prevalent in the host country. In combination with CEO tenure, low political risk in the host country allows the CEO to hark back to prior international knowledge in order to reduce the uncertainty arising from the choice of equity-based entry modes. Hence, organizational geographical knowledge comforts the CEO in his/her decision-making process. Geographical experience of the firm as a mechanism to reduce uncertainty becomes particularly critical for long-tenured CEOs in the presence of high political risk in the foreign market, because the external environment becomes more complex. Thus, CEOs with longer firm tenure are no longer comfortable in their decision-making and tend to avoid risky decisions, like the choice of an equity-based entry mode, which is why the presence of high geographical experience of the firm becomes even more necessary under such circumstances. Moreover, with increased

environmental complexity, the capability of information processing of CEOs with longer tenure becomes more difficult and problematic even when organizational geographical experience is present. This in turn leads to the fact that CEOs fall back into their familiar decision-making process pattern by replicating former decisions based on their experience collected during longer firm tenure. Consequently, high political risk reduces managerial discretion. Thus, we hypothesize:

**Hypothesis 2:** Geographical experience of the firm weakens the negative influence of CEO firm tenure on the subsequent equity foreign market entry mode choice of SMEs; however, this relationship becomes weaker in the presence of high political risks prevailing in the host country market.

The *individual international experience of the CEO* plays a particular pertinent role in determining SME foreign market entry mode choice, because an important source of a firm's international experience lies within the prior international experience of its CEO (Child & Hsieh, 2014; Fernhaber, McDougall-Covin, & Shepherd, 2009; Grant, 1996). Thus, it is likely that firms with greater knowledge will basically pursue higher levels of internationalization (Fernhaber et al., 2009) by choosing equity-based entry modes. Prior research suggests that individual international experience of the CEO helps reduce uncertainty associated with foreign market entry mode choice (Carpenter, Pollock, & Leary, 2003; Carpenter et al., 2001; Hennart, 1991). In this regard, accumulated knowledge of foreign cultures, geographic markets and business practices increases the CEO's awareness of international opportunities (Athanassiou & Nigh, 2002; Fernhaber et al., 2009; Tihanyi et al., 2000) and helps develop important skills to manage operations in different countries. Thereby, internationally experienced CEOs gain learning advantages, which in turn lead to fewer mistakes and, finally increase the likelihood of success in strategic decisions (Herrmann & Datta, 2002). Moreover, the developed skills give them greater confidence in their own ability to accurately estimate risks arising from the foreign market entry mode decisions (Athanassiou & Nigh, 2002; Erramilli, 1991), leading to a higher commitment to the foreign market via equity-based entry modes (Erramilli, 1991). Due to CEO's familiarity with the international context, they are able to process the information needed for this particular choice more easily. Thus, the challenges of information processing demands are lower for CEOs with international experience.

The presence of *geographical experience of the firm* reinforces the positive relationship between the individual international experience of the CEO and the foreign market entry mode decision. Firms with internationally experienced CEOs may be better able to recognize the value of organizational international knowledge of the host market and also be better able to apply the knowledge when choosing foreign entry modes (Fernhaber et al., 2009). Thus, individual and organizational international knowledge complement each other. Firms with a more internationally experienced CEO have a greater absorptive capacity to notice the value of new information about foreign opportunities arising from organizational knowledge about foreign markets and match it with current knowledge for the purposes of choosing equity-based entry modes (Fernhaber et al., 2009). Therefore, CEOs with greater experience are not only able to assess the risks arising from the international context more easily, but they also have more information available to choose amongst a number of complex entry modes. Thus, firm's geographical experience might enlarge the CEO's latitude of action, which reinforces the choice of an equity-based entry mode.

*Political risk* prevalent in the host country further influences the combinatory effect between individual international experience of the CEO and geographical experience on the organizational level to predict SME foreign market entry mode choice. We argue that the impact of individual and organizational level experience on SME foreign market entry mode choice becomes stronger when the political risk prevalent in the host country is high. This view is consistent with the rationale by Schwens et al. (2011) who find that organizational international experience has a stronger effect on entry mode choice in the presence of high institutional challenges in the host country. Firms make particular use of their prior knowledge when the new context is unknown. We advance this view by considering two types of experience – individual and organizational – and their combinatory effect on SME foreign market entry mode choice. CEO's individual international experience and geographical experience of the firm are strong antecedents for equity-based entry mode choices and their applicability becomes particularly necessary when high levels of political risk prevail in the host country. High levels of political risk change the host country in an unstable, uncertain and unpredictable environment. Moreover, political risks create unforeseeable changes in the foreign markets requiring a high degree of prior



individual and organizational (geographical) international experience. Thus, prior international experience in any form becomes particularly useful in such unique situations. To this end, high levels of political risk in the foreign market enhance the positive impact of geographical experience of the firm on the relationship between individual international experience of the CEO and the foreign market entry mode decision leading us to hypothesize:

**Hypothesis 3:** Geographical experience of the firm strengthens the positive influence of individual international experience of the CEO on the subsequent equity foreign market entry mode choice of SMEs; this combinatory effect becomes stronger in the presence of high political risks prevailing in the host country market.

## 4. Methods

### 4.1 Data

Our empirical analysis draws on data gathered from German SMEs. German SMEs are usually considered as the backbone of the German economy (Simon, 1996) as they account for a large share of 99.7% of all German firms (Günterberg & Kayser, 2004; Simon, 1996). Moreover, German SMEs employ 60.8% of all German employees contributing to the social insurance system and represent, therefore, a major employer in the German economy (Günterberg, 2012). Also, German SMEs are major drivers for process- and product innovations (Maaß & Führmann, 2012). Thus, German SMEs form an interesting context for the present study's research focus.

According to the classification of the German Institute for SMEs (Günterberg & Kayser, 2004), we define SMEs as companies with up to 500 employees. This definition is also consistent with prior research focusing on SME foreign market entry mode choice (e.g., Brouthers & Nakos, 2004; Maelkelburger et al., 2012). Furthermore, we selected only companies that had experienced some form of international activity. Using the established AMADEUS database (e.g., Brouthers, 2002; Brouthers & Brouthers, 2003), we obtained 1,730 companies that fulfilled both criteria. We sent the link directing to a standardized online-questionnaire to SMEs' CEOs via email. We decided for this group of

respondents as they generally represent the most powerful actor and are responsible for the firm's strategic direction. Moreover, the research focus of the present research requires responses from the CEO or firm's major decision maker as we study the impact of CEO demographics on SME entry mode choice. The sample included only German firms, and all questions included in the questionnaire were in German. We took the established back-translation literature into consideration and used internationally accepted items to measure our constructs (Brislin, 1970; Van de Veijver & Hambleton, 1996). We received 192 completed questionnaires back representing an 11.1% response rate. Because of missing data and the consideration of the questionnaire only to be filled out by the chief executive, our final sample includes 85 cases. Our response rate corresponds generally with those of existing studies involving CEOs (e.g., Hambrick et al., 1993) and resembles the sample size of previous studies that investigate the impact of CEO demographic characteristics on strategic decision-making (Herrmann & Datta, 2006; Wiersema & Bantel, 1992). Reasons for a nonexistent higher response rate may be the quite demanding questionnaire (Hollenstein, 2005; Landström, 1992) or simply CEOs' generally low preference to respond to self-administered questionnaires (Baruch, 1999).

The average company size is 199 employees and the included companies operate in 25 international markets. We controlled for nonresponse bias following Armstrong and Overton (1977), comparing early and late respondents in terms of selected constructs. A t-test reveals no significant differences.

## 4.2 Measurements

For our dependent variable *foreign market entry mode choice*, we follow Erramilli and D'Souza (1993), Nakos and Brouthers (2002), and Maekelburger et al. (2012) and distinguish between equity foreign market entry modes (coded as "1") (including equity joint ventures and wholly owned subsidiaries) and non-equity foreign market entry modes (coded as "0") (including exports and contractual agreements). Consistent with Brouthers et al. (2008) we asked the respondents which entry mode they employed in their most recent foreign market entry endeavor. We believe that the most recent foreign market entry is appropriate and advantageous as the most recent endeavor is not too far in the past enhancing the memory of respondents. On average the most recent foreign market entry was two years

ago with the firms in our sample, which improves the recalling abilities of the individuals and shows that informant fallibility was quite unlikely. Second, asking firms for the most recent foreign market entry is consistent with extant and well-published prior foreign market entry mode literature existing in the field (Brouthers, 2002; Brouthers et al., 2008; Slangen & Hennart, 2008). Third, we decided to explicitly ask the respondents to relate to one specific foreign market entry (i.e., the most recent entry in our case) in order to be better able to compare the results from different firms.

Consistent with upper echelons theory, we include three independent variables (Herrmann & Datta, 2006). First, we include the *CEO age*, by subtracting the respondents' date of birth from the year of the firms' most recent foreign market entry. Second, we include the *CEO firm tenure* as the total number of years the respondent has been working in the respective firm (Herrmann & Datta, 2006; Wiersema & Bantel, 1992). As the third independent variable we include *CEO individual international experience* as the average number of years the respondent spent abroad during her/his education and professional career (Musteen, Francis, & Datta, 2010; Reuber & Fischer, 1997; Takeuchi, Tesluk, Yun, & Lepak, 2005).

Our first moderator variable, the *firms' prior geographical experience*, includes the level of international experience of the firm (Burgel & Murray, 2000). We measure geographical experience using a two-item scale (Cronbachs Alpha=0.7) assessed on a five-point Likert scale. Consistent with and adapted from extant literature, respondents answered questions to what extent they agree (1=disagree, 5=agree) with statements about their company's international experience at the time they entered their most recent foreign market in terms of target country and target region experience (Agarwal & Ramaswami, 1992; Brouthers & Nakos, 2004). To measure *political risk* in the foreign market, we use the Political Constraint Index (POLCON) (Henisz, 2000). The index compares the political systems of different countries by identifying the degree of constraints in legislation. In particular, the index measures the institutional risks, by taking into account the number of veto rights in legislation and the equality of politicians' employment (Henisz, 2000). The index is metric and values can range from 1 to 0.

We also include a set of control variables that may affect foreign market entry mode choice on the individual, organizational and environmental level. In line with upper echelons theory and focusing on the CEO of a firm, we control for two more central CEO characteristics determining strategic decisions. We include *education* as CEO's highest educational achievement. Based on the number of years of schooling, we measure education on a six-point Likert scale (Datta & Rajagopalan, 1998): 1 = No school leaving certificate, 2 = High school, 3 = Diploma, 4 = Bachelor, 5 = Master, 6 = PhD. According to upper echelons theory, education influences an individual's cognitive base, which might lead to differences in decision-making (Hambrick & Mason, 1984; Wiersema & Bantel, 1992). We further include CEO *functional experience* as a dummy variable, which is coded „1“ for throughput functional experience and „0“ for output functional experience. As defined by Hambrick and Mason (1984), CEOs with throughput functional experience have most of their experiences in the following functions: production/operations, finance and accounting, data processing, information systems and process R&D. Output functional experience entails experience in sales/marketing, product R&D and entrepreneurship. An executive's functional background, is an important indicator for which type of knowledge CEOs bring into their job (Herrmann & Datta, 2002) which might be important for strategic decisions such as foreign market entry mode choice. We further control for the *experience the firm has with equity-based entry modes*, that is, if firms already have entered foreign markets via equity-based entry modes prior to their most recent market entry (coded as „1“), otherwise „0“. SMEs that usually lack financial and personnel resources are less prone to choose equity modes of entry (Zacharakis, 1997). However, firms that already gained experience by applying equity entry modes in the past might be more prepared to replicate this choice. Studying SMEs, our fourth control variable is *family business*, measured dichotomously (1=family business, 0=non-family business). For SMEs, internationalization is an important strategic decision that is inseparably connected with the personal objectives of the owners reflecting their own personal needs, values, beliefs and philosophies (Kotey, 2005). We further control for firms in high-tech industries compared to non-high-tech firms since scholars such as Burgel and Murray (2000) and Shrader (2001) identified differences in these industries and their effect on foreign market entry mode choice. To this end, we include *high-tech business* as a dichotomous control variable (1=high-tech, 0=non-high-tech). Firm age is a critical variable when

examining SME foreign market entry mode choice (Autio et al., 2000). Extant research detects differences in the internationalization behavior of younger and older firms (e.g., Ursic & Czinkota, 1984), which is why we include *firm age* as a control variable in our analysis measured by the number of years from firm inception until the timing of data collection. Furthermore, we control for the firm's uncertainty during foreign market entry, as SMEs are particularly sensitive to external challenges arising from the host environment (Lu et al., 2010). We measure *uncertainty* on a 5-point Likert scale by asking the CEOs to indicate the extent to which it was difficult to forecast the turnover in the foreign market (1=disagree, 5=agree). Finally, we include a set of motives as control variables. The structure and impact of motives play a major role in internationalization (Maekelburger et al., 2012; Sarkar & Cavusgil, 1996; Williams, 1992). In this regard, we include *access to resources* and *access to knowledge* as internationalization motives (Brouthers et al., 1996; Gatignon & Anderson, 1988). On a 5-point Likert scale we asked respondents, to which extent the access to resources and knowledge were important during their most recent foreign market entry decision.

As we gathered data from a single respondent using a single methodology (online-questionnaire), our data may be susceptible to common method bias (CMB) (Podsakoff et al., 2003; Podsakoff & Organ, 1986). However, for the following reasons we do not believe this to be a major problem in our study. First, our dependent variable (equity vs. non-equity foreign market entry mode) and independent variables (CEO age, firm tenure and international experience) are rather objective, and not based on perceptions. Therefore, the respective constructs are relatively unlikely to create a bias (Brouthers & Brouthers, 2003). Second, we employed the Harman's-One-Factor-Test to assess the extent of CMB (Podsakoff et al., 2003; Podsakoff & Organ, 1986). Principal component factor analysis with fourteen variables extracted seven factors with eigenvalues greater than 1 of which the largest explains only 13% of the total variance. Third, we matched primary with secondary data by measuring our moderator variable political risk by using the political constraint index. Fourth, we employed a number of interactive effects in our analysis, which according to prior literature is likely to reduce the magnitude of potential CMB (Chang, van Witteloostuijn, & Eden, 2010).

### **4.3 Analysis and Results**

Table 1 presents the results of our multicollinearity analysis as well as it gives some descriptive statistics (means, standard deviations). All values of the bivariate correlations stay well below the threshold of 0.7 (Anderson et al., 1996). This finding is confirmed by calculating the variance inflation factors (VIFs) to test the potential impact of collinearity. All values remain below the critical threshold of 2.5 (Allison, 1999). Hence, we do not assume multicollinearity to be a major problem in our analysis.

**Table D – 1: Mean Values, Standard Deviations, Variance Inflation Factor and Correlations**

Variables	Mean	SD	VIF	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Entry Mode	0.435	0.499		1														
2 CEO Age	48.377	9.829	2.027	-0.007	1													
3 CEO Firm Tenure	16.070	10.542	2.294	0.005	0.614 ***	1												
4 CEO International Experience	3.511	3.516	1.176	0.024	-0.167	-0.011	1											
5 Geographical Experience of the Firm	2.529	0.725	1.482	0.030	-0.017	-0.002	0.091	1										
6 Political Risk	0.329	0.191	1.158	-0.224 *	0.140	0.123	-0.025	0.118	1									
7 CEO Education	4.811	0.794	1.504	-0.031	0.037	-0.320 **	0.103	0.103	0.118	1								
8 CEO Functional Experience	0.118	0.324	1.114	0.048	-0.167	-0.177	-0.038	0.086	0.091	-0.005	1							
9 Equity Experience	0.871	0.338	1.222	0.197	0.008	0.006	-0.129	0.064	0.064	0.130	0.141	1						
10 Family Business	0.647	0.481	1.316	-0.047	0.074	0.176	0.066	-0.038	0.049	-0.207	-0.036	0.229 *	1					
11 High-Tech Firm	0.459	0.501	1.081	0.001	-0.110	-0.033	0.098	0.061	-0.077	0.070	-0.043	0.003	-0.110	1				
12 Firm Age	53.577	42.903	1.364	-0.106	0.216 *	0.271 *	0.116	-0.172	-0.172	-0.018	-0.057	0.072	0.300 **	-0.103	1			
13 Uncertainty	3.550	0.794	1.544	0.046	0.043	-0.063	0.038	-0.494	-0.494 **	0.129	0.022	-0.041	-0.138	0.013	0.088	1		
14 Motive: Access Resources	1.765	0.959	1.383	0.042	0.027	-0.004	0.071	0.207	0.207	0.191	-0.101	-0.058	0.050	-0.045	-0.115	-0.233 *	1	
15 Motive: Access Know-How	2.460	1.140	1.303	0.021	-0.087	0.110	-0.093	0.055	0.055	-0.074	-0.116	0.094	0.017	0.023	-0.214 *	-0.034	0.307 **	1

\*\*\* p ≤ .001; \*\* p ≤ .01; \* p ≤ .05

Because our dependent variable, foreign market entry mode choice, is dichotomous, we choose a binary logistic regression model for our analyses. We report the results of the regression analysis in Table 2. To display the results we set up fourteen models. As proposed by Aiken and West (1991), establishing different models enables comparing alternative models by determining the explanatory power of the variables. Model 1 includes the control variables and their effect on the foreign market entry mode choice. It shows that equity experience has a significant effect (.604;  $p \leq 0.05$ ) on the foreign market entry mode decision. In the presence of high prior equity experience firms seem to prefer equity modes in subsequent mode choices (i.e., the most recent foreign market entry in our case). Adding the independent variables (*CEO age, CEO firm tenure, CEO individual international experience*) and the moderator variables (*firm's prior geographical experience and political risk in the host market*) in Model 2 significantly increases the explanatory power of our model (from 8% to 13.7% (Cox & Snell) and from 10.7% to 18.3% (Nagelkerke) compared to Model 1). We find that CEO age, firm tenure and CEO's individual international experience have no direct impact on the firm's foreign market entry mode decision. Political risk in the host country decreases the likelihood to establish equity modes (-.611;  $p \leq 0.1$ ).

In Models 3-5, we include the two-way interaction terms for CEO age. The two interaction terms in Models 3 and 4, depicting CEO age in combination with geographical experience of the firm and host-country political risk show insignificant results. The interaction term in Model 5, however, increases the explanatory power of our model (compared to Model 2) from 13.7% to 26% (Cox & Snell) and from 18.3% to 34.9% (Nagelkerke) and shows significant results (2.036;  $p \leq 0.01$ ). To test hypothesis 1 we added the three-way interaction term in Model 6 further increasing the explanatory power (34.6% Cox & Snell, 46.5% Nagelkerke) of our model. The three-way interaction has a significant impact on the choice of equity entry modes (2.977;  $p \leq 0.05$ ) supporting our hypothesis 1.

In Models 7-10 we test the two-way interactions for CEO firm tenure. The interaction terms in Model 7 and 8 show no significant results. The effect in Model 9 is the same as in Model 5. To test hypothesis 2 we included the three-way interaction in Model 10 leading to added explanatory power (31.6%



Cox & Snell, 42.4% Nagelkerke). The three-way interaction has a significant impact on the choice of equity entry modes (1.953;  $p \leq 0.05$ ) supporting our hypothesis 2.

The Models 11-13 include the two-way interactions for CEO international experience. The two-way interaction terms between CEO international experience and organizational geographical experience (Model 11) and political risk (Model 12) show no significant impact on a firm's foreign market entry mode choice. The two-way interaction included in Model 13 is the same as in Models 5 and 9. To test hypothesis 3, we included the three-way interaction term in Model 14. However, the effect is insignificant leading us to reject hypothesis 3.

**Table D – 2: Logistic Regression Model: Foreign Market Entry Mode (Equity vs. Non-Equity)**

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<b>Independent Variables</b>						
CEO Age		0.011	0.032	-0.022	-0.111	-1.220 *
CEO Firm Tenure		0.163	0.127	0.171	0.243	0.289
CEO International Experience		0.141	0.114	0.130	0.116	0.099
<b>Moderator Variables</b>						
Geographical Experience of the Firm		0.129	0.178	0.141	0.860 *	1.430 *
Political Risk		-0.611 †	-0.638 *	-0.554 †	-2.367 **	-3.226 **
<b>Interaction Terms</b>						
CEO Age x Geographical Experience of the Firm			0.150			1.366 *
CEO Age x Political Risk				-0.190		-3.298 **
Geographical Experience of the Firm x Political Risk					2.036 **	2.902 **
CEO Age x Geographical Experience of the Firm x Political Risk						2.977 *
CEO Firm Tenure x Geographical Experience of the Firm						
CEO Firm Tenure x Political Risk						
Geographical Experience of the Firm x Political Risk						
CEO Firm Tenure x Geographical Experience of the Firm x Political Risk						
CEO International Experience x Geographical Experience of the Firm						
CEO International Experience x Political Risk						
Geographical Experience of the Firm x Political Risk						
CEO International Experience x Geographical Experience of the Firm x Political Risk						
<b>Control Variables</b>						
CEO Education	-0.266	-0.251	-0.258	-0.272	-0.405	-0.543
CEO Functional Experience	0.003	0.022	0.005	0.013	-0.037	-0.038
Equity Experience	0.604 *	0.637 *	0.639 *	0.641 *	0.553 †	0.674 †
Family Business	-0.183	-0.162	-0.173	-0.154	-0.057	0.036
High-Tech Firm	-0.017	-0.112	-0.132	-0.127	-0.128	-0.343
Firm Age	-0.239	-0.353	-0.345	-0.349	-0.398	-0.420
Uncertainty	0.197	0.155	0.165	0.164	0.195	0.320
Motive: Access Resources	0.245	0.139	0.170	0.149	0.323	0.553
Motive: Access Know-How	-0.141	-0.147	-0.159	-0.151	-0.189	-0.266
<b>Reliability</b>						
Model $\chi^2$	7.064	12.481	12.768	12.808	25.635 *	36.154 **
R <sup>2</sup> (Cox & Snell)	0.080	0.137	0.139	0.140	0.260	0.346
R <sup>2</sup> (Nagelkerke)	0.107	0.183	0.187	0.188	0.349	0.465
Correct classification (%)	60	65.9	64.7	67.1	65.9	76.5

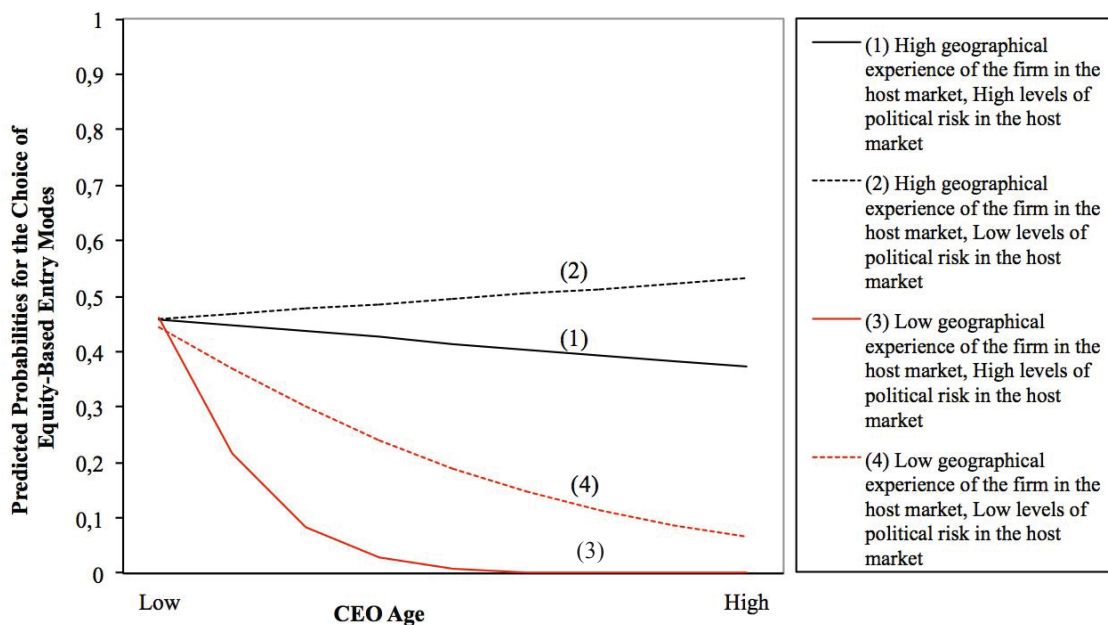
\*\*\* p ≤ 0.001, \*\* p ≤ 0.01, \* p ≤ 0.05, † p ≤ 0.1

	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
<b>Independent Variables</b>								
CEO Age	0.008	0.080	-0.111	-0.138	0.017	0.039	-0.111	-0.101
CEO Firm Tenure	0.152	-0.003	0.243	-0.474	0.238	0.130	0.243	0.348
CEO International Experience	0.129	0.129	0.116	0.155	0.232	0.197	0.116	0.019
<b>Moderator Variables</b>								
Geographical Experience of the Firm	0.142	0.180	0.860 *	1.141 *	-0.10	0.125	0.860 *	0.587
Political Risk	-0.614 *	-0.664 †	-2.367 **	-3.159 **	0.599 †	-0.577 †	-2.367 **	-2.589 **
<b>Interaction Terms</b>								
CEO Age x Geographical Experience of the Firm								
CEO Age x Political Risk								
Geographical Experience of the Firm x Political Risk								
CEO Age x Geographical Experience of the Firm x Political Risk								
CEO Firm Tenure x Geographical Experience of the Firm	0.087			0.927 †				
CEO Firm Tenure x Political Risk		-0.633		-2.168 **				
Geographical Experience of the Firm x Political Risk			2.036 **	2.908 **				
CEO Firm Tenure x Geographical Experience of the Firm x Political Risk				1.953 **	-0.406	0.212	2.036 **	-0.336
CEO International Experience x Geographical Experience of the Firm								-1.072
CEO International Experience x Political Risk								2.313 **
Geographical Experience of the Firm x Political Risk								1.184
CEO International Experience x Geographical Experience of the Firm x Political Risk								
<b>Control Variables</b>								
CEO Education	-0.272	-0.340	-0.405	-0.635 †	-0.282	-0.266	-0.405	-0.448
CEO Functional Experience	0.024	-0.026	-0.037	-0.061	0.098	0.005	-0.037	0.016
Equity Experience	0.638 *	0.675 *	0.553 †	0.617 †	0.617 *	0.642 *	0.553 †	0.549 †
Family Business	-0.173	-0.098	-0.057	-0.014	-0.231	-0.178	-0.057	-0.191
High-Tech Firm	-0.114	-0.152	-0.128	-0.219	-0.047	-0.119	-0.128	-0.113
Firm Age	-0.346	-0.370	-0.398	-0.437	-0.364	-0.315	-0.398	-0.484
Uncertainty	0.149	0.187	0.195	0.207	0.125	0.136	0.195	0.147
Motive: Access Resources	0.166	0.195	0.323	0.488	0.182	0.112	0.323	0.361
Motive: Access Know-How	-0.148	-0.205	-0.189	-0.260	-0.131	-0.116	-0.189	-0.210
<b>Reliability</b>								
Model $\chi^2$	12.562	15.098	25.635 *	32.284 *	13.730	12.703	25.635 *	28.309 †
R <sup>2</sup> (Cox & Snell)	0.137	0.163	0.260	0.316	0.149	0.139	0.260	0.283
R <sup>2</sup> (Nagelkerke)	0.184	0.218	0.349	0.424	0.200	0.186	0.349	0.380
Correct classification (%)	65.9	70.6	65.9	74.1	68.2	65.9	65.9	76.5

\*\*\*  $p \leq 0.001$ ; \*\*  $p \leq 0.01$ ; \*  $p \leq 0.05$ ; †  $p \leq 0.1$

As we cannot interpret interactions in nonlinear models by simply examining the direction, magnitude, and statistical significance of the resulting coefficients, we need to plot the interaction terms in order to assess their direction and significance (Dawson & Richter, 2006). The plots in Figures 2 & 3 show the predicted probabilities of equity market entry modes (y-axis) at different levels of the independent variables (x-axis) for high and low values of the moderator variables (Aiken & West, 1991; Jaccard & Turrisi, 2003). Figure 2 shows different levels of CEO's age, while Figure 3 depicts the variation of CEO's firm tenure.

**Figure D – 2: Triple-Interaction Plots: Predicted Probabilities for High and Low CEO Age**



The figure depicts that when geographical experience of the firm is low, older CEOs have a higher propensity to opt for non-equity modes compared to younger CEOs both when political risk is low (function 4) and when political risk is high (function 3). When geographical experience of the firm is high, older CEOs' propensity to opt for equity modes enhances significantly reaching the highest values when political risk is low (function 2) but even when political risk is high (function 1). To this end, geographical experience of the firm has a positive effect on the propensity of older CEOs' choice for equity-based entry modes, whereas high political risk decreases this interactive effect as is fully consistent with our hypothesis 1.

**Figure D – 3: Triple-Interaction Plots: Predicted Probabilities for High and Low CEO Tenure**

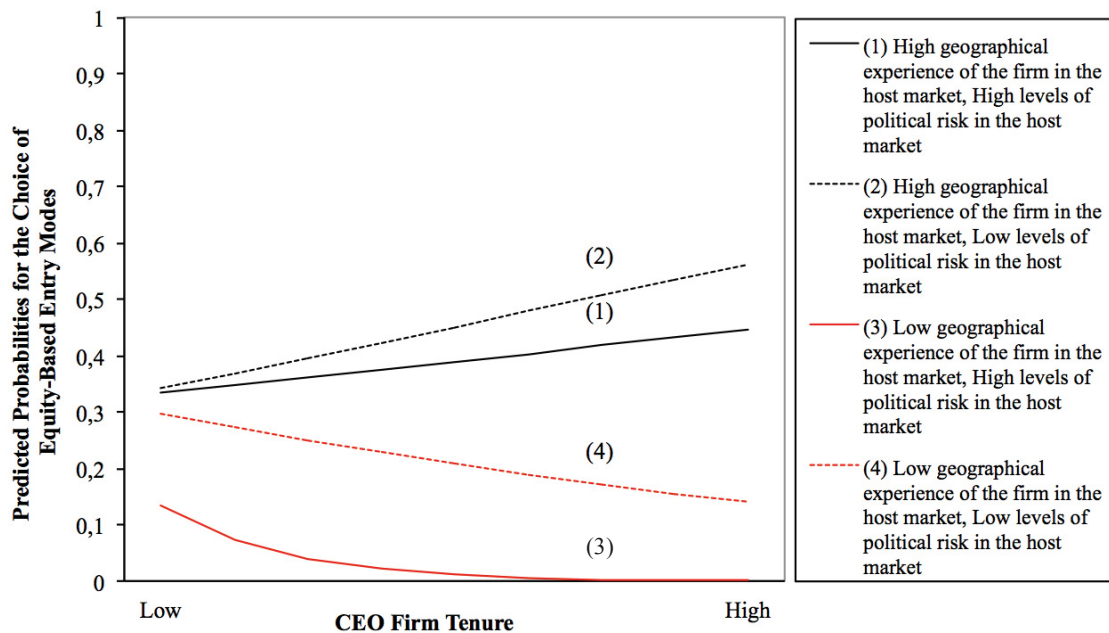


Figure 3 depicts that when geographical experience of the firm is low, CEOs with lower firm tenure have a higher propensity to opt for equity modes (compared to CEOs with higher firm tenure) both when political risk is low (function 4) and when political risk is high (function 3). When geographical experience of the firm is high, the propensity of a CEO with longer firm tenure to choose equity modes increases, reaching the highest values when political risk is low (function 2). Even in the presence of high political risk the propensity for CEOs with longer firm tenure to opt for equity-based entry modes is high (function 1). To this end, geographical experience of the firm has a positive effect on the propensity of CEOs with longer firm tenure to choose equity-based entry modes, whereas high political risk decreases this interactive effect as is fully consistent with our hypothesis 2.

## 5. Discussion

Firms increasingly expand their operations into new and foreign countries (Barkema & Shvyrkov, 2007). Research has consistently identified the management as the principal force behind the initiation, improvement and success of such international endeavors (Leonidou et al., 1998). In this paper,

we develop and test a model that focuses on the impact of CEO age, CEO tenure and CEO individual international experience on the foreign market entry mode decision in contingency with firm's prior geographical experience and political risk in the host country. Theoretically, we draw on upper echelons theory and international business literature to develop and test hypotheses that contain variations in CEO age, CEO tenure and CEO international experience to choose among equity and non-equity entry modes.

With regard to CEO age, research argues on the one hand, that managerial age might be a predictor of differences between exporters and non-exporting firms, based on the assumption that younger managers tend to be more internationally minded (McConnell, 1979; Ursic & Czinkota, 1989). Moreover, the studies by Jaffe, Israel, and Pasternack (1988) and Moon and Lee (1990) argue that younger managers might play a more active role in expanding businesses. However, theoretical hypotheses were not strongly validated by empirical research (Leonidou et al., 1998). On the other hand, Herrmann and Datta (2006) observe a positive relationship between age and the preference for joint ventures. The authors argue that older CEOs are likely to have more experience and the "maturity" to relate effectively with joint venture partners. However, and consistent with the findings by Wiersema and Bantel (1992) and Cavusgil and Naor (1987), our results show that CEO age has no direct impact on the firm's foreign market entry mode decision when disregarding contextual factors. Thus, taking the boundary conditions into consideration, our research is an important advancement of the above-mentioned studies on the role of CEO age in firm internationalization.

Relating to CEO firm tenure, extant research detects that lengthy firm tenure is associated with an internal strategic orientation mostly focusing on penetrating existing markets (Miller, 1991; Thomas et al., 1991). Moreover, the studies by McConnell (1979) and Finkelstein and Hambrick (1990) state that CEOs with shorter firm tenure are more receptive, which is why they tend to adopt novel and unique strategies. This notion is confirmed by the results of Herrmann and Datta (2006), who find that CEOs with longer tenure tend to prefer entry modes that are less risky and resource intensive. However, our results are an important advancement of this literature as they show that CEO tenure alone has no direct impact on the firm's foreign market entry mode decision, supporting the findings by Athanassiou

and Nigh (2002). We do find that CEO firm tenure exerts a particularly strong effect on SME foreign market entry mode choice when considering the organizational geographical experience and the political risk prevailing in the host-country environment both determining the level of managerial discretion of the firm's main decision maker.

Prior studies (e.g., Athanassiou & Nigh, 2002; Child & Hsieh, 2014; Daily, Certo, & Dalton, 2000; Sambharya, 1996; Tihanyi et al., 2000) highlight the importance of CEO individual international experience in the context of international diversification. Scholars state, that individual international experience of the CEO helps reduce uncertainty associated with foreign market entry mode choice (Carpenter et al., 2003; Carpenter et al., 2001; Hennart, 1991). Herrmann and Datta (2002) further argue that internationally experienced CEOs gain learning advantages, which lead to fewer mistakes and, finally increase the likelihood of success in strategic decisions. However, and consistent with the findings of Nielsen and Nielsen (2011), our results show that CEO individual international experience is not significantly related to the choice of foreign market entry mode.

In the present research, we go beyond the basic upper-echelons model (Hambrick & Mason, 1984) by examining managerial discretion as a potentially important moderator of the association between CEO demographic characteristics and foreign market entry mode choice. Major findings of our study involve the consideration of managerial discretion (i.e., geographical experience of the firm on the organizational level and host-country political risk on the environmental level) determining foreign market entry mode choice, underpinning the findings by Finkelstein and Hambrick (1990). Consistent with Schwens et al. (2011), we detect that geographical experience of the firm determines foreign market entry mode choice. The authors find a positive impact of the interactions of international experience and formal institutional risk in the host country. Further, they show that the firm's international experience positively impacts the choice for an equity-based entry mode. Although the direct effect of prior geographical experience of the firm is insignificant in our paper, we do find a significant impact of firms' prior equity experience supporting this finding. Moreover, our findings extend the authors' results by showing that the firm's geographical experience has different effects when focusing on the CEO of the firm, enlarging their latitude of action. Therefore, we show that the examination of the

CEO's characteristics in SMEs is of paramount importance when elaborating on foreign market entry mode choice.

The level of political risk in the foreign market plays a crucial role when examining the foreign market entry mode choice of older chief executives. Consistent with upper echelons theory and the concept of managerial discretion, our results show that high levels of political risk in the foreign market lead CEOs to refrain from choosing equity-based entry modes, in the case of older CEOs and in the case of CEOs with longer firm tenure. This finding is consistent with Delios and Henisz (2003) who argue that political risks arising from the foreign market negatively impact the probability of choosing equity entry modes – limiting the CEO's latitude of action. We find two significant triple interactive effects of all three factors on the foreign market entry mode decision for CEO age and CEO firm tenure. That means that the moderating impact of geographical experience of the firm on the relationship between the CEO age and CEO firm tenure and the choice of an equity entry mode is contingent on the political risk in the foreign market. Our findings emphasize the necessity for a configuration model when examining complex strategic decisions, such as the foreign market entry mode decision. Moreover, our results support the concept of managerial discretion (Finkelstein & Hambrick, 1990; Hambrick & Finkelstein, 1987) and shows that organizational and environmental factors determine the impact of individual characteristics of the CEO on the foreign market entry mode decision (Finkelstein & Boyd, 1998). To this end, our findings expand the knowledge obtained from the study by Herrmann and Datta (2006) illustrating and emphasizing the particular pertinence of the context surrounding individuals when taking major strategic decisions such as the foreign market entry mode decision.

Our first major finding regards the interaction effects between CEO age and the contextual factors. As we specifically examine the interaction between CEO age and geographical experience of the firm, we find this effect only in the case of older CEOs (see Figure 2). Younger chief executives might feel the need to dissociate themselves from their predecessor by neglecting the experiences and built up their own reputation by showing independence. Young chief executives tend to more likely opt for equity-based entry modes in presence of low political risks in the foreign market. This is not surprising as extant studies associate age with greater conservatism and less risk-taking capabilities (e.g., Child,



1974; Guthrie & Datta, 1997), reduced ability to learn new behaviors and greater commitment to the status quo (Hambrick et al., 1993). Furthermore, the study by Wiersema and Bantel (1992) provides results indicating that age is an indicator of organizational risk behavior, with older managers less likely to initiate strategic change.

We further show that high levels of political risk and low geographical experience of the firm enhance older managers' tendency to choose non-equity entry modes, whereas an increase in geographical experience leads to a change in older managers' decision-making. In the latter situation the likelihood of older managers to prefer equity investments is highest. While younger CEOs' decision regarding foreign market entry mode does not vary to a large extent in light of various levels of managerial discretion, older chief executives tend to show a more differentiated decision pattern. One possible explanation might be that older chief executives pay more attention to considering the context and adapting their strategic actions to the context. When contextual situations are particularly challenging, older CEOs seem to rather pursue a more conservative approach (by committing less strongly to the host country and opting for non-equity entry modes) while younger CEOs seem to follow a similar pattern in different contextual situations.

Our second major finding concerns the interactive effects between CEO tenure and managerial discretion. We find that the presence of high geographical experience of the firm enhances CEOs with longer firm tenure opting for equity-based entry modes (see Figure 3). As lengthy firm tenure limits the CEO's latitude of action with regard to the foreign market entry mode decision, firm geographical experience as a crucial resource for the firm enhances the CEO's range of choices (Finkelstein & Hambrick, 1990). Contrary, short-tenured CEOs have fresh, diverse information, often departing from the firm's original strategic direction. Moreover, even in the presence of high political risk in the host country, long-tenured CEOs are willing to opt for equity-based entry modes. This finding advances the findings by Schwens et al. (2011), because high firm tenure mitigates the established relationship between geographical experience of the firm and high levels of political risk.

We further show that in the presence of high levels of political risk and low levels of geographical experience of the firm, CEOs with a longer firm tenure have a tendency to choose non-equity entry modes, whereas an increase in geographical experience leads to a change in older managers' decision-making. While short-tenured CEOs' decision regarding foreign market entry mode show only a small variation in light of low geographical experience of the firm, long-tenured CEOs tend to show a more differentiated decision pattern, comparable to our results for CEO age. One possible explanation might be that long-tenured CEOs are highly committed to the organizational status quo. As individuals spend time in the organization, they become convinced of the wisdom of the organization's ways and become committed to their own prior actions (Finkelstein & Hambrick, 1990). This is also why we find only a small variation of the propensity of equity entry modes in presence of high political risk compared to low political risk in the host country (see Figure 3).

Finally, we do not find significant effects when accounting for CEO individual international experience. Surprisingly, we do not find any significant direct effects of CEO individual international experience and geographical experience of the firm at all. In line with previous research (e.g., Clarke et al., 2013; Fernhaber et al., 2009; Lu, 2002), one explanation might be that the two forms of international experience (on the individual and on the organizational level) do not complement each other but rather serve as substitutes for the foreign market entry mode decision. This is consistent with the findings by Lu (2002) who find that CEOs with a limited or a lack of international experience may be more motivated to overcome their shortcoming by paying closer attention to firm international experience in order to set up a strategic direction. On the contrary, CEOs with greater individual experience substitute the firm international (geographical) experience by their own individual international experience, adopting a more planned and rational approach to new international endeavors (Child & Hsieh, 2014). Another explanation might be, that both the CEO and the firm generate specific knowledge of a particular internationalization move (Eriksson et al., 1997) that is not transferable to future internationalization undertakings. This kind of experiential knowledge may be largely restricted to a given foreign venture (Clarke et al., 2013). Hence, we encourage future research to particularly differentiate between

general and specific knowledge gained from international experience on the individual and firm level allowing deeper insights of how SMEs choose an appropriate foreign market entry mode.

## **6. Conclusion, Limitations and Implications**

Drawing on the upper echelons theory and the international business literature, the purpose of our study was to combine individual demographic characteristics of the CEO with geographical experience of the firm on the organizational level and host-country political risk on the environmental level and their impact on SME foreign market entry mode choice. Our results confirm that the combination of these three factors is necessary in order to capture the complex decision and to enhance our understanding of how firms, particularly SMEs, make this choice. Thus, our study contributes to extant literature concerning the impact of the CEO age, firm tenure and international experience on foreign market entry mode choice. Research in this area examines the CEO's individual characteristics individually, while disregarding the effect of environmental and organizational factors. In this context, the consideration of all three determinants emphasizes the fact, that the firm's foreign market entry mode decision is a complex strategic decision, whereby the firm needs to consider multiple parameters determining the level of managerial discretion impacting the choice of foreign market entry.

As with most empirical studies, our study faces limitations. Although researchers strongly encourage the use of CEO demographic characteristics determining organizational outcomes, such determinants do not depict cognitive variables (Finkelstein & Hambrick, 1990; Hambrick & Mason, 1984). Although psychological factors undoubtedly have the advantage of conceptual clarity and provide a relatively direct link to the executive behaviors being examined, there are major practical problems associated with their use. Foremost among them is the reluctance of CEOs to submit themselves to a battery of psychological tests (Finkelstein & Hambrick, 1996), posing obvious data collecting challenges. We encourage future research to close this deficit. Furthermore, future research might go beyond the examination of CEO's demographic characteristics by investigating other elements that determine the decision-making capabilities of CEOs. The study by Harvey, Griffith, Kiessling, and Moeller (2011) proposes on the individual level, for example, the examination of multiple IQs of managers, learning

styles, thinking styles; and types of tasks to be undertaken in particularly environmental settings during overseas assignments as indicators for strategic decision-making, that might extend upper-echelons theory and contribute to the understanding of firms' foreign market entry mode choice.

Another limitation is that our sample is limited to German SMEs, thereby somewhat limiting the generalizability of our findings. SMEs differ from large MNEs concerning their ownership structure and management characteristics (Cheng, 2008; Pinho, 2007). Given the fact that many SMEs are family-owned, it is likely that their strategic orientation, particularly with respect to internationalization, is inseparable connected from the owners'/founders' personal objectives (Kotey, 2005). Thus, we do not examine the characteristics of a top management team but mostly focus on one decision-maker, as they are responsible for the strategic decision-making process in SMEs. Furthermore, we focused on SMEs from Germany as they form an important part of the economy in this country. However, this limits the generalizability of our findings for firms from other economies. To this end, we encourage future research to replicate our research in other countries and research settings in order to enhance the generalizability of our results. Moreover, future studies might advance our study by taking into account national culture values of the focal firm and their impact on strategic decision-making (Dimitratos, Petrou, Plakoyiannaki, & Johnson, 2011). As argued by Dimitratos et al. (2011), national culture may be an important variable that likely affects the development of cognitive and thinking styles of managers. The investigation of national culture of the focal firm might, therefore, enrich our understanding of SME's foreign market entry mode choice.

Furthermore, interpretation of our findings and their generalization should be made with caution due to the low sample size. While a low sample size is not unusual when examining the impact of CEO demographics on foreign market entry mode choice, we acknowledge this as a limitation of our study. A low sample size might involve low statistical power (compared to the total sample), which reduces the chance of detecting a true effect. This in turn might lead, first, to overestimates of effect sizes or, second, to a lower probability that an observed effect in the total sample diminishes (Aguinis, 1995; Cohen, 1988). We encourage future research to delve deeper into the complex contingencies of indi-

vidual-, organizational-, and environmental-level factors and how they impact firms' foreign market entry mode choice by drawing on larger samples.

Another important limitation of the study concerns our choice of the moderating factors. We examine geographical experience of the firm on the organizational level and host-country political risk on the environmental level, determining managerial discretion. While the international entry mode literature studies both factors intensively, there may be other factors on the organizational and environmental level that determine an individual's level of managerial discretion in important strategic decisions – such as the foreign market entry mode choice. We encourage future scholarly inquiry to reflect on other boundary conditions of the relationship between CEO demographics and SME foreign market entry mode choice. While the discretion literature provides a large set of determinants of executive discretion, we encourage future research to, for example, focus on the moderating impacts of market dynamism and market concentration (Engelen, Neumann, & Schwens, 2014) on the environmental level. Moreover, we suggest that future studies might consider the moderating impact of managerial ties with government officials on the CEO demographics – SMEs foreign market entry mode choice relationship (Kotabe, Jiang, & Murray, 2011). The acquisition of external knowledge (via managerial ties with government officials) is even more important in resource constraint SMEs (Kotabe et al., 2011). Hence, we encourage future research to include this external knowledge source.

Using the firms' most recent foreign market entry as our dependent variable represents another limitation, as it may not be representative of the respondent's entry mode decisions. While asking firms for the most recent foreign market entry is consistent with extant and well-published prior foreign market entry mode literature existing in the field (Brouthers, 2002; Brouthers et al., 2008; Slangen & Hennart, 2008), considering only the last applied foreign market entry mode does not necessarily reveal the firms' prior decision pattern. Moreover, we are not able to assess whether this "last" entry mode decision was effective or not (Ji & Dimitratos, 2013).

Finally, we acknowledge the compilation of the risk-taking propensity of the CEOs in our study as a limitation. We depict the CEO's risk-taking propensity by using CEO age, firm tenure and individual

international experience and thereby, risk-taking propensity of the CEOs (and information-processing demands respectively) is, consistent with upper echelons theory (Hambrick & Mason, 1984), the underlying rationale of our argumentation. We encourage future studies to measure the risk-taking propensity of the CEO directly (Simon, Houghton, & Aquino, 1999; Sitkin & Weingart, 1995) to gain deeper insights in the strategic decision-process of CEOs.

Our findings have several implications for SME owners and managers. The findings may help managers to initiate, plan, and implement international expansion. We propose that in addition to firm-specific determinants and host-country specifics, the individual characteristics of the CEO play a major role when entering foreign markets. Managers should recognize that different standpoints in their life influence their attitudes towards risk and job security; even their information-processing capability - all important aspects influencing the foreign market entry mode decision. While younger managers tend to pursue risky and innovative strategies, older managers tend to adopt a more conservative stance. Moreover, managers should be aware of the fact that their commitment to the status quo of the respective firm enhances with longer firm tenure. Thus, long-tenured CEOs enact strategies according to their developed repertoire of responses that they have developed over the years in the firm. This in turn hampers their ability to take risk and even their information-processing capability, which are directly linked to the foreign market entry mode decision. Our study shows that geographical experience of the firm and high levels of political risk in the foreign market influence the CEO age/CEO tenure – foreign market entry mode choice relationship. Thus, SME owners and managers need to consider several parameters on the organizational and environmental level in order to fully capture the conditions under which their foreign market entry mode decision unfolds. An internationally experienced SME might compensate for an older CEO's or a long-tenured CEO's risk aversion, which may result in the choice of an equity-based entry mode. At the same time, managers should be aware that high levels of political risk in the foreign market might change the preferred entry mode from equity-based to non-equity based modes. SME owners and managers need to identify and evaluate all three determinants in order to gain a comprehensive assessment of the challenges, which can arise when entering into the foreign market. Our research has particular implications for SME owners, looking for CEO

successors for their firm. SME owners might be aware of the fact that CEO demographics have a crucial impact on the firms' strategic direction taking into account geographical experience of the firm and host-country political risk.

## **E. Final Remarks**

### **1. Conclusion**

In the following chapter, I will conclude the doctoral thesis' overall results. I, first, outline the core results and the major contributions before I deduce managerial implications. Finally, I summarize the limitations of the dissertation and give implications for future research based on the results from the studies included.

#### **1.1 Core Results and Contributions**

The choice of an appropriate foreign market entry mode is an important strategic decision for SMEs and a complex research issue. Not only differ SMEs from their larger counterparts in various aspects, which impact important strategic decisions but also, a wrong entry mode decision may lead to damages with serious consequences because of their lack of resources (Buckley, 1989; Calof, 1994; Cheng & Yu, 2008). The relative amount of resources an SME commits to a foreign market is considerably higher in comparison to large MNEs as the latter firm type is usually equipped with more slack resources. Thus, a wrong entry mode decision may negatively influence the growth and/or even the survival of the small firm (Sapienza et al., 2006). Therefore, the foreign market entry mode decision is of paramount importance and represents a complex task for SMEs. Equity investments, in particular, demand a high resource commitment, representing high degrees of risk and requiring high information-processing demands for the firm in the foreign market (Pan & Tse, 2000).

Increased research stresses the importance of this topic because of the challenges SMEs face, but also because of the firms' economic relevance. SMEs are key players in the economy and drive innovation (Keng & Jiuan, 1989). Their significance enhances the interest of researchers, policymakers and practitioners in extending the knowledge on SME foreign market entry mode choice.

Because of the importance of the foreign market entry mode decision and the particularities of SMEs, this thesis aimed to contribute to a deeper understanding on how this firm type chooses a suitable or-



ganizational structure in order to manage foreign activities effectively. This was researched in three complementary studies, addressing the following key questions:

- What is the current state of knowledge in the literature regarding SME foreign market entry mode choice?
- How do different dimensions of international equity experience contribute to SMEs' subsequent foreign entry mode choice?
- How do CEO demographics impact SME foreign market entry mode choice and how is this association contingent on the joint interaction of geographical experience on the organizational level and host-country political risk on the environmental level?

In the following, I briefly outline the main results of each of these research questions answered in the respective studies.

By answering the first research question, it becomes evident that the field of SME foreign market entry mode choice is far from being concluded and suffers from several shortcomings. While identifying a strong emphasis on TCE, OLI, institutional and network/social capability theory, we have suggested concrete avenues for future research deriving from other theoretical perspectives (e.g., RBV, learning theory, effectuation logic and upper echelons theory). To this end, we have developed a roadmap for future research in this important domain.

By exploring the second research question, we discovered that extant knowledge from MNE research is only partly applicable to SMEs in order to explain how the firms are capable to exert equity foreign market entries. Due to SMEs' lower regional diversification, firms profit mainly from structural knowledge (in terms of equity modes chosen) and routine-based knowledge (in terms of pace of equity experience) in their subsequent internationalization steps. To this end, SMEs follow one dominant internationalization path in subsequent periods by committing their scant resources to equity-based entry modes while serving international markets only within one or several regions (consistent with Hashai, 2011).

The third study finds that the combination of CEO individual demographics, geographical experience on the organizational and host-country political risk on the environmental level is necessary in order to capture the complex decision and to enhance our understanding of how firms, particularly SMEs, make the foreign market entry mode decision. Research in this area examines the CEO's characteristics individually, while disregarding the effect of environmental and organizational factors. In this context, the consideration of all three determinants emphasizes the fact, that the firm's foreign market entry mode decision is a complex strategic choice, whereby the firm needs to consider multiple parameters determining the level of managerial discretion impacting the choice of foreign market entry.

## **1.2 Managerial Implications**

Since the foreign market entry mode decision represents an important strategic decision for SMEs and a challenging managerial issue, the doctoral thesis provides important implications for owners and managers of SMEs. The studies' findings may help managers to initiate, plan and implement international expansion in several ways.

The first study's findings indicate that SMEs have specific characteristics that make the foreign market entry mode choice particularly pertinent. Given their resource constraints, their sensitivity to challenges arising from the institutional context, and their specific ownership structures, SMEs' managers have to be careful in their foreign market entry mode choices. For example, benchmarking large MNEs' foreign market entry mode choice and using this knowledge for their own mode decisions is critical given the particularities of SMEs. Furthermore, SME managers have to be aware that the entry mode choice is a complex decision in which firm-level, industry-level, home-country, and host-country characteristics must be considered. Therefore, managers should strive for a comprehensive understanding of these characteristics in order to make an efficient choice for their foreign market activities.

The second study shows that SMEs, which are often resource constrained and, therefore, tend to choose low-commitment modes (Brouthers & Nakos, 2004) are able to commit strongly to a foreign

market. By focusing on one dominant internationalization path, SMEs are able to leverage their scant resources and commit strongly to a foreign market. Moreover, the study demonstrates that high levels of international equity experience, in terms of modes of operation and pace of internationalization mainly influences the entry mode decision. That is, routine building and the establishment of structures facilitate internationalization activities of SMEs. SMEs might develop capabilities along their expansion moves, which are applicable to similar contexts, i.e., similar countries.

The third study proposes that in addition to firm-specific determinants and host-country specifics, the individual characteristics of the CEO play a major role when entering foreign markets. Managers should recognize that different standpoints in their life influence their attitudes towards risk and job security; even their information-processing capability - all important aspects influencing the foreign market entry mode decision. Moreover, this study shows that geographical experience of the firm and high levels of political risk in the foreign market influence the CEO age/CEO tenure – foreign market entry mode choice relationship. Thus, SME owners and managers need to consider several parameters on the organizational and environmental level in order to fully capture the conditions under which their foreign market entry mode decision unfolds. SME owners and managers need to identify and evaluate all three determinants in order to gain a comprehensive assessment of the challenges, which can arise when entering into the foreign market. Our research has particular implications for SME owners, looking for CEO successors for their firm. SME owners might be aware of the fact that CEO demographics have a crucial impact on the firms' strategic direction taking into account geographical experience of the firm and host-country political risk.

## **2. Future Research**

As with most conceptual and empirical studies, the thesis faces several limitations. Such limitations leave room for future research. Therefore, I conclude this doctoral thesis by addressing possible avenues for future research in the field of SME foreign market entry mode choice.

The present work is based on a dataset of internationally active German SMEs, thereby somewhat limiting the generalizability of the study. Furthermore, we focused on SMEs from Germany (the traditional “German Mittelstand”) as they form an important part of the economy in this country, which hinders the transfer of our findings for firms from other economies. To this end, we encourage future research to examine firms’ entry mode decision in other countries and research settings in order to enhance the generalizability of our results. Moreover, future studies might advance this study by taking into account national culture values of the focal firm and their impact on strategic decision-making (Dimitratos et al., 2011). As argued by Dimitratos et al. (2011), national culture may be an important variable that likely affects the development of cognitive and thinking styles of managers. The investigation of national culture of the focal firm might, therefore, enrich our understanding of SME’s foreign market entry mode choice.

Broadening the data basis in terms of including firms of different size would allow future research to explicitly compare and contrast antecedents in MNE and SME foreign market entry mode choice. SMEs differ from large MNEs concerning their ownership structure and management characteristics (Cheng, 2008; Pinho, 2007). Given the fact that many SMEs are family-owned, it is likely that their strategic orientation, particularly with respect to internationalization, is inseparably connected from the owners’/founders’ personal objectives (Kotey, 2005). Furthermore, future studies might advance the insights in SME entry mode choice by including psychological factors impacting executives’ strategic decisions. Such determinants have the advantage of conceptual clarity and provide a direct link to the executive behaviors. To this end, future research might examine managers’ IQs, learning styles and thinking styles, and/or types of tasks they had to handle in specific environmental settings during overseas assignments as indicators for strategic decision-making (Harvey et al., 2011).

From a theoretical point of view, there is much room to advance the research field of SME foreign market entry mode choice. While the internationalization trend for SMEs has prompted increased research interest, scholars claim that the research area of SME entry mode choice lack a strong and clear theoretical framework. Hence, future studies might go beyond the “simple application” of theories that worked well in the context of MNEs to the context of SMEs in order to explain the latter firm types’

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mode decision. We encourage future studies to carefully consider SME specific characteristics and reflect on these particularities when investigating SMEs' entry mode decision. Furthermore, future research might go beyond existing theories in this research field. The resource-based view or the learning theory, for example, might give insights on how SMEs might deal with their scant resources in that particular decision. Moreover, the use of learning theory might be helpful to explore how SMEs exactly gain the necessary knowledge to make the entry mode decision. New theoretical frameworks or the adaptation of existing theories adhering to SME specific characteristics might advance our understanding in the research field of SME foreign market entry mode choice.

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## G. Appendix

### 1. Questionnaire: Internationalization of German SMEs

#### Teil 1: Allgemeine Informationen zu Ihrer Person und Ihrem Unternehmen

##### 1. Bitte beantworten Sie die folgenden Fragen, die sich auf Ihre Person beziehen.

In welchem Jahr wurden Sie <b>geboren</b> ?	_____ (Jahr, z.B. 1950)	
Sind Sie <b>weiblich</b> oder <b>männlich</b> ?	<input type="checkbox"/> Weiblich	<input type="checkbox"/> Männlich
Welche <b>Position</b> haben Sie in Ihrem derzeitigen Unternehmen?	<input type="checkbox"/> CEO <input type="checkbox"/> Leit. Pos.	<input type="checkbox"/> Angestellter / MA <input type="checkbox"/> Sonst., _____
Wie lange <b>arbeiten</b> Sie <i>bereits</i> in Ihrem derzeitigen Unternehmen?	_____ (Anzahl Jahre, z.B. 10)	
Wie lange arbeiten Sie bereits <b>in Ihrer derzeitigen Position</b> ?	_____ (Anzahl Jahre, z.B. 5)	
Sind Sie einer der <b>Gründer</b> Ihres derzeitigen Unternehmens?	<input type="checkbox"/> Ja	<input type="checkbox"/> Nein
Bitte beantworten Sie die folgenden Fragen bezogen auf Ihre <b>individuelle internationale Erfahrung</b> . (Bitte geben Sie 0 an, falls die jeweiligen Fragen nicht auf Sie zutreffen.)		
Wie viele Jahre haben Sie bisher <b>auf Grund Ihrer Ausbildung</b> (z.B. Auslandssemester, schulischer Austausch) insgesamt im Ausland verbracht?	_____ (Anzahl Jahre, z.B. 0,5)	
Wie viele Jahre haben Sie bisher <b>auf Grund Ihrer beruflichen Laufbahn</b> insgesamt im Ausland verbracht?	_____ (Anzahl Jahre, z.B. 1,5)	
Wie viele Jahre haben Sie bisher in einer <b>Tätigkeit mit Auslandsbezug in einem international agierenden Unternehmen</b> gearbeitet? Bitte beziehen Sie bei der Antwort auch Ihre derzeitige Position mit ein.	_____ (Anzahl Jahre, z.B. 3)	
Wie viele <b>Sprachen</b> sprechen Sie?	_____ (Anzahl Sprachen inklusive Muttersprache, z.B. 3)	
In welcher der folgenden Kategorien haben Sie Ihrem Empfinden nach die <b>größte Erfahrung</b> ?	<input type="checkbox"/> Produktion / Leistungserstellung <input type="checkbox"/> Finanzen und Buchhaltung / Datenverarbeitung / Informationssysteme <input type="checkbox"/> Prozessuale F&E	<input type="checkbox"/> Forschung und Entwicklung (Produkt) <input type="checkbox"/> Marketing / Vertrieb <input type="checkbox"/> Unternehmensführung <input type="checkbox"/> Sonstiges, _____
Welches ist der <b>höchste Bildungsabschluss</b> , den Sie erlangt haben?	<input type="checkbox"/> Kein Schulabschluss <input type="checkbox"/> Hauptschulabschluss oder Vergleichbares <input type="checkbox"/> Realschulabschluss oder Vergleichbares	<input type="checkbox"/> Abitur oder Vergleichbares <input type="checkbox"/> Hochschulabschluss (Studium) <input type="checkbox"/> Promotion
In welchem der nachfolgenden <b>Bereiche</b> haben Sie Ihren höchsten Bildungsabschluss erworben?	<input type="checkbox"/> Geisteswissenschaften <input type="checkbox"/> Naturwissenschaften <input type="checkbox"/> Ingenieurwesen	<input type="checkbox"/> Wirtschaftswissenschaften <input type="checkbox"/> Jura /Rechtswissenschaften <input type="checkbox"/> Sonstiges, _____

##### 2. Bitte beantworten Sie die nachfolgenden Fragen, die sich auf Ihr Unternehmen beziehen.

In welchem Jahr wurde Ihr Unternehmen <b>gegründet</b> ?	_____ (Jahr, z.B. 1990)	
Wie viele <b>Mitarbeiter (Vollzeit)</b> hatte Ihr Unternehmen im vergangenen Geschäftsjahr (2011)?	_____ (Anzahl Mitarbeiter, z.B. 100)	
Ist Ihr Unternehmen ein <b>Familienunternehmen</b> ?	<input type="checkbox"/> Ja	<input type="checkbox"/> Nein
Welcher <b>Art</b> ist Ihr <b>Gewerbe</b> ?	<input type="checkbox"/> Prod. Gewerbe <input type="checkbox"/> Dienstleist.	<input type="checkbox"/> Handel <input type="checkbox"/> Sonstiges, _____
Ist Ihr Unternehmen ein „ <b>Hightech</b> “-Unternehmen?	<input type="checkbox"/> Ja	<input type="checkbox"/> Nein
Wie hoch waren die <b>Ausgaben für Forschung und Entwicklung</b> im vergangenen Geschäftsjahr (2011) im Verhältnis zum Umsatz?	<input type="checkbox"/> Unser Unternehmen betreibt <b>keine Forschung und Entwicklung</b> .	<input type="checkbox"/> _____ (In Prozent, z.B. 10)

Welcher <b>Branche</b> ordnen Sie Ihr Unternehmen schwerpunktmäßig zu?	<input type="checkbox"/> Automobilindustrie <input type="checkbox"/> Bau / Immobilien <input type="checkbox"/> Beratung (inkl. StB, WP, o.ä.) <input type="checkbox"/> Biotechnologie <input type="checkbox"/> Chemie / Pharma <input type="checkbox"/> Elektroindustrie <input type="checkbox"/> Energie / Rohstoffe	<input type="checkbox"/> Financial Services <input type="checkbox"/> IT / Software / Internet <input type="checkbox"/> Maschinenbau <input type="checkbox"/> Medien <input type="checkbox"/> Medizintechnik <input type="checkbox"/> Transport / Logistik <input type="checkbox"/> Telekommunikation <input type="checkbox"/> Sonstiges, _____
Wie hoch war das <b>Umsatzwachstum</b> Ihres Unternehmens im vergangenen Geschäftsjahr?		_____ (In Prozent, z.B. 10)

3. Bitte bewerten Sie den Erfolg Ihres Unternehmens über die vergangenen 3 Jahre (2009-2011) in den folgenden Dimensionen.	Sehr unzufrieden <span style="float: right;">Sehr zufrieden</span>				
Mit dem <b>Wachstum des Umsatzes</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Höhe des Umsatzes</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Entwicklung der Profitabilität (Gewinn)</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Entwicklung des Marktanteils</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit den <b>Marketing-Aktivitäten</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Leistungsfähigkeit der Distribution</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Reputation</b> unseres Unternehmens bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Kundenzufriedenheit</b> bin ich ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
<b>Insgesamt</b> bin ich mit der <b>Leistung</b> ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
<b>Insgesamt</b> bin ich mit der <b>Leistung im Vergleich zu unseren Wettbewerbern</b> ...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

4. Inwiefern stimmen Sie den folgenden Aussagen zur Imitierbarkeit Ihres Unternehmens zu?	Stimme gar nicht zu <span style="float: right;">Stimme voll zu</span>				
Die Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) unseres Unternehmens sind <b>einzigartig</b> und <b>niemand</b> außer unserem Unternehmen <b>kann sie anbieten</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unseren Wettbewerbern fällt es schwer, <b>unser Unternehmen zu imitieren</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es hat Jahre gedauert bis unser Unternehmen die heutige <b>Reputation</b> aufgebaut hat. <b>Niemand kann diese leicht nachahmen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Vorteile unseres Unternehmens liegen im Unternehmen an sich, <b>nicht in einzelnen Individuen</b> . Niemand kann unser Unternehmen kopieren, <b>indem er unsere Mitarbeiter abwirbt</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Niemand kann die <b>Routinen, Prozesse und Kultur</b> unseres Unternehmens <b>nachahmen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

5. Inwiefern stimmen Sie den folgenden Aussagen zur Imitierbarkeit der Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) Ihres Unternehmens zu?	Stimme gar nicht zu <span style="float: right;">Stimme voll zu</span>				
Unsere Mitarbeiter können die wichtigen Charakteristika unserer Leistungen während des normalen Betriebs <b>leicht erlernen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es ist insgesamt <b>eher einfach</b> , unsere Leistungen zu kopieren und zu imitieren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Ein Wettbewerber könnte die wichtigen Charakteristika unserer Leistungen leicht erlernen und in der Folge unsere Leistungen nachahmen, wenn er die <b>Herstellung der Leistungen in unserem Unternehmen beobachten könnte</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Wenn der Wettbewerber unseren Leistungserstellungsprozess <b>nicht beobachten könnte, würde es eine lange Zeit dauern</b> , bis er die wichtigen Charakteristika unserer Leistungen erlernt hätte und unsere Leistungen schließlich nachahmen könnte.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

<b>6. Bitte beantworten Sie die nachfolgenden Fragen, die sich auf die unternehmerische Ausrichtung Ihres Unternehmens beziehen. Geben Sie dazu bitte an, ob sie eher der Aussage auf der linken Seite (1) oder eher der Aussage auf der rechten Seite (5) zustimmen.</b>
Insgesamt <i>legt das Top-Management</i> unseres Unternehmens ...

... den Schwerpunkt auf die <b>Vermarktung bewährter Produkte und Dienstleistungen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... den Schwerpunkt auf <b>Forschung und Entwicklung, Technologieführerschaft sowie Innovationen</b> .
Wie viele <i>neue Produkte oder Dienstleistungen</i> hat Ihr Unternehmen in den letzten 5 Jahren auf den Markt gebracht?						
<b>Keine</b> neuen Produkte oder Dienstleistungen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<b>Zahlreiche</b> neue Produkte oder Dienstleistungen.
In den <b>letzten 5 Jahren</b> wurden an bestehenden Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) meistens nur <b>geringfügige Veränderungen</b> vorgenommen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	In den letzten 5 Jahren wurden an bestehenden Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) oftmals <b>große Veränderungen</b> vorgenommen.
Bezogen auf unsere <i>Wettbewerber</i> , ...						
... <b>antwortet unser Unternehmen</b> typischerweise auf von unseren Wettbewerbern initiierte Aktionen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... <b>initiiert unser Unternehmen</b> typischerweise Aktionen, auf die unsere Wettbewerber dann antworten.
... ist unser Unternehmen nur <b>selten das Erste</b> , welches neue Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse), Techniken, Technologien oder dergleichen einsetzt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... ist unser Unternehmen <b>häufig das Erste</b> , welches neue Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse), Techniken, Technologien oder dergleichen einsetzt.
... <b>versucht unser Unternehmen</b> typischerweise <b>Konflikte zu vermeiden</b> und vertritt eher die Einstellung " <b>leben und leben lassen</b> ".	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... vertritt unser Unternehmen eine sehr <b>konkurrenzbetonte und aggressive Einstellung</b> .
Insgesamt <i>hat das Top-Management</i> unseres Unternehmens ...						
... eine <b>starke Vorliebe für Projekte mit geringem Risiko</b> (mit normal hohem und sicherem potentiellen Gewinn).	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... eine <b>starke Vorliebe für Projekte mit hohem Risiko</b> (mit sehr hohem potentiellen Gewinn).
Bezogen auf das <i>äußere Umfeld glaubt das Top-Management</i> unseres Unternehmens im Allgemeinen, dass ...						
... das <i>äußere Umfeld</i> am besten <b>vorsichtig und schrittweise</b> erschlossen werden sollte.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... <b>kühne und weitreichende Aktivitäten</b> am besten geeignet sind, um die eigenen Ziele zu verwirklichen.
Wenn unser Unternehmen mit <i>Entscheidungen</i> konfrontiert wird, die durch Unsicherheit gekennzeichnet sind, ...						
... wartet unser Unternehmen typischerweise zunächst einmal ab, um die <b>Wahrscheinlichkeit kostspieliger Entscheidungen zu minimieren</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	... vertritt unser Unternehmen typischerweise eine <b>kühne und aggressive Einstellung</b> , um die sich <b>bietenden Möglichkeiten bestmöglich auszunutzen</b> .

## Teil 2: Fragen zur internationalen Ausrichtung Ihres Unternehmens

### 7. Die folgende Frage bezieht sich auf die internationalen Aktivitäten Ihres Unternehmens.

Ist Ihr Unternehmen <b>derzeit international aktiv</b> ? (Unter Internationalisierung werden im Rahmen dieses Fragebogens alle internationalen Aktivitäten verstanden, die sich auf die <b>Absatzmärkte</b> Ihres Unternehmens beziehen, nicht auf eventuelle Beschaffungsmärkte.)	<input type="checkbox"/> Ja	<input type="checkbox"/> Nein
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------	-------------------------------

### 8. Bitte beantworten Sie die folgenden Fragen, die sich auf die internationalen Aktivitäten Ihres Unternehmens insgesamt beziehen.

In <b>wie vielen unterschiedlichen Ländern (Auslandsmärkten)</b> ist Ihr Unternehmen derzeit insgesamt aktiv?	_____ (Anzahl Länder, z.B. 10)
Wie hoch war in 2011 der <b>Anteil der Auslandsumsätze</b> am Gesamtumsatz?	_____ (In Prozent, z.B. 20)
In welchem Jahr hat Ihr Unternehmen seinen <b>ersten Auslandsmarkt erschlossen</b> ?	_____ (Jahr, z.B. 1950)
In welchem Jahr hat Ihr Unternehmen seinen <b>bislang letzten Auslandsmarkt erschlossen</b> ?	_____ (Jahr, z.B. 2010)

**9. Bitte geben Sie in der untenstehenden Tabelle einen detaillierten Überblick über die Auslandsmärkte, die von Ihrem Unternehmen derzeit in einer *direktinvestiven Form* bearbeitet werden. Mit "direktinvestiv" sind hierbei Joint Venture (Neugründung mit einem Partner), die Beteiligung an einem bestehenden ausländischen Unternehmen sowie die Gründung einer Tochtergesellschaft (mit oder ohne Produktion) gemeint.**

Geben Sie dazu bitte jeweils an, in welcher der zur Auswahl stehenden Markteintrittsformen diese Bearbeitung aktuell geschieht (Spalte 1), welches Land in dieser Form bearbeitet wird (Spalte 2), seit welchem Jahr dieses Land in dieser Form bearbeitet wird (Spalte 3), in welchem Jahr dieses Land erstmals von Ihrem Unternehmen erschlossen wurde (Spalte 4) und in welcher der zur Auswahl stehenden Formen dieser ursprüngliche Eintritt geschah (Spalte 5).

Beispiel: Ihr Unternehmen hat im Jahr 1992 den Auslandsmarkt "Polen" erstmals betreten, indem dort ein Tochterunternehmen als neue Produktionsstätte gegründet wurde und bis heute unverändert besteht. In diesem Fall wäre in Spalte 1 ("Aktuelle Marktbearbeitungsform") **Gründung einer eigenen Tochtergesellschaft (mit Produktion)** auszuwählen, in Spalte 2 ("Land") **Polen**, in Spalte 3 ("Jahr (Etablierung der aktuellen Bearbeitungsform)") **1992** und in Spalte 4 ("Jahr (ursprünglicher Eintritt in dieses Land)") ebenfalls **1992** einzutragen. Abschließend wäre in Spalte 5 ("Ursprüngliche Marktbearbeitungsform") erneut **Gründung Tochtergesell. (m. Produktion)** auszuwählen.

Aktuelle Marktbearbeitungsform	Land	Jahr Etablierung aktuelle Bearbeitungsform	Jahr ursprüngl. Eintritt in dieses Land	Ursprüngliche Marktbearbeitungsform
Auswahl zwischen: <ul style="list-style-type: none"> <li>• (Direkter) Export</li> <li>• Distributor (indirekter Export)</li> <li>• Franchise</li> <li>• Lizenzierung</li> <li>• langfristige Lieferverträge</li> <li>• Joint Venture (Neugründung mit einem Partner) mit einer Beteiligung von 1-49%</li> <li>• Joint Venture (Neugründung mit einem Partner) mit einer Beteiligung von 50-99%</li> <li>• Beteiligung an einem bestehenden Unternehmen (1-49%)</li> <li>• Beteiligung an einem bestehenden Unternehmen (50-99%)</li> <li>• Komplettübernahme eines bestehenden Unternehmens</li> <li>• Gründung einer eigenen Tochtergesellschaft (ohne Produktion)</li> <li>• Gründung einer eigenen Tochtergesellschaft (mit Produktion)</li> </ul>	Ländernamen, z.B. Frankreich	Jahreszahl, z.B. 1999	Jahreszahl, z.B. 1980	(Selbe Alternativen zur Auswahl wie in Spalte 1, „aktuelle Marktbearbeitungsform“)

**10. Bitte geben Sie die folgenden Informationen zu den Auslandsmärkten an, die Ihr Unternehmen derzeit in einer *nicht direktinvestiven Form* bearbeitet. Mit "nicht direktinvestiv" ist hierbei eine Marktbearbeitung durch direkten Export, über Distributoren (indirekter Export) oder durch vertragliche Vereinbarungen (beispielsweise Franchise, Lizenzierung oder langfristige Lieferverträge) gemeint.**

Wie viele Auslandsmärkte werden derzeit von Ihrem Unternehmen durch <b>direkten Export</b> bearbeitet?	_____ (Anzahl Länder, z.B. 5)
Wie viele Auslandsmärkte werden derzeit von Ihrem Unternehmen über <b>Distributoren (indirekter Export)</b> bearbeitet?	_____ (Anzahl Länder, z.B. 10)
Wie viele Auslandsmärkte werden derzeit von Ihrem Unternehmen durch <b>vertragliche Vereinbarungen (Franchising, Lizenzierung, langfristige Lieferverträge etc.)</b> bearbeitet?	_____ (Anzahl Länder, z.B. 15)
Bitte geben Sie im Folgenden die <b>Regionen</b> an, in denen die Auslandsmärkte liegen, die von Ihrem Unternehmen durch direkten Export, über Distributoren oder durch vertragliche Vereinbarungen bearbeitet werden. (Mehrfachauswahl möglich)	<input type="checkbox"/> Westeuropa <input type="checkbox"/> Osteuropa <input type="checkbox"/> Naher Osten <input type="checkbox"/> Mittlerer Osten <input type="checkbox"/> Asien <span style="margin-left: 20px;"> <input type="checkbox"/> Afrika  <input type="checkbox"/> Nordamerika  <input type="checkbox"/> Mittelamerika  <input type="checkbox"/> Südamerika  <input type="checkbox"/> Ozeanien                 </span>

11. Bitte geben Sie an, inwieweit die folgenden Aussagen zu einer globalen Ausrichtung auf Ihr Unternehmen zutreffen.	Trifft gar nicht zu		Trifft voll zu		
Der <b>relevante Markt</b> für unser Unternehmen ist der <b>globale</b> und nicht nur der deutsche Markt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die in unserem Unternehmen vorherrschende <b>Unternehmenskultur</b> ist <b>förderlich</b> für die aktive Erkundung neuer Geschäftsmöglichkeiten im Ausland.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Unternehmensleitung <b>kommuniziert kontinuierlich</b> gegenüber den Mitarbeitern wie wichtig es ist, in <b>Auslandsmärkten erfolgreich</b> zu sein.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Unternehmensleitung <b>schult Mitarbeiter</b> und <b>erschließt weitere Ressourcen</b> für die Erreichung der Ziele in Auslandsmärkten.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Unternehmensleitung <b>ist erfahren in internationalen Geschäften.</b>	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

12. Inwiefern stimmen Sie den folgenden Aussagen zu den Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) Ihres Unternehmens zu?	Stimme gar nicht zu			Stimme voll zu	
Im Vergleich mit unseren Wettbewerbern <b>passt unser Unternehmen seine Leistungen an Auslandsmärkte an.</b>	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Bei der Entwicklung neuer Leistungen werden die <b>Bedürfnisse und Wünsche der Kunden in Auslandsmärkten</b> berücksichtigt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die im Ausland angebotenen Leistungen <b>unterscheiden sich von den im Heimatland angebotenen.</b>	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die im Ausland angebotenen Leistungen <b>unterscheiden sich jeweils von Land zu Land.</b>	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unsere Leistungen sind an die <b>Kultur des jeweiligen Landes angepasst.</b>	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

### Teil 3: Teil 3: Fragen zu dem zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkt

13. Die nachfolgenden Fragen beziehen sich auf den zuletzt erschlossenen Auslandsmarkt Ihres Unternehmens.	
<b>Welches Land (Auslandsmarkt)</b> wurde zuletzt von Ihrem Unternehmen erschlossen (direkt- oder nicht-direktinvestiv)?	_____ (Land, z.B. Frankreich)
<b>In welchem Jahr</b> fand dieser letzte Markteintritt Ihres Unternehmens statt?	_____ (Jahr, z.B. 2008)
<b>Welche Markteintrittsform</b> wurde im Rahmen dieses letzten Markteintritts gewählt? (Bitte beachten Sie, dass hierbei auch durch Export, über Distributoren oder durch vertragliche Vereinbarungen erschlossene Auslandsmärkte angegeben werden können.)	(Zur Auswahl stehen erneut die in Frage 9, Spalte 1 genannten Alternativen)

14. Bitte bewerten Sie den Erfolg des zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkts über die vergangenen 3 Jahre (2009-2011) bzw. seit dem Eintritt, falls dieser nach 2009 war, in den folgenden Dimensionen.	Sehr unzufrieden			Sehr zufrieden	
Mit dem <b>Wachstum des Umsatzes</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Höhe des Umsatzes</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Entwicklung der Profitabilität (Gewinn)</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Entwicklung des Marktanteils</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit dem <b>Marktzugang</b> zu dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit den <b>Marketing-Aktivitäten</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Leistungsfähigkeit der Distribution</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Reputation</b> unseres Unternehmens in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Mit der <b>Kundenzufriedenheit</b> in dem zuletzt erschlossenen Auslandsmarkt bin ich...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
<b>Insgesamt</b> bin ich mit der <b>Leistung</b> unseres Unternehmens in dem zuletzt erschlossenen Auslandsmarkt...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
<b>Insgesamt</b> bin ich mit der <b>Leistung</b> unseres Unternehmens <b>im Vergleich zu unseren Wettbewerbern</b> in dem zuletzt erschlossenen Auslandsmarkt...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

15. Wie bedeutend waren die folgenden Motive für den Eintritt in den zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkt zum Zeitpunkt des Eintritts?	Sehr unbedeutend			Sehr bedeutend	
Die <b>Nutzung von Kostenvorteilen</b> im Auslandsmarkt war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die <b>Erschließung von neuen Absatzmärkten</b> für die eigenen Produkte war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die <b>Sicherung von bestehenden Absatzmärkten</b> war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>Engagement eines / mehrerer Kunden</b> im Auslandsmarkt war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>Engagement der Konkurrenz</b> im Ausland war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Der <b>Zugang zu Wissen</b> war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5



Der <b>Zugang zu Rohstoffen</b> war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>Outsourcing von Produktionsteilen</b> war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die ( <b>zusätzliche</b> ) <b>Auslastung von Betriebsstätten in Deutschland</b> war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die <b>Risikostreuung/-diversifikation</b> war...	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

16. Inwiefern stimmen Sie den folgenden allgemeinen Aussagen zum Eintritt in den zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkt zu? Bitte beziehen Sie sich bei Ihren Antworten auf den Zeitpunkt des Eintritts in den Auslandsmarkt.	Stimme gar nicht zu		Stimme voll zu		
Es gab <b>Einschränkungen bei der Wahl der Markteintrittsform auf Grund von rechtlichen Bestimmungen</b> (z.B. waren ausländische Investitionen auf Joint Ventures oder vertragliche Vereinbarungen beschränkt).	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es war im Vorhinein schwierig die <b>Umsätze und Verkaufszahlen</b> unserer Produkte im Auslandsmarkt <b>vorherzusagen und abzuschätzen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es war im Vorhinein schwierig die <b>Wettbewerbsvorteile</b> unserer Produkte im Auslandsmarkt <b>vorherzusagen und abzuschätzen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Produkte wurden weitgehend durch <b>Veränderungen in den Handelsbestimmungen</b> der jeweiligen Zielländer beeinflusst.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Anzahl der <b>lokalen Wettbewerber</b> im zuletzt erschlossenen Auslandsmarkt war sehr hoch.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die Anzahl der <b>internationalen Wettbewerber</b> im zuletzt erschlossenen Auslandsmarkt war sehr hoch.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>zukünftige Marktwachstum</b> des zuletzt erschlossenen Auslandsmarktes wurde als sehr hoch eingeschätzt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

17. Inwiefern stimmen Sie den folgenden Aussagen zur Ressourcenausstattung Ihres Unternehmens zum Zeitpunkt des Eintritts in den zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkt zu?	Stimme gar nicht zu		Stimme voll zu		
Wir hatten ausreichend <b>personelle Ressourcen</b> um zu internationalisieren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Wir hatten ausreichend <b>finanzielle Ressourcen</b> um zu internationalisieren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Wir hatten ausreichend <b>Managementressourcen</b> um zu internationalisieren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Wir hatten ausreichend <b>Partner</b> um zu internationalisieren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Wir hatten ausreichend <b>materielle Ressourcen</b> um zu internationalisieren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

18. Inwieweit stimmen Sie folgenden Aussagen zur internationalen Erfahrung Ihres Unternehmens zum Zeitpunkt des Eintritts in den zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkt zu?	Stimme gar nicht zu		Stimme voll zu		
Die <b>Eigentümer</b> unseres Unternehmens hatten bereits große internationale Erfahrung.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Die <b>Führungskräfte</b> hatten bereits große internationale Erfahrung.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
<b>Unser Unternehmen</b> hatte insgesamt bereits große <b>internationale Erfahrung</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unser Unternehmen hatte bereits große <b>Erfahrung im Zielland</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unser Unternehmen hatte bereits große <b>Erfahrung in der Zielregion</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unser Unternehmen hatte bereits große <b>Erfahrung mit dem Aufbau von Tochtergesellschaften</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unser Unternehmen hatte bereits große <b>Erfahrung mit Unternehmensübernahmen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unser Unternehmen hatte bereits große <b>Erfahrung mit Unternehmensbeteiligungen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

19. Inwiefern stimmen Sie den folgenden Aussagen zu dem Netzwerk und der Vernetzung Ihres Unternehmens zum Zeitpunkt des Eintritts in den zuletzt erschlossenen Auslandsmarkt?	Stimme gar nicht zu		Stimme voll zu		
Zum Zeitpunkt des Eintritts in den zuletzt erschlossenen Auslandsmarkt bestand bereits ein <b>umfangreiches Netzwerk von Geschäftsbeziehungen</b> im Auslandsmarkt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

Zum Zeitpunkt des Eintritts in den zuletzt erschlossenen Auslandsmarkt war der <b>Kontakt zu Kunden</b> weit entwickelt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Zum Zeitpunkt des Eintritts in den zuletzt erschlossenen Auslandsmarkt war der <b>Kontakt zu Distributoren</b> weit entwickelt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Zum Zeitpunkt des Eintritts in den zuletzt erschlossenen Auslandsmarkt war der <b>Kontakt zu Lieferanten</b> weit entwickelt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

20. Inwiefern stimmen Sie den folgenden Aussagen zu spezifischen Anpassungen und Investitionen Ihres Unternehmens, die im Rahmen des Eintritts in den zuletzt von Ihrem Unternehmen erschlossenen Auslandsmarkt vorgenommen wurden, zu?	Stimme gar nicht zu		Stimme voll zu		
Es wurden <b>spezifische, firmeninterne Technologien</b> verwendet.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es wurden <b>bedeutende Investitionen</b> unternommen, die <b>spezifisch an die Bedürfnisse</b> dieses zuletzt erschlossenen Auslandsmarktes angepasst waren.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unsere <b>Leistungen und Technologien</b> waren <b>stark darauf ausgerichtet</b> , die <b>Anforderungen</b> dieses zuletzt erschlossenen Auslandsmarktes zu erfüllen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>firmeninterne Trainingsprogramm</b> zur Vorbereitung der Mitarbeiter auf Ihren Einsatz im zuletzt erschlossenen Auslandsmarkt war überdurchschnittlich gut.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>Potenzial unseres Unternehmens, neue und kreative Leistungen</b> im zuletzt erschlossenen Auslandsmarkt zu entwickeln, war überdurchschnittlich hoch.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es war für einen Außenstehenden schwierig zu lernen, die <b>Dinge so zu erledigen, wie wir es tun</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unsere <b>Mitarbeiter benötigten viel Zeit</b> , um den <b>Kunden kennenzulernen</b> und um somit effektiv zu sein.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Unsere <b>Mitarbeiter benötigten viel Zeit</b> , um unsere <b>Leistungen gut und intensiv kennenzulernen</b> .	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Das <b>Wissen über unsere firmeninternen Abläufe</b> wäre im Wettbewerb mit unserem Unternehmen <b>für unsere Wettbewerber sehr hilfreich</b> gewesen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es wurden <b>spezialisierte Einrichtungen und Gebäude benötigt</b> , um unsere Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) in den Markt zu bringen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
Es wurden <b>hohe Investitionen in Ausrüstung und Einrichtungen benötigt</b> , um unsere Leistungen (z.B. Produkte, Dienstleistungen oder Handelsprozesse) in den Markt zu bringen.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5