

Foreign markets entry mode decision for SMEs. Key factors and role of industrial districts*

Fabio Musso^{a**}, Barbara Francioni^b

^a*Dipartimento di Studi Aziendali e Giuridici, Facoltà di Economia, Università degli Studi di Urbino "Carlo Bo" Via Saffi, 42, 61029 Urbino, Italy*

^b*Dipartimento di Studi Aziendali e Giuridici, Facoltà di Economia, Università degli Studi di Urbino "Carlo Bo" Via Saffi, 42, 61029 Urbino, Italy*

Abstract

The principal aim of this paper was to examine the internationalization of small and medium-sized enterprises (SMEs) in regard to the entry mode selection process. To successfully accomplish this, a resource-based view model was used to investigate the primary factors influencing a SMEs' international entry mode. Data was obtained during direct interviews with owners/managers of SMEs in Italy. The results revealed that entry mode decisions were primarily influenced by firm specific factors, above all organizational culture. The study also illustrated that SMEs were not influenced by their belonging to an industrial district.

Keywords: *Small and medium sized enterprises; Resource based view; Entry modes; Industrial Districts*

1. Introduction

The number of small firms operating in international markets, in response to lowering the barriers to international trade, has been increasing (Nummela, Loane, & Bell,

* This article is the result of a common research activity between the authors. Nevertheless, single sections can be attributed as follows: Sections 1 and 3 are attributed to Fabio Musso, Sections 2,4 and 5 to Barbara Francioni.

** Corresponding author. Tel. +39.0722.305.509 Fax +39.0722.305.541

2006). Currently, small and medium-sized enterprises (SMEs) represent the majority of firms in most countries, and therefore, play an important role in the economic growth of their representative countries. For instance, in Italy, 99.9 percent of all firms have less than 250 employees (Istat, 2005). As a result, the internationalization process of SMEs has become a subject of academic, political and governmental attention and research (Crick & Jones, 2000; McDougall & Oviatt, 1996; Nakos & Brouthers, 2002).

One of the most important decisions regarding the internationalization process of firms is the choice of entry mode (Quer, Claver, & Andreu, 2007). The selection of an appropriate entry mode into a foreign market can have significant and far-reaching consequences on a firm's performance and survival (Davidson, 1982; Ekeledo & Sivakumar, 2004; Gatignon & Anderson, 1988; Root, 1998; Terpstra & Sarathy, 1994). Entry mode is one of the most critical strategic choices, because it affects the firm's future decisions and operations in the selected countries market (Brouthers & Hennart, 2007; Kumar, 2000).

Several theories have been developed to explain entry mode choice, such as the Transaction Cost Analysis (TCA) (Erramilli & Rao, 1993), the institutional theory, Dunning's eclectic paradigm (Brouthers, Brouthers, & Werner, 1996; Hill, Hwang, & Kim, 1990) and the resource-based view theory (Brouthers & Hennart, 2007). Most of them have been tailored to large firms. But can such theories be used to interpret an SMEs behaviour? This is currently uncertain (Nakos & Brouthers, 2002).

E-mail addresses: fabio.musso@uniurb.it (F. Musso), francioni.barbara@gmail.com (B. Francioni).

Several researchers (Burgel & Murray, 2000; Jones, 1999) suggested that SME entry mode selection (EMS) is one of the most important new research fields, especially because until now SME entry mode selection has been object of few studies.

To contribute to the lack of literature, in this study we will attempt to examine the degree of diffusion of an active behavior to EMS among SMEs. Later on, in case of use of an active approach, building upon the work of Ekeledo and Sivakumar (2004), we will develop a conceptual framework, under which we will create and test a set of hypotheses to explain the SMEs entry mode selection from a resource-based perspective. In particular, we will attempt to offer new empirical evidence to better understand if and how the firm-specific resources, the home market, the host market characteristics and belonging to an industrial district can influence SMEs entry mode decisions. The decision to include belonging to an industrial district is derived from a lack of previous studies focused on SME entry mode choice that attempted to analyze the distinction between firms located in a particular local context, such as a cluster, and firms that are not located within the cluster. A second reason to include industrial districts in the analysis comes from several studies indicating how belonging to a clusters influences small firms' strategic behaviour, as well as their market performance (Becattini & Sengenberger, 1992; Kristensen, 1992; Becattini & Rullani, 1993; Porter, 1998; Amin, 1999; Molina-Morales, 2001; Giner & Santa-Maria, 2002; Akgüngör, 2006; Belso-Martínez, 2006; Chetty & Agndal, 2008) and their international market strategies (Musso, 2000; Pepe & Musso, 2003).

The organization of the paper is as follows. After the introduction, resource-based theory and the primary issues related to industrial districts and entry mode decisions

is presented. In the third section, the empirical research methodology, analysis, and results are presented. Finally, some implications of the research are explored.

2. Theoretical background

2.1 Resource-based theory, entry mode selection and industrial districts

In regard to entry mode selection, the resource-based approach illustrates the primary concept of strategic management (Ekeledo & Sivakumar, 2004). This concept explains how a firm can compete when there is a fit between the firm's resources and external opportunities (Conner, 1991; Vasconcellos & Hambrick, 1989).

The resource-based view (RBV) became popular in the 1980s and is still commonly applied (Grant, 1991; Sun & Tse, 2009; Wernerfelt, 1984). According to the RBV, a firm is a bundle of collected tangible and intangible resource stocks (Ahokangas, 1998; Barney, 1991; Barney, Wright, & Ketchen, 2001; Chan, Shaffer, & Snape, 2004 ; Erramilli, Agarwal, & Dev, 2002; Roth, 1995; Wernerfelt, 1984).

Grant (1991) stated that there are five categories of resources: financial, physical, human, technological and reputation. Amit and Schoemaker (1993) added one more category, the organizational resource (management system). Wernerfelt (1997) only considered three main categories: physical, financial and intangible resources (Espino-Rodríguez & Padrón-Robaina, 2006; Ruzzier, Antoncic, & Konecnik, 2006). Miller and Shamise (1996) divided the resources into property-based and knowledge-based resources (Chen & Chen, 2003).

Beyond these classifications, it is interesting to stress that RBV is an inward-looking perspective. The environment is considered external to the company, driving the attention of strategy studies from the external (market or industry) resources to the

firms' internal factors (Chetty & Patterson, 2002; Sun & Tse, 2009). Indeed, the RBV attributes secondary importance to the external factors. Zander and Zander (2005) illustrated how this perspective could lead to underestimates of the external conditions influencing the firm's competitive advantage and its ability to generate profits and sustain long-term growth.

Few studies based on the resource-based perspective have assumed that the selection of an appropriate entry mode is a function of the interplay of both the internal and the external resources (Ahokangas, 1998; Ekeledo & Sivakumar, 2004; Ruzzier et al., 2006). Given the extreme importance of external factor analysis, we employed a resource-based perspective that not only includes the analysis of the firm's specific resources, but also the factors of the home market and host country. In addition, we included a factor that influence a firm's behavior in an entry mode choice. More specifically, whether the firm belongs to an industrial district.

The concept of the industrial district (territorial cluster) has been investigated in detail (De Martino, Reid, & Zyglidopoulos, 2006; Molina-Morales, 2001, 2002). Porter (1998) described a territorial cluster as "a geographic concentration of interconnected companies, specialized suppliers, service providers, associated institutions and firms in related industries". Other authors (Belso-Martínez, 2006; Chetty & Agndal, 2008; Giner & Santa-Maria, 2002) have adopted the definition of Becattini (1992): "Industrial districts or territorial clusters are territorial concentrations, in a quite circumscribed area, of firms, for the vast majority of small and medium size, which produce goods or services functionally linked to a primary production activity, embedded in the social life of a certain locality or a network of localities".

While the industrial district is a particular phenomenon, specific to Italy (Amin, 1999; Christerson & Lever-Tracy, 1997), clustering investigations have been carried out in other countries, such as Germany (Herrigel, 1996), Denmark (Kristensen, 1992), Japan (Friedman, 1988), and the United States (Saxenian, 1994). Emerging clusters were located in several developing countries, including India (Cawthorne, 1995), Pakistan, Indonesia, Africa and Latin America (Akgüngör, 2006). Moreover, firms from Hong Kong, Taiwan and parts of China have also been included into the debate (Christerson & Lever-Tracy, 1997; Greenhalgh, 1984; Hamilton, 1991).

Within a cluster, the final manufacturers manage internal relationships towards the supply network, local actors and institutions and external relationships towards trade operators and foreign markets. These two complementary systems require coordination and integration.

An industrial district assures firms a natural informative circuit. This circuit is not limited to innovation processes, but provides information on new potential customers and new markets. Otherwise, the district is equipped, offering its members sources of systematic information and national/foreign contacts, supplied through its own institutions (e.g., Chambers of Commerce, category associations, banks, local financial institutions, and peripheral offices of the Italian Trade Commission), information technologies (IT) supports, presence at international fairs and training activities.

For small firms, belonging to an industrial district influences the internationalization processes by the ability of the district to promote local values and firms' competitive advantages at the international level (Becattini & Rullani, 1993; Musso, 2000; Pepe &

Musso, 2003). Firms within a cluster tend to imitate each other, reducing their efforts to collect information, analyze and select foreign markets, and select entry modes.

2.2 Conceptual framework and hypotheses

In regard to the entry mode selection processes, several studies have illustrated that the majority of SMEs have a passive behaviour during EMS (Mencarini, 2003; Musso, 2000). Entry methods are not actively chosen by firms, but are a consequence of agreements with foreign partners (in most cases importers and local distributors) or the fulfillment of an unsolicited order. Thus, there is no real choice and the adopted entry mode is the result of a passive response to an external stimulus.

However, there are firms exhibiting an active behavior by carrying out a systematic comparison of alternative entry modes prior to making a decision. In this case, the entry mode choice may be influenced by many factors. We argue, from a resource-based perspective, that these factors have a significant influence on those SMEs following an active approach during entry mode choice.

In addition, the literature has revealed the relationship between the entry mode and the degree of control of activities (Anderson & Gatignon, 1986; Brown, Dev, & Zhou, 2003; Ekeledo & Sivakumar, 1998; Erramilli & Rao, 1993; Pan & Tse, 2000). Firms can internationalize through a variety of modes (O'Farrell, Wood, & Zheng, 1998; Wright, Westhead, & Ucbasaran, 2007) and each mode implies a different degree of control. (Anderson & Gatignon, 1986; Driscoll & Paliwoda, 1997; Hill et al., 1990; Root, 1998).

Hill, Hwang and Kim (1990) defined control as the “authority over operational and strategic decision making”, since it provides the possibility for the firms to co-

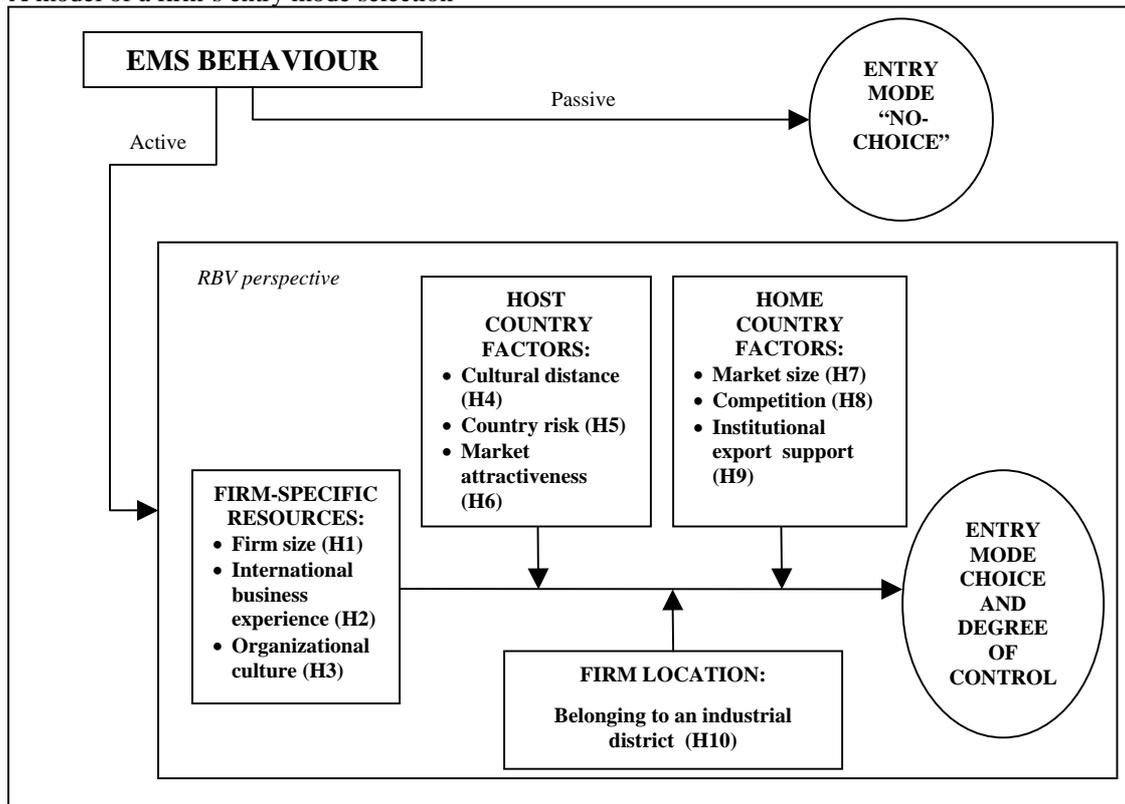
ordinate activities, safeguarding the supplies of critical inputs to the production process, guaranteeing the quality of the end product, and influencing the logistical and market activities for the product in the target market (Anderson & Gatignon, 1986; Driscoll & Paliwoda, 1997).

The entry mode literature has recommended paying attention to the level of control, because it is the most significant determinant of both risk and return. As a result, the foreign presence can be divided into a high control mode (e.g., wholly owned subsidiary or majority owned subsidiary); or a low control mode (e.g., licensing or exports). The high control mode implies the highest mode of integration, whereas the low control entry mode offers the lowest mode of integration (Blomstermo, Sharma, & Sallis, 2006; Ekeledo & Sivakumar, 2004).

Figure 1 presents the conceptual framework of this study. Inspired by the Ekeledo and Sivakumar (2004) model, the framework describes suitable entry modes as a consequence of the interplay of firm-specific resources, host country factors and home country factors, appertaining to the industrial district and degree of control. The framework enabled us to create 10 hypotheses, and, on the basis of such hypotheses, we attempted to verify if a direct or inverse relationship existed between independent variables and the degree of control in international activities related to the selected entry mode.

Figure 1

A model of a firm's entry mode selection



Firm-specific resources

Firm size: the size of a firm has been recognized as an important source of strategic advantage (Tan, Erramilli, & Liang, 2001). The relationship between firm size and the use of the equity-based entry mode has been widely investigated (Agarwal & Ramaswami, 1992; Brouthers et al., 1996; Nakos & Brouthers, 2002). Osborne (1996) analyzed a sample of New Zealand's SMEs and discovered that smaller SMEs tended to prefer no equity modes, while larger SMEs tended to prefer equity modes. This relationship enabled us to create our first hypothesis:

H1: The bigger the size of the firm, the higher is the level of control in the entry mode.

International business experience: international experience refers to the extent to which a firm has been involved in operating internationally (Erramilli, 1991). It can be acquired by operating in a particular country or by operating in the general international environment (Driscoll & Paliwoda, 1997). A number of studies have illustrated a positive relationship between international experience and the use of a particular entry mode. Gankema, Snuit and Van Dijken (1997) found that when an SME gains experience, it moves from exporting to equity investments. Carpenter, Pollock and Leary (2003) argued that executives with significant international experience were more likely to prefer greenfield investments and acquisitions over joint ventures (Herrmann & Datta, 2006).

However, there is some evidence to indicate that international experience may not have any effect on the degree of control. In a study of Greek SMEs investing in European Union countries, Nakos and Brouthers (2002) observed no significant difference in the entry mode choice based on the differing levels of international experience. Kogut and Singh (1988) found no strong connection between international experience and the selected entry mode by foreign entrants into the United States (Erramilli, 1991).

As a result, the second research hypothesis is:

H2: The longer the international experience, the higher is the level of control in the entry mode.

Organizational Culture: Barney (1986) described organizational culture as valuable, rare and imperfectly imitable; thus, it has extensive potential for creating a sustainable competitive advantage for a firm. There is little evidence illustrating the association between organizational culture and entry mode choice. Ekeledo and Sivakumar (2004) illustrated that firms with a culture that is a factor of sustainable competitive advantage in a foreign market tend to favor the sole ownership entry mode; hence, they exhibit a higher level of control in international activities.

This enables us to formulate the following hypothesis:

H3: The higher is the likelihood that organizational culture is a sustainable advantage, the higher is the level of control in the entry mode.

Host country factors

Cultural distance: the choice of the entry mode may be influenced by the environment of the host market. Two dimensions of this include socio-cultural distance and country risk (Driscoll & Paliwoda, 1997). Previous studies have assumed that cultural differences between a company's country of origin and the host country are influential factors in the choice of an entry mode (Rodríguez, 2002). According to the RBV, in relation to exploiting a competitive advantage, the firm must consider the knowledge of the context, like the exacting way of managing businesses that is typical of a specific country. Consequently, a firm may opt for entry modes based on collaborations with local agents, because the cultural distance blocks the application of practices that are characteristic of a firm (Madhok, 1997). As a consequence, we can assume that cultural difference is inversely related to the degree

of control of a foreign market (Kwon & Konopa, 1993; Quer, Claver, & Andreu, 2007; Quer, Claver, & Rienda, 2007).

This relationship is hypothesized as follows:

H4: The higher is the cultural distance between the firm's home country and the host country, the lower is the level of control in the entry mode.

Country risk: a firm should also consider the country risk, which refers to the extent to which the firm perceives unpredictability in the social, political and economic environment of the host country (Driscoll & Paliwoda, 1997; Erramilli & Rao, 1993; Gatignon & Anderson, 1988; Goodnow & Hansz, 1972). The country risk can include different types of risk, the most important being the political risks (e.g., instability of political system), ownership/control risks (e.g., expropriation, intervention), operation risks (e.g., price control, local content requirements), and transfer risks (e.g., currency inconvertibility risk, remittance control). Risks that are derived from uncertainty about the demand, the competitors, the cost and other market conditions, as well as the risks that threaten the country's financial solvency (Hill, Hwang, & Kim, 1990; Quer, Claver, & Rienda, 2007; Root, 1998) must be considered.

Previous studies have found a negative relationship between country risk and degree of control. The reason for this is that when the country risk is high, it increases the tendency to enter the foreign markets with a smaller commitment of resources to gain greater flexibility in adapting to the external conditions (Rodríguez, 2002) .

Therefore:

H5: The higher is the country risk, the lower is the level of control in the entry mode.

Market attractiveness: another host country factor bearing on the entry mode is the potential of the target market. Market attractiveness is typically indicated by the size of the target market and the country's economic development/performance (Kwon & Konopa, 1993). Several studies have investigated the impact of market characteristics about the choice of market entry mode. Agarwal and Ramaswami (1992) demonstrated that a high control mode is more likely to be adopted when the potential host country market increases. In a study regarding SMEs in the United States belonging to the computer software industry, Brouthers, Brouthers and Werner (1996) illustrated that firms perceiving low levels of market attractiveness tended to apply a no equity entry mode.

Therefore, our sixth hypothesis is:

H6: The higher is the market attractiveness, the higher is the level of control in the entry mode.

Home country factors

Market size, competition, institutional export support: the influence of the home country factors on the entry mode decisions is widely covered in the international business literature (e.g. Douglas & Craig, 1995; Root, 1998; Terpstra & Sarathy, 1994). In particular, Root (1998) underlines that the market conditions, production

and supplying conditions, competitive and environmental conditions of the home country influence the entry mode decision through the impact of three principal factors: market size, competition and institutional support to export promotion (Young, Hamill, Wheeler, & Davies, 1989). There is a positive relationship between the first factor (market size) and the degree of control. Conversely, there is an inverse relationship with the other factors (competition and institutional export promotion).

This allows us to propose the next three hypotheses.

H7: The higher is the market size, the higher is the level of control in the entry mode.

H8: The higher is the competition, the lower is the level of control in the entry mode.

H9: The higher is the institutional support to promote exports, the lower is the level of control in the entry mode.

Firm location

Belonging to an industrial district: although there have been several studies illustrating the internationalization of SMEs belonging to industrial districts (Pepe & Musso, 2003), the literature has neglected to analyze whether a difference in entry mode choice exists, depending on industrial district membership. In particular, there are no studies that have analyzed the difference between intra-district firms and extra-district firms during the entry mode selection process.

Therefore, our final hypothesis, Hypothesis 10, can be suggested:

H10: Belonging to an industrial district reduces the likelihood of using entry strategies that imply a high degree of control.

3. Methodology

3.1 Data

To test our hypotheses, a survey questionnaire was created. The survey was conducted between January and to June 2008. Direct interviews were based on a semi-structured questionnaire. Interviews typically lasted from one half hour to one hour. Interviewees included the owners, chief executives and managers responsible for the decisions on the international processes of their firm.

The survey targeted potential respondents belonging to firms located in Marche, an Italian region characterized by a wide range of industrial districts. Firms were identified from lists obtained by industry and entrepreneur associations: Italian Chamber of Commerce, Confindustria (manufacturing and services firms association) and Confapi (SME manufacturers association). 3,110 firms belonging to these lists were contacted (by telephone) asking for an in-person interview and 475 potential respondents declared their availability. Before making an interview appointment, potential respondents were asked to indicate the number of employees as well as their industry and international experience. The sample was consequently reduced to 221 firms on the basis of dimension (SME with at least 6 employees, up to 250), industry (manufacturing sectors), and international markets experience (exporters). Smaller firms (1 to 5 employees) were excluded to select only those firms that have a real possibility of choice in entry mode decisions: an inadequate organizational and

financial capability, that is typical of a smaller firm, could hinder any choice that differs from very low control entry modes.

To test the hypotheses, the sample was further reduced. As the objective of these hypotheses was to analyze the relationship between the factors that can influence the entry mode selection process and the degree of control, it was necessary to exclude those firms that resulted passive in the entry mode decision (a specific question of the questionnaire referred to this). A passive entry mode decision means that a firm doesn't undertake a systematic analysis prior to making a decision regarding the entry mode to be used.

Table 1 summarizes the primary characteristics of the sample. The sample for testing the hypothesis resulted in respondents from 80 firms. Thus, 63.8 percent of the firms did not adopt an active approach to entry mode selection. This result was the first relevant evidence of the study.

Table 1
Salient characteristics of the analysis sample

	Passive and active (N=221)	Active (from H1 to H10) (N=80)
Employment		
Under 10	31	10
10-50	119	42
51-250	71	28
Export weight on turnover		
Below 20 Percent	41	15
20-60 Percent	135	44
61-100 Percent	45	21
Years of international experience		
Under 10	80	27
10-30	119	44
Above 30	22	9

3.2 Research methodology

To test the hypotheses, a logistic regression analysis was used, that is common in studies related to entry mode choice (Agarwal & Ramaswami, 1992; Blomstermo et al., 2006; Erramilli & Rao, 1993; Gatignon & Anderson, 1988; Kim & Hwang, 1992; Kogut & Singh, 1988). Moreover, a logistic regression is the preferred choice when 1) the dependent variable is dichotomous; and 2) there is a combination of continuous or categorical independent variables (Pallant, 2007).

A summary of the independent variables is presented in Table 2. The operationalization of their measures is illustrated in Appendix A. The appendix also lists the dependent variable, Y1 (degree of control), that was assigned a value of 0 for the low control mode and 1 for the high control mode.

Table 2
Summary of the independent variables

Factors	Hypothesized relationship with entry mode
(A)	FIRM-SPECIFIC RESOURCES:
H1	Firm size +
H2	International business experience +
H3	Organizational culture +
(B)	HOST COUNTRY FACTORS:
H4	Cultural distance -
H5	Country risk -
H6	Market attractiveness +
(C)	HOME COUNTRY FACTORS:
H7	Domestic market size +
H8	Domestic competition -
H9	Institutional export support -
(D)	FIRM LOCATION:
H10	Belonging to industrial district -

4. Results and discussion

4.1 Hypotheses

Prior to conducting the logistic regression, we created the correlation matrix of independent variables. This matrix provided no indication of multicollinearity problems (Table 3). Further evidence of the lack of multicollinearity was provided by the variable inflation factors (VIF). Indeed, in this study VIF score was between 1 and 2, that is very small and eliminating the possibility of multicollinearity (Pallant, 2007).

Table 4 provides information about the contribution of each variable. The Wald Test was conducted to indicate the significance of each estimated coefficient, providing tests for the individual hypotheses. A positive coefficient in the regression represents a direct relationship between independent variables and the degree of control in international activities, while a negative coefficient represents an inverse relationship. As illustrated in Table 4, only organizational culture was significant and held the correct sign; domestic market size was statistically significant but held the incorrect sign. No statistical support was found for the other independent variable hypotheses.

Table 3
Correlation matrix

	Variable	VIF	H2	H3	H4	H5	H6	H7	H8	H9	H10
H1	Firm size	1.30									
H2	Intern. Busin. Exper.	1.16	0.25*								
H3	Organizational culture	1.35	0.35**	0.24*							
H4	Cultural distance	1.13	0.03	0.06	0.09						
H5	Country risk	1.23	0.19	0.02	0.12	0.27*					
H6	Market attractiveness	1.23	0.27*	-0.03	0.19	-0.04	0.18				
H7	Dom. Market size	1.39	0.10	-0.07	0.27*	-0.04	0.19	0.31**			
H8	Dom. Competition	1.30	0.04	0.04	0.25*	-0.10	0.01	0.17	0.41**		
H9	Instit. Export support	1.13	0.13	0.17	0.15	0.09	0.18	-0.06	0.05	0.16	

H10	Belonging to district	1.05	0.02	0.04	0.13	-0.06	0.08	0.05	0.06	0.03	-0.07
------------	------------------------------	------	------	------	------	-------	------	------	------	------	-------

*Correlation is significant at the 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

Table 4
Model coefficient

		B	S.E.	Wald	df	Sig.(p)	Exp(B)
H1	Firm size	0.180	0.209	0.742	1	0.389	1.197
H2	Intern. Busin. Exper.	-0.100	0.173	0.335	1	0.563	0.905
H3	Organization culture	0.552	0.208	7.042	1	0.008	1.737
H4	Cultural distance	-0.157	0.206	0.584	1	0.445	0.854
H5	Country risk	-0.023	0.177	0.017	1	0.897	0.977
H6	Market attractiveness	-0.095	0.249	0.144	1	0.704	0.910
H7	Dom. Market Size	-0.420	0.219	3.683	1	0.055	0.657
H8	Dom. Competition	0.044	0.225	0.039	1	0.843	1.045
H9	Instit. Export support	0.313	0.190	2.704	1	0.100	1.367
H10	Belonging to district	-0.322	0.517	0.388	1	0.533	0.725
	Constant	-0.967	1.341	0.520	1	0.471	0.380

A positive-sign influence was identified with the formulation of H1, but without statistical significance. The results imply that a high degree of control is more likely to be chosen when the firm size is bigger, however, this direct relationship was not strong.

We found a negative sign for international business experience (H2) variable, however this influence was not statistically significant. These findings are consistent with other studies (Kogut & Singh, 1988; Nakos & Brouthers, 2002) that found no strong link between international experience and entry mode choice.

Unlike H1 and H2, H3 was strongly supported by our findings (B=0.552; p<0.01). Accordingly, this result confirms our conjecture that firms with a strong organizational culture are more likely to choose a higher mode of entry.

The cultural distance (H4) variable was not statistically significant. This result contrasts with other studies addressing high attention towards cultural distance and its

influence in entry mode choice (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Davidson, 1983; Gomes-Casseres, 1989; Kogut & Singh, 1988; Quer, Claver, & Rienda, 2007).

As for cultural distance, a negative-sign influence was identified also in the formulation of H5 (country risk). However, this influence is not statistically significant. Therefore, the role of country risk was not critical in the entry mode choice for an SME.

Market attractiveness was also not a significant predictor, therefore, H6 was rejected. These findings do not support previous studies (Agarwal & Ramaswami, 1992; Brouthers *et al.*, 1996) that pointed out a relationship between the market characteristics of the host country and the entry mode.

Concerning the Home country factors, only market size was moderately significant ($B=-0.420$, $p<0.1$), however, it had an unexpected negative sign.

Contrary to our conjecture, the results revealed that there is no positive relationship between the domestic market size and entry mode. Thus, H7 was not supported. We also found no support for the domestic competition variable (H8), and for the institutional export promotion variable (H9). In addition to this, they have also a positive sign.

The results did not support the prediction of H10. Therefore, belonging to an industrial district did not have a significant impact on the SME's entry mode choice. One reason for this result can be illustrated in the level of strategic consciousness of those firms adopting an active approach in the entry mode selection process. In this case, the district's influence was reduced and the firms revealed a more autonomous capability to evaluating the critical factors for entry mode decisions.

5. Conclusion and limitation

5.1 Conclusion

In this study, using a sample of SME located in a region of Italy, SME behaviour in the entry mode selection process was tested.

We found that 36.2 percent of the SMEs in our sample adopted an active behavior during EMS. These findings are consistent with those of other studies that found that a majority of SMEs did not approach EMS in a systematic way. This result provides an indication of a persisting lack of capabilities among SMEs that have difficulties in recognizing the increasing importance of a systematic approach for entry mode selection (Musso, 2000; Musso & Risso, 2007).

In the case of active behavior, this study applied the resource-based perspective to determine the primary factors influencing the choice of entry modes. We found that entry decisions were particularly influenced by organizational culture. The positive relationship between organizational culture and entry mode was considered in few previous studies. This result may suggest a deeper analysis regarding the influence of organizational culture within the internationalization strategy.

Concerning firm resources influencing entry mode, international business experience did not exhibit an influence on SMEs, as Nakos and Brothers (2002) also determined in their study.

Surprisingly, our study revealed results that were contrary to the literature. In particular, our findings did not confirm previous studies (Quer, Claver, & Rienda, 2007) asserting that both greater target country risk and greater cultural distance

reduced the likelihood of using entry strategies that implied a large degree of control and resource commitment.

Finally, we found no strong connection between a firm belonging to an industrial district and the level of control. These results permit us to conclude that belonging to an industrial district does not reduce the likelihood of adopting a large degree of control. Apparently, this finding is not so interesting. On the contrary, the decision of a high commitment entry mode is the result of a strategic decision process where more attention to the firm's internal variables and to the foreign markets variables is paid by firms. Accordingly, the district influence seems to be limited to the decisions related to the beginning of foreign market development , to information searching and promotion activities. As the decision process requires an increasing commitment, with higher risks and resources involved, firms become more autonomous and less dependent on the district environment.

5.2 Limitations and suggestions for future research

This study has some limitations that provide directions for future research. Firstly, this study focused on SMEs only located in a single region of Italy. Future studies could test these findings in other regions in Italy and in other countries. A second limitation is that this study did not take into account other potential factors that can influence entry mode, such as company reputation, proprietary technology and the nature of the product. Such a limitation could be overcome by future studies including these variables. Finally, we divided entry mode into two categories: the high control

and the low control mode. We believe that future studies should consider a wider choice of entry modes.

Another relevant issue for future studies may be the analysis of the relationships between IMS and EMS for SMEs. Such an analysis should be carried out in a double perspective. On one hand, it would focus on the sequence of the decision process, that is, if the IMS precedes the entry mode choice or vice versa. On the other hand, reciprocal influences could be analyzed, as many SMEs are required to follow an approach in entry mode decisions that do not depend upon the chosen country.

Appendix A. Operationalization of Dependent and Independent Variables

DEPENDENT VARIABLE	Y1 Degree of control	Take value of 0 for low control mode and 1 for high control mode
INDEPENDENT VARIABLES	X1 Firm size X2 International business experience X3 Organizational culture X4 Cultural distance X5 Country risk X6 Market attractiveness X7 Domestic market size X8 Domestic competition X9 Institutional export promotion	Single-item scale based on responses to the following question: Indicate the degree of influence of this factor on the entry mode selection and consequent degree of control (1= no influence, 5= great influence)
	X10 Belonging to an industrial district	Take value of 0 for extra-district firms and 1 for intra-district firms

References

- Agarwal, S., & Ramaswami, S. (1992). Choice of foreign market entry mode: impact of ownership, location and internalization factors. *Journal of International Business Studies*, 23(1), 1-27.
- Ahokangas, P. (1998). *Internationalisation and Resources. An Analysis of Processes in Nordic SMEs* Ph.D. dissertation, University of Vaasa (Finland).

- Akgüngör, S. (2006). Geographic Concentrations in Turkey's Manufacturing Industry: Identifying Regional Highpoint Clusters *European Planning Studies* 14(2).
- Amin, A. (1999). The Emilian Model: Institutional Challenges. *European Planning Studies*, 7(4), 389-405.
- Amit, R., & Schoemaker, P. J. H. (1993). Strategic asset and organizational rent. *Strategic Management Journal*, 14(1), 33-46.
- Anderson, E., & Gatignon, H. (1986). Modes of Foreign Entry: a Transaction Cost Analysis and Propositions *Journal of International Business Studies*(Fall), 1-26.
- Barney, J. B. (1986). Organizational culture: Can it be a source of sustained competitive advantage. *Academy of Management Review*, 11(July), 656-665.
- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Barney, J. B., Wright, M., & Ketchen, D. J. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management* 27, 625-641.
- Becattini, G. (1992). El distrito industrial marshalliano como concepto socioeconómico. In F. Pyke, G. Becattini & W. Sengenberger (Eds.), *Los distritos industriales y las pequeñas empresas. Distritos industriales y cooperacion interempresarial en Italia* (pp. 61-79). Madrid: Ministerio de Trabajo y Seguridad Social.
- Becattini, G., & Rullani, E. (1993). Sistema locale e mercato globale. *Economia e politica industriale*, 80.
- Belso-Martínez, J. A. (2006). Do industrial districts influence export performance and export intensity? Evidence for Spanish SMEs' internationalization process. *European Planning Studies*, 14(6), 791-810.
- Blomstermo, A., Sharma, D. D., & Sallis, J. (2006). Choice of foreign market entry mode in service firms. *International Marketing Review*, 23(2), 211-229.
- Brouthers, K. D., Brouthers, L. E., & Werner, S. (1996). Dunning's Eclectic Theory and the Smaller Firm: the Impact of Ownership and Locational Advantages on the Choice of Entry-modes in the Computer Software Industry. *International Business Review* 5(4), 377-394.
- Brouthers, K. D., & Hennart, J.-F. (2007). Boundaries of the Firm: Insights From International Entry Mode Research. *Journal of Management*, 33(3), 395-425.
- Brown, J. R., Dev, C. S., & Zhou, Z. (2003). Broadening the foreign market entry mode decision: separating ownership and control. *Journal of International Business Studies*, 34, 473-488.
- Burgel, O., & Murray, G. C. (2000). The International Market Entry Choices of Start-Up Companies in High-Technology Industries. *Journal of International Marketing*, 8(2), 33-62.
- Carpenter, M., Pollock, T. G., & Leary, M. M. (2003). Testing a model of reasoned risk-taking: governance, the experience of principals and agents, and global strategy in high-technology IPO firms. *Strategic Management Journal*, 24, 803-820.
- Cawthorne, P. (1995). Of networks and markets: the rise and rise of a South Indian town, the example of Tiruppur's cotton knitwear industry. *World Development*, 23, 43-56.

- Chan, L. L. M., Shaffer, M. A., & Snape, E. (2004). In search of sustained competitive advantage: the impact of organizational culture, competitive strategy and human resource management practices on firm performance. *International Journal of Human Resource Management*, 15(1), 17-35.
- Chen, H., & Chen, T.-J. (2003). Governance structures in strategic alliances: Transaction cost versus resource-based perspective. *Journal of World Business*, 38, 1-14.
- Chetty, S., & Agndal, H. (2008). Role of Inter-organizational Networks and Interpersonal Networks in an Industrial District. *Regional Studies*, 42(2), 175-187.
- Chetty, S., & Patterson, A. (2002). Developing internationalization capability through industry groups: the experience of a telecommunications joint action group. *Journal of Strategic Marketing*, 10, 69-89
- Christerson, B., & Lever-Tracy, C. (1997). The third China? Emerging industrial districts in rural China. *International Journal of Urban and Regional Research*, 21(4), 569-588.
- Conner, K. R. (1991). A historical comparison of resource-based theory and five schools of thought within industrial organization economics: do we have a new theory of the firm? *Journal of Management*, 17(1), 121-154.
- Crick, D., & Jones, M. V. (2000). Small High-Technology Firms and International High-Technology Markets. *Journal of International Marketing*, 8(2), 63-85.
- Davidson, W. H. (1982). *Global Strategic Management*. New York, NY: John Wiley & Sons.
- Davidson, W. H. (1983). Market Similarity and Market Selection: Implications for International Marketing Strategy. *Journal of Business Research*, 11(4), 439-456.
- De Martino, R., Reid, D. M. H., & Zyglidopoulos, S. C. (2006). Balancing localization and globalization:exploring the impact of firm internationalization on a regional cluster. *Entrepreneurship & Regional Development*, 18(1), 1-24.
- Douglas, S. P., & Craig, C. S. (1995). *Global Marketing Strategy*. New York, NY: McGraw-Hill.
- Driscoll, A. M., & Paliwoda, S. J. (1997). Dimensionalizing International Market Entry Mode Choice. *Journal of Marketing Management*, 13, 57-87.
- Ekeledo, I., & Sivakumar, K. (1998). Foreign market entry mode choice of service firms: a contingency perspective. *Journal of the Academy of Marketing Science*, 26(4), 274-292.
- Ekeledo, I., & Sivakumar, K. (2004). International market entry mode strategies of manufacturing firms and service firms. A resource-based perspective. *International Marketing Review*, 21(1), 68-101.
- Erramilli, M. K. (1991). The experience factor in foreign market entry behaviour of service firms. *Journal of International Business Studies*, 22, 479-501.
- Erramilli, M. K., Agarwal, S., & Dev, C. S. (2002). Choice Between Non-Equity Entry Modes: An Organizational Capability Perspective. *Journal of International Business Studies*, 33(2), 223-242.
- Erramilli, M. K., & Rao, C. P. (1993). Service Firms' International Entry-Mode Choice: A Modified Transaction-Cost Analysis Approach. *Journal of Marketing* 57(3), 19-38.

- Espino-Rodríguez, T. F., & Padrón-Robaina, V. (2006). A review of outsourcing from the resource-based view of the firm. *International Journal of Management Reviews*, 8(1), 49-70.
- Friedman, D. (1988). *The Misunderstood Miracle*. Ithaca, NY: Cornell Univ. Press.
- Gankema, H. G., Snuit, H. R., & Van Dijken, K. A. (1997). The internationalisation process of small and medium sized enterprises: An evaluation of the stage theory. In R. Donckells & A. Mitettinen (Eds.), *Entrepreneurship and SME Research: On its Way to the Next Millenium* (pp. 185-197). Aldershot: Ashgate Publishing.
- Gatignon, H., & Anderson, E. (1988). The multinational corporation's degree of control over foreign subsidiaries: an empirical test of a transaction cost explanation. *Journal of Law, Economics and Organization*, 4(Fall), 305-336.
- Giner, J. M., & Santa-Maria, M. J. (2002). Territorial systems of small firms in Spain: an analysis of productive and organizational characteristics in industrial districts. *Entrepreneurship & Regional Development*, 14, 211-228.
- Gomes-Casseres, B. (1989). Ownership structures of foreign subsidiaries: theory and evidence. *Journal of Economic Behavior and Organization*, 11, 1-25.
- Goodnow, J. J., & Hansz, J. E. (1972). Environmental Determinants of Overseas Market Entry Strategies. *Journal of International Business Studies*(Spring), 33-50.
- Grant, R. M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation. *California Management Review*, 33, 114-135.
- Greenhalgh, S. (1984). networks and their nodes: urban society on Taiwan. *The China Quarterly*, 99(September).
- Hamilton, G. (1991). *Business networks and economic development in east and southeast Asia*. Hong Kong: Centre for Asian Studies, University of Hong Kong.
- Herrigel, G. (1996). *Industrial Constructions: The Sources of German Industrial Power*. Cambridge: Cambridge Univ. Press.
- Herrmann, P., & Datta, D. K. (2006). CEO Experiences: Effects on the Choice of FDI Entry Mode. *Journal of Management Studies*, 43(4), 755-778.
- Hill, C. W. L., Hwang, P., & Kim, W. C. (1990). An Eclectic Theory Of The Choice Of International Entry Mode. *Strategic Management Journal*, 11, 117-128.
- Jones, M. V. (1999). The Internationalization of Small High-Technology Firms. *Journal of International Marketing*, 7(4), 15-41.
- Kim, W. C., & Hwang, P. (1992). Global Strategy and Multinationals' Entry Mode Choice. *Journal of International Business Studies*, 23(1), 29-53.
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.
- Kristensen, P. H. (1992). Industrial district in West Jutland. In F. Pyke & W. Sengenberger (Eds.), *Industrial Districts and Local Regeneration*. *International Institute for Labor Studies* (pp. 111-234). Geneva.
- Kumar, V. (2000). *International Marketing Research*. New Jersey, USA Prentice Hall.

- Kwon, Y.-C., & Konopa, L. J. (1993). Impact of Host Country Market Characteristics on the Choice of Foreign Market Entry Mode *International Marketing Review*, 10(3), 60-76.
- Madhok, A. (1997). Cost, value and foreign market entry mode: The transaction and the firm. *Strategic Management Journal*, 18, 39-61.
- McDougall, P. P., & Oviatt, B. (1996). New venture internationalization, strategic change, and performance: a follow up study. *Journal of Business Venturing*, 11, 23-40.
- Mencarini, A. (2003). *The decision-making process of international market and entry mode selection: a research study of SMEs in the industrial districts of The Marches in Italy*. Ph.D. dissertation, University of Strathclyde (Scotland).
- Miller, D., & Shamise, J. (1996). The resource-based view of the firm in two environment: The Hollivood firm studios from 1936 to 1965. *Academy of Management Journal*, 59, 519-543.
- Molina-Morales, F. X. (2001). European industrial districts: Influence of geographic concentration on performance of the firm. *Journal of International Management*, 7, 277-294.
- Molina-Morales, F. X. (2002). Industrial districts and innovation: the case of the Spanish ceramic tiles industry. *Entrepreneurship & Regional Development*, 14, 317 - 335.
- Musso, F. (2000). *Economie distrettuali e canali di distribuzione all'estero*. Genova: INS-EDIT.
- Nakos, G., & Brouthers, K. D. (2002). Entry Mode Choice of SMEs in Central and Eastern Europe. *Entrepreneurship Theory and Practice*, Fall, 47-63.
- Nummela, N., Loane, S., & Bell, J. (2006). Change in SME internationalisation: an Irish perspective. *Journal of Small Business and Enterprise Development*, 13(4), 562-583.
- O'Farrell, P. N., Wood, P. A., & Zheng, J. (1998). Regional influences on foreign market development by business service companies: elements of a strategic context explanation. *Regional Studies*, 32, 31-48.
- Osborne, K. (1996). The channel integration decision for small- to medium-sized manufacturing exporters. *International Small Business Journal*, 14, 40-49.
- Pallant, J. (2007). *SPSS. Survival manual*. New York: McGraw-Hill.
- Pan, Y., & Tse, D. K. (2000). The Hierarchical Model of Market Entry Modes. *Journal of International Business Studies*, 31(4), 535-554.
- Pepe, C., & Musso, F. (2003). The international opening of small district firms. flexibility vs. consolidation in channel relations, in Proceedings of the Conference on, *Clusters, Industrial Districts and Firms: the Challenge of Globalization*. Modena, 12-13 September
- Porter, M. E. (1998). Clusters and the new economic competition. *Harvard Business Review*, 76(6), 77-90.
- Quer, D., Claver, E., & Andreu, R. (2007). Foreign market entry mode in the hotel industry: The impact of country- and firm-specific factors. *International Business Review*, 16, 362-376.
- Quer, D., Claver, E., & Rienda, L. (2007). The impact of country risk and cultural distance on entry mode choice. An integrated approach. *Cross Cultural Management: An International Journal*, 14(1), 74-87.

- Rodríguez, A. R. (2002). Determining factors in entry choice for international expansion. The case of the Spanish hotel industry. *Tourism Management*, 23, 597-607.
- Root, F. R. (1998). *Entry Strategies for International Markets. Revised and Expanded*. San Francisco: John Wiley & Sons.
- Roth, K. (1995). Managing international interdependence: CEO characteristics in a resource-based framework. *The Academy of Management Journal*, 38(1), 200-231.
- Ruzzier, M., Antoncic, B., & Konecnik, M. (2006). The Resource-based Approach to the Internationalisation of SMEs: Differences in Resource Bundles between Internationalised and Non-Internationalised Companies. *Zagreb International Review of Economics & Business*, 9(2), 95-116.
- Saxenian, A. (1994). *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Cambridge, MA: Harvard Univ. Press.
- Sun, M., & Tse, E. (2009). The Resource-Based View of Competitive Advantage in Two-Sided Markets. *Journal of Management Studies*, 46(1), 45-64.
- Tan, B., Erramilli, K., & Liang, T. W. (2001). The influence of dissemination risks, strategic control and global management skills on firms' modal decision in host countries. *International Business Review*, 10, 323-340.
- Terpstra, V., & Sarathy, R. (1994). *International Marketing*. Fort Worth, TX: Dryden Press.
- Vasconcellos, J. A., & Hambrick, D. H. (1989). Key success factors: test of a general theory in the mature industrial-product sector. *Strategic Management Journal*, 10, 367-382.
- Wernerfelt, B. (1984). A resource-based theory of the firm. *Strategic Management Journal*, 5(2), 171-180.
- Wernerfelt, B. (1997). A resource-based view of the firm. In J. Foss Nicolai (Ed.), *Resources, firms and strategies: A reader in the resource-based perspective* (pp. 117-130). Oxford: Oxford University Press.
- Wright, M., Westhead, P., & Ucbasaran, D. (2007). Internationalization of Small and Medium-sized Enterprises (SMEs) and International Entrepreneurship: A Critique and Policy Implications. *Regional Studies*, 41(7), 1013-1029.
- Young, S., Hamill, J., Wheeler, C., & Davies, J. R. (1989). *International Market Entry and Development. Strategies and Management*. Englewood Cliffs, New Jersey: Prentice Hall.
- Zander, I., & Zander, U. (2005). The Inside Track: On the Important (But Neglected) Role of Customers in the Resource-Based View of Strategy and Firm Growth. *Journal of Management Studies*, 42(8), 1519-1548.

Fabio Musso. Is an associate professor of International Business at the Faculty of Economics, University of Urbino "Carlo Bo". His research and teaching interests focus on the internationalisation of SMEs, international marketing and retailing.

Barbara Francioni. Is a PhD student and assistant professor of International Business at the Faculty of Economics, University of Urbino "Carlo Bo". Her research and teaching interests focus on the internationalisation of SMEs and international marketing.