



International sourcing and the productivity of SMEs in transition countries: Formal and informal ‘region effects’ and the communist footprint

María Jesús Nieto, Alicia Rodríguez^{*}, Virginia Hernández

Institute of Entrepreneurship and Family Business, Universidad Carlos III de Madrid, Avenida de la Universidad, 30, 28911 Leganés (Madrid), Spain

ARTICLE INFO

Keywords:

International sourcing
Transition countries
Region effect
Productivity
Institutional links
Communist footprint
SMEs

ABSTRACT

We study how SMEs in transition countries can boost productivity by sourcing inputs from regions with which they share formal institutional links (the European Union) or informal links (the former communist bloc). Additionally, we discuss how the length of the communist footprint may modify these productivity gains. Using a sample of SMEs located in Eastern Europe, we find a positive relation between firm productivity and inputs from regions with formal and informal institutional links. We also find that this positive relation is weaker for firms with longer communist footprints that source inputs from EU countries.

1. Introduction

The internationalization strategies of firms in different contexts have attracted the attention of scholars, especially in emerging or transition contexts (Jaklič, Obloj, Svetlicic, & Kronegger, 2020; Meyer & Peng, 2016). Given their shared geography, history and current events, Central and Eastern European (CEE) countries need to be re-examined by IB scholars (Rašković, Dikovac, & McDougall-Covin, 2020). We need to contextualize studies of the international activities of firms since internationalization theories are context sensitive (Cuervo-Cazurra, Mudambi, & Pedersen, 2019; Narula, 2012). Specifically, the unique conditions experienced in transition countries require research that focuses on the behavior and decisions of firms from these countries (Teagarden, Von Glinow, & Mellahi, 2018). The contextual richness of transition countries characterized by profound institutional change, different transition processes, and particular resource-restricted entrepreneurial environments make a study of the internationalization strategies of their firms highly relevant (Jaklic, Raskasovic, & Schuh, 2018).

Beyond this, business reforms in Eastern Europe have led to substantial variability across countries in terms of market structures and firm productivity (Gogokhia & Berulava, 2021). This situation has generated especial interest in studying the determinants of firm-level productivity in these countries (Friesenbichler & Peneder, 2016; Kravtsova & Radosevic, 2012), as productivity growth is seen as a driver

of prosperity in Eastern Europe (Alam, 2008). Although accession to or association with the European Union (EU) has helped firms in these countries increase their productivity (Friesenbichler, 2020; Holscher & Howard-Jones, 2019) and achieve growth rates above the European average (Szczepanski, 2018), they still lag far behind those of the most advanced nations. It is vital, then, to understand what strategies may help them improve their levels of firm productivity and bridge the gap. This is especially so for small and medium-sized firms (SMEs), as operating in resource-deficient transition economies obliges them to seek better inputs beyond their national borders. In this paper, we address this challenge by examining the relations between international sourcing¹ location decisions and the productivity of SMEs in transition countries.

Previous research shows that firms may boost productivity by gaining access to superior inputs than those available in the country of origin (Amiti & Wei, 2009; Görg, Hanley, & Strobl, 2008; Nieto & Rodríguez, 2013). The extensive availability of resources with different comparative advantages—better costs and/or quality—drives firms to look abroad to enhance their competitiveness and create value (Lin, 2020; Manning, Massini, & Lewin, 2008; Mukherjee, Gaur, & Datta, 2013). Traditionally, international inputs and intermediate goods were limited to multinational enterprises (MNEs) that delocated activities to developing countries with lower costs. This phenomenon has evolved considerably and is no longer restricted to MNEs from developed

^{*} Corresponding author.

E-mail addresses: mnieto@emp.uc3m.es (M.J. Nieto), alicia.rodriguez@uc3m.es (A. Rodríguez), vhpaz@ing.uc3m.es (V. Hernández).

¹ In this paper, international sourcing is defined as inputs that are produced in a foreign location, transferred to the firm's home country via imports, and incorporated into its production process (Cho & Kang, 2001; Coucke & Sleuwaegen, 2008; Gleich, Schmeisser, & Zschoche, 2017; Nassimbenni, 2006).

countries; nowadays it is common practice for firms from any country (Cuervo-Cazurra et al., 2019; Di Gregorio, Musteen, & Thomas, 2009) and of any size (Canham & Hamilton, 2013; Musteen, Ahsan, & Park, 2017; Roza et al., 2011; Rodríguez & Nieto, 2016).

In this paper, we focus on SMEs in transition countries, firms for whom the resource limitations are even more severe (Wadhwa, McCormick, & Musteen, 2017). Because of their small size, these firms typically lack financial resources and management skills (Musteen, Datta, & Butts, 2014; Musteen, Datta, & Francis, 2014). SMEs, however, are important for the economic development of less developed countries (Ullah, 2020), and in transition countries they have played a crucial role in the transformation of these economies (Aidis, 2005). Indeed, they have responded better to the opportunities presented by the change to the economic system than larger firms. Moreover, SMEs have absorbed the bulk of jobs lost in the restructuring and privatization processes of large firms (Hashi & Krasniqi, 2011).

Specifically, we examine how SMEs in transition countries can increase their productivity depending on the regional origin of source inputs. Nowadays both advanced and emerging markets offer attractive locations for supply chain inputs (Pisani & Ricart, 2018). As suggested by Mukherjee et al. (2013), to create value firms must make effective resource choices and remember that—despite the internal nature of configuration processes—they are in constant interaction with the environment. For this reason, these authors believe that environmental contingencies affect firm-specific resource choices. While regions all differ, it stands to reason that one area may be strategically more advantageous (or problematic) than another (Demirbag, Glaister, & Sengupta, 2020). In line with this, studies exist that analyze what factors affect the choice between developed and emerging regions (Demirbag & Glaister, 2010); the impact of cultural and institutional dimensions on the selection of location (Hahn & Bunyaratavej, 2010; Hernández, Nieto & Boellis, 2018); the importance of host country context and local embeddedness (Mukherjee, Lahiri, Ash, & Gaur, 2019); and even the consequences of the different location choices for the configuration of international sourcing strategies (Lin, 2020). Many factors and dimensions influence the choice of country or region from which to obtain inputs, but the implications of this decision require further study.

Among the contextual factors typical of CEE countries, we analyze the formal institutional connections attributable to the EU, along with informal links to other regions such as the former USSR. Taking into account the institutional imprinting literature, we also analyze the role of the communist footprint in the relation between the productivity of SMEs and international sourcing inputs from regions with formal or informal institutional links.

To perform the empirical analysis, we use a sample of SMEs located in Eastern Europe from the Eurobarometer *Internationalisation of Small and Medium-sized Enterprises*. This survey compiles information on firms from the 28 EU member states, along with seven additional countries with special links to the EU. For this study we only include firms from Eastern European transition countries that were EU members or had an association or agreement with the EU (three of these countries are candidates to become EU members) at the time of the survey.²

Our study contributes to the highly topical discussion of the internationalization strategies of firms in transition countries (Bahl, Lahiri, & Mukherjee, 2021; Rašković et al., 2020; Srivastava, & Tyll, 2021). We extend previous work that finds a positive relation between international sourcing activities and firm productivity traditionally limited to developed countries (Amiti & Wei, 2009; Görg, et al., 2008; Nieto & Rodríguez, 2013) by (i) adopting a region-level approach that introduces the dimensions of formal and informal institutional links

² We examine the following countries: Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Slovakia, and Slovenia. For more detailed information about the observations, please see the table in the appendix.

between sourcing location and origin country and (ii) analyzing the moderating role of a communist footprint.

By examining the comparative advantages of different regions, we respond to the call in recent papers for further research to determine if a regional strategy exerts an impact on firm performance (Demirbag et al., 2020). We contribute to this line of research and cast light on the continuing globalization-regionalization debate (see studies by Rugman & Verbeke, 2004) by examining theoretical and empirical evidence on the formal and informal 'region effect' on the potential productivity gains of SMEs in transition countries.

Additionally, this paper joins the growing stream of research studying the influence of imprinting in transition contexts (Kriauciunas & Kale, 2006; Maksimov, Wang, & Luo, 2017; Marquis, & Tilcsik, 2013). We add to recent studies such as Popli, Raitthatha and Fuad (2021), Banalieva et al. (2017), and Thakur-Wernz and Wernz (2022) that analyze how the length of imprinting conditions firms' decisions. Our study complements this research by concentrating on communist footprint effects and providing evidence on its moderating role in the relation between international sourcing strategies and the productivity of SMEs in transition countries.

Lastly, our research adds to the literature on SMEs' international sourcing strategies (Musteen et al., 2017; Roza et al., 2011), in particular the stream that studies the different consequences of these strategies. As far as we are aware, few studies addressing this topic exist. Exceptions include Di Gregorio et al. (2009), who analyze the international competitiveness of Mexican SMEs; Munjal, Requejo and Kundu (2019), who examine the financial performance of small firms in India; and Rodríguez and Nieto (2016), who analyze sales growth in Spanish SMEs. Our study makes a special contribution to this research stream by analyzing the implications for the productivity of SMEs.

2. The research context and literature review

2.1. Transition economies: Institutional context and resource availability

The term 'transition economies' is used to refer to those Eastern European countries that either were part of the former USSR or were under Soviet influence and in recent decades have transitioned to become market economies (Eddleston, Banalieva, & Verbeke, 2020). These countries offer a different context from that traditionally analyzed in developed economies. It is this context that makes it necessary to investigate the applicability of the relations studied in the previous literature (Ramadani et al., 2019). Specifically, institutional theory posits that institutions shape firms' strategies (North, 1990). While stable and market-based institutions are taken for granted in developed contexts, in less developed environments firms continue to be affected by contextual constraints (Peng, Wang, & Jiang, 2008).

Because of their history and the transformations undergone, transition countries are at the crossroads between emerging and advanced economies (Hoskisson et al., 2013; Jaklič et al., 2018; Jaklič et al., 2020). Countries that have recently joined or are aspiring to join the EU must take advantage of the new opportunities presented by membership or association status, while at the same time transforming their economies to converge with European standards and battle global competitive pressures (Giannini & Vitali, 2014). In fact, EU membership or association has made it possible to introduce numerous reforms that have begun to invigorate the economies of these countries and make them more competitive (Friesenbichler, 2020). And yet, the region's communist inheritance of the previous economic system persists in one way or another (Banalieva et al., 2017; Maksimov et al., 2017). Weaknesses in formal institutional systems remain (Bruton, Lau, & Obloj, 2014; Gelbuda, Meyer & Delios, 2008). Systems to protect intellectual property rights tend to be less effective (Javorcik, 2004); political stability is lacking in some instances (Ahlstrom & Bruton, 2010); a multitude of legal and administrative barriers clog processes (Krammer and Jimenez, 2020); state protectionism continues to play a key role in some

sectors (Bruton et al., 2014); political reforms often favor large firms (Hegerty, 2009); and high levels of corruption endure in many cases (Eddleston et al., 2020).

In addition, the norms and values of the informal institutional systems that are embedded in their industries continue to be influenced by the ‘old rules’ of a planned economy (Dixon, Meyer, & Day, 2010; Williams and Vorley, 2015), oriented to the short term and far removed from market demands (Kafouros, & Aliyev, 2016). These contextual conditions imply that these are economies that: (i) do not have state-of-the-art technologies (Krammer, 2009; Maksimov et al., 2017); (ii) have typically had to face difficulties caused by their limited access to capital (Smallbone & Welter, 2001); or (iii) lack a market-oriented organizational culture (Crowley & McCann, 2018).

In line with this, the institutional theory literature recognizes that institutional constraints result in firms gaining access to fewer resources and suffering competitive disadvantages (Krasniqi & Desai, 2016). Thus, these contexts display features that constrain the resources available to firms and the creation of specific competitive advantages. This aspect may also be particularly relevant for SMEs, given that the literature reveals that these firms suffer more limitations to obtain resources—limitations that are likely to be even more evident in transition countries (Hashi & Krasniqi, 2011; Musteen, Francis & Datta, 2010; Smallbone & Welter, 2001).

2.2. International sourcing and firm productivity: An opportunity for SMEs in transition countries

Firm productivity is a key indicator of the improvement in the relation between sales and the resources employed to achieve them. International sourcing strategies may be particularly effective to improve the productivity of firms in Eastern European countries. These strategies should increase productivity via the following mechanisms: i) providing access to better inputs; ii) reallocating resources to more efficient production stages; and iii) exploiting externalization advantages. First, firms engaging in international sourcing obtain access to foreign inputs, which may be available at better cost or quality than domestic ones. Greater use of foreign inputs, then, may boost firm productivity levels via efficiency gains resulting from lower operational and labor costs (Capolupo, Amendolagine, & Ferri, 2017) or from the higher quality of superior inputs (Amiti & Wei, 2009; Görg, et al., 2008; Nieto & Rodríguez, 2013). This may be especially important for firms that are operating in contexts far from the international technological frontier (as is the case with many firms in transition countries). Second, firms in the home country can concentrate on the activities they perform most efficiently and import intermediate inputs from foreign countries where they are produced in better conditions. In this way, firms are able to reallocate their resources to more efficient production stages and redirect their limited but valuable resources to core areas where they can generate greater value (Mukherjee et al., 2013). Third, the supplier advantages offered by international sourcing can raise productivity. Firms can achieve productivity benefits thanks to the specialization and economies of scale of the suppliers (Tang & Livramento, 2010), who may possess the required minimum size and innovative capacity that input-needy firms are lacking (Kedia & Mukherjee, 2009).

Previous studies of the effects of international sourcing strategies on firm-level productivity find positive net effects in different contexts (e. g., Görg et al., 2008, for Irish manufacturing; Nieto & Rodríguez, 2013, for Spanish firms; Tang & Livramento, 2010, for Canadian firms; & Wagner, 2011, for German firms). Given the characteristics and limited resource endowments of SMEs in transition countries, international sourcing strategies could be particularly useful to deliver productivity gains. Since the input sources in each country have varying degrees of efficiency (Bunyaratavej et al., 2008), choosing to look to overseas locations for inputs is a decision of great importance for the configuration of international sourcing strategies (Lin, 2020).

2.3. Where should firms in transition countries look for inputs to boost their competitiveness?

The key question for firms in transition countries to answer is where exactly they should seek inputs to boost their competitiveness, bearing in mind the characteristics of the origin and destination country. The specific institutional contexts of the home countries may explain why firms in these markets follow different trajectories from those of MNEs in developed economies (Gammeltoft, Pradhan, & Goldstein, 2010). The literature on emerging MNEs underlines how international competitiveness is determined by the firm-specific advantages (FSAs) of each enterprise. But these FSAs largely depend on the conditions of the origin country (Marano et al., 2016; Narula & Kodiyat, 2016), determined as they are by a variety of national factors including cost, access to productive elements, market conditions, policies, and the interests of different groups, etc. (Hennart, 2012; Buckley, 2014). Emerging economies are usually unfavorable contexts for generating significant firm-specific ownership advantages of the traditional kind (Gammeltoft, Barnard, & Madhok, 2010). For this reason, emerging multinationals use international expansion as a means of alleviating some latecomer disadvantages (Luo & Tung, 2007; Thakur Wernz, Cantwell & Samant, 2019).

Each origin country, however, has country-specific advantages (CSAs) (Dunning, Kim, & Park, 2008). Because many of these home-country advantages are not freely available to all companies or cannot be easily exploited by emerging multinationals when they enter other countries, these firms must possess FSAs—not CSAs—when they internationalize (Ramamurti, 2012). Similarly, conditions exist in the destination country (e.g., cultural, social, institutional, economic, etc.) that exercise an effect on the characteristics and behavior of firms (Luo & Zhang, 2016). In sum, successfully marrying FSAs with new CSAs in markets where supply inputs are sought and avoiding the liability of outsidership will depend on the degree of knowledge and experience of these locations possessed by firms (Arregle et al., 2013).

The rise of regional integrations around the world has generated a series of advantages that merit attention (Beleska-Spasova, Loykulnanta, & Nguyen, 2016). Many studies, then, include a regional dimension in their analyses of international strategies and the performance of MNEs (Verbeke & Asmussen, 2016; Verbeke, Kano, & Yuan, 2016; to cite a few examples). The regionalization hypothesis stresses the advantages of internationalization in geographical or ‘regionalized’ terms (Rugman & Verbeke, 2007). According to this hypothesis, firms are better able to exploit the specific advantages of their home regions and thus minimize the liabilities of foreignness. Different studies suggest that a regional perspective is useful to explain the international behavior of small firms (Baum, Schwens, & Kabst, 2015) or firms conducting their early internationalization efforts and attempting to ensure they profit from FSAs and CSAs (Sui & Baum, 2014). Thus, in line with other studies that analyze the internationalization of SMEs in developing economies (Lopez, Kundu, & Ciravegna, 2009), we extend previous ideas on CSAs by adopting a regional-level approach. The regional dimension becomes especially important for countries that share institutional links—formal and informal—with various regions simultaneously, as is the case with transition countries. Their international relations with EU and Eastern bloc countries require research to reveal the potential benefits of the ‘region effect.’

Firms from transition countries face the challenge of managing an ever-more global value chain while operating under conditions that result from the institutional features of their origin countries. When deciding to exploit inputs from other locations, these institutional features can create a ‘region effect’ that may present particular challenges. Regional differences exist, many of them related to proximity and institutions. And certain regions can prove to be more or less propitious for firms looking to develop international strategies (Demirbarg et al., 2020). Firms that seek opportunities abroad incur search and deliberation costs (Rangan, 2000). Banaliev and Dhanaraj (2013) extend

institutional research by incorporating these costs in their analysis of firm's home-region orientation and performance. These authors find that spatial proximity and institutional commonality across partners within the home region influence these search and deliberation costs. Thus, the advantages obtained can stem from geographical, cultural, institutional, political, or economic proximity (Ghemawat, 2001). But when such proximity is lacking, firms find the task of working outside their home regions much more difficult (Verbeke et al., 2016).

We posit that the new formal institutional links resulting from EU accession—in conjunction with the existence of informal links (i.e., the old rules) left over from communist regimes—will have a marked impact on the international sourcing location decisions of SMEs in transition countries. These firms face the challenge of balancing the advantages and disadvantages of different regions depending on their formal and informal institutional links. Consequently, we adopt a regional approach that views institutional links with the origin country as a key factor that may influence the capacity of firms to take advantage of their international supply chain configurations.

3. Research hypotheses

3.1. Looking for inputs from EU countries: The formal 'region effect'

The firms examined in this study are located in EU member states or in countries that have signed a Stabilization and Association Agreement (SAA) with the EU. Institutions, firms and individuals from EU member states and signatory countries of SAAs enjoy access to a *trans*-national area of action in which shared norms for doing business exist and are respected. This *trans*-national union functions as one region insofar as formal institutional links exist among the member states, generating what we term a formal 'region effect.' EU development policies, both in legal and economic terms, have multiplied continuously since the mid-1980s (Rodríguez-Pose & Fratesi, 2004). Economic integration permits the free trade of goods and free movement of capital, which in turn hugely facilitate commercial transactions among member states (Malhotra, Agarwal, & Baalbaki, 1998). Common economic regulations also help firms implement certain international strategies in these contexts, such as international sourcing strategies (Tavares & Young, 2006). The institutional links between partners in the home region minimize deliberation costs associated with the search for opportunities in foreign markets (Banalieva & Dhanaraj, 2013). In addition, institutional similarities may provide better conditions for obtaining benefits from offshore outsourcing by reducing switching costs and adjustments to a foreign institutional environment (Choi et al., 2018). Analogous regulatory systems can facilitate and safeguard transactions—particularly sourcing activities—among firms. As information asymmetry is reduced, the risk of opportunism is mitigated and transactions can be performed more easily. These factors contribute to the acquisition of superior inputs from these regions, inputs that make the management of value chain activities more efficient and ultimately boost firm productivity.

In sum, we posit that the formal institutional conditions shared by firms from EU member countries (or from SAA signatory countries) will help them obtain inputs in a more advantageous way and will contribute to improved productivity. We capture this idea in our first hypothesis:

Hypothesis 1. International sourcing from regions with formal links with their home country will improve the productivity levels of SMEs in transition economies.

3.2. Looking for inputs from former communist countries: The informal 'region effect'

Firms from transition countries may also find comparative advantages or disadvantages related to the institutional conditions of their

origin country. EU membership and SAAs have brought changes to countries' political and legal systems, changes that have strengthened their formal institutional frameworks. In contrast, though, their informal institutions—social norms, traditions, unwritten codes (North, 1990)—have not evolved in the same way. Codes of conduct, norms and social values have not kept pace with the times, a so-called communist legacy or imprint endures (Banalieva, Puffer, & McCarthy, 2018; Banalieva et al., 2017). Indeed, Russia continues to lead transition economies in FDI outflows (World Investment Report, 2020). The communist inheritance, with norms typical of a centralized economy, allows firms from these countries to feel culturally closer to those with a similar communist heritage and/or economy based on collaborative norms (Marinova et al., 2020). We capture the impact of the informal institutional links that firms find in these regions via the term informal 'region effect.'

The relative costs for a firm of evaluating the reliability and capabilities of a partner decrease as the institutional and cultural proximity between them increases (Choi et al., 2018; Slangen, & Van Tulder, 2009). Indeed, firms from these contexts are especially inclined to forge or maintain links with partners with whom they share linguistic or cultural ties (Gammeltoft et al., 2010). Firms' social networks can act as a key resource to exploit the advantages of international transactions (Musteen et al., 2010). In transition countries, the codes of conduct often still resemble those of former Soviet times, with systems that rely on reciprocal networks of relationships and connections to overcome the weaknesses of the formal institutional environment (Tonoyan et al., 2010). These networks may reduce transaction costs and help firms mobilize resources in situations of uncertainty and adverse institutional conditions (Ahlstrom & Bruton, 2006). As is widely recognized, for historical reasons many firms' social networks tend to be local or national (Rangan, 2000). And this is certainly the case in transition countries, where firms seeking to internationalize typically form networks with others from countries with similar historical roots.

Thus, firms from transition countries can still take advantage of the informal institutional commonalities and characteristics they share with those from countries with a similar background in the Soviet bloc. An opportunity exists, then, for these firms to lower the costs associated with seeking, contracting, and exploiting foreign inputs, and thereby increase their productivity. The preceding arguments lead us to posit our second hypothesis:

Hypothesis 2. International sourcing from regions with informal links with their home country will improve the productivity levels of SMEs in transition economies.

3.3. The effects of the communist footprint

Firms from the same country and industry may behave differently depending on their external environments (Thakur-Wernz & Wernz, 2022). In particular, the organizational imprinting literature suggests that institutional conditions during fledgling stages affects firms' capacities, norms, strategies, and future actions (Marquis & Tilcsik, 2013; Simsek, Fox, & Heavy, 2015). This is especially relevant for firms in emerging markets due to the influence that governments wield in these contexts over business decisions (Gammeltoft et al., 2010). Recent studies extend imprinting theory by considering the duration of exposure to specific institutional environments in their analyses of the impact of imprinting on individual behavior (Banalieva et al., 2017), firm behavior (Thakur-Wernz & Wernz, 2022), or firm performance (Popli et al., 2021). By examining firms in the CEE transition context, we develop specific arguments on the impact exerted by their historical institutional contexts related to the existence of a communist imprint (Shinkle & Kriauciunas, 2012).

The extent of the informal institutional influence exerted by

communism (the communist imprint) depends on the length of exposure—the communist footprint (Banalieva et al., 2017). We take the concept of the communist footprint and apply it to SMEs in transition countries. Specifically, we propose that the length of time firms operated under communist regimes (i.e., a longer or shorter communist footprint) will modify the relation between SME productivity and international sourcing strategies.

Drawing on the theoretical underpinnings of organizational imprinting, we posit that a longer communist footprint exerts longer-lasting effects on the norms and operating practices of firms. Kriauciunas and Kale (2006) argue that—when faced with a transition to a market-oriented context—firms from countries with longer communist footprints will have to combine their existing knowledge with newly acquired information. These authors also suggest that these firms are less likely to be able to adapt their knowledge sets to the new context successfully. These factors may affect the ability of managers to operate in contexts with stronger institutional conditions (with their different rules and ways of doing business) and to negotiate with foreign firms in developed countries (with no opportunity to rely on personal networks or ties).

Thus, we argue that firms with longer communist legacies will encounter greater difficulties to forge relationships with EU firms because they lack the experience of working with partners from more market-oriented contexts (McMillan & Woodruff, 2002). Deliberation costs, for example, tend to be more problematic when familiarity or experience are absent (Rangan, 2000). Indeed, the advantages that we postulate are supplied by formal institutional links will be offset by the practices resulting from the communist imprinting process. Therefore, we believe that relationships with EU-based partners will be more challenging as the communist footprint is magnified by increased deliberation costs and a greater resistance to change, which ultimately result in a reduction in the efficiency of transactions. In other words, the degree of imprinting from a communist regime will affect the ability of firms to adapt and build new relationships with EU partners, thus limiting the potential benefits of international sourcing on productivity.

In sum, we posit that, despite formal institutional links, firms with longer communist footprints will encounter greater difficulty to exploit foreign inputs in terms of productivity. We capture this idea in our third hypothesis:

Hypothesis 3. Productivity gains achieved by SMEs via inputs from regions that share formal institutional links with their home country will decrease as the communist footprint increases.

Firms with longer communist footprints have more ingrained behaviors and practices such as limited competition or relying on personal ties with bureaucrats. Networks are a fundamental asset in these contexts, where companies use ongoing relationships among them to substitute for missing institutions (Peng & Heath, 1996; Tonoyan et al., 2010). These practices make it possible to take greater advantage of relationships with firms from contexts with which they maintain informal institutional links—links that originate from their shared communist past (McMillan & Woodruff, 2002). Specifically, we argue that firms with longer communist footprints may be better placed (than those created in the post-communist era) to deal with organizations from these contexts. A stronger tradition of working together in past networks and a similar knowledge set based on the previous economic system will contribute to reduced deliberation costs.

Firms with longer communist footprints, then, may take better advantage of international inputs from regions with which they share informal institutional links, thus increasing the potential for productivity gains. We capture this idea in our fourth hypothesis:

Hypothesis 4. Productivity gains achieved by SMEs via inputs from regions that share informal institutional links with their home country will increase as the communist footprint increases.

4. Empirical analysis

4.1. Sample

Our empirical analysis uses data from the Eurobarometer *Internationalisation of Small and Medium-sized Enterprises* survey, which was requested by the European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs and coordinated by the Directorate-General for Communication (European Commission, 2015). The survey was performed in 2015 on a sample of manufacturing and services SMEs (firms with 1–249 employees) from the 28 EU member states. The sample was selected by applying quotas for size and sector ranges; these quotas were adjusted to take account of the population size of each country and to ensure that the sample was representative.

In this study we only consider firms from Eastern European transition countries that were EU members or had signed SAAs with the EU at the time of the survey. Specifically, the study includes firms from: Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Slovakia and Slovenia (see Appendix). The final sample used in our analyses includes 2768 firms.

4.2. Variables

4.2.1. Dependent variable

Productivity: This variable captures firm-level performance via labor productivity (sales per employee); this indicator has been used previously to analyze determinants of productivity in Eastern European countries (Friesenbichler & Peneder, 2016; Gogokhia & Berulava, 2021). Specifically, we measure *Productivity* as a continuous variable calculated via the logarithm of each firm's sales per employee (Crowley & McCann, 2018; Gkypali, Love, & Roper, 2021; Konrad, & Mangel, 2000; Mauri, Song, & Neiva de Figueiredo, 2017; Nieto & Rodríguez, 2013).

4.2.2. Independent variables

The independent variables capture international sourcing strategies in different locations. This strategy occurs when the firm incorporates inputs that are produced in a foreign location, transferred to its home country via imports, and incorporated into its production process (see Coucke & Sleuwaegen, 2008; Gleich, Schmeisser, & Zschoche, 2017; Nassimbeni, 2006; Rodríguez & Nieto, 2016). We construct the variables for international sourcing depending on the region from which the SMEs in transition countries import the inputs, in line with a regional classification used by previous studies (Demirbag et al., 2020; Flores, et al., 2013; Lorentz et al., 2016; Vos et al., 2016; among others). Specifically, we identify the following regions from which inputs originate: the EU; the US; China; India and Southeast Asia; Russia, the Caucasus and other Eastern European countries; Middle East and North Africa; Latin America; and Other regions.

To test our hypotheses, we focus on two specific independent variables that allow us to capture the international sourcing from regions with formal and informal links, respectively.

- (i) *International sourcing from EU region* is a dichotomous variable that takes value 1 when the firm acquires inputs from the EU; it takes value 0 otherwise. This variable is used to test hypotheses 1 and 3, as the EU is a region with which the focal firm has a formal link via its home country's membership of or association agreement with the union.
- (ii) *International sourcing from Russia and CEE region* is a dichotomous variable that takes value 1 when the firm acquires inputs from Russia, the Caucasus or other Eastern European countries; it takes value 0 otherwise. This variable is used to test hypotheses 2 and 4, as Russia and the CEE is a region with which the focal firm has

an informal link due to its home country’s previous membership of the USSR or time spent under communist influence.

International sourcing from the rest of the regions identified are included as control variables.

4.2.3. Moderator variable

Following Banalieva et al. (2017), we employ the variable *Communist footprint* to capture the number of years the firm operated under a communist system. Given the fact that some firms were founded after the fall of communism in these countries, the variable takes positive and negative values. Positive values capture the number of years the firm operated under the communist system, and negative values capture the number of years (in negative terms) the firm was born after the fall of communism; this variable ranges from –25 to 51 years.

4.2.4. Control variables

To control if the firm imports inputs from other regions, we include the following six dummy variables: US (*International sourcing from US*); China (*International sourcing from China*), India and Southeast Asia (*International sourcing from India and Southeast Asia*); Middle East and North Africa (*International sourcing from MENA*); Latin America (*International sourcing from Latin America*); and other regions (*International sourcing from other regions*). In all instances these variables take value 1 if the firm imports from the region and value 0 when this is not the case.

Additionally, we include different control variables to collect information on factors that may affect the productivity of firms (Lee & Rugman, 2012; Nieto & Rodríguez, 2013). These factors include: (1) international activity, measured by a continuous variable that captures the percentage of exports over total sales (*Export intensity*) and three dichotomous variables that capture if the firm has performed Foreign Direct Investment (*FDI*), R&D agreements with foreign partners (*International R&D Agreement*) and has worked as a sub-contractor for a foreign-based firm (*Foreign supplier*); (2) being a new firm (*New venture*), this is a dichotomous variable that takes value 1 when the firm is six years old or younger; (3) membership of a national group (*National group*), this is a dichotomous variable that take value 1 if the firm belongs to a group in its origin country and value 0 otherwise; (4) membership of the firm to a foreign group (*International group*), this is a

Table 1 Descriptors.

Variable	Mean	St. deviation	Min	Max
Productivity (ln)	10.49	2.82	0	16.80
Int. sourc. EU region	0.47	0.50	0	1
Int. sourc. Russia and CEE region	0.09	0.28	0	1
Communist footprint	-8,07	11.56	-25	51
Int. sourc. US	0.04	0.20	0	1
Int. sourc. China	0.08	0.27	0	1
Int. sourc. India and southeast Asia	0.03	0.17	0	1
Int. sourc. MENA	0.02	0.16	0	1
Int. sourc. Latin Am.	0.01	0.09	0	1
Int. sourc. Other regions	0.03	0.18	0	1
Export intensity	15.85	29.1	0	100
FDI	0.04	0.19	0	1
International R&D	0.09	0.29	0	1
Foreign supplier	0.20	0.40	0	1
New venture	0.16	0.36	0	1
National group	0.06	0.24	0	1
International group	0.09	0.29	0	1
Size (empl ln)	2.82	1.19	0.69	5.52
Sector				
Manufacturing	0.23	0.42	0	1
Retail	0.31	0.46	0	1
Services	0.24	0.43	0	1
Industry	0.22	0.42	0	1
GDP origin per capita (ln)	10.02	0.42	8.71	10.38

Total observations = 2,768

Table 2 Correlation matrix and collinearity diagnostics of the independent and control variables.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	VIF	
1 Productivity	1																				1.27
2 Int. sourc. EU region	0.20***	1																			1.11
3 Int. sourc. Russia and CEE region	0.07***	0.24***	1																		1.40
4 Communist footprint	-0.03	0.02	0.03	1																	1.12
5 Int. sourc. US	0.08***	0.19***	0.07***	0.04*	1																1.15
6 Int. sourc. China	0.07***	0.22***	0.1***	-0.02	0.25***	1															1.08
7 Int. sourc. India & southeast Asia	0.06***	0.15***	0.08***	-0.001	0.15***	0.30***	1														1.08
8 Int. sourc. MENA	0.05***	0.11***	0.13***	0.01	0.15***	0.19***	0.13***	1													1.04
9 Int. sourc. Latin Am	0.06***	0.09***	0.08***	-0.01	0.12***	0.15***	0.19***	0.14***	1												1.04
10 Int. sourc. Other regions	0.04***	0.1***	-0.001	0.03	0.08***	0.11***	0.05*	0.03	-0.02	1											1.04
11 Export intensity	0.15***	0.31***	0.16***	0.01	0.13***	0.18***	0.11***	0.07***	0.12***	0.08***	1										1.23
12 FDI	0.06***	0.12***	0.13***	0.01	0.08***	0.06***	0.08***	0.04*	0.09***	0.12***	0.09***	1									1.09
13 International R&D	-0.03	0.16***	0.09***	0.00	0.05***	0.05***	0.04*	0.02	0.00	0.06***	0.16***	0.16***	1								1.12
14 Foreign supplier	0.07***	0.15***	0.04*	-0.06*	0.08***	0.06***	0.03	0.03	0.01	0.03	0.22***	0.17***	0.19***	1							1.13
15 New venture	0.05***	-0.04*	0.00	-0.47***	0.08***	0.06***	0.03	-0.02	-0.02	-0.01	0.03	-0.02	0.00	0.00	1						1.31
16 Domestic group	-0.04	-0.03	-0.01	0.09***	0.01	0.02	0.01	0.03	-0.02	-0.02	-0.06**	0.00	0.00	-0.06**	-0.002	1					1.04
17 International group	0.13***	0.16***	0.06***	-0.04*	0.07***	0.07***	0.09***	0.05*	0.07***	0.07***	0.18***	0.09***	0.1***	0.12***	-0.01	-0.1***	1				1.08
18 Size	-0.05***	0.16***	0.08***	0.29***	0.02	0.05*	0.02	0.04*	0.03	0.05*	0.16***	0.08***	0.11***	0.08***	-0.19**	0.11***	0.12***	1			1.18
19 GDP origin per cap	0.59***	0.12***	-0.05*	-0.01	0.08***	0.06***	0.02	0.01	0.01	0.00	0.14***	0.05**	-0.12***	0.11***	0.03	-0.04	0.09***	0.04	1		1.08
																				Mean VIF	1.15

* p < 0.05; ** p < 0.01; *** p < 0.001.

dichotomous variable that take value 1 if the firm belongs to a group from a foreign country and value 0 otherwise; (5) the size of the firm (*Size*) measured via the logarithm of the firm’s number of employees; and lastly (6) the effect of the firm’s sector, captured by categorical variables (*Sector*) related to different NACE codes (which includes information on manufacturing and services sectors).

We also include control variables that collect information on the firm’s country of origin. Specifically, we incorporate a variable (*GDP origin per capita*) to capture the level of economic development of the origin country (Friesenbichler, 2020).

Table 1 displays the main features of the variables used and Table 2 contains their correlations. The correlation matrix in Table 2 also provides information on potential multicollinearity problems by including the individual values and mean VIFs of the variables. None of the individual values is greater than 10.0 and the mean value of the VIFs does not exceed 6.0, indicating the absence of multicollinearity problems (Neter, Wasserman, & Kutner, 1989).

4.3. Empirical model

Given the continuous nature of our dependent variable (*Productivity*), we use lineal regression models with the following specifications:

- (1) $Productivity_i = x + \beta_1(Int. \text{ sourc. EU region})_i + \beta_2(Int. \text{ sourc. Russia and CEE region})_i + \beta_3(Communist \text{ footprint})_i + \beta_4(Int. \text{ sourc. US})_i + \beta_5(Int. \text{ sourc. China}) + \beta_6(Int. \text{ sourc. India and southeast Asia})_i + \beta_7(Int. \text{ sourc. MENA})_i + \beta_8(Int. \text{ sourc. Latin Am.})_i + \beta_9(Int. \text{ sourc. Other regions})_i + \beta_{10}(Export \text{ intensity})_i + \beta_{11}(FDI)_i + \beta_{12}(International \text{ R\&D Agreement})_i + \beta_{13}(International \text{ outsourcing})_i + \beta_{14}(New \text{ venture})_i + \beta_{15}(National \text{ group})_i + \beta_{16}(International \text{ group})_i + \beta_{17}(Size)_i + \beta_{18}(\sum Sector)_i + \beta_{19}(GDP \text{ origin per capita})_i + \varepsilon_i$
- (2) $Productivity_i = x + \beta_1(Int. \text{ sourc. EU region})_i + \beta_2(Int. \text{ sourc. Russia and CEE region})_i + \beta_3(Communist \text{ footprint})_i + \beta_4(Int. \text{ sourc. EU region X Communist footprint})_i + \beta_5(Int. \text{ sourc. Russia and CEE region X Communist footprint})_i + \beta_6(Int. \text{ sourc. US})_i + \beta_7(Int. \text{ sourc. China}) + \beta_8(Int. \text{ sourc. India and southeast Asia})_i + \beta_9(Int. \text{ sourc. MENA})_i + \beta_{10}(Int. \text{ sourc. Latin Am.})_i + \beta_{11}(Int. \text{ sourc. Other regions})_i + \beta_{12}(Export \text{ intensity})_i + \beta_{13}(FDI)_i + \beta_{14}(International \text{ R\&D Agreement})_i + \beta_{15}(International \text{ outsourcing})_i + \beta_{16}(New \text{ venture})_i + \beta_{17}(National \text{ group})_i + \beta_{18}(International \text{ group})_i + \beta_{19}(Size)_i + \beta_{20}(\sum Sector)_i + \beta_{21}(GDP \text{ origin per capita})_i + \varepsilon_i$

$$MENA)_i + \beta_{10}(Int. \text{ sourc. Latin Am.})_i + \beta_{11}(Int. \text{ sourc. Other regions})_i + \beta_{12}(Export \text{ intensity})_i + \beta_{13}(FDI)_i + \beta_{14}(International \text{ R\&D Agreement})_i + \beta_{15}(International \text{ outsourcing})_i + \beta_{16}(New \text{ venture})_i + \beta_{17}(National \text{ group})_i + \beta_{18}(International \text{ group})_i + \beta_{19}(Size)_i + \beta_{20}(\sum Sector)_i + \beta_{21}(GDP \text{ origin per capita})_i + \varepsilon_i$$

where *x* is the value of the constant, β ’s represent the coefficients of the different variables included in the model, and ε ’s the error term. To test hypotheses 1 and 2, the significance of the β ’s corresponding to regions with formal and informal links should be checked (i.e., *International sourcing from EU region* and *International Sourcing from Russia and CEE region*). To test hypotheses 3 and 4, the significance of the β ’s corresponding to interaction terms between *Communist footprint* with *International sourcing from EU region* and *International Sourcing from Russia and CEE region* should be checked, respectively.

5. Results

Table 3 displays the results of our analyses. Model 1 only includes control variables, while models 2 to 5 include the independent variables we use to test our study’s hypotheses. Specifically, in model 2 the coefficients for *International sourcing from EU region* ($\beta = 0.491$, $p < 0.001$) and *International sourcing from Russia and CEE region* ($\beta = 0.626$, $p < 0.001$) are positive and significant. These results confirm that firms from transition countries boost their productivity when they obtain international inputs from regions like the EU, regions with which they have a formal institutional link. The findings also show that inputs from areas with shared informal institutional links—such as Russia, the Caucasus and other Eastern European countries region—increase the productivity of firms from transition countries. Hypotheses 1 and 2, therefore, are supported.

Models 3, 4 and 5 include the interaction effects. Specifically, model 3 includes the interaction term between *Communist footprint* and *International sourcing from EU region*, which shows a negative and significant effect ($\beta = -0.018$, $p < 0.05$). Additionally, model 4 includes the interaction term between *Communist footprint* and *International sourcing from*

Table 3
Results of regression analyses of International sourcing location and SME productivity.

	(1) Productivity	(2) Productivity	(3) Productivity	(4) Productivity	(5) Productivity
Int. sourc. EU region		0.491*** (0.1)	0.341** (0.114)	0.494*** (0.1)	0.350** (0.115)
Int. sourc. Russia & CEE region		0.626*** (0.157)	0.641*** (0.157)	0.527** (0.182)	0.595** (0.184)
Communist footprint		0.004 (0.004)	0.012* (0.005)	0.005 (0.004)	0.012* (0.005)
Int. sourc. EU region X Communist footprint			-0.018* (0.007)		-0.017* (0.008)
Int. sourc. Russia & CEE region X Communist footprint				-0.0146 (0.0134)	-0.007 (0.014)
Int. sourc. US	-0.021 (0.221)	-0.170 (0.221)	-0.143 (0.221)	-0.174 (0.221)	-0.147 (0.221)
Int. sourc. China	-0.054 (0.170)	-0.142 (0.169)	-0.151 (0.169)	-0.141 (0.169)	-0.150 (0.169)
Int. sourc. India & Southeast Asia	0.297 (0.257)	0.217 (0.255)	0.223 (0.255)	0.225 (0.255)	0.226 (0.255)
Int. sourc. MENA	0.592* (0.279)	0.438 (0.278)	0.454 (0.278)	0.434 (0.278)	0.452 (0.278)
Int. sourc. Latin Am.	0.883 [†] (0.492)	0.789 (0.488)	0.765 (0.488)	0.772 (0.488)	0.758 (0.488)
Int. sourc. Other regions	0.326 (0.237)	0.310 (0.236)	0.330 (0.235)	0.307 (0.236)	0.328 (0.236)
Export intensity	0.007*** (0.002)	0.004** (0.002)	0.004** (0.002)	0.004** (0.002)	0.004** (0.002)
FDI	0.152 (0.225)	0.0232 (0.224)	0.0221 (0.224)	0.0180 (0.224)	0.0198 (0.224)
International R&D	0.402** (0.153)	0.289 [†] (0.153)	0.290 [†] (0.153)	0.290 [†] (0.153)	0.290 [†] (0.153)
Foreign supplier	-0.046 (0.113)	-0.0729 (0.113)	-0.0727 (0.113)	-0.0681 (0.113)	-0.0705 (0.113)
New Venture	0.0759 (0.118)	0.136 (0.131)	0.141 (0.131)	0.132 (0.131)	0.139 (0.131)
ln_size_empl	-0.140*** (0.038)	-0.179*** (0.039)	-0.178*** (0.039)	-0.179*** (0.039)	-0.178*** (0.039)
National group	0.05 (0.175)	0.061 (0.174)	0.068 (0.174)	0.056 (0.174)	0.065 (0.174)
International group	0.599*** (0.151)	0.552*** (0.151)	0.541*** (0.151)	0.543*** (0.151)	0.538*** (0.151)
Sector	Included	Included	Included	Included	Included
GDP origin	3.858*** (0.102)	3.840*** (0.102)	3.849*** (0.102)	3.843*** (0.102)	3.850*** (0.102)
Constant	-28.39*** (1.026)	-28.32*** (1.023)	-28.34*** (1.022)	-28.33*** (1.023)	-28.34*** (1.023)
F	98.51***	88.34***	84.77***	84.38***	81.07***
R2	0.39	0.40	0.40	0.40	0.40
Log likelihood	-6110.3	-6084.8	-6081.7	-6084.2	-6081.6

Standard errors in parentheses.

N. Observations: 2,768.

[†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

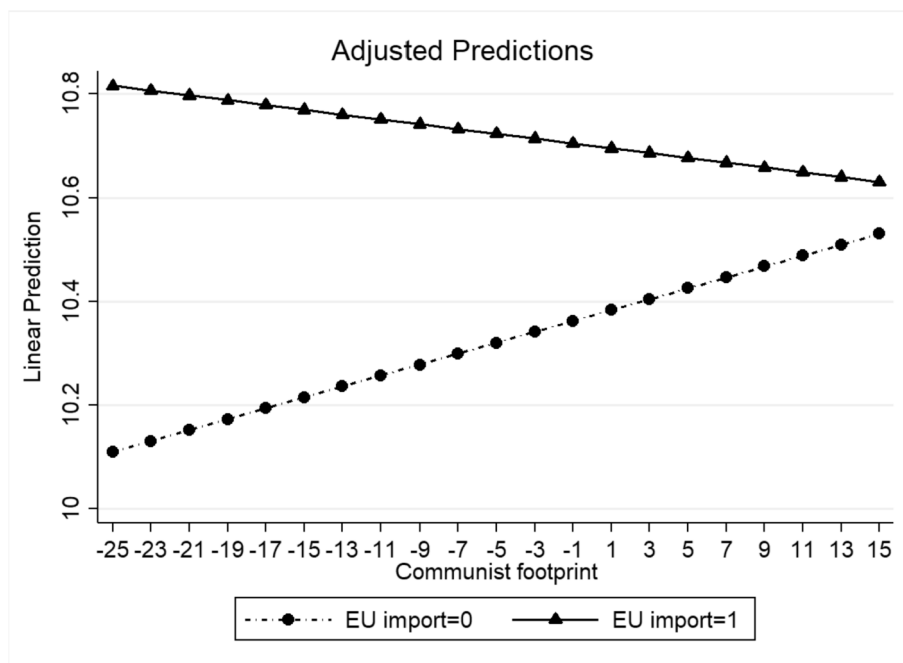


Fig. 1. Predicted margins. Productivity when importing/not importing from the EU at different levels of communist footprint.

Russia and CEE region, which shows a non-significant effect. Lastly, model 5 includes all the variables. These findings are consistent with those of the previous models. In sum, the results confirm that in the case of SMEs (in transition countries) with longer communist footprints, the positive relation between acquiring inputs from the EU and firm productivity is weakened, as postulated in hypothesis 3. In contrast, the findings do not provide empirical support for hypothesis 4. In the case of SMEs with longer communist footprints that acquire inputs from Russia, the Caucasus or other Eastern European countries, the relation between importing from this region and firm productivity is not affected.

We have calculated the marginal effects and represented them graphically in Fig. 1. As can be seen, there is a moderation effect of communist footprint in the case of SMEs importing from the EU region. Specifically, the graph reflects that SMEs decrease their productivity as their communist footprint grows.

Beyond these findings, a number of other results for some of the control variables reveal significant relations with the productivity of the firms from the transition countries analyzed. Regarding other regions, the coefficient for *International sourcing from MENA* is positive and significant in all models. Similarly, the coefficient for *International sourcing from Latin America* is positive and significant in all models. These results reveal that the firms in the transition countries analyzed also obtain positive and significant productivity gains when they acquire inputs from these regions.

Furthermore, the international activity (*Export intensity* and *International R&D*) of the firm exerts a positive and significant effect. Other control variables present significant effects. Membership of an international group (*International group*) is also positively and significantly related with firm productivity. For its part, the coefficient for firm size (*Size*) is negative and significant, showing that SMEs with greater numbers of employees have lower levels of productivity. Lastly, firms from transition countries with higher per capita GDP levels (*GDP origin per capita*) display higher levels of productivity.

5.1. Additional tests

We have performed additional analyses as robustness tests. Specifically, to address potential endogeneity issues, we adopt an instrumental-variable approach by performing a two-stage model

(Antonakis et al., 2010; Leoncini, 2016; Rodríguez & Nieto, 2016; Santamaría, Nieto, & Rodríguez, 2021). In Step 1, we estimate the most likely value for international sourcing activities via a *probit* model. In this first step, the *probit* model provides us with a prediction value that is then included in Step 2 in the corresponding regression model specified to analyze firm-level productivity. The results obtained provide support for the same conclusions as those discussed in this article, thus showing the robustness of our analyses. These results are available on request.

6. Discussion and conclusions

In this paper we advance our knowledge of international sourcing and the productivity of SMEs in Eastern European transition countries. The choice of location for international sourcing activities is a strategic decision with important implications for competitiveness and firms must weigh up numerous internal and external factors in the decision process. Following authors who introduce a regional perspective to studies of MNE location strategies (Arregle et al., 2013; Demirbag et al., 2020; Rugman and Verbeke, 2004), our paper analyzes the impact of international sourcing from regions with formal and informal institutional links. We stress the impact exerted by the conditions of the origin country and the links with the region from which the international inputs are acquired. We take into account the existence of formal and informal institutional links with these regions, as well as the moderating effect of the length of the communist footprint on the relations analyzed.

Our arguments focus on these aspects because institutional context determines many firm-level characteristics, along with the potential comparative advantages of destination regions. We posit that firms in transition countries that acquire international inputs will obtain greater benefits when they turn to regions with which they share formal or informal institutional links. EU membership or association provides formal institutional links that facilitate access to resources in the EU region compared to other regions (Verbeke et al., 2016). In a similar way, regions comprising Russia and other Eastern European or Caucasian countries offer specific location advantages via informal links that result from shared communist heritage, historical roots, or cultural norms. Indeed, we postulate that firms in European transition countries will improve their productivity by acquiring resources in regions with which they share informal institutional links (e.g., the former Soviet

bloc). Our first two research hypotheses capture these ideas and empirically test them via a large sample of firms in transition countries. The empirical results show that productivity gains for these firms are greater when they acquire inputs from the EU or from former Soviet bloc countries.

Productivity gains derived from international sourcing from both regions can be explained by formal and informal ‘region effects,’ respectively. On the one hand, international sourcing from the EU helps the firms under study improve their productivity levels. Without doubt, economic and commercial integration gives rise to a free trade zone that facilitates transactions among firms from EU member states. These formal institutions deliver a single market without physical, technical, or fiscal barriers; they promote a more efficient exchange of goods, which may explain the greater benefits experienced by the firms. And on the other hand, informal links generate an informal ‘region effect.’ The existence of a formal framework such as the EU is not sufficient to erase historical, institutional, geographical, and cultural differences among countries (Malhotra et al., 1998). This is especially so when the transition countries in question have joined or become associated with the EU after (since 2004) the original member states. Differences in consumer behavior and codes of conduct can be decisive factors within the EU itself, and these differences can in turn cause inter-regional similarities to surface via informal institutional connections. This is what occurs with countries from the former Soviet bloc, a region that shares close historical roots and cultural links. In such a region, then, consumer behavior, cultural values and codes of conduct are similar to those of transition countries, a circumstance which may make transactions with these countries more advantageous and provide an explanation for the positive relation we find with productivity.

Since not all firms have been exposed to a communist system to the same degree, the length of this exposure and its impact should be considered. The length of exposure to a communist regime—the communist footprint—determines the conditions under which firms operate. Our results indicate that a longer communist footprint weakens the positive relation between international inputs from the EU and increased firm productivity. The benefits supplied by formal links are diminished because of the higher transaction costs that occur in less familiar contexts with greater cultural distance and when partners have little experience of working together. Contrary to our expectations for the relation with international inputs from Russia and CEE regions, our findings do not provide empirical support for the positive moderating effect. The productivity benefits delivered by international inputs from these regions do not change on account of a longer or shorter communist footprint. In other words, the advantages associated with these informal links are a simple result of the shared communist heritage; the length of the communist footprint makes no difference.

6.1. Theoretical implications

Our paper contributes to the literature on internationalization by extending and rethinking theoretical concepts in contexts distinct from those of more advanced economies. Specifically, this study advances our knowledge of internationalization strategies and the productivity of firms in Eastern European transition countries, thereby making it possible to better understand the international behavior of CEE firms (Jaklič et al., 2020). The increasing regional focus and the specific contextual nature of these countries require internationalization researchers to deepen the analysis of the strategies adopted by these firms (Jaklič et al., 2018). We add to studies that examine the regional dimension and call for further research into the impact of a regional strategy on firm performance (Demirbag et al., 2020). Our study demonstrates the benefits for firms in transition countries of seeking productive inputs in regions with which they have institutional links. This conclusion is in accordance with Rugman et al. (2009), who find that a regional strategy can be more beneficial than a global one for the supply chain activities of US MNEs.

Beyond this, international business research stresses the importance of considering the institutional and country environment to understand international trajectories of multinational firms in emerging contexts (Gammeltoft et al., 2010). Based on the premises of institutional theory, our study advances in this direction by examining institutional links to explain the results of international sourcing strategies. Our focus on formal and informal institutional dimensions to reveal the relative advantages of international sourcing contributes to studies that analyze how institutions affect the internationalization of firms in emerging countries (Krammer, Strange, & Lashitew, 2018; Peng et al., 2008). Although local conditions in transition countries play an extremely important role in the acquisition of resources for firms, studies of internationalization and its results have underplayed their impact (Marano et al., 2016). In line with Gugler (2017), our paper deepens knowledge of how firms from emerging economies combine the assets of their origin countries with those of the destination countries to strengthen their competitive advantages. And the special contextual characteristics of transition countries cause these assets to form a unique intersection between two distinct regions: the EU (with whom they share formal links) and the other former Soviet bloc countries (with whom they share informal links). The richness of the context under study, then, allows us to analyze institutional conditions in formal and informal terms. In addition, the inclusion of the concept of the communist footprint complements recent studies (Banalieva et al., 2017; Popli et al., 2021) by helping us understand how the length of time spent under a communist system influences the strategies of firms.

Lastly, we contribute to the stream of research studying the determinants of firm-level productivity in Eastern European countries (Friesenbichler, 2020; Gogokhia & Berulava, 2021; Kravtsova & Radošević, 2012). Specifically, our study extends previous research by analyzing productivity gains obtained by SMEs via international sourcing. In doing this, we also contribute to the research stream that analyzes how firms that perform international sourcing strategies can create value. By paying particular attention to dimensions that affect how firms may benefit from location-specific resourcing (Mukherjee et al., 2013) and international sourcing strategies (Lin, 2020), we shine more light on the creation of value in terms of efficiency.

6.2. Practical implications

This study has implications for managers and public policy makers. SMEs make up 99% of the industrial fabric of the EU (Papadopoulos et al., 2018). Indeed, in transition countries these firms are the drivers of the economy and systemic reforms. Access to international resources makes it possible for them to complement what is available in their origin countries. Understanding these sources better with the aim of improving the competitiveness of these firms, then, is an important practical contribution. The consequences of international sourcing for firms are driven by a broad range of internal and external factors. The local context embeddedness of the offshoring firm is an external factor that has been shown to be crucial in determining offshoring outcomes (Mukherjee et al., 2019). Managers of firms in transition countries need to be aware of the increased advantages that inputs from institutionally proximate regions—via formal or informal links—can provide. Firms searching for international sourcing in countries with which they do not have such formal or informal links can opt for collaborative relationships to position themselves better in the host location. As Mukherjee et al. (2019) suggest, establishing collaborative relationships will leave firms well-positioned to exploit the benefits of offshoring. In addition, it has been shown that political, commercial and economic agreements can change over time, resulting in new and different regional make-ups (Verbeke et al., 2016). Public policy makers need to design policies that foster inter-regional links. While this can be difficult to achieve in the case of informal links, policy makers do have the power to introduce integrative measures that build formal links between countries and/or regions.

6.3. Limitations and future research

Although this study delivers important findings for academics, managers and policy makers, it is not free of limitations. The study's analysis is limited to inputs from two destination regions related by formal and informal links. Future studies could deepen this analysis to identify other regions (e.g., MENA and Latin America) with features that may explain the advantages of internationalization. Additionally, future researchers with longitudinal data available could analyze the evolution of these regions over time. Another line of research could examine more value chain activities for each firm. Research in this direction would also cast light on the inter-relations between different activities (upstream or downstream) and the pros and cons of different locations. Although we control for the activity of the firm in our paper, we are not able to identify the type of input that is being imported or the extent of its technological nature. It would be highly useful to include information of this type to better evaluate the distinct comparative and competitive advantages of different supply chain inputs. Similarly, it would be valuable to include more fine-grained variables related to innovation activities. These future lines of research present interesting opportunities to build on the findings of our current work.

CRedit authorship contribution statement

María Jesús Nieto: Writing - review & editing, Writing - original draft, Methodology, Investigation, Funding acquisition, Conceptualization. **Alicia Rodríguez:** Writing - review & editing, Writing - original

draft, Investigation, Funding acquisition, Conceptualization. **Virginia Hernández:** Writing - review & editing, Writing - original draft, Methodology, Investigation, Funding acquisition, Conceptualization.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Acknowledgements

We thank the Associate Editor, Professor Debmalaya Mukherjee, and the two anonymous reviewers for their helpful comments and suggestions. The manuscript has also benefited from the comments by participants and reviewers of the 46th EIBA Annual Conference on an earlier version of this paper. This project was funded by the Government Research Agency of Spanish Ministry of Science and Innovation (PID2019-106874GB-I00/AEI/10.13039/501100011033). This work is developed with the support of Madrid Government (Comunidad de Madrid-Spain) with the project Excellence of University Professors (EPUC3M20) in the context of the V PRICIT (Regional Programme of Research and Technological Innovation). All authors have contributed equally to this paper.

Appendix A. Countries included in the sample and percentage breakdown of observations

Country	Observations	%
Albania	92	3.32
Bulgaria	113	4.08
Croatia	126	4.55
Czech Republic	264	9.54
Estonia	162	5.85
Hungary	158	5.71
Latvia	249	9.00
Lithuania	277	10.01
Moldova	182	6.58
Montenegro	66	2.38
North Macedonia	65	2.35
Poland	239	8.63
Romania	273	9.86
Slovakia	197	7.12
Slovenia	305	11.02
Total	2768	100%

References

- Aidis, R. (2005). Institutional barriers to small-and medium-sized enterprise operations in transition countries. *Small Business Economics*, 25(4), 305–317. <https://doi.org/10.1007/s11187-003-6463-7>
- Ahlstrom, D., & Bruton, G. D. (2006). Venture capital in emerging economies: Networks and institutional change. *Entrepreneurship Theory and Practice*, 30(2), 299–320. <https://doi.org/10.1111/j.1540-6520.2006.00122.x>
- Ahlstrom, D., & Bruton, G. D. (2010). Rapid institutional shifts and the co-evolution of entrepreneurial firms in transition economies. *Entrepreneurship Theory and Practice*, 34(3), 531–554. <https://doi.org/10.1111/j.1540-6520.2010.00373.x>
- Alam, A. (2008). *Unleashing prosperity: Productivity growth in Eastern Europe and the Former Soviet Union*. World Bank Publications.
- Amiti, M., & Wei, S. J. (2009). Service offshoring and productivity: Evidence from the US. *World Economy*, 32(2), 203–220. <https://doi.org/10.1111/j.1467-9701.2008.01149.x>
- Antonakis, J., Bendahan, S., Jacquart, P., & Lalive, R. (2010). On making causal claims: A review and recommendations. *The Leadership Quarterly*, 21(6), 1086–1120. <https://doi.org/10.1016/j.leafqua.2010.10.010>
- Arregle, J. L., Miller, T. L., Hiitt, M. A., & Beamish, P. W. (2013). Do regions matter? An integrated institutional and semiglobalization perspective on the internationalization of MNEs. *Strategic Management Journal*, 34(8), 910–934. <https://doi.org/10.1002/smj.2051>
- Bahl, M., Lahiri, S., & Mukherjee, D. (2021). Managing internationalization and innovation tradeoffs in entrepreneurial firms: Evidence from transition economies. *Journal of World Business*, 56(1), Article 101150. <https://doi.org/10.1016/j.jwb.2020.101150>
- Banalieva, E. R., & Dhanaraj, C. (2013). Home-region orientation in international expansion strategies. *Journal of International Business Studies*, 44(2), 89–116. <https://doi.org/10.1057/jibs.2012.33>
- Banalieva, E. R., Karam, C. M., Ralston, D. A., Elenkov, D., Naoumova, I., Dabic, M., et al. (2017). Communist footprint and subordinate influence behavior in post-communist transition economies. *Journal of World Business*, 52(2), 209–229.
- Banalieva, E. R., Puffer, S. M., McCarthy, D. J., & Vaiman, V. (2018). The impact of communist imprint prevalence on the risk-taking propensity of successful Russian entrepreneurs. *European Journal of International Management*, 12(1–2), 158–190. <https://doi.org/10.1016/j.jwb.2016.12.002>
- Baum, M., Schwens, C., & Kabst, R. (2015). A latent class analysis of small firms' internationalization patterns. *Journal of World Business*, 50(4), 754–768. <https://doi.org/10.1016/j.jwb.2015.03.001>
- Beleska-Spasova, E., Loykulnanta, S., & Nguyen, Q. T. (2016). Firm-specific, national and regional competitive advantages: The case of emerging market MNEs—Thailand.

- Asian Business Management, 15(4), 264–291. <https://doi.org/10.1057/s41291-016-0009-8>
- Bruton, G. D., Lau, C. M., & Obloj, K. (2014). Institutions, resources and firm strategies: A comparative analysis of entrepreneurial firms in three transitional economies. *European Journal of International Management*, 8(6), 697–720.
- Buckley, P. J. (2014). Forty years of internalisation theory and the multinational enterprise. *Multinational Business Review*, 22(3), 227–245. <https://doi.org/10.1108/MBR-06-2014-0022>
- Bunyaratavej, K., Hahn, E. D., & Doh, J. P. (2008). Multinational investment and host country development: Location efficiencies for services offshoring. *Journal of World Business*, 43(2), 227–242. <https://doi.org/10.1016/j.jwb.2007.11.001>
- Canham, S., & Hamilton, R. T. (2013). SME internationalisation: Offshoring, “backshoring”, or staying at home in New Zealand. *Strategic Outsourcing: An International Journal*, 6(3), 277–291. <https://doi.org/10.1108/SO-06-2013-0011>
- Capolupo, R., Amendolagine, V., & Ferri, G. (2017). Offshore-sourcing strategies and the puzzle of productivity: A micro-level analysis. *Journal of Global Operations and Strategic Sourcing*, 10(3), 282–308. <https://doi.org/10.1108/JGOSS-12-2016-0039>
- Cho, J., & Kang, J. (2001). Benefits and challenges of global sourcing: Perceptions of US apparel retail firms. *International Marketing Review*, 18(5), 542–561.
- Choi, J. J., Ju, M., Kotabe, M., Trigeorgis, L., & Zhang, X. T. (2018). Flexibility as firm value driver: Evidence from offshore outsourcing. *Global Strategy Journal*, 8(2), 351–376. <https://doi.org/10.1002/gsj.1181>
- Coucke, K., & Sleuwaegen, L. (2008). Offshoring as a survival strategy: Evidence from manufacturing firms in Belgium. *Journal of International Business Studies*, 39(8), 1261–1277. <https://doi.org/10.1057/palgrave.jibs.8400403>
- Crowley, F., & McCann, P. (2018). Firm innovation and productivity in Europe: Evidence from innovation-driven and transition-driven economies. *Applied Economics*, 50(11), 1203–1221. <https://doi.org/10.1080/00036846.2017.1355543>
- Cuervo-Cazurra, A., Mudambi, R., & Pedersen, T. (2019). Clarifying the relationships between institutions and global strategy. *Global Strategy Journal*, 9(2), 151–175. <https://doi.org/10.1002/gsj.1342>
- Demirbag, M., & Glaister, K. W. (2010). Factors determining offshore location choice for R&D projects: A comparative study of developed and emerging regions. *Journal of Management Studies*, 47(8), 1534–1560. <https://doi.org/10.1111/j.1467-6486.2010.00948.x>
- Demirbag, M., Glaister, K. W., & Sengupta, A. (2020). Which regions matter for MNEs? The role of regional and firm level differences. *Journal of World Business*, 55(1), Article 101026. <https://doi.org/10.1016/j.jwb.2019.101026>
- Di Gregorio, D., Musteen, M., & Thomas, D. E. (2009). Offshore outsourcing as a source of international competitiveness for SMEs. *Journal of International Business Studies*, 40(6), 969–988. <https://doi.org/10.1057/jibs.2008.90>
- Dixon, S. E., Meyer, K. E., & Day, M. (2010). Stages of organizational transformation in transition economies: A dynamic capabilities approach. *Journal of Management Studies*, 47(3), 416–436. <https://doi.org/10.1111/j.1467-6486.2009.00856.x>
- Dunning, J., Kim, C., & Park, D. (2008). Old wine in new bottles: a comparison of emerging market TNCs today and developed country TNCs thirty years ago. *SLPTMD Working Paper Series*, No. 011.
- Eddleston, K. A., Banalieva, E. R., & Verbeke, A. (2020). The bribery paradox in transition economies and the enactment of ‘new normal’ business environments. *Journal of Management Studies*, 57(3), 597–625. <https://doi.org/10.1111/joms.12551>
- European Commission. (2015). *Flash Eurobarometer 421 Internationalisation of Small and Medium-Sized Enterprises*. GESIS Data Archive, Cologne. ZA6585 Data file Version 1.0.0. <https://doi.org/10.4232/1.12382>
- Flores, R., Aguilera, R., Mahdian, A., & Vaaler, P. (2013). How well do supranational regional grouping schemes fit international business research models? *Journal of International Business Studies*, 44, 451–474. <https://doi.org/10.1057/jibs.2013.16>
- Friesenbichler, K. S. (2020). Does EU-accession affect domestic market structures and firm level productivity? *Empirica*, 47(2), 1–22. <https://doi.org/10.1007/s10663-018-9423-9>
- Friesenbichler, K., & Peneder, M. (2016). Innovation, competition and productivity: Firm-level evidence for Eastern Europe and Central Asia. *Economics of Transition*, 24(3), 535–580. <https://doi.org/10.1111/ecot.12100>
- Gammeltoft, P., Barnard, H., & Madhok, A. (2010). Emerging multinationals: Outward foreign direct investment from emerging and developing economies. *Journal of International Management*, 16(2), 95–194. <https://doi.org/10.1016/j.intman.2010.03.001>
- Gammeltoft, P., Pradhan, J. P., & Goldstein, A. (2010). Emerging multinationals: Home and host country determinants and outcomes. *International Journal of Emerging Markets*, 5(3/4), 254–265. <https://doi.org/10.1108/17468801011058370>
- Gelbuda, M., Meyer, K. E., & Delios, A. (2008). International business and institutional development in Central and Eastern Europe. *Journal of International Management*, 14(1), 1–11. <https://doi.org/10.1016/j.intman.2007.05.011>
- Ghemawat, P. (2001). Distance still matters. *Harvard Business Review*, 79(8), 137–147. PMID: 11550630.
- Giannini, M., & Vitali, L. (2014). Productivity growth of transition economies: An assessment. *Advances in Economics and Business*, 2(3), 133–147. <https://doi.org/10.13189/aeb.2014.020303>
- Gkpali, A., Love, J. H., & Roper, S. (2021). Export status and SME productivity: Learning-to-export versus learning-by-exporting. *Journal of Business Research*, 128, 486–498. <https://doi.org/10.1016/j.jbusres.2021.02.026>
- Gleich, W., Schmeisser, B., & Zschoche, M. (2017). The influence of competition on international sourcing strategies in the service sector. *International Business Review*, 26(2), 279–287. <https://doi.org/10.1016/j.ibusrev.2016.07.005>
- Gogokhia, T., & Berulava, G. (2021). Business environment reforms, innovation and firm productivity in transition economies. *Eurasian Business Review*, 11(2), 221–245. <https://doi.org/10.1007/s40821-020-00167-5>
- Görg, H., Hanley, A., & Strobl, E. (2008). Productivity effects of international outsourcing: Evidence from plant-level data. *Canadian Journal of Economics/Revue Canadienne D'économique*, 41(2), 670–688. <https://doi.org/10.1111/j.1540-5982.2008.00481.x>
- Gugler, P. (2017). Emerging countries' country-specific advantages (CSAs) and competitiveness of emerging market multinational enterprises (EMNEs). *Competitiveness Review: An International Business Journal*, 27(3), 194–207. <https://doi.org/10.1108/CR-02-2016-0016>
- Hahn, E. D., & Bunyaratavej, K. (2010). Services cultural alignment in offshoring: The impact of cultural dimensions on offshoring location choices. *Journal of Operations Management*, 28(3), 186–193. <https://doi.org/10.1016/j.jom.2009.10.005>
- Hashi, I., & Krasniqi, B. A. (2011). Entrepreneurship and SME growth: Evidence from advanced and laggard transition economies. *International Journal of Entrepreneurial Behavior & Research*, 17(5), 456–487. <https://doi.org/10.1108/13552551111158817>
- Hennart, J. F. (2012). Emerging market multinationals and the theory of the multinational enterprise. *Global Strategy Journal*, 2(3), 168–187. <https://doi.org/10.1111/j.2042-5805.2012.01038.x>
- Hernández, V., Nieto, M. J., & Boellis, A. (2018). The asymmetric effect of institutional distance on international location: Family versus nonfamily firms. *Global Strategy Journal*, 8(1), 22–45. <https://doi.org/10.1002/gsj.1203>
- Hegerty, S. W. (2009). Capital inflows, exchange market pressure, and credit growth in four transition economies with fixed exchange rates. *Economic Systems*, 33(1), 155–167. <https://doi.org/10.1016/j.ecosys.2009.02.001>
- Holscher, J., & Howard-Jones, P. (2019). Does accession to the European Union affect firms' productivity? *IZA Policy Papers*. <https://doi.org/10.15185/izawol.458>
- Hoskisson, R. E., Wright, M., Filatotchev, I., & Peng, M. W. (2013). Emerging multinationals from mid-range economies: The influence of institutions and factor markets. *Journal of Management Studies*, 50(7), 1295–1321. <https://doi.org/10.1111/j.1467-6486.2012.01085.x>
- Jaklič, A., Obloj, K., Svetličič, M., & Kronegger, L. (2020). Evolution of Central and Eastern Europe related international business research. *Journal of Business Research*, 108, 421–434. <https://doi.org/10.1016/j.jbusres.2019.06.046>
- Jaklič, A., Rasković, M., & Schuh, A. (2018). Examining the contextual richness of Central and Eastern Europe. *AIB Insights*, 18(1), 3–6.
- Javorcik, B. S. (2004). The composition of foreign direct investment and protection of intellectual property rights: Evidence from transition economies. *European Economic Review*, 48(1), 39–62. [https://doi.org/10.1016/S0014-2921\(02\)00257-X](https://doi.org/10.1016/S0014-2921(02)00257-X)
- Kafourous, M., & Aliyev, M. (2016). Institutional development and firm profitability in transition economies. *Journal of World Business*, 51(3), 369–378. <https://doi.org/10.1016/j.jwb.2015.06.002>
- Kedia, B. L., & Mukherjee, D. (2009). Understanding offshoring: A research framework based on disintegration, location and externalization advantages. *Journal of World Business*, 44(3), 250–261. <https://doi.org/10.1016/j.jwb.2008.08.005>
- Konrad, A. M., & Mangel, R. (2000). The impact of work-life programs on firm productivity. *Strategic Management Journal*, 21(12), 1225–1237.
- Krammer, S. M. (2009). Drivers of national innovation in transition: Evidence from a panel of Eastern European countries. *Research Policy*, 38(5), 845–860. [https://doi.org/10.1002/1097-0266\(200912\)38:5<845::AID-SM135>3.0.CO;2-3](https://doi.org/10.1002/1097-0266(200912)38:5<845::AID-SM135>3.0.CO;2-3)
- Krammer, S. M., & Jimenez, A. (2020). Do political connections matter for firm innovation? Evidence from emerging markets in Central Asia and Eastern Europe. *Technological Forecasting and Social Change*, 151, Article 119669. <https://doi.org/10.1016/j.techfore.2019.05.027>
- Krammer, S. M., Strange, R., & Lashitew, A. (2018). The export performance of emerging economy firms: The influence of firm capabilities and institutional environments. *International Business Review*, 27(1), 218–230. <https://doi.org/10.1016/j.ibusrev.2017.07.003>
- Krasniqi, B. A., & Desai, S. (2016). Institutional drivers of high-growth firms: Country-level evidence from 26 transition economies. *Small Business Economics*, 47(4), 1075–1094. <https://doi.org/10.1007/s11187-016-9736-7>
- Kravtsova, V., & Radošević, S. (2012). Are systems of innovation in Eastern Europe efficient? *Economic Systems*, 36(1), 109–126. <https://doi.org/10.1016/j.ecosys.2011.04.005>
- Kriauciunas, A., & Kale, P. (2006). The impact of socialist imprinting and search on resource change: A study of firms in Lithuania. *Strategic Management Journal*, 27(7), 659–679. <https://doi.org/10.1002/smj.537>
- Lee, I. H., & Rugman, A. M. (2012). Firm-specific advantages, inward FDI origins, and performance of multinational enterprises. *Journal of International Management*, 18(2), 132–146. <https://doi.org/10.1016/j.intman.2011.11.001>
- Leoncini, R. (2016). Learning-by-failing: An empirical exercise on CIS data. *Research Policy*, 45(2), 376–386. <https://doi.org/10.1016/j.respol.2015.10.006>
- Lin, N. (2020). Designing global sourcing strategy for cost savings and innovation: A configurational approach. *Management International Review*, 60(5), 723–753. <https://doi.org/10.1007/s11575-020-00428-5>
- Lopez, L. E., Kundu, S. K., & Ciravegna, L. (2009). Born global or born regional? Evidence from an exploratory study in the Costa Rican software industry. *Journal of International Business Studies*, 40(7), 1228–1238. <https://doi.org/10.1057/jibs.2008.69>
- Lorentz, H., Töyli, J., Solakivi, T., & Ojala, L. (2016). The effect of a geographically dispersed supply base on downside risk: Developing and testing the N-shaped theory. *International Business Review*, 25(4), 872–882. <https://doi.org/10.1016/j.ibusrev.2015.10.009>

- Luo, Y., & Zhang, H. (2016). Emerging market MNEs: Qualitative review and theoretical directions. *Journal of International Management*, 22(4), 333–350. <https://doi.org/10.1016/j.intman.2016.05.001>
- Luo, Y., & Tung, R. L. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies*, 38(4), 481–498. <https://doi.org/10.1057/palgrave.jibs.8400275>
- McMillan, J., & Woodruff, C. (2002). The central role of entrepreneurs in transition economies. *Journal of Economic Perspectives*, 16(3), 153–170. <https://doi.org/10.1257/089533002760278767>
- Maksimov, V., Wang, S. L., & Luo, Y. (2017). Institutional imprinting, entrepreneurial agency, and private firm innovation in transition economies. *Journal of World Business*, 52(6), 854–865. <https://doi.org/10.1016/j.jwb.2017.06.002>
- Malhotra, N. K., Agarwal, J., & Baalbaki, I. (1998). Heterogeneity of regional trading blocs and global marketing strategies. *International Marketing Review*, 15(6), 476–506. <https://doi.org/10.1108/02651339810244787>
- Manning, S., Massini, S., & Lewin, A. Y. (2008). A Dynamic perspective on next-generation offshoring: The global sourcing of science and engineering talent. *Academy of Management Perspectives*, 22(3), 35–54. <https://doi.org/10.5465/amp.2008.34587994>
- Marano, V., Arregle, J.-L., Hitt, M. A., Spadafora, E., & van Essen, M. (2016). Home country institutions and the internationalization-performance relationship: A meta-analytic review. *Journal of Management*, 42(5), 1075–1110. <https://doi.org/10.1177/0149206315624963>
- Marinova, S. T., Larimo, J. A., Leposky, T., & Marinov, M. A. (2020). International business and emerging economy firms: The contexts of Central and Eastern Europe and Africa. In J. Larimo, M. Marinov, S. Marinova, & T. Leposky (Eds.), *International Business and Emerging Economy Firms*. Cham: Palgrave Studies of Internationalization in Emerging Markets. Palgrave Macmillan. https://doi.org/10.1007/978-3-030-27285-2_1
- Marquis, C., & Tilcsik, A. (2013). Imprinting: Toward a multilevel theory. *Academy of Management Annals*, 7(1), 195–245. <https://doi.org/10.5465/19416520.2013.766076>
- Mauri, A., Song, S., & Neiva de Figueiredo, J. (2017). Determinants of corporate international expansion beyond the home region: An empirical examination of US Multinational Enterprises expansion to Europe and Asia-Pacific. *Global Strategy Journal*, 7(4), 400–426. <https://doi.org/10.1002/gsj.1155>
- Meyer, K. E., & Peng, M. W. (2016). Theoretical foundations of emerging economy business research. *Journal of International Business Studies*, 47(1), 3–22. <https://doi.org/10.1057/jibs.2015.34>
- Mukherjee, D., Gaur, A. S., & Datta, A. (2013). Creating value through offshore outsourcing: An integrative framework. *Journal of International Management*, 19(4), 377–389. <https://doi.org/10.1016/j.intman.2013.03.015>
- Mukherjee, D., Lahiri, S., Ash, S. R., & Gaur, A. S. (2019). Search motives, local embeddedness, and knowledge outcomes in offshoring. *Journal of Business Research*, 103, 365–375. <https://doi.org/10.1016/j.jbusres.2017.10.035>
- Munjal, S., Requejo, I., & Kundu, S. K. (2019). Offshore outsourcing and firm performance: Moderating effects of size, growth and slack resources. *Journal of Business Research*, 103, 484–494. <https://doi.org/10.1016/j.jbusres.2018.01.014>
- Musteen, M., Ahsan, M., & Park, T. (2017). SME s, intellectual capital, and offshoring of service activities: An empirical investigation. *Management International Review*, 57(4), 603–630. <https://doi.org/10.1007/s11575-017-0315-1>
- Musteen, M., Datta, D. K., & Butts, M. M. (2014). Do international networks and foreign market knowledge facilitate SME internationalization? Evidence from the Czech Republic. *Entrepreneurship Theory and Practice*, 38(4), 749–774. <https://doi.org/10.1111/etap.12025>
- Musteen, M., Datta, D. K., & Francis, J. (2014). Early internationalization by firms in transition economies into developed markets: The role of international networks. *Global Strategy Journal*, 4(3), 221–237. <https://doi.org/10.1002/gsj.1077>
- Musteen, M., Francis, J., & Datta, D. K. (2010). The influence of international networks on internationalization speed and performance: A study of Czech SMEs. *Journal of World Business*, 45(3), 197–205. <https://doi.org/10.1016/j.jwb.2009.12.003>
- Narula, R. (2012). Do we need different frameworks to explain infant MNEs from developing countries? *Global Strategy Journal*, 2(3), 188–204. <https://doi.org/10.1111/j.2042-5805.2012.01035.x>
- Narula, R., & Kodyiat, T. P. (2016). How weaknesses in home country location advantages can constrain EMNE growth. *Multinational Business Review*, 24(3), 249–278. <https://doi.org/10.1108/MBR-07-2016-0026>
- Nassimbeni, G. (2006). International sourcing: Empirical evidence from a sample of Italian firms. *International Journal of Production Economics*, 103(2), 694–706. <https://doi.org/10.1016/j.ijpe.2006.01.003>
- Neter, J., Wasserman, W., & Kutner, M. H. (1989). *Applied regression models*. Homewood, IL: Irwin.
- Nieto, M. J., & Rodríguez, A. (2013). The challenge of R&D offshoring: Implications for firm productivity. In T. Pedersen, L. Bals, P. Ørberg Jensen, & M. Larsen (Eds.), *The offshoring challenge* (pp. 175–190). London: Springer. https://doi.org/10.1007/978-1-4471-4908-8_10
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge, U.K.: Cambridge University Press.
- Papadopoulos, G., Rikama, S., Alajääskö, P., Salah-Eddine, Z., Airaksinen, A., & Luomaranta, H. (2018). *Eurostat - Statistics on small and medium-sized enterprises*. ISSN 2443-8219.
- Peng, M. W., & Heath, P. S. (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2), 492–528. <https://doi.org/10.5465/amr.1996.9605060220>
- Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5), 920–936. <https://doi.org/10.1057/palgrave.jibs.8400377>
- Pisani, N., & Ricart, J. E. (2018). Offshoring innovation to emerging countries: The effects of IP protection and cultural differences on firms' decision to augment versus exploit home-base-knowledge. *Management International Review*, 58(6), 871–909. <https://doi.org/10.1007/s11575-018-0362-2>
- Popli, M., Raithatha, M., & Fuad, M. (2021). Impact of institutional imprinting on the persistence of superior profits: A study of regulatory punctuation in India. *Journal of Business Research*, 124, 223–235. <https://doi.org/10.1016/j.jbusres.2020.11.039>
- Ramadani, V., Hisrich, R. D., Abazi-Alili, H., Dana, L. P., Panthi, L., & Abazi-Bexheti, L. (2019). Product innovation and firm performance in transition economies: A multi-stage estimation approach. *Technological Forecasting and Social Change*, 140, 271–280. <https://doi.org/10.1016/j.techfore.2018.12.010>
- Ramamurti, R. (2012). Competing with emerging market multinationals. *Business Horizons*, 55(3), 241–249. <https://doi.org/10.1016/j.bushor.2012.01.001>
- Rangan, S. (2000). Search and deliberation in international exchange: Microfoundations to some macro patterns. *Journal of International Business Studies*, 31(2), 205–222. <https://doi.org/10.1057/palgrave.jibs.8490902>
- Rasković, M., Dikova, D., & McDougall-Covin, T. P. (2020). International business with Central and Eastern Europe: From tyranny of history to revisited laboratories of learning". *Journal of Business Research*, 108, 417–420. <https://doi.org/10.1016/j.jbusres.2020.01.005>
- Rodríguez, A., & Nieto, M. J. (2016). Does R&D offshoring lead to SME growth? Different governance modes and the mediating role of innovation. *Strategic Management Journal*, 37(8), 1734–1753. <https://doi.org/10.1002/smj.2413>
- Rodríguez-Pose, A., & Fratesi, U. (2004). Between development and social policies: The impact of European Structural Funds in Objective 1 regions. *Regional Studies*, 38(1), 97–113. <https://doi.org/10.1080/00343400310001632226>
- Roza, M., Van den Bosch, F. A. J., & Volberda, H. W. (2011). Offshoring strategy: Motives, functions, locations, and governance modes of small, medium-sized and large firms. *International Business Review*, 20(3), 314–323. <https://doi.org/10.1016/j.ibusrev.2011.02.002>
- Rugman, A. M., Li, J., & Oh, C. H. (2009). Are supply chains global or regional? *International Marketing Review*, 26(4–5), 384–395. <https://doi.org/10.1108/02651330910971940>
- Rugman, A. M., & Verbeke, A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35(1), 3–18. <https://doi.org/10.1057/palgrave.jibs.8400073>
- Rugman, A. M., & Verbeke, A. (2007). Liabilities of regional foreignness and the use of firm-level versus country-level data: A response. *Journal of International Business Studies to Dunning et al.* (2007), 38(1), 200–205. <https://doi.org/10.1057/palgrave.jibs.8400242>
- Santamaría, L., Nieto, M. J., & Rodríguez, A. (2021). Failed and successful innovations: The role of geographic proximity and international diversity of partners in technological collaboration. *Technological Forecasting and Social Change*, 166, Article 120575. <https://doi.org/10.1016/j.techfore.2021.120575>
- Shinkle, G. A., & Kriaciuonas, A. P. (2012). The impact of current and founding institutions on strength of competitive aspirations in transition economies. *Strategic Management Journal*, 33(4), 448–458. <https://doi.org/10.1002/smj.1946>
- Simsek, Z., Fox, B. C., & Heavey, C. (2015). "What's past is prologue" A framework, review, and future directions for organizational research on imprinting. *Journal of Management*, 41(1), 288–317. <https://doi.org/10.1177/0149206314553276>
- Slangen, A. H., & Van Tulder, R. J. (2009). Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research. *International Business Review*, 18(3), 276–291. <https://doi.org/10.1016/j.ibusrev.2009.02.014>
- Smallbone, D., & Welter, F. (2001). The distinctiveness of entrepreneurship in transition economies. *Small Business Economics*, 16(4), 249–262. <https://doi.org/10.1023/A:1011159216578>
- Srivastava, M., & Tyll, L. (2021). The effect of industry-specific networking behaviour on the internationalization performance of Czech SMEs. *European Business Review*, 33(2), 361–382. <https://doi.org/10.1108/EBR-10-2019-0244>
- Sui, S., & Baum, M. (2014). Internationalization strategy, firm resources and the survival of SMEs in the export market. *Journal of International Business Studies*, 45(7), 821–841. <https://doi.org/10.1057/jibs.2014.11>
- Szczepanski, M. (2018). The productivity riddle Supporting long-term economic growth in the EU. *European Parliamentary Research Service PE*, 630, 319.
- Tang, J., & do Livramento, H. (2010). Offshoring and productivity: A micro-data analysis. *Review of Income and Wealth*, 56(1), 111–134. <https://doi.org/10.1111/j.1475-4991.2010.00392.x>
- Tavares, A. T., & Young, S. (2006). Sourcing patterns of foreign-owned multinational subsidiaries in Europe. *Regional Studies*, 40(6), 583–600. <https://doi.org/10.1080/00343400600868739>
- Teagarden, M. B., Von Glinow, M. A., & Mellahi, K. (2018). Contextualizing international business research: Enhancing rigor and relevance. *Journal of World Business*, 53(3), 303–306. <https://doi.org/10.1016/j.jwb.2017.09.001>
- Thakur-Wernz, P., Cantwell, J., & Samant, S. (2019). Impact of international entry choices on the nature and type of innovation: Evidence from emerging economy firms from the Indian bio-pharmaceutical industry. *International Business Review*, 28(6), Article 101601. <https://doi.org/10.1016/j.ibusrev.2019.101601>
- Thakur-Wernz, P., & Wernz, C. (2022). Impact of stronger intellectual property rights regime on innovation: Evidence from de alio versus de novo Indian bio-pharmaceutical firms. *Journal of Business Research*, 138, 457–473. <https://doi.org/10.1016/j.jbusres.2021.08.074>

- Tonoyan, V., Strohmeyer, R., Habib, M., & Perlitz, M. (2010). Corruption and entrepreneurship: How formal and informal institutions shape small firm behavior in transition and mature market economies. *Entrepreneurship Theory and Practice*, 34(5), 803–832. <https://doi.org/10.1111/j.1540-6520.2010.00394.x>
- Ullah, B. (2020). Financial constraints, corruption, and SME growth in transition economies. *The Quarterly Review of Economics and Finance*, 75, 120–132. <https://doi.org/10.1016/j.qref.2019.05.009>
- Verbeke, A., & Asmussen, C. G. (2016). Global, local, or regional? The locus of MNE strategies. *Journal of Management Studies*, 53(6), 1051–1075. <https://doi.org/10.1111/joms.12190>
- Verbeke, A., Kano, L., & Yuan, W. (2016). Inside the regional multinationals: A new value chain perspective on subsidiary capabilities. *International Business Review*, 25(3), 785–793. <https://doi.org/10.1016/j.ibusrev.2016.01.019>
- Vos, F. G., Scheffler, P., Schiele, H., & Horn, P. (2016). Does global sourcing pay-off? A competitive dynamics perspective. *Journal of Purchasing and Supply Management*, 22(4), 338–350. <https://doi.org/10.1016/j.pursup.2016.07.002>
- Wadhwa, P., McCormick, M., & Musteen, M. (2017). Technological innovation among internationality active SMEs in the Czech economy. *European Business Review*, 29(2), 164–180. <https://doi.org/10.1108/EBR-12-2015-0156>
- Wagner, J. (2011). Offshoring and firm performance: Self-selection, effects on performance, or both? *Review of World Economics*, 147(2), 217–247. <https://doi.org/10.1007/s10290-010-0078-2>
- Williams, N., & Vorley, T. (2015). Institutional asymmetry: How formal and informal institutions affect entrepreneurship in Bulgaria. *International Small Business Journal*, 33(8), 840–861. <https://doi.org/10.1177/0266242614534280>
- World Investment Report (2020). *International production. Beyond the pandemic*. Retrieved from https://unctad.org/system/files/official-document/wir2020_en.pdf.
- María Jesús Nieto** is Professor of Strategic Management at University Carlos III of Madrid (Spain). She holds a PhD in Economic from this University. She is the Director of MSc in Entrepreneurship and Deputy Director of Research Institute of Family Business and Entrepreneurship. Her current research interests include internationalization, innovation management and strategic alliances. Her research has been published in journals as *Strategic Management Journal*, *Journal of International Business Studies*, *Long Range Planning*, *Research Policy*, *Technological Forecasting and Social Change*, *Technovation*, *Journal of World Business*, among many others. She is a Senior Editor of *Business Research Quarterly*.
- Alicia Rodríguez** is an Associate Professor at University Carlos III of Madrid (Spain). She holds a PhD in Strategic Management from this University (with Honors). She studies firms' innovation and internationalization strategies, with a particular focus on offshoring and knowledge intensive activities. Her research has been published in leading journals such as *Strategic Management Journal*, *Journal of International Business Studies*, *Long Range Planning*, *Journal of International Management*, *Technovation*, *Technological Forecasting and Social Change*, *Industry and Innovation*, among others. She has been a Visiting Scholar at the D'Amore-McKim School of Business at Northeastern University (Boston, USA) in 2012 and 2017.
- Virginia Hernández** is an Assistant Professor at University Carlos III of Madrid (Spain). She holds a PhD in Strategic Management from this University (with Honors). Her research interests include internationalization strategies, such as the analysis of location and entry mode decisions, with a special interest in the role of institutional factors on them. Her research has been published in leading journals such as *Journal of World Business*, *Long Range Planning*, *International Business Review*, *Global Strategy Journal* and *Business Research Quarterly*. She has conducted research stays at Copenhagen Business School (2013) and University of Edinburgh (2018).