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Modeling the Resource Generation Potential: Locational and Cognitive Insights in Small Firms' International Entry Mode Choice

### Original Citation

Majeed, Zahid, Polyakov, Evgeny and Davies, Eleanor M.M. (2011) Modeling the Resource Generation Potential: Locational and Cognitive Insights in Small Firms' International Entry Mode Choice. In: Academy of International Business Conference 2011, 14th - 16th April 2011, University of Edinburgh, UK. (Unpublished)

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## **Abstract**

Resource-starving small firms in this era of cut throat competition follow an aggressive attitude towards internationalization. One of the most important challenges faced by the manager's in small firm in developing economies is to find new ways to successful internationalization through suitable entry modes. In particular when the small firms expand their international operations from emerging to developed economies. The role of cognitive perception remains inconclusive in SME internationalization and this is an area which is relatively under-researched. Based on the integration of cognitive psychology and Dunning eclectic framework, this paper develops a rigorous model and tests a logical hypothesis for entry mode selection. By introducing the new resource value generation taxonomies, this study explores the impact of ownership, location and cognitive dimensions on small firm entry mode choices.

The data was collected from a sample of three major provinces of Pakistan through postal and drop-off survey (questionnaire). As the dependent variable was dichotomous, logistic regression was used to analyze the data set.

Integration of Dunning framework with cognition (dynamic capabilities) supports new value generation taxonomies of entry mode selection. The findings support the central role of ownership, location and cognitive advantages in the choice and selection of high value generation modes. The new value generation dependent taxonomies (high and low value generation modes) introduced in this research, and complexities associates with IB research highlights the need for further empirical, cross-cultural and longitudinal studies. This research through careful deliberation presents useful implication that will enhance the SME international activity of small firms from developing economies.

**Key words:** RBV, OLI, Cognition, entry mode choice, (competitive paper).

## **1. Introduction**

Keeping in view the continuous global expansion followed by an enormous flow of technology, innovation and cut-throat competition, no firm can remain isolated from cross-border threats forever (Bartlett, Ghoshal and Beamish 2008). Firms that remain isolated will realize sooner or later that there no longer exists any local or domestic market to ensure their survival and growth (Bartlett et al. 2008; Saridakis, Mole and Storey 2008). The constraint of resources and time is one of the

fundamental issue (Roper and Scott 2009) faced by small and medium sized enterprises (SMEs), particularly when the small firms expand their international operations from emerging to developed economies. The SME entrepreneurial manager has different strategies to help him/her *perceive* the trade-off involved to maximize risk-free benefits for foreign investment.

Synthesis of recent literature suggests that there are four streams of contributions exploring the dimensions of internationalizations or cross-border first mover advantage in internationalization. These streams are as follows: degree of internationalization (Acedo and Florin 2006; Collinson and Houlden 2005; Ruzzier, Antoncic, Hisrich and Konecnik 2007), timing/speed and/or accelerated internationalization (Acedo and Jones 2007; Dib da Rocha and da Silva 2010; Musteen, Francis and Datta 2010), location specific (contextual) studies on internationalization (Dunning and Lundan 2008; Ojala 2009; Stoian and Filippaios 2008), and market entry modes (Brouthers and Brouthers 2000; Erramilli, Agarwal and Dev 2002; Pinho 2007).

One of the important limitations associated with firms' degree of internationalization is that there is no agreement among scholars about what IB theory to adopt, and there is no unified measure for its analysis (Ramaswamy, Kroeck and Renforth 1996; Sullivan 1994). Definition of international rapidity varies significantly, or there is an imperfect understanding of accelerated internationalization. This is because no IB theory completely explains the notion of speed/rapidity (Acedo and Jones 2007; Dib et al. 2010; Morgan-Thomas and Jones 2009). A parsimonious drawback of previous location (context) specific studies (Claver and Quer 2005; Li and Meyer 2009) was archival data and archival data always neglects the decision makers' perception of the choice of suitable entry strategies (Jiang 2001b).

A small firm's entry mode choice is contingent upon the analysis of a number of variable antecedents such as firm specific, industry specific, product specific and location specific factors (Dunning and Lundan 2008; Erramilli 1991; Root 1994). It remains inconclusive either a joint venture or a sole venture in the best entry strategy (Davies, Kenny and Trick 1996; Zhan and Chen 2010). To date, there is no universally accepted model that can elucidate the complex IB phenomenon (Mtigwe 2006; Musteen et al. 2010). The contingency theory of entry mode choice states that decision task factors and *decision makers' perceptions* are fundamental in estimating the risk associated with cross-border operation (Kumar and Subramanian 1997; Morgan-Thomas and Jones 2009). Past research presents a circular discussion or non-systematic empirical verification of demographics/personal characteristics in improving firm performance.

As the role of *capabilities, motivations and perceptions* involved in entry mode selection in small firms is contingent upon resource constraints, '...managerial attitudes and preferences are at the core of a venture's internationalization activities' (Zahra, Ireland and Hitt 2000, p. 945). Theoretical frameworks ranging from neoclassical to The Uppsala Model (Collinson and Houlden 2005), are unable to provide the full explanation of the role of the decision maker's perceptions in small firm internationalization. Innovation based models contribute the role of decision maker (Benito, Petersen and Welch 2009; Collinson and Houlden 2005), but fail to address the particular issue of how cognitive dimensions in presence of the complex duality of control and risk dimensions (Erramilli 1991; Zahra et al. 2000), and in presence of legal/moral hazards, lack of credible institution, ethnic and religious terrorism (Khan and Amine 2004; News January 14, 2011) help to choose the tool/building block of internationalization?

Pakistan has come to the world's attention as a powerful ally in the U.S.-led war against terrorism (Khan and Amine 2004, p. 493). SMEs facing time and resource constraints, being

unable to extend foreign operation through full control modes like sole venture, try to pool assets and exploit *ownership and location* advantage through shared control modes like strategic alliance and joint venture operation (Dimitratos, Johnson, Slow and Young 2003; Freeman, Edwards and Schroder 2006). At the same time, they perceive shared control modes as a risk-oriented strategy. The *resource based view also suggests that the resources are valuable, rare, inimitable and non-substitutable* (Barney 1991). The domestic activities are endangered due to institutional deterioration, foreign partners discriminate and are not willing to share, integrate and deploy their resources (Teece, Pisano and Shuen 1997; Zhan and Chen 2010) with emerging economies. This creates a dilemma of how firms should exploit cross border activities through an appropriate mode of entry. There is a lacuna in the literature in terms of investigating how cognitive perceptions, along with other endogenous and exogenous factors, influence entry mode choice. By integrating the OLI with the resource based view (dynamic capabilities) of firms, this paper fills this gap in the literature by exploring the role of endogenous or firm specific factors (cognitive style) along with exogenous factors (industry and country specific) for the choice and selection of entry mode by SMEs.

## **2. Theoretical background**

The choice and selection of a particular mode of entry in MNEs in general, and SMEs in particular, (due to their small size and resource limitations) remains inconclusive. The conceptual frame works in entry mode literature have a long history of development, and they range from classical to internationalization theories (Buckley and Casson 1976; Dunning and Lundan 2008; Johanson and Mattsson 1995). The underlying notion of pioneering approaches such as: FDI theory (Hymer 1960), Eclectic paradigm (Dunning and Lundan 2008), Internalization theory (Buckley and Casson

1976) and other major approaches to strategic management, emphasize that the economies of scale, knowledge advantage (firms' know-how), experience abroad, firms' intangible resources and capabilities, are the fundamental conditions for entrepreneurial behaviour (Brouthers, Brouthers and Werner 2003; Claver and Quer 2005).

FDI theory highlights the structural market imperfections, while ignoring the other factors associated with foreign operations. Eclectic theory is a rigorous conceptual model with empirical support, since a single framework fails to explain the dynamics involved/role of decision maker in entry mode selection (Dunning and Rugman 1985; Ekeledo and Sivakumar 2004). According to Dunning and Rugman (1985) and Ekeledo and Sivakumar (2004), FDI and internalization theories ignore the effect of location specific advantage and government policy on the FDI entry mode decisions. According to Welch and Luostarinen (1988, p. 34), the early market imperfection theories are mostly "involved with documenting and explaining the spread of multinational corporations, and assessing their impact, with an emphasis on their foreign investment activities".

The sustained competitive advantage and the choice of entry mode is referred to as the function of *resource value generation* and *capabilities* (managerial know-how, organizational routines) *exploitation potential* (Forlani Parthasarathy and Keaveney 2008; P Karhunen J Löfgren and R Kosonen 2008), previously achieved through industrial barriers and internal low cost mechanisms/equity/control (Anderson and Gatignon 1986; Dunning 2009; Ekeledo and Sivakumar 2004).

The research stream exploring the dimension of ownership and control generally found that both are positively associated with equity entry mode choices (Brouthers 2002; Pinho 2007). However, synthesis of capabilities suggests that high ownership (equity) in transition/emerging economies

does not always lead to high control and high value generation modes (Forlani et al. 2008; Karhunen, Löfgren and Kosonen 2008; Sengun and Wasti 2009). OLI/ transaction cost stresses the higher ownership potential or higher transactional potential will lead to higher foreign control, and even according to the transaction cost view; the default mode is low ownership mode (Anderson and Gatignon 1986). On the other hand, RBV focus is the resource commitment and value generation potential (Table 1). RBV argue that not every resource is able to generate a high order value, because ultimately not every type of sole ownership or contract will end up leaving high growth potential for the partners. Based on entry mode literature (Forlani et al. 2008; Karhunen et al. 2008; Meyer, Estrin, Bhaumik and Peng 2009), new taxonomies of resource base view (high and low resource generation modes) are another contemporary contribution of this study.

**Table 1: Entry mode categorization RBV and OLI contrasted**

<b>Dynamic capability view focus</b>	<b>OLI focus</b>
<b>Criteria for mode choice: value generation</b>	<b>Criteria for mode choice: ownership/control</b>
<b>High value generation modes</b> Dominant share in high value joint ventures Licensing Franchising	<b>High ownership-High control modes</b> Wholly owned subsidiary Dominant share in many or few partnerships Foreign partner exercises high control
<b>Low value generation modes</b> Exports Full acquisition/Greenfield Minority joint ventures	<b>Low ownership-Low control modes</b> Exports Majority/equal joint venture Local partner exercises high control

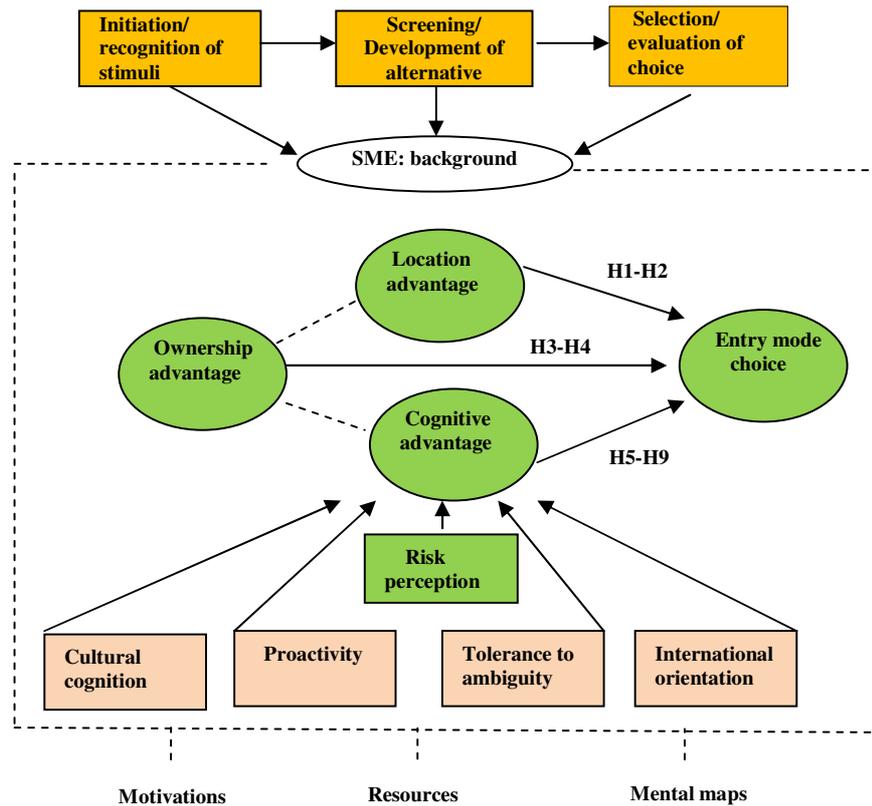
### 3. Model development and hypothesis

An evaluation of previous studies suggests that the choice and selection of entry mode on the bases of control, risk and resource commitments, remains inconclusive, and there is no unified agreement between the choice and selection of appropriate FDI entry mode for international operations. A

recent literature review conducted by Canabal & White III (2008) and Brouthers and Hennart (2007, p. 405) concluded that the application of RBV (dynamic capabilities) is ‘...fairly limited in entry mode literature’ and the integration of RBV with other interrelated fields is also lacking in entrepreneurial events. Referring to Mintzberg, (1975, p. 50), Andersson and Florén (2008) endorses the view that duplicated conceptual or empirical studies or paradoxical results predict ‘... an interesting picture, one as different from Fayol’s classical view as a cubist abstract is from a Renaissance painting’. In the internationalization dimensions, the most controversial is the attitudinal (cognitive) dimension of human capital, and research exploring the role of cognition in firm entry mode choice is completely absent (Table 1 appendix).

In the internationalization dimensions based on bounded rationality, the attitudinal (cognitive) dimension is a complex phenomenon and decisive in nature (Jones 2001; Majeed and Polyakov 2009). The majority of MNEs entry mode studies utilize the transactions cost framework or OLI/institutional framework (Cantwell 2009; Garcia-Canal and Guillen 2008; Herrmann and Datta 2006) without highlighting the role of entrepreneurial cognition (Mitchell et al. 2007; Mitchell Smith et al. 2002; Simon, Houghton and Aquino 2000). Without logical cross-fertilization, this creates confusion or casts doubt on the explanatory power of a single theory in entry mode choice. Entry mode is regarded as the cornerstone and building block (Jones 2001; Root 1994) of small firm internationalization. This study surpasses the limit approached by scholars as we build useful cross-fertilized rigorous hypothesis of dynamic capability view with OLI framework to explain the role of cognitive perceptions in entry mode choice.

**Figure 1 Analytical conceptual model**



### 3.1 Dynamic capabilities and ownership advantage

#### Firm Size

Empirical evidence suggests that MNEs, due to their larger size and higher resources than their counterpart SMEs, exploit advantage and are in a better position to commit higher resources to entry mode strategies (Agarwal and Ramaswami 1992; Freeman et al. 2006). However the literature on entry mode strategies and their link with firm size is inconclusive in an international business context. Some studies find that the choice of higher ownership modes is positively associated with large firm

size (Stoian and Filippaios 2008). In contrast, others find that firm size is not related to higher ownership/higher control modes (Ekeledo and Sivakumar 2004; Pinho 2007).

Ekeledo & Sivakumar (2004) hold that a medium sized firm operating in a local market might not be a medium firm, and might become a large firm in the host market, if it has a high number of small firms. So it is the managerial perception, rather than the objective firm size, that exploits the potential market with higher returns on smaller investments through selective entry mode, and guarantees success in the international arena (Nakos and Brouthers 2002; Pinho 2007). Proactive managers who are capable of getting things done and facing everyday innovations, evaluate the entry mode choice with a different lens (Majeed 2009; Majeed and Reza 2009). However, firm size as a resource based advantage affects dominantly the entry choices of small firms as compared to large firms. Thus:

*H1: Larger SMEs are more likely to choose a high resource generation mode.*

### **Proprietary or Innovation**

Some scholars argue that there is a direct cemented trade-off between the organizational process, product innovation, and higher returns. The more sophisticated the research and development and organizational processes, the higher will be the capacity of the firm to introduce differentiated products (Anchor and Terezie 2008; Pinho 2007). The competitors do not show any mercy to get the competitive edge against a firm which is unable to protect its vulnerable position in the market. Pinho (2007) argues that in order to gain the dual benefit of maximizing the return and safeguard the vulnerable edge, SMEs will prefer equity modes for international development. Thus:

*H2: The higher the SME's ability to introduce differentiated products, the higher will be the probability of choosing high value generation modes.*

## **3.2 Dynamic capabilities and location advantage**

### **Cultural distance**

A country with higher cultural distance leads to the choice of different modes, depending upon the value of resources to be sacrificed by potential partners. Kogut & Singh (1988) argue that the cost, uncertainty and difference in social behaviour in host market are the key determinants that influence the perception of managers. Difference in organizational process, routines and employee perceptions differentiate the national culture as a whole (Herrmann and Datta 2006; Pinho 2007). The degree of ownership and control, along with other factors like bargaining power of the parties involved (suppliers and distributors) influence the choice of entry modes (Kogut and Singh 1988; López-Duarte and Vidal-Suárez 2010). In general, the literature suggests that the higher the transaction cost, cultural distance, and bargaining power of the rival clients, the more likely is the propensity to choose joint venture operations.

*H3: The higher the cultural distance between the home country and the host country, the higher will be the propensity to choose high value generation modes.*

### **Market growth/ sales potential**

Market potential serves as a proxy for location advantage in the host country, and a source of motivation for international activity. Firm long-term investment incentive is directly linked with product demand in the market and its future acceptability in the market as a differentiated product (Boyle 2009; Pinho 2007; Zuboff 2009). In general, in order to exploit long-run presence in the host country, the literature favours equity modes of investment if the market growth/sales potential is high (Agarwal and Ramaswami 1992; Nakos and Brouthers 2002). The higher the market potential, the

higher will be the probability of achieving economies of scale, lower cost of production and choice of investment modes of entry, therefore:

*H4: High value generation modes are preferred by SMEs in host markets with high growth/sales potential.*

### **3.3 Resource based view and the cognition advantage**

The theory of entrepreneurial cognition builds upon the argument that the people are core for entrepreneurial success and ‘entrepreneurial cognition are the knowledge structures that people use to make assessments, judgments or decisions involving opportunity evaluation, venture creation and growth (Busenitz et al. 2002, p. 97). As endorsed by Corbett & Hmieleski (2007, p. 105), a synthesis of entry mode and entrepreneurship literature suggests that conceptual or empirical literature is deficient in explaining the cognitive-contextual misfit. We are afraid that ignoring the context in which the SME operate will result in an unresolved puzzle (Nadkarni and Barr 2008). Cognitive processes allow entrepreneurs to analyze whether the opportunity visually recognized is to be exploited (Keh, Foo and Lim 2002; Kickul et al. 2009) in a specific context is really new and ‘*bona fide*’, it is realistic as well as practical, and last but not the least, it is novel and unique (Acedo and Jones 2007; Baron 2004).

It is asserted that for small firm international activity, the definition of the theory of entrepreneurial cognition should be revised to incorporate the cognitive-contextual misfit. Therefore the new definition of *contextual theory of entrepreneurial cognition* should take its route by the interaction of OLI and the (cognition) dynamic capability view that ‘entrepreneurial cognition are the contextual knowledge structures that people use to make valuable assessments, judgments, or decisions involving cross border opportunity evaluation and exploitation’.

### **International orientation**

‘The entrepreneur's exposure to foreign cultures through living, working, or traveling abroad should increase their international orientation to foreign cultures and countries’ (Ruzzier et al. 2007, p. 18). The contextual knowledge that a firm acquires through its entrepreneurial managers in the targeted or anticipated host country is termed by Johnson & Vahlne (1977) as international experience, and is said to be the immune effect on the choice of particular strategy and mode (Agarwal and Ramaswami 1992; Ruzzier et al. 2007). ‘The international experience of managers and entrepreneurs is also an inimitable and irreplaceable resource for their firms’ (Ruzzier et al. 2007, p. 17).

International experience is a conduit through which the negative effects of an alien environment flow and become mitigated and the ‘experienced actors can do things that novices cannot do or do less well’ (Li and Meyer 2009, p. 3). Thus:

*H5: The higher the entrepreneurial context-specific international orientation, the more likely it is to exploit the greener opportunities through high value generation modes.*

### **Tolerance to ambiguity**

Complex legal environments, atypical markets and uncertain economic recessions are common limitations that SMEs face in developing countries as compared to advanced countries. ‘... the extent to which individual feel threatened by ambiguity or ambiguous situations, and the extent to which this affects the individual's level of confidence when making decisions’ is referred as tolerance to ambiguity (Westerberg, Singh and Häckner 1997, p. 256). Gupta and Govindarajan (1984) found implicit support for managers having high tolerance to ambiguity in selecting build strategies as compared to harvest strategies in the fortunes of 500 strategic business units (SBUs). Westerberg et al. (1997, p. 256) put forward the comments and argues that uncertainty reduces the tendency of facing

competitive turbulent environment ‘... high tolerance for ambiguity causes people to take too many risks in a stable environment, when “playing it safe” may be more rewarding’. Westerberg et al (1997) found that higher perceived tolerance to ambiguity was strongly related to better financial performance and the managers were prepared to face uncertain situations. The lack of experiential knowledge develops uncertainty (Johnson and Vahlne 1977), tolerance to ambiguity augments the behaviour of knowledge-seeking (Majeed and Reza 2009) and learning from mistakes, and thwarts the tendency of unnecessary delays in initiatives, which ultimately leads towards rewarding choice.

*H6: Small firms which have managers with a high degree of tolerance to ambiguity prefer high value generation modes.*

### **Proactivity**

International expansion in MNEs in general and in SMEs in particular (Zucchella, Palamara and Denicolai 2007), is triggered by corporate, organizational and financial restructuring (Polyakov 2005). Grappling with new competitors, and even the survival of small firms, is contingent upon effective management of limited financial, technological and human resources (Majeed and Polyakov 2009). The SMEs need corporate restructuring both in crises and non-crisis turnarounds, to avoid the tendency of dealing with crises of the present day before the crises emerge as a signal for change (Majeed and Reza 2009; Polyakov 2005). The era of cut throat competition demands innovation in process, product and technology, and proactivity refers to the forward-looking, opportunity-seeking tendency to anticipate and shape the future environment (Bateman and Crant 1993; Gupta and Bhawe 2007; Lumpkin and Dess 2001). Gupta & Bhawe (2007) argue that entrepreneurship involves unexpected complex problems and challenges, and that the people who have the proclivity to accept challenges, become entrepreneurs. The cognitive proactive aspect also helps explain how and why one

entrepreneur responds to turbulent environments, forecasts new business needs, restructures and transforms international expansion, better than others (Baron and Ward 2004; Baron 2004a,b). Thus:

*H7: Small firms which have entrepreneurial managers with a higher proactive disposition exploit international markets with high value generation modes.*

### **Cultural competence**

Due to financial and human resource constraints, small firms are more prone to cross cultural threats (Ojala 2009) as compared to their large counterparts (Dow and Ferencikova 2010; López-Duarte and Vidal-Suárez 2010). CC in IB “is an individual’s effectiveness in drawing upon a repertoire of skills, knowledge and attributes to work successfully with people from different national cultural backgrounds at home or abroad” (Johnson, Lenartowicz and Apud 2006, p. 533).

Documentary evidence supports the suggestion that exposure to an unknown culture can be a source of “*culture shock*” which refers to the cognitive perception of disorientation and uncertainty that can become severe in a dissimilar cultural environment (Harris, Moran and Moran 2004; Marx 1999; Milstein 2005). The entrepreneur might also face “*cultural shock*” when the actual complexity of an alien environment abroad becomes higher than the perceived complexity. Cultural-competence lessens this cultural shock. Thus:

*H8: Higher cross cultural competence in entrepreneurial activities leads to selection of high value generation modes.*

### **Investment risk perception**

An unstable cross-border market, coupled with political instability, discourages small firms from involving themselves in high commitments (Agarwal and Ramaswami 1992; Yamin and Golesorkhi 2010). Once the financial resources have been deployed, the entry mode cannot be modified without

the loss of time and duplicating efforts (Nakos and Brouthers 2002; Root 1994). ‘Once a firm enters overseas markets, a variety of risks (physical, social, political, and financial) can obstruct its progress towards internationalization’ (Ruzzier et al. 2007, p.18). In their study of 165 Slovenian SMEs, Ruzzier et al (2007) found that international risk perception predicted significant internationalization with respect to product, time, market, operation mode and degree.

*H9: Higher the risk perceived, higher is the likelihood of choosing different entry modes for international expansion.*

#### **4. Methodology**

##### **Sample selection**

The existence of a complete list or directory of SMEs, particularly foreign invested firms, remains a major constraint in the developing infrastructure of Pakistan. The energy and power shutdown/ load shedding, legal and moral hazards and Pakistan being “epicentre” of global terrorism provides a dual challenge to data collections mechanism (Khan and Amine 2004; News January 14, 2011). Musteen, Francis and Datta (2010) and Dib et al. (2010) endorsed that the response rate in developing and transition economies remains low, because firms are not used to answering questionnaires, absent is the culture of contributing to academic research and are highly reluctant to provide earning information. Important limitation is that the earning information is not available from any other source. This results in measurement error and possible bias (Dib et al. 2010; Musteen et al. 2010).

The author contacted different authorities such as the Export Promotion Bureau Database, Small and Medium Enterprise Development Authority (SMEDA) and Overseas Investors Chamber of Commerce and Industry of Pakistan, and these agencies provided the list of SMEs with foreign investment which

helped in the verification of profiles of the sample selected for study. The data was collected from a sample of three major provinces of Pakistan having sufficient number of SMEs.

SMEs in Pakistan are defined as any concern (trade, service or manufacturing) having sales turnover of less than 300 million per year (State Bank, 2004). A questionnaire was mailed to firms (three provinces of Pakistan) in which the particular manager has a key role in entry mode selection. Because of the complex nature of cognitive scales, lack of interest in research initiatives, and fear of company information leakage/misused for other purposes, the development of personal contacts with SMEs became mandatory. The questionnaire was also delivered by the drop-off methods. Pick-up schedules were also decided through personal telephone and e-mail follow-up.

The SMEs located in Karachi region were more prone to internet and computer usage, they were more keen to respond to e-mail questionnaires and 11 e-mail responses were included. More than 40 (questionnaires from remote area SMEs without proper mail dispatch system and/or substantial missing data) revised through telephonic follow-up and more than 30 collected through drop-off/personal visits methods were also included in the final data set (see appendix 2). This resulted in 171 usable questionnaires, presenting a response rate of 28%. This response rate is consistent with the response rate of previous IB studies using Malaysian companies, conducted by Ahmed, Mohamad, Tan and Johnson (2002), and other studies, e.g. Ekeledo and Sivakumar (2004). The industries represented were: textiles, food, engineering, sports, gems and jewellery, services and pharmaceutical firms.

Following Armstrong and Overton (1977), no significant difference in mean at a traditional level of .05 (t-test) were found in early and late responding firms, in terms of their basic profiles, such as number of employees, countries targeted, cognitive responses and firm's international experience.

Therefore late respondents that might carry similar attributes to those of non-respondents do not contribute any non-response bias.

#### **4.1 Measurement of constructs**

In order to assess the proven *face validity* of the research instrument, before selection of final measures, extensive literature review of international business and entry mode literature was undertaken. This review provided some more theoretical insight and in-depth complexity of psychological constructs endorsed by IB and cognitive scholars (Acedo and Jones 2007; Brace Kemp and Snelgar 2006). The questionnaire, along with its development process, was discussed with three international business and international marketing experts. A pilot study with seven initial interviews and 30 questionnaires was carried out with telephonic follow up; this provided us with the basic concept regarding the clarity and length of the questionnaire. Majority of the constructs/measures including ownership, location and cognitive dimensions was adapted from the previous IB and cognitive psychology literature (Acedo and Jones 2007; Agarwal and Ramaswami 1992; Pinho 2007; Westerberg et al. 1997), and were measured on a five point likert-scale (1= strongly disagree, to 5= strongly agree).

### **5. Results and discussion**

Multicollinearity was identified by scanning a correlation matrix to see if any correlate very highly (meaning a correlation of above .80 or near to 1). This estimation method proves superior to other methods to identify “ball park” multicollinearity (Field 2005; Maddala 2001). The correlation matrix was examined in detail and it is confirmed that none of the Pearson’s correlations is above 0.80 or near to 1. (Table: 2) Therefore we conclude that there is no multicollinearity in the model.

**Table 2: Mean, standard deviation and Pearson correlation for all variables**

	1	2	3	4	5	6	7	8	9	10
Mean	.421	62.00	3.934	4.421	3.182	4.315	3.584	4.263	4.023	4.233
Standard deviation	.495	63.28	1.184	.957	1.141	.690	1.055	.716	.844	.876
Constant	1									
Firm size	-.076	1								
Innovation	.139	.142	1							
Cultural distance	.159*	.037	.206**	1						
Market growth	.237**	.156*	-.107	.260**	1					
International orientation	.159*	.254**	.091	.018	.040	1				
Tolerance to ambiguity	.055	.203**	.030	.083	-.106	.173*	1			
Proactivity	.233**	-.015	.041	.217**	.169*	.033	.099	1		
Cultural competence	-.081	-.042	.055	.139	-.074	.313**	.117	.078	1	
Risk perception	.043	.154	.158	-.005	-.051	.081	-.047	-.089	.193*	1

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

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

Logistic regression analysis is usually an appropriate technique to assess the impact of relevant variables on the choice of entry mode. The level of significance and the Wald statistics are important to determine the degree of dependence on binomial variables. Following previous studies of entry mode choice (Brouthers and Brouthers 2000; Herrmann and Datta 2006; Jiang 2001a), logistic regression is particularly helpful when the (1) dependent variable is dichotomous in nature and (2) the variables in the equation are qualitative or quantitative.

Dependent variable, the FDI mode included a newly created, nominal dichotomous variable, that became “1” for high value generation modes (foreign office, strategic alliances and joint ventures/base category) and “0” for *low value generation modes (export and sole venture operations)*. The analysis confirms that the coefficients related to firm size have a Wald statistic equal to 3.148, and this variable is partially significant with negative beta co-efficient. Significant value and Wald statistics suggest that the probability of a firm choosing a high value generation mode is negatively related to firm size, thereby, rejecting H1. Scholars exploring the effect of size and international experience have found inconclusive relationship between ownership advantage (firm size and international experience) and the choice of full control mode (Anderson & Gatignon 1986; Ekeledo and Sivakumar 2004; Li and Meyer 2008). Possible explanation for this result is that the small firms in emerging economies due to institutional, moral and legal hazards feel it comfortable to exploit greener opportunities without

collaborating with foreign partners to create high resource value. In addition the manufacturing sector SMEs in Pakistan wants to target niche market to full fill the need of customised customers without collaboration.

The coefficient related to second ownership advantages innovation and have higher Wald statistics significant in the expected direction, supporting H2

In the product innovation vein of research, the FDI theorists found a positive association between product innovation/R&D intensity to be positively associated with full control modes (Agarwal and Ramaswami 1992; Erramilli, Agarwal and Kim 1997; Stoian and Filippaios 2008). One of the possible explanations of the significant results in this study indicates the high innovative capability of Pakistani SMEs due to human and technological development. Another reason is the complete absence of govt support programs for manufacturers at gross root level, and the firms self innovative attitude makes it possible to collaborate with internationals partners for market search and exploitation.

Table 1 Logistic Regression result (dependent variable: resource generation modes)

<i>Factors</i>	<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>Sig</i>
<b>Ownership advantage</b>				
H1 Firm size	-.006	.003	3.148	.076
H2 Innovation	1.082	.418	6.685	.010*
<b>Location advantage</b>				
H3 Cultural distance	.652	.281	5.379	.020*
H4 Market growth	.244	.359	.463	.496
<b>Cognitive advantage</b>				
H5 International orientation	-.124	.255	.237	.627
H6 Tolerance to ambiguity	.031	.305	.010	.919
H7 Proactivity	1.928	.623	9.564	.002*
H8 Cross-Cultural cognition	-.779	.465	2.804	.094
H9 Risk perception	-.244	.405	.364	.546

\* p < 0.05; \*\* p < 0.01

The coefficient related to location advantages (cultural distance and market growth), the cultural distance has higher Wald statistics and is significant. Significant value, positive beta co-efficient and Wald statistics suggest that the probability of the firm choosing a high value generation mode is positively related to cultural distance, supporting H3. This result is in line with the previous cultural distance studies (Kogut and Singh 1988; Ojala 2009; Yamin and Golesorkhi 2010).

The most important contribution of this study was to explore the relationship of entrepreneurial cognitive perception with entry mode choices. The application of RBV theory to cognitive style capabilities and their link with international risk perception in entry mode choice is relatively under-researched. The coefficients related to cognitive advantages were expected to be significant, which means that the probability of a firm choosing a high value generation mode was positively related with this dimension. However among cognitive advantages only proactive disposition of have a Wald statistic equal to 9.564 and this is significant. Thus there is a significant relationship between a firm's entry mode selection of high resource generation and proactive ability, therefore among cognitive advantages only H7 can be supported.

Kickul and Gundry (2002) found significant association between intensity of innovation and proactive behaviour by SME owners for their recently-executed strategies. Furthermore, Acedo and Florin (2006) found that the proactive personality of the entrepreneurs and their international orientation are the primary determinants of innovative behaviour and international expansion. "Other factors, such as tolerance for ambiguity and cognitive style are relegated to a minor role" (p, 62).

The findings suggests that the small Pakistani firms due to narrow analysis of international market and self limiting attitude confined to exporting operations instead of strategic alliances/joint ventures in

turbulent environments abroad. What is surprising are that majority of the small firms in developing nations does not rely on partners initiatives for high resource generation potential.

A number of different models were analysed before final model. First model was obtained by removing the international orientation and second by removing the firm size (due to minor correlation .254). Neither of the first two models provided adequate model fits. The final overall model appears to be very good, as 67% of the observations were classified as correct, which is higher than the chance rate of .62. The -2 log is 204.245 for model 2, -2 log is 192.130 for final model and (the model chi-square = 35.382 with degree of freedom = 9). A confirmation of good fit regarding the model is justified.

## **6. Conclusion and implications**

The entry mode literature review suggests that most papers use archival data/proxy variables for firms' international involvement (Agarwal 1994; Erramilli et al. 1997; Stoian and Filippaios 2008). Literature is deficient in small firm entrepreneurial cognition based contexts and proxy variables are not valid/reliable, because they ignore the attitude and behavior involved in perceiving entry mode choices. Therefore keeping in view the valuable recommendation of Herrmann and Datta (2006) that 'research that is able surmount the data collection challenges associated with the use of psychological constructs should provide interesting insights on the relationships between CEO cognition and strategic choices' (p.774).

Small firm international expansion to search for greener opportunities abroad in general, and entry mode choice in particular, is complex, and no single theory alone is able to elucidate this phenomenon completely (Dunning and Lundan 2008; Jiang 2001b). This study mainly contributes to cross-fertilize the dynamic capability view with Dunning's OLI theory in explaining the role of cognitive orientation in entry mode choice. Another contribution of this study is the Integration of Dunning framework with

cognition (dynamic capabilities) and exploration of new value generation taxonomies of entry mode selection. The findings support the central role of ownership, location and cognitive advantages in the choice and selection of high value generation modes.

There exists a gap in IB in general, and in entry mode literature in particular, in terms of examining how and when cognitive style or cognitive biases (Brouthers and Hennart 2007; Canabal and White III 2008) are more likely to influence the manager's pre- and post-entry mode behaviour/locus of control for future viable entry mode choices. The interaction of dynamic capability view with international entrepreneurship should be empirically substantiated to answer this question.

In IB literature in general, and in small firms' entry mode in particular, several useful theories have not been tested yet. In entry mode literature' the theories that still need to be empirically substantiated include cybernetic strategy/The contingency theory of decision making (Kumar and Subramanian 1997), the theory of strategic renewal (Alexander and Korine 2008; Prashantham 2008), bargaining power theory (Quer, Claver and Andreu 2007; Tatoglu, Glaister and Erdal 2003), and the theory of social capital (Floyd and Lane 2000; Prashantham 2008).

The complexity of cognitive styles highlights a need for further empirical, cross-case, cross-cultural and longitudinal studies to explore the dimensions of SME internationalization and entry mode choice (Canabal and White III 2008; Majeed 2009). Cross-case analysis will help to determine the actual trend in small firms, and particularly in contemporary knowledge-intensive firms and INVs in the global competition and strength of their cognitive process, routines (capabilities) and practices for creating real value in the organization. Multiple cross-case analysis and longitudinal studies (Canabal and White III 2008; Majeed and Polyakov 2009) also help to enhance the validity and generalizability of the studies.

The contribution of the least developed South East Asian nations in exploring FDI trends in MNEs, SMEs and INVs is very limited in the IB field. The managers and researchers from other South East Asian countries are encouraged to put their energy in joint efforts to develop knowledge workers in INVs and SMEs. As an initiative of University-Industry linkage there should be a network of SME managers and academicians in to explore viable cross border greener opportunities. Countries of particular interest might include Pakistan, Indonesia, Nepal, Bhutan and other developing nations. Both conceptual and empirical studies and cross border initiatives from academicians and entrepreneurs can contribute if colleagues from advanced nations are also involved in such networks and cross-cultural initiatives.

Similarly the role of export-promotion agencies in Asian economies suggests that organizing trade exhibitions and training for venture managers and top management executives would be beneficial. One of the important tasks to overcome the financial and human resource constraint is to develop ties and joint venture relationships with foreign partners, even in culturally distant markets. Therefore SMEs in the Asian region are encouraged to exploit new opportunities through creating strong new, long-term linkages based on trust and empathy with international MNE actors.

### Appendix 1

<b>Focus</b>	<b>CEO/Individual/top management</b>	<b>Firm/market</b>
<b>Human factors and internationalization</b>	(Cavusgil 1984),(Bloodgood Sapienza and Almeida 1996),(Manolova Brush Edelman and Greene 2002),(Herrmann and Datta 2002), (Halikias and Panayotopoulou 2003), (Andersson Gabrielsson and Wictor 2004),(Nummela Saarenketo and Puumalainen 2004),(Acedo and Florin 2006),(Acedo and Jones 2007),(Ruzzier et al. 2007),(Pinho 2007), (Riley, Kalafatis and Manoochehri 2009).	(Hymer 1960), (Dunning 1988), (Johnson and Vahlne 1977), (Andersson et al. 2004)
<b>Cognition and SME entry Mode choices</b>	<b>No contribution so far (Research gap)</b>	<b>(Research gap)</b>

## Appendix 2

<b>Table: 2 Data collection mechanism</b>	<b>N</b>	<b>Regions</b>
Postal responses received first time	49	Punjab and Sindh
Postal responses received after reminders and follow-up	21	Punjab and Sindh
Postal responses revised telephonically with substantial missing data	27	Punjab and Sindh
e-mail responses	11	Sindh
Postal and telephonic responses through export associations	26	Punjab and Sindh
Personal visits/Drop-off method	37	Baluchistan region
Total	171	
N: Total number of responses		

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