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Resource Dependency and Institutional Theory Perspectives

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Abstract: This paper develops and tests resource dependency and institutional theory arguments for explaining two choices facing SMEs: the decision to export or not, and, in case a firm has decided to export, the choice between exporting directly or indirectly. We test four hypotheses using a sample of 871 Dutch SMEs and applying multinomial and binomial logistic regression analysis. Our results suggest that institutional theory perspectives may be mainly relevant in explaining the choice of whether or not to export, while resource dependency theory arguments may be particularly relevant in explaining the choice between direct and indirect export modes. Our findings have important implications for policy and research.

Keywords: direct export, indirect export, SMEs, resource dependency theory, institutional theory

JEL Classifications: L26, M16, L2

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1. Introduction

In comparison to large multinational firms, small and medium sized enterprises (SMEs) are typically regarded as resource-constrained, lacking the market power, knowledge and resources to operate viably in international markets (Fujita, 1995; Coviello and McAuley, 1999; Knight, 2000; Hollenstein, 2005). Despite liabilities of small size and foreignness, an increasing number of SMEs pursue international markets for selling their goods and services (Reynolds, 1997; Rugman and Wright, 1999; OECD, 2000). New and small firms' transaction costs of doing business abroad (e.g. costs associated with delivering goods or services to international customers) are particularly cumbersome (Zacharakis, 1998), however these costs have been reduced due to technological advances in telecommunication, transportation and information technology (Reynolds, 1997; OECD, 2000). Although there is a growing body of research on new and small firms' internationalization (Coviello and McAuley, 1999; Rialp et al. 2005), extant research is largely confined to direct (e.g. exporting) means to internationalization (e.g. Bloodgood, Sapienza and Almeida, 1996; McDougall and Oviatt, 1996).

An emerging strand of research explores how small and new firms pursue an indirect path to internationalization (e.g. Acs, Morck, Shaver and Yeung, 1997; Peng and York, 2001; Terjesen, Acs and O'Gorman, 2006; Acs and Terjesen, 2006) using local and foreign intermediaries to sell their goods and services across national borders. Small and new ventures use intermediaries to overcome knowledge gaps, find customers and reduce uncertainties and risks associated with operating in foreign markets (Terjesen et al., 2008). Most intermediated internationalization

studies are exploratory in nature and based on cases in a variety of country environments. Examples of indirect forms employed include local and foreign export intermediaries (Peng, 2005; Bello and Lohtia, 1995) and subsidiaries of multinational firms (Acs et al., 1997; Terjesen et al., 2008). An example of local firm intermediation is Dublin-based Cylon, a building control systems manufacturer which distributes products to a local subsidiary of ABB which then sells the product around the world. A case of a foreign firm intermediary role is Delhi-based software firm Softcell who sell to the European headquarters of a Fortune 100 energy company which then distributes the product globally across the firm (Terjesen et al., 2008). In some countries, such as Japan and Korea, export intermediaries handle about half of total exports (Peng and Illinitch, 1998).

Research on new and small firm export activity explores the role of owner and firm-specific factors such as learning (De Clercq, Sapienza and Crijns, 2005), social capital (Yli-Renko, Autio, and Tontti, 2002) and ownership (George, Wiklund and Zahra, 2005), placing less emphasis on the role of the external environment. In this paper, we examine the role of external factors in direct and indirect export mode choice and build on two complementary frameworks: resource dependency theory and institutional theory. Based on resource dependency theory, we argue that factors relating to the economic environment in the home market may be relevant in explaining SMEs' direct and indirect export activity. Institutional theory guides our contention that SMEs operating in an organization field that is perceived as becoming more international will be more likely to export, either directly or indirectly. We focus on explaining two SME choices: the decision to export or not, and the choice between direct and indirect export modes. We test the

resource dependency and institutional theory arguments using multinomial and binominal regression analyses for a sample of SMEs headquartered in the Netherlands.

The paper is structured as follows. Section two provides a brief overview of the literature on direct and indirect export modes. Section three presents and develops resource dependency and institutional theory arguments and puts forward four hypotheses predicting SME involvement in direct and indirect export activity. Data and methodology are described in section four and results are presented in section five. We frame a discussion in section six and suggest implications for theory, practice, policy, and future research in section seven.

2. Direct and indirect export modes

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

Indirect paths to internationalization are those "whereby small firms are involved in exporting, sourcing or distribution agreements with intermediary companies who manage, on their behalf, the transaction, sale or service with overseas companies" (Fletcher, 2004). Export intermediaries play an important "middleman" role in international trade, "linking individuals and organizations that would otherwise not have been connected" (Peng and York, 2001, 328). Such indirect

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

Intermediaries include agents and distributors located either at home or abroad (Peng and York, 2001) and the local subsidiaries of MNEs. Why would SMEs consider indirect means to internationalization through MNEs? By their nature, MNEs minimize costs through mass production and to attain economies of scale through international production and location (Dunning, 1988). SMEs' strategic linkages with large foreign firms limit liabilities of newness, foreignness and small size and enable access to markets, technology, and reputation

(Kuemmerle, 2002). However, in these arrangements, SMEs face several disadvantages including extraordinary rent appropriation and a lack of full awareness of the market and access to the flow of ideas.

Extant SME export research is mostly concerned with the direct mode and centers on firm-specific and owner-specific variables, including product uniqueness (Cavusgil and Nevin, 1981), R&D activity (Lefebvre and Lefebvre, 2002), founder age (Westhead, 1995) and top management team (TMT) experience in doing business abroad (Eriksson, Johanson, Majkgård and Sharma, 1997). A more limited body of research pursues the role of external factors such as government support for internationalization (Wilkinson, 2006), environmental turbulence (Westhead, Wright and Ucbasaran, 2004), and the characteristics of foreign markets (e.g. the level of competition abroad) (Thirkell and Dau, 1998) and domestic markets (e.g. production costs in the home market) (Axinn, 1988). In contrast to earlier studies of limited sets of firm factors, this paper develops and tests two theories of external environment factors: resource dependency and institutional theory.

3. Theoretical Background

Resource dependency theory and institutional theory are both concerned with the relationship between an organization and a set of actors in the environment. Both theories assume organizational choice is constrained by multiple external pressures and that organizations are concerned with building legitimacy and acceptance vis-à-vis external stakeholders. The two theories have greater predictive power when used together (Sherer and Lee, 2002). Resource dependency theory focuses on a firm's ability to access resources from other actors in the

environment and describes how resource scarcities force organizations to pursue new innovations that use alternative resources (Pfeffer and Salancik, 1978). Institutional theory describes how an organization adopts practices which are considered acceptable and legitimate within its organizational field (Scott, 1995). Thus, both theories describe how organizations face competitive pressures and may depend on or be impacted by other actors in the environment. However, the two theories differ in the explanations offered for why organizations may be impacted by other actors. While resource dependency theory argues that dependence on other actors is related to access to resources, institutional theory predicts that organizations are inclined to imitate the behavioral norms of other actors in the organization field.

We expect these theories to be particularly relevant in explaining SME export behavior. First, due to the constraints of size and resources, SMEs depend on other actors in the environment. Second, as SMEs tend to have many business linkages and are more susceptible to knowledge from external actors than their larger counterparts (Acs et al., 1994), we expect SMEs to be strongly influenced by the behavior of surrounding actors.

3.1. Resource dependency theory

Resource dependency theory assumes that the organization makes active choices to achieve objectives. The major tenet of resource dependency theory is resource scarcity, resulting in multiple organizations competing for the same or similar sets of scarce resources. Organizational survival depends on the firm's ability to acquire and retain resources from other actors in the immediate "task environment." The focal organization will act to reduce or increase its level of reliance on those actors, through such actions as alliances or joint ventures. For example, as

customers increasingly seek globally-coordinated sourcing (Kotabe, 1992), firms respond by creating alliances to strengthen relationships with key customers (Pfeffer and Salancik, 1978) and suppliers, including following these customers overseas. For example, many of Toyota's Japan-based parts suppliers set up operations proximate to Toyota's automobile manufacturing facility in Kentucky. Resource dependency theory can also be interpreted to explain how firms might pursue direct or indirect modes of internationalization to reduce exposure to a home market which may be undesirable due to high market saturation, production or other costs, and instead focus on other, more attractive national markets.

The theory can also be applied to consider a firm's ability to acquire resources needed for exporting (Tesfom, Lutz and Ghauri, 2004). Thus resource dependency theory may help explain how a firm's location in a desirable home market can aid the accumulation of resources that are necessary for internationalization. A large body of empirical research investigates how a SME's current resource base impacts export activity (e.g. Cavusgil and Nevin, 1981; Akoorie and Enderwick, 1992; Westhead, 1995; Keeble, et al., 1998; Autio, Sapienza and Almeida, 2000). However, little is known about the relationship between availability of resources in the home market and firm export behavior. Building on resource dependency theory, we expect that a SME's ability to provide the necessary export capacity may depend on the favorability of the home market in which it operates. We expect that as SMEs have limited firm resources, particularly when compared with large multinationals, they may be particularly reliant on the resources available in their home country.

Porter (1990, 1998) describes how firms based in national markets enjoy certain competitive advantages. Two key components are the presence of related and supporting activities (e.g. presence of customers and suppliers) and certain factor conditions (e.g. availability of capital, knowledge, technology, resources, level of production costs, legal system protection of property rights and quality of government regulation for business). Based on Porter (1990, 1998), we expect that SMEs based in certain countries enjoy certain advantages that enable exporting activity. For example, when finance, technology, and raw material resources are widely available and easily accessible in the home market, SMEs may be more likely to acquire the resources and capabilities needed to compete in foreign markets. Also, when production costs are perceived to be favorable in the home market, SMEs may be better able to develop internationally competitive products or services, at least by price. Firms operating in a home market with strong intellectual property (IP) rights protection may have an adequate context for developing such international competitive products or services.

Hypothesis 1: The greater the perceived favorability of the home market (industry and factor) conditions, the more likely the SME is to export.

Furthermore, the extent of home market favorability may impact the choice between direct and indirect export modes. For example, when home market factor conditions such as resource availability, production costs, intellectual property rights protection, government regulation and the presence of related and supporting industries are perceived as favorable, SMEs may be better able to access resources to develop products and competences. Better products and competences may increase SME competitive advantages, including vis-à-vis foreign firms and also export

possibilities. Greater competencies may lead SME owners to be more confident in their ability to export, and may increase their ability to successfully export their products or services (Moen, 2002). Thus SMEs based in favorable home markets may be more successful and willing to take more risk in entering foreign markets and may be more likely to pursue the direct mode, rather than the indirect mode. Based on the above, we suspect:

Hypothesis 2: The greater the perceived favorability of the home market (industry and factor) conditions, the more likely the SME is to export directly than to export indirectly.

3.2 Institutional theory

According to institutional theory, organizations operate within a social framework of norms, values, and assumptions about what constitutes appropriate behavior (Oliver, 1997; Scott, 1995). Institutional contexts "prescribe and proscribe organizational alternatives" (Hinings and Greenwood, 1988). Decisions are made not so much according to technical or economic criteria, but on the basis of what is acceptable and legitimate within a particular environment or "organization field" which typically moves toward common structures and processes due to coercive, imitative, and normative expectations (DiMaggio and Powell, 1983). Traditionally, institutional researchers explored external institutions such as rules, regulatory structures and agencies, however the field has been extended to include other firms in the same industry or units within the same firm.

Institutional theory suggests that to the extent a firm sees itself as part of a global (rather than local) organization field, the firm will progressively adopt the behaviors and processes that

provide legitimacy within that field. Thus, firms may follow home country direct and substitute competitors, customers and suppliers overseas, and this process may include indirect paths. Also, an increased presence of foreign actors, such as foreign suppliers and foreign customers, in the firm's direct task environment indicates an increasingly global organization field and may subsequently provide the firm with legitimacy to service markets abroad.

Hypothesis 3: The greater the perception of increased globalization of the organizational field, the more likely the SME is to export.

Given the logic developed so far, we view SMEs as facing competing isomorphic pulls from local and global organization fields. Historically, a firm is identified with other actors in its local economy. Increasingly, as financial markets, competitors, and customers become more global in scope, the firm may be considered a member of a global organization field. The implication is that the greater the pull from the global organization field, the more likely that the firm will export overseas. Note, however, that the story differs from the resource dependency argument in that institutional theory argues that actions leading to isomorphism are not necessarily efficient. Thus, while we may see the firm undertaking some activities to be seen as a global player, the implications on operational performance may actually be negative.

In addition to our expectation that operating in an increasingly global field may positively affect SME propensity to export, we expect that the orientation of the organization field may also affect the choice of direct or indirect export mode. A SME which operates in an increasingly global organization field may find it easier to access information on foreign markets or to locate

customers abroad. Consequently, the necessity of using intermediaries may be reduced and the odds for using the direct mode may increase. Thus, we expect:

Hypothesis 4: The greater the perception of increased globalization of the organizational field, the more likely the SME is to export directly than to export indirectly.

4. Data and Methodology

4.1 Data

Our study is based on data collected from 871 Dutch SMEs. SMEs are defined as firms with up to 250 employees. A random sample of 1665 Dutch SMEs was invited to participate in an internet survey, generating a 52% response rate. The Netherlands is a particularly interesting country to investigate internationalization due to the nature of its small, open economy. The Dutch business sector is among the world's largest exporters, importers and foreign direct investors. However, international activities are unevenly distributed among large and small firms. Even within small countries many SMEs do not internationalize their activities (Autio, Sapienza and Almeida, 2000; Eriksson, Johanson, Majkgård and Sharma, 1997). For example, Dutch SMEs, as compared to SMEs based in other European countries, are only average or slightly above average with respect to the share of enterprises that export, import or invest abroad (Hessels, 2005).

4.2 Sample Characteristics

Of the Dutch SMEs in our sample, 9% export indirectly and 22% export directly. SMEs with larger numbers of employees are more likely than their smaller counterparts to export indirectly. The proportion of SMEs involved in indirect exports is 5% for firms with up to 9 employees; 12% for firms with 10-49 employees and 21% for firms with 50-250 employees. There is no significant difference in participation in indirect export between young and old firms. (Following, McDougall (1989), we define young firms as 8 or fewer years old.) Eight percent of young firms and 10% of more established firms export indirectly.

The indirect exporters within our sample of Dutch SMEs are more likely to use foreign intermediaries (81%) as compared to domestic intermediaries (42%). Furthermore, about a quarter of exporting SMEs use both a domestic and a foreign intermediary, while 16% indicate using *only* a domestic intermediary, and more than half report using *only* a foreign intermediary. Regarding the type of intermediary, the use of agents abroad is most common, followed closely by wholesalers, distributors, dealers or resellers abroad. The least common mode is indirect export through an office of a multinational either at home or abroad (see table I).

Insert table I about here

Table II reports SMEs' most important reasons for using an intermediary when exporting. The most frequently cited reason for using an intermediary is to find customers in foreign markets.

Other frequently mentioned reasons relate to diminishing the risk and uncertainty of operating overseas and to compensating for a lack of foreign market knowledge.

Insert table II about here

4.3 Empirical analysis

We test our hypotheses with multinomial and binomial regression analyses. The unit of analysis is the individual firm. For the purpose of our regression analysis, we omit "don't know" and missing values, resulting in a final sample of 402 valid observations.

Measures

Dependent variables:

Export involvement: For export involvement, we construct a categorical variable based on three response levels: no export activities (0), indirect exports (1) and direct exports (2). In case a firm uses intermediaries, even if it is also involved in direct export as happens in a few cases in our sample, we classify this firm as an indirect exporter. Direct exports include exports through a firm-owned foreign (sales) office abroad.

Export mode: For export mode we construct a variable with direct export (0) and indirect export (1).

Independent variables:

Favorability of the home market: Perception of favorability of the home environment in terms of factor conditions and the presence of related and supporting industries (Porter, 1990, 1998) is assessed by asking respondents for their perceptions of the Netherlands business environment. We ask SME owners to assess the home market favorability for their firm in terms of the following items: presence of relevant customers, presence of relevant suppliers, presence of relevant resources and raw materials, access to investors and banks, access to knowledge and technology, costs of producing their goods or services, protection of intellectual property rights and quality of government regulation with respect to business. For each category, we construct a variable with "unfavorable" and "neither favorable, nor unfavorable" taken together (0) and favorable (1).

Internationalization of the organization field: We construct a number of variables based on the respondents' assessment of the following question: "To what extent are the following statements applicable to your organization? Our competitors in the Netherlands operate to an increasing extent on foreign markets; Our customers in the Netherlands operate to an increasing extent on foreign markets; Our suppliers in the Netherlands operate to an increasing extent on foreign markets; Our organization/subsidiary increasingly has to deal with foreign competition in the Dutch market; Our organization / subsidiary makes to an increasing extent use of

suppliers from abroad."[1] For each statement, a variable is constructed including "not applicable" (0) and "to some extent applicable" and "to a large extent applicable" taken together (1).

Control variables:

Industry dummies are constructed for production industries (manufacturing and construction), trade (retail and wholesale), business services and other industries (including transportation, lodging and financial services). "Other industries" is the reference group in the regression estimation. Various empirical studies report a positive association between firm size and export behavior (Chetty and Hamilton, 1993; Westhead, 1995; Lefebvre and Lefebvre, 2002). We include controls for the firm's size (natural log of number of employees), age (natural log of firm age) and resource base (business owner's level of education, top management team (TMT) foreign experience, presence of foreign investors). As previous research indicates that decision-makers in exporting firms tend to have higher levels of education than do decision-makers in non-exporting firms (Simpson and Kujawa, 1974), we control for the business owner's level of education using dummy variables for low education (lower secondary degree or less), medium education (higher secondary degree or equivalent) and high education (higher business education or university degree). We use 'low education' as the reference category in the regression estimation. A dummy for TMT foreign experience is constructed capturing "no" or "hardly any experience" (0) and "some" or "much experience" (1). Finally, presence of foreign investors is captured as no (0) and yes (1). Table III provides some descriptives for our main variables.

[1] Cronbach's alpha for our measures for home market favorability is 0.59 and for our measures for the internationalization of the organization field it is 0.78. When we conduct factor analysis we obtain similar outcomes in our regression models, but because of the exploratory character of our study we want to allow for and gain insight into individual influences of our separate measures, and therefore we present results that include all individual measures for our two main groups of independent variables. This is also possible because multicollinearity is not a concern when we include all individual measures in our models.

Insert table III about here

Table IV presents the Pearson correlation coefficients of the dependent and independent variables. The coefficients reveal that our indicators for increased globalization of the organization field are positively related to export involvement, but not to export mode. Furthermore, the variables for perceived home market favorability are not related to export involvement and only one of the indicators (access to investors) is positively related to export mode.

Insert table IV about here

5. Results

5.1 Logistic regression analyses

We perform two types of logistic regression analyses in order to test our hypotheses. First, we use a multinomial logit analysis[2], in which export involvement is the dependent variable, to investigate how our independent variables impact the odds of being involved in indirect and direct export as compared to not exporting and therefore take "no export" as the reference category (Hypotheses 1 and 3). Second, we apply binomial logistic regression analysis with export mode as the dependent variable in order to investigate whether the odds of being involved

[2] A key assumption of multinomial logit regression is the Independence of Irrelevant Alternatives (IIA). Hausman tests indicate that the assumption of IIA is not violated in our model.

in indirect export relative to direct export are influenced by our explanatory variables (Hypotheses 2 and 4).

5.2 Export versus no export

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

Insert table V about here

Compared to the reference category "other industry," we find that firms belonging to any other industry (e.g. manufacturing, retail, business services) are significantly more likely to export directly. For indirect exporters, this is only true for production industries. Furthermore, firm age decreases the odds of being involved in direct exports relative to no exports, indicating that younger firms are more likely to export directly than not at all. Regarding the firm's resource base, our results indicate that firms with TMT members with experience working and living abroad are more likely to export, both directly and indirectly.

With respect to the home market, the more favorable the perception of access to investors and banks, the higher the odds of being involved in indirect exports as compared to no exporting activity. We find no significant relationship between direct export and any of the indicators for home market favorability. In sum, we find little support for Hypothesis 1.

We then explore findings related to the perceived globalness of the organizational field. Firms with competitors increasingly operating abroad are more likely to export indirectly, whereas firms dealing with suppliers that are increasingly active in foreign markets are more likely to export directly (as compared to no export activity). Also, firms with customers that increasingly operate abroad are more likely to export directly and indirectly. Furthermore, firms making increased use of foreign suppliers are more likely to be involved in indirect and direct export modes. Thus, we find some support for Hypothesis 3 suggesting that a more global organization field may positively impact SME involvement in direct and indirect export.

5.3 Indirect export versus direct export

The results of the binomial logistic regression analysis, which is applied to investigate whether our theory arguments impact the choice to export directly or indirectly, are displayed in Table VI. The valid sample consists only of exporters and is 118. We find, contrary to Hypothesis 2, that SME likelihood of indirect rather than direct export modes increases with the perceived favorability of access to domestic investors and banks. On the other hand, propensity to export, indirectly relative to directly, decreases when home market production costs and access to knowledge and technology are perceived as more favorable. These results support Hypothesis 2. Furthermore, while an increasingly global organization field affects export involvement, we do

not find an effect on the choice between direct and indirect modes. These results provide partial support for Hypothesis 2, but no support for Hypothesis 4.

Insert table VI about here

6. Discussion

This study has provided insight into SME participation in direct and indirect export modes. One of our main findings is that SMEs operating in an increasingly global organization field are more likely to export directly or indirectly. As national economies grow more interconnected, organizational fields will be increasingly globalized and SME involvement in international markets is likely to expand. In particular a firm operating in a field in which customers are increasingly global is more likely to export. This finding may indicate that SMEs follow domestic customers to overseas markets. Furthermore, having domestic competitors that increasingly operate abroad is related to indirect export activity. This finding suggests that when SMEs follow domestic competitors abroad this tends to occur through the use of intermediaries, indicating that competitors may not share their knowledge of foreign markets and distribution channels, which may make contract-hiring intermediaries a more desirable option. Having domestic suppliers that increasingly operate abroad is related to direct export activity, which may indicate that suppliers share, for example, their knowledge of foreign markets and distribution channels with their contractor-firms, reducing the reliance on intermediaries. Our study indicates that firms that increasingly use foreign suppliers are more likely to export, directly or indirectly. This is in line with findings from past research that indicate that foreign purchasing may

stimulate export (Korhonen, Luostarinen and Welch, 1996). Furthermore globalization implies that SMEs increasingly face foreign competition in the home market (Etemad, 2004). Such increased competition may stimulate firms to look beyond domestic markets and to adopt an international focus (Etemad, 2005). However, we find no evidence that amplified foreign competition in the home market increases the odds of SME involvement in export activities.

In sum, our study confirms the predictive power of institutional theory in explaining SME involvement in both direct and indirect export. Our findings indicate that the following actors in the environment impact SME export behavior: domestic competitors (only for indirect export), domestic customers, domestic suppliers (only for direct export) and foreign suppliers. For institutional theory development, our findings imply that it is important to allow for differences in the importance of various actors within the organization field in stimulating imitative behavior.

Our study complements the limited existing literature on export spillovers (e.g., Aitken et al., 1997; Banga, 2003; Greenaway et al., 2004; Kneller & Pisu, 2007; De Clercq, Hessels and van Stel, 2007). This emerging stream of research suggests that firms may be more inclined to engage in export activities if they are exposed to other economic actors' international activities (Greenaway et al., 2004) and focuses primarily on the impact of foreign multinationals on domestic firms' export activity. Our findings suggest that export spillovers to SMEs emerge from domestic competitors, customers and suppliers as well as from foreign suppliers and indicate that studies on export spillovers should consider the actors in the firm's immediate task environment.

Traditionally, SME internationalization research did not consider inward-driven activities, such as importing, acting as a licensee for a foreign firm or joint venturing with a foreign partner in the home market. More recent internationalization studies acknowledge the role of imports (e.g., Korhonen, Luostarinen and Welch, 1996; Liang and Parkhe, 1997) and call for a more holistic approach of internationalization which considers inward, outward and linked models (e.g., Coviello and McAuley, 1999, Fletcher, 2001). Our finding that an increased use of foreign suppliers stimulates SME export behavior supports the conjecture that it is relevant to take a more holistic approach of internationalization.

Regarding home market favorability, we find most factors do not impact SME export involvement. The only exception is that perceived favorability of access to finance increases the odds of indirect export involvement. Intermediaries add costs and SMEs may only be able to bear these costs once they have good access to investors in their home market. Thus, even if direct export is a very difficult option (e.g. due to a lack of knowledge on specific markets within the firm), a SME may be stimulated by availability of financial resources to seek help from intermediaries for undertaking exports. It can also be the case that when an intermediary proactively approaches potential SME customers, those SMEs that perceive access to financial stakeholders as favorable may be more likely to contract the intermediary. From a policy perspective financial incentives are possibly a viable strategy for promoting SME participation in indirect export.

Our study seeks explanations for both SME export involvement and factors affecting the choice between direct and indirect export modes. Whereas we find that surrounding actors'

internationalization behavior affects SME export involvement, providing legitimacy for SME internationalization, we find no evidence that these actors impact SME choice of direct or indirect export. Thus, institutional theory appears to have little relevance in explaining the choice for a specific mode of internationalization. We do, however, find some support for resource dependency theory explanations for channel choice.

More specifically, while our findings indicate that SME participation in indirect and direct export is broadly explained by similar sets of factors, the choice between indirect and direct export is impacted by the conditions of the home environment. First, when access to investors and banks in the home market is regarded as favorable, SMEs are more likely to pursue indirect rather than direct channels. This may indicate that when financial resources are more accessible in a domestic environment, it may become easier for domestic SMEs to access capital for hiring intermediaries and consequently it may be more attractive for SMEs to export indirectly rather than directly. The reverse may also be true: SMEs exporting with intermediaries may also export directly simply due to a lack of availability of home market financial resources.

Furthermore, our results indicate that SME choice between direct and indirect exports is affected by the perception of favorable home country access to knowledge and technology. In particular, SMEs operating in a home market with favorable access to knowledge and technology are more likely to export directly, rather than indirectly. This may be because home markets with favorable access to knowledge and technology may enable SMEs to develop unique or new products or services, which may provide them with direct export opportunities and reduce their reliance on intermediaries.

A final feature which affects the choice between direct and indirect export is the perception of home market production costs. Axinn (1988) reports that manager perception of a fall in production costs at home positively influences firm export behavior. Our study indicates that perceived favorability of production costs at home may be particularly relevant for the direct export mode. More specifically, our results indicate that when SMEs regard production costs in the domestic market as favorable, they may be more likely to choose the direct, rather than the indirect, mode. One explanation for this finding could be that lower production costs result in an immediate cost advantage for the firm, which may help build a competitive advantage for the firm's product especially overseas. When a firm enjoys favorable production costs at home, domestic competitors are also likely to benefit from this, however it may give the firm an advantage vis-à-vis foreign competitors or in foreign markets. Direct exporting may therefore become easier and the need to use intermediaries to export may be decreased. Also, markets in which firms compete on production costs or prices are possibly more transparant and therefore the need to rely on intermediaries for exporting may be lower.

Previous research identified the importance of business owner/TMT foreign experience in driving export propensity. Our results strongly indicate that such experience is not only important for determining SME involvement in direct exports, but also for indirect exports. The experience of living and working abroad is likely to provide firm managers with an international focus. Thus, firms that have business owners and TMT members with considerable international experience are likely to share this international focus in the course of their work for the firm and

therefore, even when considering markets of which they possess little specific knowledge, may be motivated to hire an intermediary to explore business opportunities abroad.

7. Conclusion

Our study makes a number of contributions to existing research. First, by incorporating and integrating resource dependency and institutional theory perspectives to explain SME export involvement and channel choice, we build on existing literature by considering the role of external factors on SME internationalization. We have argued that SMEs may be particularly dependent on the external environment in order to overcome certain resource constraints. Also, SMEs are more likely to benefit from knowledge spillovers from external actors (Acs et al., 1994). Whereas in large firms, external knowledge spillovers must compete with internal knowledge spillovers from prior and ongoing operations and may therefore be less important, the knowledge production function of smaller firms is likely to get influenced by input that is provided by external organizations (Acs et al., 1994). Extant empirical work focuses strongly on individual and firm level factors. Our tests of theory contribute to this literature by focusing on external factors.

Furthermore, this study contributes to existing research by focusing on explaining SME *indirect* and *direct* export involvement and the corresponding driving factors. Although our findings indicate SME participation in indirect and direct export is broadly explained by similar sets of factors, we do find some differences between the determinants of SME direct and indirect export activity. For example, perceived favorable domestic access to investors and banks and having

domestic competitors that increasingly operate abroad is positively related to indirect export involvement but not direct exports. The presence of domestic suppliers that increasingly operate abroad is positively related to SME direct, but not indirect export involvement. Furthermore, we find some evidence that a number of factors affect the choice between the direct and the indirect mode. These findings confirm the need to distinguish between direct and indirect export modes in SME internationalization research.

In line with institutional theory, our findings suggest that specific actors in the environment (e.g. domestic competitors, domestic customers, domestic suppliers and foreign suppliers) influence the decision to export. Building on resource dependency theory, the results indicate that SME exposure to a desirable/undesirable home environment impacts the choice between the direct and indirect export mode. In particular we find that compared to the direct mode, firms pursuing indirect export are more likely to exist in markets characterized by perceived favorable domestic market access to finance and perceived unfavorable access to cost-efficient production modes and to knowledge and technology. Thus, in our study institutional theory perspectives are particularly relevant in explaining the choice of whether or not to export, whereas resource dependency theory perspectives seem to have particular relevance in explaining the choice between direct and indirect export modes (given export involvement). Future research should seek to further develop and test these findings.

Our study is subject to a number of limitations. First, we focus on SMEs in the Netherlands, a unique market which may not be generalizable to other environments. Second, due to the cross-sectional nature of our data, it is not possible to conclusively establish causal relationships.

Third, while we recognize that it is the perception of the entrepreneur that determines his behavior and have therefore mainly included perception variables in our dataset, future studies could also seek to collect and test more objective measures about factors relating to the favorability of the home market and the global nature of the organization field. Furthermore, we do not take into account the targeted overseas market. Finally, as our measures were collected through a single questionnaire, the study is susceptible to common method bias.

Going forward, this research suggests a number of directions. Future research could focus more on the role of intermediaries in influencing SME export behavior. For example, intermediaries that are proactive in seeking clients may drive higher volumes of SME clients' exports. Also, some of the knowledge of intermediaries e.g. on a particular market may spill over to their SME clients and may consequently increase the odds for SMEs to export directly to this market. Furthermore, the choice of direct or indirect export mode could be examined with respect to firm performance, by comparing the impact on firm-level performance and macro-economic outcomes (e.g. economic growth and innovation) of the direct and indirect export modes. This paper also explores the role of MNEs in facilitating SME internationalization. However, SMEs may not only use MNEs, but may be MNE targets for cross-border mergers and acquisitions (OECD, 2004; Acs, Morck, Shaver and Yeung, 1997). Future research should further explore how MNE-SME linkages take shape regarding internationalization and how internationalization strategies are interlinked.

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Table I: Choice of Intermediary

Type of Intermediary	Domestic (%)	Foreign (%)
Agent	19	51
Wholesaler/distributor/dealer/reseller	22	47
A(n) (office of a) multinational	8	7

Note: n=74; more than one answer allowed

Table II: Motivations for using an intermediary

Motivation	*% Agree*
To find customers abroad	54
To diminish risk and uncertainty of operating abroad	42
To compensate for a lack of knowledge of certain markets within our organization	38
To save costs for drawing up of contracts with clients abroad	20
To save costs for conducting market research	16
To save costs for enforcement of contracts with clients abroad	8
Other	19
Don't know	4

Note: n=74; more than one answer allowed

Table III: Means and standard deviations of model variables

	Mean	SD
Export involvement (No Export, Indirect Export, Direct Export)	0.47	0.77
Export mode (Direct Export, Indirect Export)*	0.12	0.33
Production industries	0.22	0.41
Trade industries	0.19	0.39
Business services	0.23	0.42
Other industries	0.36	0.48
Log firm age	2.88	0.91
Log firm size	2.15	1.51
Firm resource base		
Business owner education (low)	0.12	0.33
Business owner educatin (medium)	0.29	0.46
Business owner education (high)	0.58	0.49
TMT foreign experience	0.28	0.45
Foreign investors	0.06	0.24
Home market: perceived favorability		
Presence of relevant customers	0.65	0.48
Presence of relevant suppliers	0.51	0.50
Presence of relevant resources and raw materials	0.22	0.42
Access to investors	0.36	0.48
Access to knowledge and technology	0.55	0.50
Production costs	0.08	0.27
IP protection	0.25	0.43
Quality of government regulation for business	0.15	0.36
Organization field		
Domestic competitors increasingly operate abroad	0.47	0.64
Domestic customers increasingly operate abroad	0.53	0.71
Domestic suppliers increasingly operate abroad	0.53	0.67
Foreign competitors increasingly operate in home market	0.65	0.75
Increased use of foreign suppliers	0.46	0.70

Note: n=402; * n=118 for the export mode variable

Table IV: Pearson's Correlation Coefficients for dependent and independent variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Export involvement														
2. Export mode	-1.00***													
3. Customers	0.01	-0.04												
4. Suppliers	-0.02	0.07	0.34***											
5. Resources and raw materials	-0.01	0.05	0.15***	0.31***										
6. Access to investors	0.05	0.24***	0.25***	0.25***	0.15***									
7. Access to knowledge and technology	0.06	-0.09	0.34***	0.38***	0.21***	0.33***								
8. Production costs	0.04	-0.13	0.15***	0.13***	0.20***	0.19***	0.08							
9. IP protection	0.04	-0.01	0.20***	0.22***	0.15***	0.28***	0.33***	0.09*						
10. Government regulation	0.05	0.08	0.16***	0.10**	0.13**	0.28***	0.21***	0.17***	0.30***					
11. Domestic competitors increasingly operate abroad	0.33***	0.12	0.05	-0.02	0.04	0.18***	0.04	0.02	0.06	0.04				
12. Domestic customers increasingly operate abroad	0.37***	0.08	0.03	-0.06	-0.03	0.05	0.11**	-0.03	0.03	0.09*	0.41***			
13. Domestic suppliers increasingly operate abroad	0.28***	0.10	0.04	0.15***	0.00	0.18***	0.08*	0.03	0.11**	0.03	0.35***	0.32***		
14. Foreign competitors increasingly operate in home market	0.22***	0.12	-0.02	0.03	0.07	0.12**	-0.04	0.09*	0.08*	0.00	0.39***	0.35***	0.42***	
15. Increased use of foreign suppliers	0.37***	0.07	-0.03	-0.01	0.01	0.09	0.01	0.03	0.04	0.00	0.39***	0.40***	0.47***	0.41***
N	402	118	402	402	402	402	402	402	402	402	402	402	402	402

***: $p \leq 0.01$; **: $p \leq 0.05$; *: $p \leq 0.10$.

Table V: Multinomial logistic regression estimates

	DV: Export involvement (No export = reference category)			
	Indirect export		Direct export	
	Odds	p-value	Odds	p-value
Production industries	3.125	0.017	4.189	0.003
Trade industries	0.998	0.997	2.417	0.072
Business services	1.785	0.320	2.646	0.051
Log firm age	0.746	0.192	0.579	0.007
Log firm size	1.143	0.372	0.923	0.522
Business owner educ. (med)	1.803	0.459	0.677	0.507
Business owner educ. (high)	1.429	0.625	0.769	0.612
Firm resource base				
TMT foreign experience	3.000	0.008	3.493	0.000
Foreign investors	2.302	0.193	1.071	0.917
Home market: perceived favorability				
Customers	0.772	0.569	0.850	0.682
Suppliers	1.260	0.600	0.817	0.597
Resources and raw materials	1.300	0.584	1.042	0.924
Access to investors	2.391	0.038	0.820	0.601
Access to knowledge and technology	0.552	0.191	1.489	0.316
Production costs	0.354	0.238	1.615	0.408
IP protection	0.880	0.785	1.028	0.945
Government regulation	1.928	0.209	1.589	0.327
Organization field				
Domestic competitors increasingly operate abroad	2.432	0.043	1.779	0.113
Domestic customers increasingly operate abroad	3.044	0.015	2.605	0.010
Domestic suppliers increasingly operate abroad	1.863	0.171	1.929	0.087
Foreign competitors increasingly operate in home market	0.995	0.991	0.952	0.901
Increased use of foreign suppliers	2.299	0.062	2.373	0.026
Nagelkerke R^2	0.449			
-2 Log likelihood	468.134			

Note: n=402

Table VI: Binomial logistic regression estimates

	DV: Export mode (Direct export = reference category)	
	Odds	p-value
Constant	0.242	0.322
Production industries	0.641	0.466
Trade industries	0.413	0.231
Business services	0.478	0.290
Log firm age	1.315	0.295
Log firm size	1.250	0.225
Business owner educ. (med)	3.892	0.143
Business owner educ. (high)	2.225	0.334
TMT foreign experience	1.148	0.771
Foreign investors	1.296	0.706
Customers	1.157	0.792
Suppliers	1.360	0.581
Resources and raw materials	1.934	0.293
Access to investors	3.024	0.029
Access to knowledge and technology	0.304	0.040
Production costs	0.152	0.050
IP protection	0.830	0.733
Government regulation	1.077	0.909
Domestic competitors increasingly operate abroad	1.423	0.529
Domestic customers increasingly operate abroad	1.024	0.970
Domestic suppliers increasingly operate abroad	0.814	0.732
Foreign competitors increasingly operate in home market	1.221	0.752
Increased use of foreign suppliers	1.017	0.976
Nagelkerke R^2	0.284	
-2 Log likelihood	132.229	

Note: n=118

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