INDIRECT INTERNATIONALIZATION OF SMALL FIRMS: A DEVELOPMENT AND TEST OF TWO THEORIES

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ABSTRACT

This paper develops resource dependency and institutional theory arguments for explaining SME involvement in direct and indirect (via intermediaries) export activity. Based on resource dependency theory, we argue that a desire to leverage resources in a favorable home market may explain SME direct and indirect export activity. Building on institutional theory, we argue that SMEs operating in an organization field that is perceived as becoming more international will be more likely to export, either directly or indirectly. The theory arguments are tested using a sample of 871 Dutch SMEs. Results from binomial and multinomial logit regressions indicate the following: firms in the production industry are most likely to use export intermediaries, as are firm that face favorable home-country access to investors and banks and favorable home-country government regulations for businesses. In line with institutional theory arguments, firms are most likely to export, directly or indirectly, when the organization field is characterized by domestic competitors and customers who increasingly operate abroad and by an increased use of foreign suppliers. Compared to the direct mode, firms pursuing indirect modes are more likely to perceive favorable national finance market access and less likely to perceive favorable national production costs.

INTRODUCTION

In comparison to large multinational firms, small and medium sized enterprises (SMEs) are typically regarded as resource-constrained, lacking the market power, knowledge and resources to operate viably in international markets (Fujita, 1995; Coviello & McAuley, 1999; Knight, 2000; Hollenstein, 2005). Despite liabilities of newness, small size, and foreignness, an increasing number of SMEs pursue international markets for their goods and services (Reynolds, 1997; Rugman and Wright, 1999; OECD, 2000; Knight et al. 2004). For new and small firms in particular, the transaction costs of doing business abroad (e.g. costs associated with delivering goods or services to international customers) are particularly cumbersome (Zacharakis, 1998), however these costs have been reduced due to technological advances in telecommunication, information technologies, and transportation (Reynolds, 1997; OECD, 2000). Despite the growing body of research on new and small firms' internationalization (Rialp et al. 2005), extant research is largely confined to direct (e.g. exporting) means to internationalization (Bloodgood, Sapienza & Almeida, 1996; McDougall & Oviatt, 1996). Research on small and new firm export activity pursues the role of owner and firm-specific factors such as learning (Sapienza, DeClercq & Sandberg, 2005), social capital (Yli-Renko, Autio, & Tontti, 2002) and ownership (George, Wiklund & Zahra, 2005), ignoring the role of external factors.

An emerging strand of research explores how small and new firms pursue an indirect path to internationalization (e.g. Acs, Morck, Shaver & Yeung, 1997; Peng & York, 2001; Terjesen, Acs & O'Gorman, 2006), using local and foreign intermediaries to sell their goods and services across national borders. Most intermediated internationalization studies are of an exploratory nature and based on cases in a variety of country environments. Examples of indirect forms include the use of local and foreign export intermediaries (Peng, 2005; Bello & Lohtia, 1995) and subsidiaries of multinational firms (Acs, Morck, Shaver, & Yeung, 1997; Terjesen *et al.*, 2006). An example of local firm intermediation is Dublin-based Cylon building control systems which distributed products to a local subsidiary of ABB which then sold the product around the world. A case of a foreign firm intermediary role is Delhi-based software firm Softcell who sold to the European headquarters of a Fortune 100 energy company which then distributed the product globally across the firm. In some countries, export intermediaries handle about half of total exports, for example in Japan and Korea (Peng & Illinitch, 1998).

In this paper, we examine the role of external factors in direct and indirect export mode choice, building on two complementary frameworks: resource dependency theory and institutional theory. Based on resource dependency theory we argue that factors relating to the economic environment in the home market may be relevant in explaining SME direct and indirect export activity. Building on institutional theory, we argue that when SMEs operate in an organization field that is perceived as becoming more international, they will be more likely to export, either directly or indirectly. We test our resouce dependency and institutional theory arguments using multinomial and binomial regression analyses for a sample of SMEs located in the Netherlands.

The paper is structured as follows. We begin with a brief overview of the literature on direct and indirect export modes. Next, we present and develop resource dependency and institutional theory and put forward five hypotheses predicting SME involvement in direct and indirect export activity. Subsequently, we describe the data and methodology for our hypotheses tests and we present results for the multinomial and binomial regression analyses. We conclude with a discussion and implications for theory, practice, policy, and future research.

THEORETICAL BACKGROUND

Direct and indirect export modes

SMEs may pursue a variety of foreign market entry modes which vary significantly with respect to benefits and costs (Sharma & Erramilli, 2004). In the case of exporting, firms face two channel options: (1) export directly to customers abroad or (2) export indirectly with the help of an intermediary (Peng & York, 2001). As the direct mode is the most common mode of SME internationalization and well-addressed in the extant literature, we focus on intermediate means to internationalize.

Indirect paths to internationalization are those "whereby small firms are involved in exporting, sourcing or distribution agreements with intermediary companies who manage, on their behalf, the transaction, sale or service with overseas companies" (Fletcher, 2004). Intermediaries include agents and distributors located either at home or abroad (Peng & York, 2001) or the local subsidiaries of MNEs. Why would SMEs consider indirect means to internationalization through MNEs? MNEs have traditionally been able to minimize costs through mass production and to attain economies of scale through international production and location (Dunning, 1988). SMEs form strategic linkages with large foreign firms to limit liabilities of newness, foreignness and small size and enable access to markets, technology, and reputation (Kuemmerle 2002). However in these arrangements, SMEs face several disadvantages, including a lack of full awareness of the market, access to the flow of ideas and extraordinary rent appropriation. Export intermediaries play an important "middleman" role in international trade, "linking individuals and organizations that would otherwise not have been connected" (Peng and York, 2001, 328), especially

those in other countries. Such indirect matching may be required for transactions to take place or to be successful (Trabold, 2002). Export intermediaries often help their clients to to identify customers and financing and credit sources and can provide infrastructure for distribution (Balabanis, 2000). Intermediaries often help firms in overcoming knowledge gaps and can reduce uncertainties and risks associated with operating in foreign markets. Firms may hire export intermediaries because they may perform certain functions related to exporting better or at lower costs than the firm itself could, e.g. because they possess country-specific knowledge that the firm lacks (Li, 2004). In distant, unfamiliar markets, export-related search costs (e.g. marketing research) and negotiation costs can be very high. For this reason Peng and Ilinitch (1998) argue that manufacturers may be more likely to use intermediaries when entering these kind of markets. Export intermediaries can also help firms to save costs associated with searching new customers and monitoring the enforcement of contracts (Peng & York, 2001). However, intermediaries also add costs to exporting, in particular transaction costs and rent extraction (Acs & Terjesen, 2006). Furthermore, when the export transaction takes place through an intermediary, there is a loss of control for the firm that has hired the intermediary (Blomstermo & Sharma, 2006). In sum, using an intermediary is associated with benefits as well as costs. SMEs may use intermediaries to locate customers in foreign markets, to negotiate contracts with foreign customers or to access the intermediaries' contacts, experience and knowledge of foreign markets (Terjesen *et al.*, 2006). However, little is known about SMEs' decision to and subsequent participation in indirect export activities.

Extant SME export research centers on firm-specific and owner-specific variables to explain export involvement of SMEs, including product uniqueness (Cavusgil & Nevin, 1981), firm R&D activities (Lefebvre & Lefebvre, 2002), age of the entrepreneur (Westhead, 1995) and top management team (TMT) experience in doing business abroad (Eriksson, Johanson, Majkgård & Sharma, 1997). A more limited body of research pursues the role of external factors such as government support for internationalization (Wilkinson, 2006), environmental turbulence (Westhead, Wright, & Ucbasaran, 2004), and the characteristics of foreign markets (e.g. the level of competition abroad) (Thirkell & Dau, 1998) and domestic markets (e.g. production costs in the home market) (Axinn, 1988). This paper explores the role of external factors in explaining export behavior, building on two complementary frameworks: resource dependency theory and institutional theory.

HYPOTHESIS DEVELOPMENT

Resource dependency theory and institutional theory are both concerned with the relationship between an organization and environmental actors. Both theories assume organizational choice is constrained by multiple external pressures, and that organizations are concerned about building legitimacy and acceptance vis-à-vis external stakeholders (Oliver, 1991). The two theories have greater predictive power when used together (Sherer & Lee, 2002).

Resource dependency theory

Resource dependency theory assumes that the organization makes active choices to achieve objectives (Oliver, 1991). Organizational survival depends on the firm's ability to acquire and retain resources from other actors in the immediate "task environment." The focal organization will reduce reliance on those actors, or increase its level of influence over them, through such actions as alliances or joint ventures. For example, as customers increasingly seek globally-coordinated sourcing (Kotabe, 1992), firms respond by creating alliances to strengthen relationships with key customers (Pfeffer & Salancik, 1978) and suppliers, including following these customers overseas. For example, many of Toyota's Japan-based parts suppliers set up operations proximate to Toyota's automobile manufacturing facility in Kentucky. Resource dependency theory can also be interpreted to explain how firms might pursue direct or indirect modes of internationalization to reduce exposure to a home market which may be undesirable due to high market saturation, production or other costs, and instead focus on other, more attractive national markets.

Resource dependency theory is also concerned with a firm's ability to provide capacity and resources needed for exporting and with how resources are accessed (Tesfom, Lutz & Ghauri, 2004). Therefore, this theory may also be used to explain how a firm's exposure to a desirable home market may help the firm to accumulate resources that are useful or even necessary for internationalization. A large body of empirical research investigates how a SME's current resource base impacts export activity (e.g. Cavusgil & Nevin, 1981; Akoorie & Enderwick, 1992; Westhead, 1995; Keeble, Lawson, Smith, Autio, Sapienza & Almeida, 2000). However, much less is known about how resource availability in the home market is related to firm export behavior. Building on resource dependency theory, we expect that SMEs' ability to provide the necessary export capacity may depend on the favorability of the home market in which they operate.

Based on Porter (1990, 1998) we argue that a set of strong *related and supporting industries* at home (the presence of customers and suppliers) may positively affect competitive advantage of home-based firms and therefore domestic SMEs export behavior. The same argument applies to *factor conditions* in the home market such as availability of capital, knowledge, technology, resources, the level of production costs, and the legal system (e.g. property rights, quality of government regulation for business). For example, when resources such as finance, technology, and raw materials are widely available and easily accessible in the home market this may provide domestic firms, including SMEs, with the possibility to acquire the resources and capabilities needed in order to be able to compete on foreign markets. Also, when production costs, are perceived to be favorable in the home market, SMEs may be better able to develop international competitive (priced) products or services. Furthermore, firms operating in a favorable home market in which intellectual property rights are properly protected may have an adequate context for developing such international competitive products or services.

Hypothesis 1: SME involvement in indirect and direct export is positively related to favorability of the home market in terms of factor conditions and the presence of related and supporting industries.

Furthermore, the desirability of the home market may also impact the choice between direct and indirect export. For example, when home market factor conditions, such as availability of resources, cost factors, protection of intellectual property rights, and government regulation for business and the presence of related and supporting industries are perceived to be favorable, domestic SMEs, may be better able to develop their products and competences, which may increase their competitive advantages, also vis-à-vis foreign firms, and also their export possibilities. This may enable domestic SMEs to take more risk in entering foreign markets and subsequently firms may be more likely to opt for the direct mode, rather than the indirect mode. Based on the above, we suspect:

Hypothesis 2: SMEs are less likely to export indirectly (as compared to direct export) when they perceive the home market favorably in terms of factor conditions and the presence of related and supporting industries.

Institutional theory

According to institutional theory, organizations operate within a social framework of norms, values, and assumptions about what constitutes appropriate behavior (Oliver, 1997; Scott, 1995). Decisions are made not so much according to technical or economic criteria, but on the basis of what is acceptable and legitimate within a particular environment, or "organization field" which typically moves towards common structures and processes due to coercive, imitative, and normative expectations (DiMaggio & Powell, 1983). Institutional contexts "prescribe and proscribe organizational alternatives" (Hinings and Greenwood, 1988). Traditionally, institutional researchers explored external institutions such as rules, regulatory structures and agencies. Institutional theory now extends to a field composed of other firms in the same industry or unit within the same business. Institutional theory suggests that to the extent the entrepreneurial firm sees itself as part of a global (rather than local) organization field, it will

progressively adopt the behaviors and processes that provide legitimacy within that field. Thus, firms may follow home-country direct/substitute competitors, foreign-country direct/substitute competitors and external financial stakeholders (banks, venture capitalists) overseas, and this gradual process may include indirect paths.

Hypothesis 3: When the organization field in which a firm operates is perceived to be increasingly global this increases the likelihood for SME involvement in indirect and direct export.

Given the logic developed so far, we see SMEs facing competing isomorphic pulls from the local and the global organization fields. Historically, the firm is identified with other actors in its local economy. Increasingly, as financial markets, competitors, and customers become more global in scope, the firm may be considered a member of a global organization field. The implication, of course, is that the greater the pull from the global organization field, the more likely that the firm will export overseas. Note, however, that the story differs in two important respects from the resource dependency argument. First, institutional theory does not predict that firm will move *closer* to its competitors or customers. If for example, there were a number of global competitors in the firm's industry, the firm could signal its intention of being one of the global players (rather than a regional or local player) simply by moving activities such as sales overseas. Second, institutional theory argues that actions leading to isomorphism are not necessarily efficient. Thus, while we may see the firm moving undertaking some activities to be seen as a global player, the implications of this action for its operational performance may actually be negative.

In this paper we investigate the extent to which a firm sees itself as operating in a global field or local field impacts its involvement in direct and indirect export activities. First, we expect that operating in an increasingly global field may positively affect SME involvement in indirect and direct export. Second, the orientation of the organization field may potentially also affect the choice between the direct and the indirect mode. When a firm operates in an increasingly global organization field, it may be easier for the firm to get information on foreign markets or to locate customers abroad. Consequently, the necessity of using intermediaries may be reduced and the odds for using the direct mode may increase. Thus we expect:

Hypothesis 4: SMEs are less likely to opt for the indirect export (as compared to direct export) when they perceive the organization field in which they operate as increasingly global.

In hypotheses 1 and 2 we argued, based on resource dependency theory, that favorability of the home market in terms of factor conditions and the presence of related and supporting industries may impact SME involvement in direct and indirect export modes. However, from a conceptual point of view it could also be argued that a favorable home market may impact the internationalization of actors surrounding the SME. For example, if access to know-how, technology, capital, etc. is favorable at home this could stimulate the SME's direct competitors or customers to seek expansion abroad. Therefore, we expect that there is a relationship between the internationalization of the organization field in which a SME is active and the desirability of the home market, and hence that desirability of the home market may indirectly affect SME export involvement through the organization field.

Hypothesis 5: SME involvement in indirect and direct export is *indirectly* related to favorability of the home market (in terms of factor conditions and the presence of related and supporting industries) through the effect of the organization field in which SMEs operate.

DATA AND METHODOLOGY

Data

Our study is based on data collected from 871 Dutch SMEs. The Netherlands is a particularly interesting country to investigate internationalization due to the nature of the small, open economy. Taken as a whole, the Dutch business sector is among the world's largest exporters, importers and foreign direct investors. However, international activities are very unevenly distributed between large and small firms. Even within small countries many SMEs do not internationalize their activities (Autio, Sapienza & Almeida, 2000; Eriksson, Johanson, Majkgård & Sharma, 1997). For example, Dutch SMEs, as compared to SMEs based in other European countries, are average/slightly above average with respect to the share of enterprises that export, import or invest abroad (Hessels, 2005). A random sample of 1665 Dutch SMEs was invited to participate in the internet survey, generating a 52% response rate. We now briefly describe some sample characteristics before presenting our empirical models, measures and results.

Sample Characteristics

Of the Dutch SMEs in our sample, 9% are involved in indirect export activities and 22% are engaged in direct export activities. SMEs with larger numbers of employees are more often involved in indirect exports as compared to smaller firms (the proportion of SMEs involved in indirect exports is 5% for firms with up to 9 employees; 12% for firms with 10-49 employees and 21% for firms with 50-250 employees). There is no significant difference in participation in indirect export for young and old firms. Of the young firms, defined here as firms 8 years or younger (McDougall, 1989), 8% indicate exporting with the help of an intermediary, whereas among more established firms, the proportion with indirect exports is 10%.

In our sample of Dutch SMEs it is more common to use foreign intermediaries (81%) than to use domestic intermediaries (42%). One explanation for this may be that foreign intermediaries are more likely to have specific knowledge about foreign markets, culture and institutions as compared to domestic intermediaries. Note that some SMEs use both an intermediary abroad and at home: 26% of SMEs that export use both a domestic and a foreign intermediary, and 16% indicate *only* a domestic intermediary, and 55% *only* a foreign intermediary. Regarding the type of intermediary the use of agents abroad is most common, closely followed by wholesalers/distributors/dealers/resellers abroad. Indirect export through an office of a multinational either at home or abroad is least common (see Table 1).

Insert table 1 about here

Table 2 reports the most important reasons for using an intermediary when exporting. The most frequently cited reason for using an intermediary is simply to find customers in foreign markets. Other frequently mentioned reasons relate to diminishing risk and uncertainty of operating overseas and to a lack of foreign market knowledge.

Insert table 2 about here

Empirical analysis

In order to test our hypotheses we conduct multinomial and binomial regression analysis. Our empirical analysis consists of two steps. First we use multinomial logit models to investigate how SMEs' indirect and direct export behavior is related to resource dependency (based on the firm's current resource base and perceived favorability of the home market) and institutional theory (measured by the internationalization of the firm's organization field) arguments (Hypothesis 1 to 4). Secondly, in order to test for indirect effects of variables representing favorability of the home market on SME export through the organization field (Hypothesis 5), we take separate binary logit models with different categories of the organization field as dependent variables. The unit of analysis is the individual firm. For the purpose of our regression analysis "don't know" and missing values are excluded. This leads to a final sample of 402 valid observations for our regression models.

Measures

Export involvement: a categorical variable based on the following three response levels: no export activities (0), indirect exports[1] (1) and direct exports[2] (2).

Favorability of the home market: Perception of favorability of the home environment in terms of factor conditions and the presence of related and supporting industries (Porter, 1990, 1998) is assessed by asking respondents whether they perceive the business environment in the Netherlands favorable or unfavorable for their organization concerning: presence of relevant customers, presence of relevant suppliers, presence of relevant resources and raw materials, access to investors and banks, access to knowledge and technology, costs of producing their goods or services, protection of intellectual property rights and quality of government regulation with respect to business. For each of the category, a variable is constructed ranging from unfavorable (0), and 'nor favorable, nor unfavorable' (1) to favorable (2).

Internationalization of the organization field: In order to assess whether firms are operating in an organization field that is increasingly global or not a number of variables are constructed based on the respondents' assessments of the following question: "To what extent are the following statements applicable to your organization? Our competitors in the Netherlands operate to an increasing extent on foreign markets, Our customers in the Netherlands operate to an increasing extent on foreign markets, Our suppliers in the Netherlands operate to an increasing extent on foreign markets, Our organization/subsidiary increasingly has to deal with foreign competition in the Dutch market, Our organization / subsidiary makes to an increasing extent use of suppliers from abroad." For each of the statements a variable was constructed including "not applicable" (0) and "to some extent applicable" and "to a large extent applicable" taken together (1).

Control variables: Industry dummies are constructed for production industries (manufacturing and construction), trade, business services and other industries (including financial services, other services, transportation and lodging). In the regression estimation "other industries" is the reference group. Various empirical studies report a positive association between firm size and export behavior (Chetty & Hamilton, 1993; Westhead, 1995; Lefebvre & Lefebvre, 2002). Research also suggests that firm age may be a relevant factor in explaining internationalization behavior, therefore we include controls for firm size (number of employees) and firm age (in years). We also control for a firm's resource base. Previous empirical research no indicates that decision-makers of exporting firms tend to have higher levels of education than do the decision-makers of non-exporting firms (Simpson and Kujawa, 1974). Therefore, we include the business owner's level of education, classified as low (0), medium (1) and high (2). TMT foreign experience is captured as no (0), hardly (1), some (2) and much (3). Presence of foreign investors is captured as no (0) and yes (1).

Table 3 provides some descriptives for our main variables.

Insert table 3 about here

RESULTS

Logit Analyses

As part of the multinomial logit analysis[3], we investigate how our independent variables impact the odds of being involved in indirect and direct export as compared to not exporting and therefore we take "no

[1] In some cases firms are involved in both direct and indirect export. Since we are specifically interested in why firms make use of intermediaries, we include these firms in the category of firms with indirect exports.

[2] Direct exports may include exports through a firm-owned foreign (sales) office abroad.

[3] A key assumption of multinomial logit is the Independence of Irrelevant Alternatives (IIA). Hausman tests indicate that the assumption of IIA is not violated.

export" as the reference category (hypotheses 1 and 3). Secondly, "direct export" is used as a base category, in order to investigate whether odds of being involved in indirect export relative to direct export differ for our explanatory variables (hypotheses 2, 4).

Export versus no export

Table 4 presents the estimation results of the multinomial logit models. The coefficients indicate the effect of a corresponding variable on the odds (ratio of two probabilities) of indirect export and direct export relative to the base category (i.e. "no export"). The coefficients presented in Table 4 should be interpreted as follows. When the coefficient for a specific variable is above unity this implies that the corresponding variable increases the odds of belonging to the category in question relative to the "no export" group. A coefficient below unity implies that the variable decreases the odds of belonging to the category in question relative to "no export". The first two columns of Table 4 presents the odds of belonging to the category "indirect export" and "direct export" relative to "no export."

Insert table 4 about here

For all industry dummies we find that (in comparison to the reference category "other industries") increased propensity for direct exports, relative to not having export activities, whereas this is only true for production industries in the case of indirect exports. We find that firm age decreases the odds of being involved in direct exports relative to no export. This indicates that younger firms are more likely to be involved in direct export than not to have export activities.

Regarding the firm's resource base, our results indicate that the odds of being involved in exports (either indirect or direct) relative to no export, are increased with top management team experience living and working abroad.

With respect to perception of favorability of the home market, we find the following. The more favorable the perception is of home market access to investors and banks and of government regulation, the higher the odds of being involved in indirect exports as compared to no exporting activity. Regarding perceived favorability of the home market we only find a significant impact of favorability of production costs on direct export activity. In sum, we find only little support for hypothesis 1.

Regarding the extent to which firms see themselves as being part of a global organization field, the following picture emerges. The odds of exports (indirect or direct) relative to no export are increased with the perception that competitors and customers increasingly operate abroad. Further, firms indicating an increasinged use of foreign suppliers are more likely to be involved in indirect as well as direct exports. Thus, we find some support for hypothesis 3 suggesting that a more global organization field may positively impact SME involvement in direct and indirect export.

Indirect export versus direct export

The last two columns of Table 4 display results with direct export as a reference category. The results reveal that the odds of being involved in indirect export relative to direct export increase with the perception of favorability of access to domestic investors and banks. On the other hand, the odds of being involved in indirect export relative to direct export decrease when production costs are regarded as less favorable in the home market. While an increasingly global organization field affects involvement in both indirect export, we do not find support that it affects the choice between the direct and the indirect mode. These results provide partial support for hypothesis 2 and no support for hypothesis 4.

Indirect effects of perceived favorability of the home market on SME export behavior

In order to test for indirect effects of variables representing favorability of the home market on SME export through the organization field (hypothesis 5), we use separate binary logit models with several

categories of the internationalization of the organization field as dependent variables (see Table 5). There is an indirect effect when a variable has a significant influence in Table 5 and the corresponding dependent variable also has a significant influence on SME export in Table 4. Favorability of the presence of relevant suppliers is negatively related to having domestic competitors that increasingly operate abroad and positively related to having domestic suppliers that increasingly operate abroad. Next, favorable access to investors and banks is positively related to having competitors and suppliers at home that increasingly operate in foreign markets and also to facing increased foreign competition in domestic markets. We also find that favorability of access to knowledge and technology is positively related to having customers at home that increasingly operate abroad and to having foreign competitors that increasingly operate in the home market. Also favorable production costs are negatively related to having competitors and customers at home that increasingly operate abroad and also to the increased use of foreign suppliers. Finally, favorable government regulations is positively related to having domestic customers that increasingly operate abroad.

Based on these outcomes it is possible to identify indirect effects of perceived favorability of several home market characteristics on SME direct and indirect export activity. When SMEs perceive their home market as favorable in terms of presence of relevant suppliers, they are likely to operate in an organization field in which domestic competitors do not operate increasingly abroad. Thus, possibly because relevant suppliers are available in the home markets, domestic competitors may not be stimulated to (increasingly) internationalize. As shown in table 4, the presence of domestic competitors that increasingly operate abroad is positively related to SME involvement in direct and indirect export. Then, this also means that favorability of presence of relevant domestic suppliers also indirectly negatively affects SME involvement in direct and indirect exports through the variable for domestic competitors that increasingly operate abroad.

When SMEs perceive favorable access to investors and banks in the home market, they are likely to operate in an organization field in which domestic competitors increasingly operate abroad. Possibly domestic competitors are better prepared to internationalize when they have better access to banks and investors at home. As revealed in Table 4, when domestic competitors increasingly operate abroad, this is positively related to SME export involvement. Favorable access to domestic investors/banks also indirectly positively affects SME export involvement through domestic competitors increasingly operating abroad.

When SMEs perceive favorable home market access to know-how and technology, they are likely to operate in an organization field in which their domestic customers increasingly operate abroad. This may indicate that domestic customers are able to internationalize because of the favorable access that they have in the home market to know-how and technology. SMEs operating in an organization field characterized by customers with growing foreign market presence are more likely to be involved in exports. Thus, favorability of access to know-how and technology at home also has an indirect positive impact on SME exports through customers that increasingly operate abroad.

When production costs in the home market are perceived as favorable, SMEs are less likely to operate in an organization field in which their domestic market competitors and customers increasingly operate abroad and they are less likely to make increased use of foreign suppliers. Table 4 reveals that when SMEs operate in organization fields in which their competitors and customers increasingly operate abroad and when they make increased use of foreign suppliers, they are also more likely to export themselves. In this sense favorability of production costs in the home market has an indirect negative impact on SME export involvement through domestic competitors and customers that increasingly operate abroad and through increased use of foreign suppliers.

Finally, when SMEs perceive quality of government regulations for businesses as favorable at home, they are likely to operate in an organization field in which domestic customers increasingly operate abroad. As shown in Table 4, when SMEs operate in an organization field in which domestic customers increasingly operate abroad they are also likely to export themselves. Thus, favorability of quality of government regulations in the home market also has an indirect positive impact on SME export activity through domestic customers that increasingly operate abroad. To summarize, our results provide some support for hypothesis 5, since we find some evidence that SME involvement in indirect and direct export is *indirectly* related to desirability of the home market through the effect of the organization field in which the SME operates.

Insert table 5 about here

DISCUSSION & CONCLUSION

This paper focuses on SME participation in indirect and direct exports. Resource dependency and institutional theory-based arguments for export involvement are tested using a sample of SMEs from the Netherlands. The data provide insight into SME participation in indirect modes and motives for using intermediaries. As is the case with other modes of internationalization, participation in the indirect export mode increases with firm size. Firm age does not appear to be a discriminating factor for involvement in indirect exports. Furthermore, Dutch SMEs are more likely to use foreign, rather than domestic, intermediaries. Some firms use both domestic and foreign intermediaries. Important motives for using intermediaries when exporting, as indicated by business owners, are to find customers abroad, to dinimish risk and uncertainty and lack of foreign market knowledge.

Our theory arguments are tested using multinomial and binomial logit regressions. One of the main results of the analysis is that when firms operate in an organization field that is increasingly regarded as international, they are more likely to be involved in export activities. This is true for direct as well as indirect modes. As national economies grow more interconnected, organizational fields will be increasingly perceived as global. Therefore SME involvement in international markets is likely to expand. In particular when a firm operates in a field in which competitors and customers become increasingly global in scope, the firm is likely to export. This finding may indicate that SMEs follow domestic customers and competitors in operating abroad. Regarding suppliers, two things can be noted based on the analysis. First, when domestic suppliers increasingly operate abroad our results indicate that this does not impact the likelihood of indigenous firms to engage in exporting. Thus, domestic SMEs do not seem to follow domestic suppliers in going abroad. There is some empirical support that foreign purchasing may stimulate enterprises to export (Korhonen, Luostarinen and Welch, 1996). The present study indicates that firms that increasingly use foreign suppliers are more likely to export, either directly or through intermediaries. As a result of globalization SMEs increasingly have to deal with foreign competition in the home market (Etemad, 2004). Such increased competition may potentially stimulate firms to look beyond domestic markets and to have an international focus (Etemad, 2005). However, we find no evidence that increased foreign competition in the home market increases the odds for SME involvement in export activities.

We find that a more favorable perception of home market access to investors and banks and of government regulation, the higher the odds are for SMEs to be involved in indirect exports as compared to not exporting, whereas favorability of production costs at home increases the odds of being involved in direct exports. We also find some evidence that favorability of the home market *indirectly* affects SME involvement in direct and indirect export through the internationalization of the organization field in which they operate. In particular, our results suggest that perceived favorability of presence of relevant suppliers at home and perceived favorability of production costs in the domestic market have an indirect negative impact on SME export involvement through the effect of the (increased) internationalization of

the organization field. Furthermore, we find evidence of indirect positive effects on the export involvement of SMEs through the impact of the organization field for perceived favorability of access to investors and banks, of access to know-how and technology and of quality of government regulation for business.

Previous research identified the importance of business owner/TMT foreign experience for determining probability to export directly. Our results indicate that such experience is not only important for determining involvement of SMEs in direct exports but also for participation in indirect exports. The experience of living and working abroad is likely to provide firm managers an international focus. Thus, firms that have business owners and TMT members with considerable international experience are likely to share this international focus in the course of their work for the firm and therefore, even when considering markets of which they possess little specific knowledge, may be motivated to hire an intermediary to explore business opportunities abroad.

The results indicate that SME participation in indirect and direct export is broadly explained by similar sets of factors. However, the decision between indirect and direct export seems to be impacted differently by the conditions of the home environment in two respects. First, when access to investors and banks in the home market is regarded as favorable, this increases the odds for SMEs of undertaking indirect exports, relative to direct exports. This may indicate that when financial resources are more easily accessible in a domestic environment, it may become easier for domestic firms to access capital for hiring intermediaries. Thus, even if direct export may be a very difficult option, e.g. because of lack of knowledge on specific markets within the firm, a SME may be stimulated by availability of financial resources to seek help from intermediaries for undertaking exports. It can also be the case that when intermediaries proactively approach potential SME customers, those SMEs that perceive access to financial stakeholders as favorable may be more likely to act upon this. From a policy perspective this finding could indicate that financial incentives are possibly a viable strategy for promoting SME participation in indirect export.

A second feature on which the choice between the direct and indirect mode is affected is related to perception of home market production costs. Axinn (1988) found that manager perception of a fall in production costs at home has a positive influence on the firm's export behavior. Our study indicates that perceived favorability of production costs at home may be particularly relevant for the direct export mode. More specifically, our results indicate that when SMEs regard production costs in the domestic market as favorable, they may be more likely to choose the direct, rather than the indirect mode. One explanation for this finding could be that lower production costs result in an immediate cost-advantage for the firm, which may contribute directly to establishing a competitive advantage for the firm's product, possibly also abroad. Direct exporting may therefore become easier for the firm. Thus, our analyses suggest that improvements in the home environment regarding production costs could help foster SMEs' to participate in the direct export mode.

To summarize, our study contributes to existing research on entry mode decisions of SMEs, first, by incorporating resource dependency and institutional theory arguments and, second, by focusing on explaining SMEs' *indirect* as well as *direct* export involvement. In line with institutional theory the findings suggest an important influence of specific actors (i.e. competitors, customers, foreign suppliers) in the SME's organization field on export behavior. Building on resource dependency theory, the results also indicate that a SMEs exposure to a desirable/undesirable home environment impacts the choice between the direct and indirect export mode. In particular we find that compared to the direct mode, firms pursuing indirect export are more likely to perceive favorable access to financiers but less likely to perceive favorable national production costs. Thus, our study suggests that institutional theory may be particularly relevant in explaining the choice between exporting and not exporting, whereas resource dependency theory may have particular relevance in explaining the choice between different entry modes.

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Table 1: Choice of Intermediary (n=74)

Domestic Intermediary	*%*	*Intermediary abroad*	*%*
Agent	19	Agent	51
Wholesale/ distributor/dealer/reseller	22	Wholesale/distributor /dealer/reseller	47
A(n) (office of a) multinational	8	A(n) (office of a) multinational	7

Table 2: Reasons for exporting with the help of an intermediary (n=74)

Motive (more than one answer allowed)	*% Agree*
To find customers abroad	54
To diminish risk and uncertainty of operating abroad	42
Lack of knowledge of certain markets within our organization	38
To save costs for drawing up of contracts with clients abroad	20
To save costs for conducting market research	16
To save costs for enforcement of contracts with clients abroad	8
Other motives	19
Do not know	4

Table 3: Mean and Standard Deviations, n=402

	Mean	SD
Export engagement (No export, indirect export, direct export) (DV)	0.47	0.77
Production industries	0.22	0.41
Trade industries	0.19	0.39
Business services	0.23	0.42
Other industries	0.36	0.48
Firm age	27.28	29.48
Firm size	23.02	32.07
Current resource base of the firm		
Education business owner	2.46	0.71
TMT Foreign experience	1.79	1.00
Foreign investors	0.06	0.24
Home market favorability		
Customers	1.57	0.63
Suppliers	1.43	0.64
Resources and raw materials	1.08	0.60
Investors access	1.21	0.68
Technology/knowledge access	1.47	0.63
Production costs	0.60	0.63
IP protection	1.10	0.62
Govt regulation	0.72	0.71
Organization field		
Domestic competitors increasingly operate abroad	0.47	0.64
Domestic customers increasingly operate abroad	0.53	0.71
Domestic suppliers increasingly operate abroad	0.53	0.67
Foreign competitors increasingly operate in home market	0.65	0.75
Increased use of foreign suppliers	0.46	0.70

Table 4: Multinomial logit estimates with reference categories: no export, direct export; n=402

	No Export = reference category				Direct export = reference category			
-2 Log likelihood = 471.233	Indirect export		Direct export		Indirect export		No export	
	Odds	p-value	Odds	p-value	Odds	p-value	Odds	p-value
Production industries[1]	3.080	0.018	3.940	0.004	0.782	0.656	0.254	0.004
Trade industries[1]	1.004	0.995	2.404	0.076	0.418	0.195	0.416	0.076
Business services[1]	1.585	0.420	2.696	0.046	0.588	0.416	0.371	0.046
Firm age	0.995	0.448	0.986	0.047	1.009	0.229	1.014	0.047
Firm size	0.988	0.984	0.876	0.811	1.128	0.852	1.141	0.811
Current firm resource base								
Education business owner	1.059	0.851	0.928	0.766	1.141	0.691	1.077	0.766
TMT Foreign experience	1.434	0.061	1.642	0.003	0.873	0.502	0.609	0.003
Foreign investors	2.634	0.131	1.037	0.958	2.540	0.180	0.964	0.958
Home market favorability								
Customers	0.883	0.706	0.754	0.335	1.171	0.659	1.326	0.335
Suppliers	1.306	0.372	0.867	0.596	1.506	0.203	1.153	0.596
Resources and raw materials	1.073	0.821	0.955	0.872	1.123	0.736	1.047	0.872
Investors access	2.039	0.024	0.999	0.996	2.042	0.038	1.001	0.996
Technology/knowledge access	0.817	0.523	1.143	0.652	0.714	0.357	0.875	0.652
Production costs	0.790	0.466	1.829	0.025	0.432	0.014	0.547	0.025
IP protection	0.747	0.330	1.170	0.566	0.639	0.185	0.855	0.566
Govt regulation	1.659	0.060	1.185	0.479	1.399	0.255	0.844	0.479
Organization field								
Domestic competitors increasingly operate abroad	2.485	0.035	2.055	0.048	1.209	0.700	0.487	0.048
Domestic customers increasingly operate abroad	2.937	0.018	2.825	0.004	1.040	0.940	0.354	0.004
Domestic suppliers increasingly operate abroad	1.823	0.177	1.764	0.136	1.033	0.948	0.567	0.136
Foreign competitors increasingly operate in home mkt	1.031	0.948	.920	0.835	1.121	0.832	1.087	0.835
Increased use of foreign suppliers	2.458	0.045	2.333	0.030	1.054	0.919	0.429	0.030
Nagelkerke R^2	0.442				0.442			

[1] Other industries is reference category.

Table 5: Binary logistic regression results with categories of organization field as DV; n=402

	Organization field				
	Domestic competitors increasingly operate abroad	Domestic customers increasingly operate abroad	Domestic suppliers increasingly operate abroad	Foreign competitors increasingly operate in home	Increased use of foreign suppliers

							market			
	Odds	p-value	Odds	p-value	Odds	p-value	Odds	p-value	Odds	p-value
Constant	0.063	0.000	0.056	0.000	0.097	0.000	0.244	0.023	0.093	0.000
Production ind	2.064	0.020	1.595	0.139	1.518	0.163	2.779	0.001	1.965	0.036
Trade ind	1.807	0.072	1.364	0.364	2.288	0.008	2.452	0.005	4.275	0.000
Business svcs	0.964	0.912	1.673	0.117	0.487	0.031	0.669	0.231	.798	0.538
Firm age	1.004	0.309	1.000	0.951	1.008	0.065	1.006	0.194	1.005	0.201
Firm size	1.138	0.738	2.742	0.017	0.929	0.847	3.780	0.004	1.703	0.181
Current firm resource base										
Education business owner	1.279	0.167	1.533	0.021	0.984	0.926	0.975	0.883	1.198	0.333
TMT foreign exp	1.825	0.000	1.712	0.000	1.743	0.000	1.490	0.002	1.834	0.000
Foreign investors	1.746	0.260	2.961	0.045	2.650	0.055	21.390	0.004	4.912	0.004
Home market favorability										
Customers	1.107	0.623	0.936	0.748	1.097	0.640	1.058	0.782	0.858	0.465
Suppliers	0.702	0.073	0.786	0.222	1.486	0.041	0.979	0.918	0.778	0.210
Resources	1.009	0.964	0.905	0.622	0.707	0.083	1.088	0.681	0.888	0.567
Investors access	1.714	0.004	1.123	0.537	1.593	0.011	1.430	0.055	1.246	0.255
Tech/kno. access	1.048	0.819	1.443	0.080	1.009	0.963	0.686	0.073	1.043	0.842
Production costs	0.598	0.008	0.573	0.006	0.769	0.161	0.804	0.261	0.712	0.098
IP protection	0.904	0.603	0.836	0.364	0.948	0.785	1.059	0.776	0.886	0.561
Govt regulation	1.219	0.243	1.352	0.079	1.040	0.811	0.839	0.300	1.060	0.742
Nagelkerke R^2	0.236		0.270		0.229		0.298		0.281	

[1] Other industries is reference category.

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