

Influences of Cognitive Dimensions on the Collaborative Entry Mode Choice of Small and Medium-Sized Enterprises

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ABSTRACT

Purpose – Our paper addresses internationalisation of small and medium-sized enterprises (SMEs) by specifically focusing on collaborative entry modes. Despite significant research done on market entry and internationalisation strategies of firms, the use of collaborative entry modes by SMEs during internationalisation has not received a lot of attention. We contribute to foreign market entry studies by analysing the influences of cognitive dimensions on collaborative entry mode choice (equity vs. non-equity modes) of SMEs in their international markets.

Design/methodology/approach – We analyse the influences of cognitive dimensions on the choice between equity-based vs. non-equity-based collaborative entry modes. Our empirical sample consists of internationalisation strategies of 345 Italian SMEs, where we used a questionnaire to collect the data. We use structural equation modelling (SEM) to analyse influences of factors like asymmetric information, informal institutional distance, time trends of country, perception of size and resources of potential host country partners, and perception of host country partners' power on this important market entry mode.

Findings – Our results show that high informal institutional distance leads to preference of non-equity-based collaborative entry mode by Italian SMEs. We also find that positive time trends of the host country, positive perception of size and resource of the local partner, as well as the local partners' power leads to preference of equity-based collaborative entry mode by Italian SMEs.

Originality/value – This study focuses on an ignored aspect of market entry strategies, i.e., equity vs. non-equity collaborative entry mode choice of SMEs. We use insights from resource based view and cognitive dimensions literature, to address the influences of five cognitive dimensions on the collaborative entry mode choice of SMEs during their internationalisation.

Keywords – Cognitive Dimensions, Collaborative Entry Mode, Internationalisation, Resource Based View, and SMEs

Type of paper – Research paper

1. INTRODUCTION

Foreign market entry mode analysis represents a highly researched topic in international business and marketing studies (Brouthers and Hennart, 2007; Slangen and Hennart, 2008; Demirbag *et al.*, 2009). These studies addressed equity-based entry modes as well as non-equity-based entry modes (Agarwal and Ramaswami, 1992; Pan and David, 2000; Wooster *et al.*, 2016). Some studies concentrating on equity-based entry modes have focused on the choice between greenfield investment and acquisition, referred to as establishment mode in the literature (e.g., Dikova and van Witteloostuijn, 2007; Slangen and Hennart, 2008; Arslan and Larimo, 2011; Klier *et al.*, 2016). Other studies have focused on the level of equity ownership sought by firms in foreign subsidiaries by differentiating between joint ventures and wholly owned subsidiaries, referred to as ownership mode in the literature (e.g., Xu *et al.*, 2004; Jung *et al.*, 2008; Arslan, 2012; Cho *et al.*, 2014; Hennart and Slangen, 2015). Moreover, a number of studies have addressed aspects of both establishment and ownership modes together, adopting different theoretical and empirical lenses for the analysis (e.g., Chang and Rosenzweig, 2001; Elango and Sambharya, 2004; Dikova, 2012; Arslan *et al.*, 2015; Wooster *et al.*, 2016).

Collaborative entry modes can be both equity based (e.g., joint ventures and partial acquisitions) and non-equity based (e.g., non-equity partnerships and alliances). Earlier studies have addressed operational and management aspects of joint ventures in detail (e.g., Kogut, 1988, Beamish, 1993; Hennart, 1998; Killing, 2012, Larimo *et al.*, 2016; Le Nguyen *et al.*, 2016). However, dynamics of collaborative entry mode strategies of firms in new international markets, specifically, have not received a lot of attention by researchers (e.g., Ekeledo and Sivakumar, 2004; Nielsen and Nielsen, 2011). Past research on collaborative entry modes has focused on factors influencing choice between partial acquisition vs. partial greenfield investment (e.g., Talay and Cavusgil, 2009; Arslan and Larimo, 2015) and dynamics of choice between equity and non-equity alliances (e.g., Oxley, 1997; Das and Teng, 2000; Majocchi *et al.*, 2013). Some researchers addressing collaborative entry modes have also addressed the performance of these strategies (López-duarte and Garcia Canal, 2002, 2004; López-duarte and Vidal-Suarez, 2008) along with other entry modes. However, the majority of these studies has highlighted the benefits of collaborating with foreign partners in order to access marketing-specific knowledge, as well useful resources that foreign firms lack, due to cultural and institutional differences (Scuotto and Morellato, 2013; Della Corte, 2014; Scuotto *et al.*, 2016;). This is why we observe a continued use of collaborative entry modes by firms, despite

problems associated with managing international collaborative ventures mentioned in earlier literature (e.g., Beamish, 1993; Tyre and Von Hippel, 1997; Hennart, 1998; Killing, 2012; Chang *et al.*, 2013). The focus of the current paper is also on collaborative entry modes, and we have chosen to concentrate on a rather interesting context for analysis, as explained below.

Extant literature differentiates internationalisation strategies of small and medium-sized enterprises (SMEs) from those of multinational enterprises (MNEs). SMEs generally tend to have fewer resources than large MNEs (e.g., Lu and Beamish, 2006; Matlay *et al.*, 2006; Cao *et al.*, 2016). Firm's resources are generally divided into tangible and non-tangible resources (Das and Teng, 2000). Internationalisation literature has addressed influences of tangible resources (financial, human, and technological) on SMEs' internationalisation strategies in detail, especially during the last decade (e.g., Matlay *et al.*, 2006; Ruzzier *et al.*, 2007; Huxham and Vangen, 2013; Onkelinx *et al.*, 2015, 2016). However, intangible resources have received less attention, and slowly scholars in the context of SME internationalisation and market entry research are recognising their importance (e.g., Mohr and Batsakis, 2014; Pehrsson *et al.*, 2015). Intangible resources have also been shown to contribute more to a firm's performance than tangible ones (e.g. Hitt *et al.*, 2012). Therefore, we aim to address some of these intangible resources also along with tangible ones, in the context of collaborative entry mode choice of SMEs in this paper.

Moreover, previous studies have established that cognitive dimensions significantly influence the possibilities of a firm to develop and manage a long-term relationship with foreign partners (Brouthers, 2002; Fiske *et al.*, 2007; Del Giudice *et al.*, 2012; Elliot *et al.*, 2015). Therefore, cognitive dimensions have been found to influence a firm's choice of foreign partners while developing internationalisation and market entry strategies (Steenkamp, 2001; Weber *et al.*, 2011; Costa *et al.*, 2016). The cognitive dimensions are also linked with tangible, as well as intangible resources like market knowledge, human capital, corporate reputation, innovation and intellectual property (e.g. Amit and Shoemaker, 1993; Hall, 1993; Flatt and Kowalczyk, 2008). Our paper aims to bring together the discussion on cognitive dimensions with research on the role of both tangible and intangible resources, to address collaborative entry mode choice of SMEs. Based on literature review, we have identified five cognitive dimensions that are interlinked with intangible resources, including asymmetric information, informal institutional distance, time trends of country, perception of size and resources belonging to foreign partners, and perception of the partners' power (e.g. Garner, 1983; Peng, 2001; Pothukuchi *et al.*, 2002;

Dong and Glaister, 2006; Bluemelhuber *et al.*, 2007; Kim and Hemmert, 2016). Building on earlier research addressing these cognitive dimensions as well as tangible and intangible resources, we address their influences on the collaborative entry mode choice of SMEs during their internationalisation.

More specifically, we have chosen to focus the attention on the asymmetric information, because it plays a major role in influencing the development of collaborative strategies by firms (e.g. Reuer and Koza, 2000). Earlier research has also shown that firms with more intangible resources are characterised by high information asymmetry (Martins and Alves, 2010). Therefore, the asymmetric information affects the way in which firms perceive their possible partners on the bases of available information and with reference to the perceived risk (Mohr and Spekman, 1994) as well as to potential for collaboration (e.g., McCann *et al.*, 2016). In the same vein, we address the informal institutional distance, which is linked to differences in norms, values and cognitive aspects of home and host countries of internationalising firms (Estrin *et al.*, 2009). These informal institutions play a role in shaping the corporate culture of firms in a country, which has been referred as an important intangible resource which influences firm performance also (e.g. Hall, 1993; Denison *et al.*, 2004; Runyan *et al.*, 2006). Informal institutions and corporate culture also tend to influence a firm's strategic approaches to manage collaborations with other foreign firms (Chang *et al.*, 2012; Arslan and Dikova, 2015). Moreover, we pay attention to the time trends of country, because they represent a significant cognitive dimension to individuate a host country (Glaister and Buckley, 1996; Newburry, 2012). The time trends of country influence the perception of host country firms by internationalising foreign firms (Johanson and Mattson, 2015) and, consequentially, their willingness to participate in collaborative relationships with those firms (e.g., Caputo, 2016; Li *et al.*, 2016). Finally, we focus on the perception of size and resources as well as power of potential host country partners (e.g., Shah and Swaminathan, 2008; Mukherjee *et al.*, 2013), because they define the way in which SMEs perceive host country firms as actors able to contribute to success of the collaborative entry mode.

We address these cognitive dimensions from a resource-based view and analyse their influences on the choice between equity-based vs. non-equity-based collaborative entry mode choice by internationalising firms. The current paper aims to contribute to the application of a resource-based view (e.g., Wernerfelt, 1984; Barney, 1991; Das and Teng, 2000; Verbeke and Yuan, 2013; Lin and Wu, 2014) in foreign market entry studies by specifically focusing on

chosen cognitive dimensions and linking the discussion to both tangible and intangible resources. So far, no earlier study (at least to our knowledge) has focused solely on the choice between equity or non-equity collaborative entry modes of SMEs and influences of these cognitive dimensions in the specific context of SME internationalisation. The empirical setting of our study further signifies the contribution, as we use a sample of 345 SMEs from Italy that internationalised to a range of host countries representing both developed and emerging economies. Therefore, our sample heterogeneity is expected to further increase the generalisability of the study findings.

The paper is organised as follows. After the introduction, we offer a brief theoretical discussion about chosen cognitive dimensions in relation to choice of collaborative entry mode, leading to development of the study hypotheses. Then, we offer discussion about the empirical part of the paper, leading to analysis and findings of the study. The paper concludes by offering discussion on implications, limitations, as well as future research directions.

2. STUDY HYPOTHESES

2.1 Information Asymmetry

Information asymmetry has been recognised as a barrier for a business relationship, as one of the partners has more information than the other one (Corbett *et al.*, 2004). This barrier is related to potential opportunistic behaviour of one partner due to information advantage over the other partner in a business relationship (Mishra *et al.*, 1998). However, the information asymmetry can also be considered as the starting point in creating a relationship with a foreign partner, because it tends to stimulate both parties to acquire more information (Newey and Zahra, 2009; Saviano and Caputo, 2013; Saviano *et al.*, 2014). Information asymmetry has been shown to influence firms' understanding of tangible resources like product quality and production capabilities (e.g. Fernández *et al.*, 2000). Earlier research further mentions that firms with more intangible resources also have high information asymmetry (Doherty, 1999; Martins and Alves, 2010). In this context, information asymmetry emerges as a significant cognitive dimension, because it is able to either increase or limit the willingness of firms to interact with other firms (Lewicka *et al.*, 1992). The level of commitment in a relationship in such a case tend to depend possibilities for both firms to reduce information gap (Bejou *et al.*, 1998). The reduction in information gap can help these firms to better analyse the potential for

sharing both tangible and intangible resources in a collaborative relationship. Consequently, this asymmetry represents a stimulus for knowledge sharing and acquiring (e.g. Del Giudice and Maggioni, 2014, Di Nauta *et al.*, 2015), which strengthens and improves international relationships (Sivakumar, 2002). Information asymmetry is also linked to intangible resources like host country and local information, which an SME can potentially access by entering into a collaborative mode with a local partner. Therefore, in case of an SME's collaborative market entry mode, the information asymmetry has the potential to motivate it to enter into equity arrangement with a host country partner so that shared tangible and intangible resources lead to better mechanisms for operations and subsequent performance (e.g., Inkpen, 2000; Contractor and Ra, 2002; McCann *et al.*, 2016). Based on this discussion, we hypothesize that:

Hypothesis 1: High Information asymmetry leads to preference of equity-based collaborative entry mode over non-equity-based collaborative entry mode by internationalising SMEs.

2.2 Informal Institutional Distance

Institutional distance refers to differences in both formal and informal institutions of home and host countries of entering firms (e.g., Estrin *et al.*, 2009; Arslan and Dikova, 2015). Academic literature has established that understanding formal institutions is relatively easier for foreign firms, as they are mostly written laws and regulations (e.g., Arslan and Larimo, 2011; Hernández and Nieto, 2015). However, informal institutions are strongly linked to culture and cognitive dimensions (Estrin *et al.*, 2009), and they are embedded in local social structures, resulting in making their understanding difficult for the outsiders (North, 1990; Michailova and Hutchings, 2006; Meyer *et al.*, 2009). Literature has shown that these cognitive aspects of institutional differences tend to influence a range of subsidiary management issues for internationalising foreign firms. Some of these issues include understanding the desires of local employees, transfer and management of organisational knowledge to the subsidiary, and the degree of adaptation required for operational strategies (e.g., Xu *et al.*, 2004; Michailova and Hutchings, 2006; Chang *et al.*, 2012; Arslan and Dikova, 2015).

The corporate culture of firms in a country is also shaped by cognitive factors related to informal institutions (e.g. Hall, 1993; Runyan *et al.*, 2006). This corporate culture has also been mentioned as an important intangible resource in relation to good firm performance (Denison *et al.*, 2004; Anderson and Eshima, 2013). Therefore, for internationalising SMEs, informal

institutions emerge as an important factor for their strategies. Past researchers focusing on internationalisation strategies of MNEs have argued for choice of equity joint ventures in case of high differences in cognitive aspects of the institutions (e.g., Slangen van Tulder, 2009; Owens *et al.*, 2013). In this context, it needs to be noted that MNEs are interested in achieving necessary productivity levels like other subsidiaries and also have the resources to invest in these aspects (Buckley, 2009; Buckley and Prashantham, 2016). However, tangible resource limitations are an important issue for SMEs internationalising to new markets, as mentioned earlier in the discussion. Therefore, SMEs cannot afford to invest significantly in a new subsidiary with expectations of returns in the long term. Moreover, differences in corporate cultures in such host countries may also make efficient use of this intangible resource difficult for SMEs. Therefore, we expect SMEs to prefer non-equity-based collaborative entry mode. This choice will offer SMEs a possibility to share some knowledge and access networks (Sui and Baum, 2014), while avoiding equity commitment in an environment with high uncertainty. Based on this discussion, we hypothesize that:

Hypothesis 2: High informal institutional distance leads to preference of non-equity-based collaborative entry mode over equity-based collaborative entry mode by internationalising SMEs.

2.3 Time Trends in the Host Country

The time trends of country refer to knowledge and perception of economic stability, reliability and possibility of growth of foreign market (Culpan and Kostelac, 1993; Zhang and Pezeshkan, 2016). According to Johanson and Mattsson (2015), information on trends of country represents one of the most relevant cognitive elements for decision makers in making a partnership decision with a foreign firm. It is further important to mention that cognitive factors, like personal experience of managers as well as media portrayal of a country, significantly influence its overall perception by foreign firms and investors (Newburry, 2012; Li *et al.*, 2016). Earlier research has found that firms from the same nation tend to share similar characteristics, behaviours, and strategic routines, due to their embeddedness in the same institutional and sociocultural context (North, 1990; Kogut, 1992; Campanella *et al.*, 2013). Therefore, although differences may exist among firms in a specific country, they are classified mostly into the same category, especially by outsiders (Leung *et al.*, 2005; Zhang and Pezeshkan, 2016), based on cognitive perception of time trends of that host country.

Academic literature has also established that foreign investors, including SMEs, have limited information about production capabilities, management processes, human resources and organisational routines of host country firms (e.g., Connelly *et al.*, 2011). Therefore, they rely on signal-like trends and perceptions of the host country to make investment choices in most cases (Morosini *et al.*, 1998; Soleimani *et al.*, 2014). In this context, earlier research has also shown that foreign investors view firms from countries with good cognitive perception and time trends to possess better production capabilities, management skills, organisational strategies, as well as marketing and technological capabilities (Newburry, 2012; Zhang and Pezeshkan, 2016). The possession of good tangible and intangible resources by local firms offer internationalising SME an opportunity to use them to its advantage. Therefore, in case of collaborative entry mode, positive time trends and perceptions of the host country may lead SMEs to prefer equity-based over the non-equity-based entry mode. In this way, SMEs can get access to useful tangible and intangible resources, as well as access to the required networks (Lu and Xu, 2006; Kobernyuk *et al.*, 2014), while showing their commitment to the host country and local partner by entering into collaborative equity arrangement. Based on this discussion, we hypothesize that:

Hypothesis 3: Positive time trends of host country lead to preference of equity-based collaborative entry mode over non-equity-based collaborative entry mode by internationalising SMEs.

2.4 Partner's Size and Resources

The perception of a partner's size and resources refers to the evaluation that a firm does about the tangible and intangible resource contributions expected by host country partner in a potential international partnership or an alliance (Hitt *et al.*, 2000; Peng, 2001; Shah and Swaminathan, 2008). The perception of host country firms' size and resources is one of the key determinants to select a valuable international partner (e.g. Chen and Chen, 2002). These perceptions of the partner's size and resources tend to influence the decision to collaborate with them, especially if both tangible and intangible resources are accessible and sharable (Young, 1987; Barkema *et al.*, 1996; Ramanathan and Gunasekaran, 2014).

Size and resources of firms affect their image, influencing the perception of possible partners and improving the opportunities to build suitable international relationships (Gulati, 1999). In

accordance with exiting academic literature (Calof, 1993; Westhead *et al.*, 2001; Hitt *et al.*, 2006), the partner's size and resources can be considered a useful instrument for the SMEs to evaluate the advantages and the opportunities to build a collaborative pathway with a host country's local firm. Along with tangible resources, intangible resources like market knowledge, human capital, and good corporate reputation tend to result in positive perceptions about the potential partner firms (e.g. Kontinen and Ojala, 2012; Kang and Park, 2012). Building on this reflection, it is possible to argue that the perception of SMEs about potential partners' sizes and resources have a relevant influence on the decision to build an equity- or non-equity-based entry mode (Fernández and Nieto, 2005). More specifically, from a cognitive perspective, earlier research has suggested that firms tend to enter into equity partnerships and alliances when they have positive perception about a potential partner's resources (Baum *et al.*, 2000; Hsu and Pereira, 2008). Potential partner firms with large sizes and resources are seen as high-status partners, where pooling of tangible and intangible resources through an equity arrangement is expected to lead to better results (e.g. Lin *et al.*, 2009). Therefore, we hypothesize that:

Hypothesis 4: Positive perception about a host country partner's size and resources leads to preference of equity-based collaborative entry mode over non-equity-based collaborative entry mode by internationalising SMEs.

2.5 Perception of Partner's Power

The perception on a partner's power refers to the potential advantages that firms think to obtain from a partnership or an alliance (Inkpen and Beamish 1997; Dong and Glaister, 2006). The perception of a potential host country partner's power is linked to the knowledge that SMEs have about foreign markets and their dynamics (Barkema and Vermeulen, 1997; Dong and Glaister, 2006). Perception of a potential partner's power is also linked with the possibilities of enhancing collaborative capabilities (e.g. Muthusamy and White, 2006). Earlier research has shown that managerial perceptions about power and behaviour of partners significantly influence SME choices and strategies in international partnerships and alliances (e.g. Dickson *et al.*, 2006). Moreover, some studies have addressed the role of perception about a partner's power in terms of cognitive influence on the choice of SMEs to build an international alliance (Pansiri, 2008; Mukherjee *et al.*, 2013). In a similar vein, some studies have stressed on the role of perceptions of a partner's power as a "soft" driver for development of international

partnerships (e.g., Hoffmann and Schlosser, 2001) and resulting opportunities for SMEs due to these collaborative arrangements (e.g., López-Duarte and Vidal-Suárez, 2010; Swoboda *et al.*, 2011). Equity arrangements in international alliances have been shown to reduce potential opportunism resulting from power differences between partners (e.g., Weaver and Dickson, 1998; Noe *et al.*, 2002). Moreover, the powerful position of a firm has been linked with possibilities of access to useful tangible and intangible resources by its partner firms (e.g. Perks and Moxey, 2011). Powerful firms tend to possess better production capabilities, management and marketing skills as well as good reputation (Del Giudice *et al.*, 2016). These resource can be very helpful for internationalising SME in the new market. It is further important to mention that equity arrangements in international alliances have been shown to increase the potential and possibilities for sharing of resources between partners (e.g. Muthusamy and White, 2006; Wooster *et al.*, 2016). Therefore, we expect that SMEs to prefer equity-based collaborative entry mode, in order to improve their competitiveness by gaining access to both tangible and intangible resources (Cavusgil, 1998; Rabelo *et al.*, 2016), in such cases. Therefore, we hypothesize that:

Hypothesis 5: The perception of high power of a host country partner leads to preference of equity-based collaborative entry mode over non-equity-based collaborative entry mode by internationalising SMEs

3. RESEARCH METHODS AND EMPIRICAL ANALYSIS

3.1 Data Collection

In line with previous studies (Cascio and Serapio, 1992; Inkpen and Beamish 1997; Hitt *et al.*, 2000; Pothukuchi *et al.*, 2002; Dong and Glaister, 2006; Bluemelhuber *et al.*, 2007; Shah and Swaminathan, 2008), we reckon that a quantitative method is suitable for this research. As, there is a lack of earlier research specifically analysing influences of cognitive dimensions on the collaborative entry mode choice of SMEs, quantitative method is deemed helpful to generalise the findings of our study. We perform the empirical analysis in two stages. In the first part, we collected data using standardised questionnaires distributed to the potential sample firms. In the second part, we performed data analysis using structural equation modelling (SEM) using IBM® SPSS® Amos 20 to test study hypotheses, which are summarised in Figure 1.

Insert Figure 1 here

Our study sample consists of 345 SMEs from Italy. These firms were selected from a database provided by Unicredit, which includes 11.052 firms, where only 1.052 firms were identified as SMEs. To scrutinise these firms, we used the three criteria based on firm size, annual revenue and SMEs that have internationalised in past five years (e.g. Utterback, 1974; Chirico and Salvato, 2014). As resulted, only 572 SMEs were suitable for our empirical research. The research context is Italy, which was considered a suitable territory, since it has been characterised by an increasing number of SMEs opting for internationalisation in recent years (ISTAT, 2014). Our respondents were either senior managers or owners, since they are considered the key decision makers for devising colligative entry mode choice in internationalisation.

The data collection took place during February 2013 to December 2013. The questionnaire was emailed to all respondents using their personal email addresses. In cases where a direct email was not available, a first approach was made by phone, asking for an email address, and then an online questionnaire was sent to them, along with a cover letter in which the research purpose was explained. The questionnaire was formulated and conducted in Italian and the results were translated into English by language experts following Brislin's (1970) back-translation procedure. The research instrument was pre-tested by bilingual researchers to identify biases and avoid misunderstanding. The questionnaire was composed by 20 positioned questions using a funneling technique (Bryman, 2006). The questionnaires started with general and broad questions, followed by more-focused questions in a later section. The purpose was to get a general idea and impression of the situation, first, and then to discover the key issues.

3.1.1 Measures

The questionnaire was composed of five measures, such as (1) Informal institutional distance, (2) Asymmetric information, (3) Time trends of country, (4) Perception of size and resources owned by potential local partners from the host country, and (5) Perception of the potential

host country partners' power. Each section was characterised by four items. In the table below, we reported the relevant literature on which these items are based.

Insert Table I here

Moreover, using Bryman's (2006) funnelling technique, at the beginning, ancillary items were stated in order to acquire information on: ownership and management (S1. Are you involved in the decision making process?); industry (S2. In which sector does your organisation work?); and firm's turnover (S3. What was your firm's total turnover in the last financial year?). Other items were proposed in the following way: Age (AGE) and number of Employees (NUMEMP) were computed by an ordinal-polytomous response scale, where the respondents were asked to pick one of the three options. For example, for the age, the options were: (1) 30 years or younger, (2) 31-59, and (3) over 60 years. Gender (GEND) and Job Position (JOBPOS) were rated by dichotomous response scales, where the respondents have two options (e.g., female or male; manager or owner).

Second, the respondents were asked to indicate the type of a collaborative entry mode, rated by dichotomous response scales (equity or non-equity collaborative entry mode). Moreover, their opinion on internationalisation process, challenges and barriers to endure an international relationship, and the sense of feeling in meeting foreign market culture expectations were asked. For example, the respondents were asked specific questions about role of culture and norms, as well as time trends of host country (e.g. economic stability, growth opportunities etc.) on the choice of collaborative entry mode. Moreover, the respondents were also asked about role of information asymmetry, along with perceptions about tangible and intangible resources and power of host country partner on their choice of collaborative entry mode. The respondents gave a value of each statement based on the five-point Likert scale (1932), where the "code 1" means strongly agree and "code 5" means strongly disagree. Along with this, other questions were stated, adopting a nominal-polytomous response scale for close-ended questions. The use of a mix of questions seeks to minimise the response bias (Saris and Gallhofer, 2014).

3.1.2 Results

From a total of 472 SMEs, we received 345 completed questionnaires, which validate our study, because the response rate was over 50%. As stated by Tarran (2010), response rate dropped by about 6% at 20 questions. However, few questionnaires were uncompleted, that is, five participants (1.1%) forgot to digitise their own age; four (0.9%) did not answer one of the questions on partner's power; and seven (1.5%) left blank one of the questions on asymmetry information. The major number of participants was identified as managers (256), of whom more than half were male (211). In term of firm size, "medium enterprise" was prevalent (176). In regards to the collaborative entry mode, 129 SMEs used a non-equity-based collaborative entry mode, while 216 SMEs adapted an equity-based collaborative entry mode.

Insert Table II here

A strong sense of the perception of size and resources belonging to foreign partners emerged as a crucial factor to build up an equity-based collaborative relationship with local firms. The majority of respondents (i.e., 81%) strongly agreed in recognising the importance of meeting local consumers' desires in developing a collaborative entry, which was linked up to the measure as "time trends of country". Although a small number of the respondents (i.e., 16%) disagreed with the relevance of some cognitive dimensions, just 3% did not show any interest in this topic.

Although these items are based on prior research, they still need to be assessed using psychometric procedures. Indeed, as stated by Pearson and Lumpkin (2012) "without progress in developing psychometrically sound constructs and measures, we risk the credibility of the field as a whole" (p. 290); in line with this, we tested the internal consistency and reliability of the items, as reported in the following section.

3.2 Data Analysis

Data analysis was elaborated in five stages. First, common method bias was tested, whereby the response timing was assessed as a test of non-response bias (Armstrong and Overton, 1977). Second, Cronbach's alpha (α), recognised to be a measure of internal consistency reliability

(Hinkin, 1995), was estimated, and then construct validity was estimated using average variance extracted (AVE). Fourth, internal correlation of coefficients was tested in order to investigate relationships between study constructs. In conclusion, a double path analysis was conducted via structural equation modelling (SEM) in order to analyse separately SMEs belonging to the equity collaborative entry mode group. SEM is a comprehensive method for testing relationships among measured and latent variables (MacCallum and Austin, 2000).

3.2.1 Common Method Bias

In order to assess common method bias, we used the second respondents' data for the dependent variable and the first respondents' data for the independent variables. Consequently, we examined the data with unassessed latent factor method approach load and then with the full factor model. As emerged, the latent factor does not importantly enhance the fit of the measurement model. Hence, the measurement model remains significant, showing that common method bias have not affected our findings (Podsakoff et al., 2003). Moreover, to validate the consistency of our questionnaire, it was followed up by interviews with 10 managers and 20 owners of SMEs, selected from our definitive sample by a random technique (Bryman, 2006).

3.2.2 Structural Equation Modelling via IBM SPSS Amos

On discovering the relationship between equity collaborative entry modes with the five aforementioned cognitive dimensions, the structural equation modelling (SEM) was applied using IBM SPSS Amos 20.0 (Jöreskog and Wold, 1982). As stated by Hair et al. (2011), SEM is a suitable method for a theory-testing research. Indeed, in our case, we seek to validate the relevance of the cognitive dimensions to the choice of equity-based collaborative entry mode. Moreover, SEM enables to “maximize explained variance in the dependent constructs but additionally to evaluate the data quality on the basis of measurement model characteristics” (Hair et al., 2011: 140). In line with this, the data were analysed in two stages: (1) measurement model (confirmatory factor analysis) and (2) structural model (path analysis).

3.2.3 Assessment and Measurement Model

The measurement model or the outer model identifies “how each block of indicators relates to its latent variables” (Chin and Newsted, 1999: 322). The manifest or observed variables were

considered like the “*reflection*” of their *latent variables* (Tenenhaus and Hanafi, 2010). To each latent variable, four manifest variables were associated and measured their validity and reliability by Cronbach’s alpha (Cronbach, 1951), where ≥ 0.7 signifies good reliability (Hair *et al.*, 2010). From that analysis, all variables are above 0.9. Furthermore, convergent validity was evaluated by measuring the average variance extracted (AVE). The results indicate that the AVE values were over the conventional threshold of 0.50 (Hair *et al.*, 2010).

Internal consistency was also verified by evaluating the total relationship among all variables. In a reliable scale, all items should be above 0.3 (Henson, 2001). The findings show a reasonable degree of reliability, though only one item of asymmetric information was slightly under 0.3 (0.289). Consequently, we tested the Cronbach’s alpha without this item from which showed an increase of 0.1 (from 8.39 to 8.40). In spite of that, this increase is not dramatic, and the item “asymmetric information” was not deleted (Henson, 2001).

Insert Table III here

Insert Table IV here

3.2.4 Assessment and Structural Model

The relationship – positive or negative – between LVs (Anderson and Gerbing, 1988) was tested by a path analysis and bootstrap approach (Chin, 1998). In order to evaluate the relationship of the five cognitive dimensions with equity collaborative entry mode, a path analysis was conducted. The path analysis was composed of a dependent variable, i.e., equity collaborative entry mode. However, first, to assess the predictive relevance of the model, R-Squared for endogenous latent was analysed, as suggested by Chin and Newsted (1999). The R-Squared for equity collaborative entry mode was scored 0.55 and non-equity collaborative entry mode was scored 0.51. Second, the relationships of SMEs, grouped as equity collaborative entry mode with the five cognitive dimensions, were estimated by a path analysis.

3.2.5 Hypothesis Testing via SEM

We test the study hypotheses using SEM. Table 5 below reports the unstandardized coefficients, standardised coefficients, T-statistic, and corresponding p-values. SEM results show that information asymmetry is mildly negatively related to equity collaborative entry mode ($T=1.7$, $p>0.001$). Therefore, Hypothesis 1 is not supported. We further observe that informal institutional distance is significantly and negatively associated with equity-based collaborative entry mode ($T=0.9$, $p<0.001$), leading to acceptance of Hypothesis 2. Moreover, there is a significant, positive relationship between time trends and equity collaborative entry mode ($T=3.8$, $p<0.001$); therefore, Hypothesis 3 is supported. Hypothesis 4 of our study is also supported, as SEM results depict that perception of size and resources of the host country are positively related to equity collaborative entry mode ($T=4.5$, $p<0.001$). Finally, Hypothesis 5 is supported, since the relationship between perception of partners' power and equity collaborative entry mode is positive and significant ($T=6.0$, $p<0.001$). To summarise the SEM, results are reported in Figure 2.

Insert Table V here

Insert Figure 2 here

4. DISCUSSION AND IMPLICATIONS

The study results offer certain interesting insights to collaborative entry mode of Italian SMEs. First, the study results show that information asymmetry does not significantly influence collaborative entry mode of Italian SMEs. The non-significance of information asymmetry can be partially explained by referring to heterogeneity of the study sample, as it included both developed and emerging countries as internationalisation destination for the Italian SMEs. This argumentation is supported by earlier research where it has been mentioned that information asymmetry differs significantly between developed and emerging markets (Claessens and Yurtoglu, 2013; Li and Li, 2014). We also found out that high informal institutional distance leads to preference of non-equity entry mode by the Italian SMEs in their international markets.

This finding is in line with our earlier argumentation that SMEs tend to lack resources especially tangible ones compared to MNEs. Moreover, high informal distance leads to increased differences in corporate cultures, which is also an important intangible resource (Barile *et al.*, 2013). Therefore, internationalising Italian SMEs viewed less benefit in equity commitment due to high uncertainty caused by informal institutional distance. However, non-equity-based collaborative entry mode still offered these SMEs a possibility to gain access to some tangible and intangible resources, market knowledge and networks (Sui and Baum, 2014).

Moreover, the positive time trends of the host country led to preference of equity-based collaborative entry mode by the Italian SMEs. Therefore, these positive time trends influenced internationalising Italian SMEs' view of local firms to possess tangible as well as intangible resources, like better management skills, organisational strategies, as well as marketing and technological capabilities (e.g. Newburry, 2012; Onkelinx *et al.*, 2015), leading to lower uncertainty. Hence, such host country firms emerge as attractive partners for the equity sharing. We further found that positive perception of the partner's size and resources led to preference of equity-based collaborative entry mode by Italian SMEs. This finding supports findings of earlier studies about importance of potential partner's resources and size in international collaborative ventures (Hitt *et al.*, 2000; Chen and Chen, 2002; Shah and Swaminathan, 2008). Hence, Italian SMEs chose to obtain advantages from the size and resources of a host country partner firms through a collaborative equity arrangement (e.g., Hsu and Pereira, 2008), with expectations of better results by the pooling of resources with such higher status of such firms (e.g., Lin *et al.*, 2009).

Finally, the study results show that high-power perception of the host country partner led to preference of equity-based collaborative entry mode by Italian SMEs. This finding supports the notion that perception about the potential partner's power (Pansiri, 2008; Mukherjee *et al.*, 2013) is an important driver for developing an equity-based collaborative entry mode (e.g. Hoffmann and Schlosser, 2001; López-Duarte and Vidal-Suárez, 2010). Therefore, Italian SMEs opted for this choice as powerful partner firms can offer access to useful tangible and intangible resources leading to increased competitiveness (Perks and Moxey, 2011; Rabelo *et al.*, 2016). This choice further reduces the threat of potential of opportunism by powerful host country partners of Italian SMEs due to equity sharing (e.g., Noe *et al.*, 2002).

The current paper offers several theoretical contributions and managerial implications. A key theoretical contribution of our study is related to using multiple streams of literature to establish a link between tangible and intangible resources and cognitive dimensions in the context of SME internationalisation. Earlier research has shown that cognitive dimensions tend to influence choice of foreign partner in internationalisation (e.g. Reuer and Koza, 2000; Weber *et al.*, 2011; Elliot *et al.*, 2015; Costa *et al.*, 2016). Moreover, some studies established the link of tangible and intangible resources with the cognitive dimensions (e.g. Amit and Shoemaker, 1993; Hall, 1993, Flatt and Kowalczyk, 2008; McCann *et al.*, 2016). However, the current paper is one of the first studies to specifically address five chosen cognitive dimensions while addressing both types of resources in discussion, in context of SME's choice of equity-based or non-equity-based collaborative entry mode. Therefore, we also contribute to the application of resource based view in foreign market entry studies, by linking the chosen cognitive dimensions to both kind of resources in that context.

Our study highlighted importance of cognitive factors and relevant intangible resources for collaborative entry mode, an aspect ignored in many studies that focus primarily on economic and financial factors primarily linked to tangible resources. It is important for SME managers aspiring for internationalisation to also consider intangible resources like corporate reputation, host country market knowledge, and human capital while evaluating potential partner firms. These resources can be very helpful along with tangible ones for SME to set foothold in the new market, as well as reduce uncertainty. Our study further showed that both firm-level and country-level cognitive dimensions influence the choice of a collaborative entry mode. On many occasions, managerial decisions are influenced only by firm-level factors (e.g., potential partner's resources, size, or power), and they may ignore country-specific cognitive factors, like informal institutional distance and country perceptions represented by time trends. However, as these factors also significantly influence the collaborative entry modes, it is important for the managers to consider them while devising SME's internationalisation strategies.

Like all academic endeavours, our study has some limitations. We discuss these limitations here as well as offer certain suggestions for future studies. First, our paper only concentrates on direct influences of selected cognitive determinants on collaborative entry mode. However, it is possible that some of these dimensions have potential to moderate influences of others, e.g., perception about partner size and resources moderating information asymmetry and

informal institutional distance. Future studies can concentrate on these aspects to enhance our understanding of collaborative entry mode and interrelationships between these cognitive dimensions in this concern. Moreover, in the empirical section, we analysed collaborative entry mode choice of Italian SMEs in both developed and emerging economies. However, as mentioned earlier, differences do exist along cognitive determinants, in these two groups of economies, and future studies can delve further to address these aspects. Therefore, an in-depth study is recommended to analyse the role of these dimensions in developed vs. emerging host economies. Finally, future studies can also identify and analyse other cognitive dimensions that tend to influence internationalisation strategies generally and collaborative entry modes specifically.

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TABLES

Variables	Description	Source
Information Asymmetry	The information owned by SMEs' owners/managers about potential partner firms in the host country and value of interaction with them.	Garner, 1983; Lewicka <i>et al.</i> , 1992; Bejou <i>et al.</i> , 1998.
Informal institutional distance	The differences in norms and values of home and host countries as perceived by SME owners/managers.	Pothukuchi <i>et al.</i> , 2002; Bluemelhuber <i>et al.</i> , 2007
Time trends of country	The knowledge of SMEs' owners/managers about the trends of host country.	Culpan and Kostelac, 1993; Johanson and Mattson, 2015
Perception of size and resources of host country partners	The perception of SME owners/managers of size as well as tangible and intangible resources of host country partners.	Chen and Chen, 2002; Shah and Saminathan, 2008.
Perception of host country partner's power	SME owners/managers' perception of advantages expected from the collaborative entry mode due to host country partner's power.	Inkpen and Beamish, 1997; Dong and Glaister, 2006

Table I. SEM Variables Description

Characteristic	Sample Description
Gender	Male (211; 42.7%)
	Female (134; 57.3%)
Job Role in SMEs	Manager (256; 70.5%)
	Owner (89; 29.5%)
	Less than 50 (70; 20.2%)
Number of Employees of SMEs	Less than 250 (176; 51.1%)
	More than 250 (99; 28.7%)
Collaborative Entry Mode used by SMEs	Equity based (216; 62.6%)
	Non-Equity based (129; 37.4%)

Table II. Demographic statistics of respondents (n=345)

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.939	0.941	345

Table III. Reliability Test Results (1)

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.841	0.841	344

Table IV. Reliability Test Results* (2)

** the reliability was assessed without "asymmetric information".*

Model	Unstandardized Coefficients		Standardized Coefficients	T	P-Value
	B	Std. Error	Beta		
H1(-) INFOASY→ EqCollEntryMODE	0.007	0.072	0.121	1.7	0.001
H2(-) INFORMINSTIT→ EqCollEntryMODE	0.312	0.071	0.251	0.9	0
H3(+) TIMETRENDS→ EqCollEntryMODE	0.754	0.07	0.437	3.8	0
H4(+) PERCSIZE&RES→ EqCollEntryMODE	0.683	0.058	0.375	4.5	0
H5(+) PERCPARTPOW→ EqCollEntryMODE	0.703	0.074	0.502	6	0

Table V. Equity Based CEM Coefficients^a

a. Dependent Variable: *EqCollEntryMode*

FIGURES

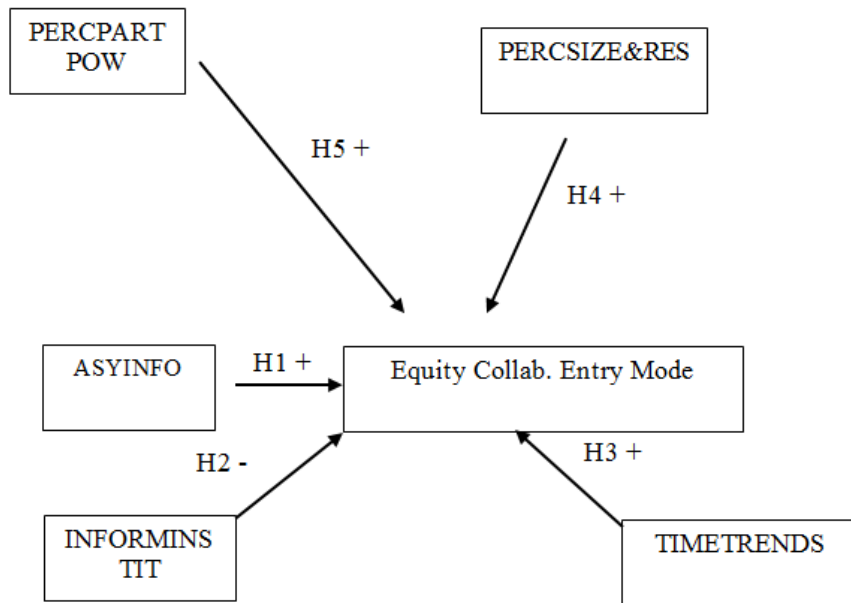


Figure 1.
The hypothesized
conceptual model

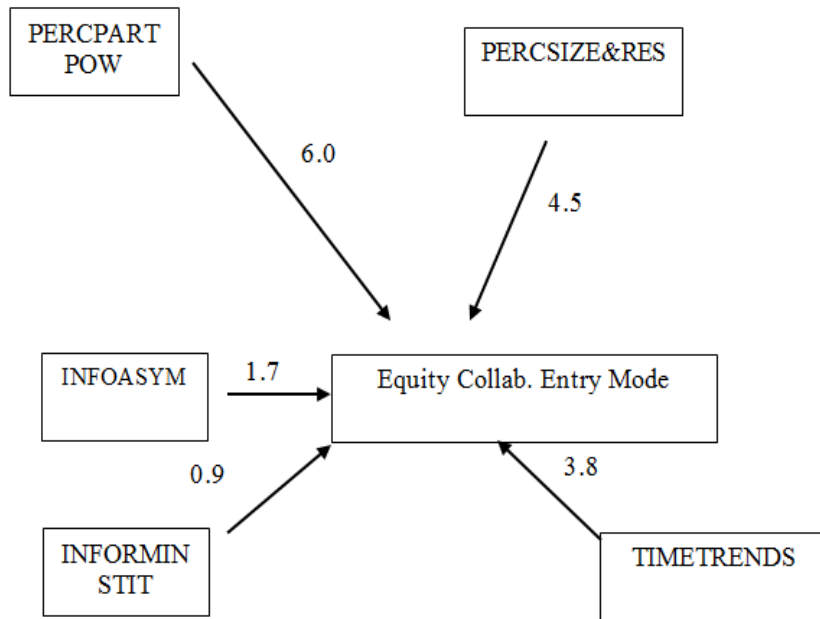


Figure 2.
Hypotheses
testing results
