

Effects of institutional distance on internationalization of SMEs

Kira Petrukhina

A Thesis

in

The John Molson School of Business

Presented in Partial Fulfillment of the Requirements

for the Degree of Master of Science

(Administration) at Concordia University

Montreal, Quebec, Canada

May 2013

© Kira Petrukhina, 2013

CONCORDIA UNIVERSITY
School of Graduate Studies

This is to certify that the thesis prepared

By: Kira Petrukhina

Entitled: Effects of institutional distance on internationalization of SMEs

and submitted in partial fulfillment of the requirements for the degree of

Master of Science (Administration)

complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the final Examining Committee:

Dr. Isabelle Dostaler Chair

Dr. Claude Marcotte Examiner

Dr. Jisun Yu Examiner

Dr. Rick Molz Supervisor

Approved by

Dr. Harjeet Bhabra

Chair of Department or Graduate Program Director

May 22nd 2013

Steve Harvey

Dean of Faculty

ABSTRACT

Effects of institutional distance on internationalization of SMEs

Kira Petrukhina

Despite a big progress and increased attention to internationalization of small and medium sized enterprises (SMEs) among scholars, the relationship between institutional distance and sources of networking that SMEs utilize abroad remains uninvestigated. This study explored the impact of institutional differences between the host and home countries on the barriers that small enterprises face in the international markets and the composition of their networking ties. Subsequent analysis examined the moderating effects of firm's maturity and previous experience in internationalization. The research was conducted with a help of World Bank database where the sample consisted of 357 SMEs with established operations in the European region. The results demonstrated positive relationship between the institutional distance and the level of challenges firms experience abroad. It also provides insights about institutional impact on the perceived importance of various sources of networking suggesting that SME owners from institutionally distance countries rely more on the strong inside connections such as friends and family. However with time they see more benefits in the outside, more formal sources of networking. These results highlight the value of the institutional environment in explaining networking activities of SMEs in the process of internationalization and can be applied by other scholars in different industry settings and cross-country comparisons.

Keywords: internationalization, SMEs, institutional distance, networking, barrier

Acknowledgments

First and foremost, I would like to thank my thesis supervisor, Dr. Rick Molz for his support, patience and understanding throughout my thesis process. He gave me valuable feedback and guidance whenever I needed his expertise.

I would also like to express a special thank you to Baris Gurel for all the love, care and his enormous support. He was there for me during the difficult times and gave me strength and encouragement to finish this remarkable journey.

This would also not be possible without the support of my parents. They always believed in me and gave me an opportunity to achieve anything I ever wanted.

TABLE OF CONTENTS

List of tables.....	vii
List of figures.....	vii
Introduction.....	1
Theoretical development.....	5
1. Internationalization of SMEs.....	5
2. Institutional settings and Internationalization of SMEs... ..	8
2.1 Liability of foreignness and barriers to internationalization.....	10
2.2 Institutional distance and Internationalization of SMEs.....	13
3. Networking approach to internationalization of SMEs.....	16
3.1 Institutional distance and sources of networking.....	19
4. Moderating effects.....	20
Methodology.....	23
1. Sample.....	23
2. Data descriptions.....	23
3. Measures.....	26
3.1 Institutional distance.....	27
3.2 Barriers to internationalization.....	29
3.3 Moderating variables.....	31
3.4 Sources of networking.....	31
Data analysis and results.....	33
Discussion.....	39
Contributions.....	46

Limitations.....	49
Future research.....	50
Conclusion.....	52
References.....	53
Appendix A – Mean Values for Barriers to Internationalization.....	68
Appendix B – Factor Analysis for Sources of Networking.....	69
Appendix C – Regression Analysis.....	73

LIST OF TABLES

Table 1. Hypotheses - Method of operationalisation - Relative survey questions.....	28
Table 2. Descriptive statistics for sources of managerial information.....	32
Table 3. Descriptive statistics of analyzed variables.....	35
Table 4. Correlation Matrix.....	35
Table 5. Summary of findings.....	37
Table 6. Summary of findings (direct effects).....	38
Table 7. Summary of findings (moderating effects).....	39

LIST OF FIGURES

Figure 1. Industrial representation of SMEs.....	25
Figure 2. Data analysis flow chart.....	33

INTRODUCTION

Just a decade ago an idea for small enterprises to go global sounded audacious, daunting and practically needless. Today overseas expansion is not only an ordinary practice but in most cases is a way to prosper in a competitive business world. It is not considered unusual when firms internationalize the moment they are created (Andersson & Wictor, 2003) or after long-term successful operations in the domestic market (Bell et al., 2003). Internalization is no longer a prerogative of Fortune 500; more and more small and medium sized enterprises (SMEs) reach out beyond their local levels prompting academic literature to extend its traditional scope.

Most of the previous studies in the literature investigate SMEs (small and medium sized enterprises) in the context of domestic environment and look at their impact on the national economy (Beck et al, 2005); internationalization of SMEs is an area where research has just recently started to emerge. Miesenbock (1988) was one of the first to point out that existing literature in international business suffers from a lack of conclusive framework for SMEs internationalization. The idea of a greater integration of the academic literature on entrepreneurship and internationalization was later also raised by Madsen and Servais in their study on the evolutionary process of “Born Global” enterprises (Madsen & Servais, 1997).

As environments become more multidimensional and the countries more interconnected under the influence of globalization, another promising field of research is the one focusing on the institutional context and its relationship to the different facets of entrepreneurship (Veciana & Urbano, 2008). After a recent review of existing

entrepreneurship research that employs institutional theory the scientists agreed on the current need to establish a better understanding of the wide-ranging implications of the institutional theory on entrepreneurship literature (Bruton, Ahlstrom, & Li, 2010). An institution based view provides an explanation of how norms, values, standards or cultural beliefs, also, as a group, metaphorically called “rules of the game”, (North, 1990) influence the operation of organizations and govern their economic behavior (North, 1990; Peng M., 2003; Peng et al., 2008). In the past it was widely researched in relation to the strategic choices of MNEs (Multinational Enterprises) (Hitt et al, 2004) mainly on market entry modes (Meyer, 2001; Brouthers, 2002). However Institutional theory and the concept of institutional distance have received only limited attention in relation to internationalization of small business ventures. Despite a big progress and increased attention to international entrepreneurship literature among scholars, the relationship between differences in the home and host institutional countries and sources of networking that SMEs utilize abroad remains uninvestigated.

Research on small enterprises has recently developed insights that are unique to SMEs approaches to internationalization. It has been widely observed that entrepreneurs and managers of small businesses discover and exploit opportunities through the lenses of their personal characteristics, culture and psychological traits (Zahra S. A., 2005). The assumptions that they hold against foreign markets and their ethnocentric beliefs are nurtured in the domestic institutional environment and later have a large impact on their strategic international activities. For example, Coeurderoy and Murray (2008) found that rather than assessing regulatory institutions of potential host environment based on their

absolute features, entrepreneurs evaluate them according to their similarity to home market conditions (Coeurderoy & Murray, 2008). Small and medium size enterprises are believed to have cognitive systems imposed by top management beliefs (likely a firm's owner) that are driving their internationalization patterns (Zahra, Korri, & Yu, 2005). Largely influenced by one key individual – founder or entrepreneur, SMEs' actions are also affected by local institutional forces and guided by home institutional settings (Jack & Anderson, 2002; Busenitz, Gomez, & Spencer, 2000). Such strong disposition of small firms to the influences of their domestic environments influenced the choice of SMEs as the unit of analysis of this study with the main purpose to explore the effects of the institutional distance in the process of internationalization.

Specifically the present research addresses the following questions:

- How does the institutional distance between home and host countries affect perceived barriers to internationalization that SMEs experience abroad?
- How does the institutional distance between home and host countries affect perceived importance of different sources of networking that SMEs utilize abroad?

To address these research questions the study will present and discuss the main concepts of institutional distance, sources of networking and the barriers to internationalization. The three constructs have origins in institutional theory, networking theory and the theory of international entrepreneurship that have been previously applied to many aspects of small enterprise behavior.

Therefore, the first objective of the present study is to discuss the current state of the literature in relation to identified theoretical mainstreams. Second - to operationalize the theoretically developed constructs and empirically test the relationship between them by using data on SMEs obtained from BEEPS2005. Finally, it aims to contribute to the knowledge development by integrating institutional and networking perspectives in order to better understand the institutional impact on the difficulties SMEs may face abroad and variations in their networking behavior.

The hypotheses are tested on a large dataset covering multiple host and home countries. The study is set in the context of the European region including countries located in both Western and Eastern Europe (applicable to host countries only, home countries originate from various geographical regions). The high levels of variation of institutional and firm specific contexts makes it unlikely that results were shifted by the idiosyncrasies of a particular host environment. While the hypotheses are not regionally bound, the results are drawn based on the responses of SMEs' managers with established operations in the European region only. Such choice of research context is mainly explained by the data scarcity on SMEs internationalization behavior in other regions which causes certain limitations on the research generalizability discussed further in the paper.

Another rationale for the choice of the European region is that it represents a unique, theoretically-important context for evaluating institutional effects as it combines a multitude of, although geographically close, but institutionally different environments. Eastern Europe is usually described as countries in transition characterized by highly

turbulent institutional environment and rapidly changing economic landscapes. Western European region belongs to the group of developed countries characterized by the “exceptional condition of low or negligible transactions costs” where managers are likely to access information needed for effective decision making (North, 1990, p. 108).

To address identified research objectives the paper will first explore the current state of the literature on international entrepreneurship and networking theories followed by its interactions with the institutional theory and development of the hypotheses about the effects of the institutional distance. After conducting empirical tests of the hypotheses it will go over the discussion on theoretical contributions and suggestions for future research.

THEORETICAL DEVELOPMENT

1. Internationalization of SMEs

The focus of this research is on internationalization of small and medium sized enterprises – the topic that has been previously discussed within the scope of an emerging field of international entrepreneurship. Therefore, this section begins by explaining the key tenets of international entrepreneurship research specifically highlighting recent research developments in the institutional context of SMEs internationalization. Moreover, because of our focus on the effects of the “institutional distance” (the concept introduced by the institutional theory), it is also important to review the broader literature that is specific to the institutional theory and its influence on internationalization behavior of SMEs. Therefore this chapter will provide insights on both internationalization of SMEs and the role of institutional settings in the process of internationalization.

International entrepreneurship approach stands at the intersection of two major research paths – entrepreneurship and international business (McDougall & Oviatt, 2000). Wright and Ricks (1994) define international entrepreneurship as a “firm-level business activity that crosses national boundaries and is concerned with interrelationships between operations of the business and the international environment in which the firm operates” (Wright & Ricks, 1994, p. 689).

Recent studies in the field of international entrepreneurship mainly focus on antecedents for internationalization (Abebe & Angriawan, 2011; Evers, 2010), internationalization patterns and approaches to foreign market entry mode selection (Zahra, Ireland, & Hitt, 2000; Schwens, Eiche, & Kabst, 2011). Based on the subject of analysis scholars recognize the emergence of two distinct streams in the field of international entrepreneurship (McDougall & Oviatt, 2000). One of them focuses on the domestically established small firms that expand to the international markets. The second stream was brought to academic attention when several studies emphasized the increasing number of firms deviating from any common internationalization patterns and engaging into international operations from the day they were founded (McDougall, Oviatt, & Shane, 1994; Madsen & Servais, 1997). Such firms were called “international new ventures” or “born global enterprises”.

In regards to distinguishing SMEs from large enterprises previously researchers have been using different criteria such as number of employees, annual sales turnover, total assets, total borrowing from the banking system, etc. (O'Regan & Ghobadian, 2004). Although there is a lack of accord in the literature on homogeneity of SMEs classification

criteria, it has been established and widely recognized that SMEs are different from large enterprises in several fundamental characteristics including some of the antecedents to their international behavior (Hollenstein, 2005).

SMEs literature has widely addressed the key drivers for small firm international expansion (Miesenbock, 1988; Bloodgood, Sapienza, & Almeida, 1996; Hollenstein, 2005; Ruzzier, Hisrich, & Antoncic, 2006). The traditional classification divides the major internationalization incentives into internal stimuli (influences inside the enterprise) and external stimuli (derived from the markets where the company operates) (Crick & Chaudhry, 1997). Hollenstein (2005) argues that ownership advantages (part of well-known Dunning's OLI paradigm) is the most significant driver of internationalization for SMEs. Ownership advantages usually refer to any firm specific capabilities that make this firm superior to other competitors (Hollenstein, 2005). Other researchers call out the role of the founder/entrepreneur in pursuit of global niche opportunities. Among the most influential factors are risk behavior (degree of risk aversion), previous foreign travel, work experience abroad, abilities to speak foreign languages, etc (Alvarez & Busenitz, 2001; Boter, 2003; Reuber & Fischer, 1997).

In general International Entrepreneurship research unlike research on large MNEs is largely centered around the behavior, individual characteristics and resources of the founder/entrepreneur (Alvarez & Busenitz, 2001; Rangone, 1999). The importance is placed on human and social capital and the role they play in recognizing and realizing opportunities beyond their national borders. The advocates of resource-based view even see the set of entrepreneurial characteristics as the source of sustainable competitive

advantage itself (Alvarez & Busenitz, 2001). Managerial cognition and psychological dispositions have been largely studied in regards to entrepreneurial decisions to internationalize and the speed and modes of international involvement. However the role of institutional and social contexts where entrepreneurial behavior occurs has been overlooked for a long time (Welter & Smallbone, 2011).

Home socio-cultural and politico-institutional environments influence managerial perceptions and their responses to market changes. (Wood & Bandura, 1989). Research from the sociology field suggests that entrepreneurs' thinking and consequent behavior is constrained by the cultural, institutional, political and technological factors (Thomas & Mueller, 2000). For instance, Ritchie and Brindley (2005) found that the issue of cultural differences represents a key distinguishing feature in the framework of competitiveness within SMEs (Ritchie & Brindley, 2005). Suggested socio-cultural factors in the literature usually represent a part of the institutional settings that play a significant role in firms' international expansion.

2. Institutional Settings and Internationalization of SMEs

The fact that SMEs are both constrained and at the same time empowered by the institutional settings in their environment has been widely acknowledged in the field of entrepreneurship (Scott, 2007; Manolova, Eunn, & Gyoshev, 2008; Bruton, Ahlstrom, & Puky, 2009). The present research looks at the combination of the institutional settings in home and host countries, more precisely the degree of their difference/similarity – a concept which has been introduced by the advocates of the institutional theory.

Institutional theory emphasizes the influence of the systems (both cultural and institutional) surrounding individual organizations and suggests that firms operate within a social framework of norms, values and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behaviour (Oliver, 1997). Institutional theory embraces both economic and sociological perspectives (Hoskisson, Eden, Lau, & Wright, 2000), both formal (regulatory structures, governmental agencies, laws, standards) and informal (interest groups, public opinion, cultural norms, values, beliefs) institutions. Institutional theorists have emphasized the survival value of conformity with the institutional environment and the advisability of adhering to external rules in order to obtain stability and legitimacy (DiMaggio & Powell, 1988; Oliver, 1991). It is clear that organizational choice is constrained by “the rules of the game” (typical conceptualization of institutions in strategy literature) (North, 1990).

The recently emerged view has already become fundamental in both strategy and international business literature. Peng et al (2008) metaphorically labeled it a “third leg that helps sustain the strategy tripod” (Peng et al, 2008, p. 921) (the other two are conventional industry- (Porter, 1980) and resource-based views (Barney, 1991). Considering that this theory focuses on constant dynamic interactions between the institutions and organizations and thus, creating opportunities and barriers to their successful performance, it will serve as a central theoretical pillar for the present research.

Institutional theory has been widely used to explain SMEs behavior during initial stage of international expansion. Busenitz et al (2000) introduced a measure of country

institutional profile for entrepreneurship research. They administered a survey to the university students in six countries to capture the variance in regulative, cognitive and normative dimensions. The suggested conceptualization of country's institutional profile gave a stimulus for other researchers to investigate how macro-level factors affect modes of entry, forms of cooperation or obstacles the companies face before international expansion (Busenitz, Gomez, & Spencer, 2000)

Grounded in the institutional theory the most popular SMEs internationalization model suggests that firms engaging in international activities are expected to follow a certain pattern and start from the markets that are culturally or geographically close to their country of origin (Johanson & Vahlne, 1977; Welch & Luostarinen, 1988). The so called stage model points at the importance of knowledge about the market and local institutional statutes (Johanson & Mattsson, 1993). Later market knowledge supported by long term relationships allows the firm to make bigger commitments in the markets and extend their international presence.

The main logic behind it is dissimilarity in the contexts of home and host environments that generates uncertainty of doing business, lack of market knowledge and transforms it into additional costs – phenomena largely known as “liability of foreignness” (Zaheer, 1995; Sethi & Guisinger, 2002; Zaheer & Mosakowski, 1997).

2.1 Liability of foreignness and barriers to SMEs' internationalization

While many researchers have addressed the issue of foreignness in relation to MNCs operating overseas, only a few studies can be found exploring the subject within

the scope of internationalization strategies of smaller ventures. Lu and Beamish (2001) associate the initial setbacks found in performances of Japanese SMEs with liability of foreignness mainly due to deficiencies in host market knowledge. In order to offset limited resources and capabilities, mitigate the risks and gain legitimacy they suggest that the firm needs to acquire local knowledge via building business relationships, networks and alliances (Lu & Beamish, 2001).

Other researchers have also looked at the resource constraints and limited capabilities as major obstacles to internationalization of SMEs. Of particular concerns are limited financial resources (Karagozoglu & Lindell, 1998; Bilkey & Tesar, 1977) and insufficient managerial skills and expertise (Chandler & Jansen, 1992). Manolova et al (2002) examined the relative importance of different dimensions of skill based barriers and found out that environmental perceptions and self-assessed strength in doing international business are significant predictors of firm's disposition to overseas expansion. Further scholarly attention toward barriers to internationalization has moved from the discussion on firm specific resources and human capital to external environmental conditions both actual and perceived by the founders and managers of SMEs (the latter is also examined in the present study).

The traditional classification guided by institutional considerations presents the most important barriers in three groups: formal, informal and environmental (Aidis, 2005). *Formal barriers* include high level of taxes (Bohata & Mladek, 1999) and the general government regulations including tariff and non-tariff requirements in the country (Brunetti, Kisunko, & Weder, 1998; Barker & Kaynak, 1992; Karagozoglu & Lindell,

1998); *informal barriers* refer to the actual implementation process of the regulations (Barlett & Bukvic, 2001), corruption (Rodriquez, Uhlenbruck, & Lorraine, 2005), unfair competition and business networking (Peng & Luo, 2000). Environmental barriers consist of limited access to financing (Burpitt & Rondinelli, 2000; Campbell, 1996), low purchasing power, lack of qualified workers (Bohata & Mladek, 1999), cultural differences (Karagozoglou & Lindell, 1998; Hofsted, 1994), timely payments from overseas customers and others.

Although any group of barriers represents a potential source of competitive disadvantage their perception can vary depending on different factors, one of them being the stage of internationalization. Thus, significant differences in the perception of the barriers were found by Shaw and Darroch (2004) among New Zealand exporters and non-exporters (Shaw & Darroch, 2004). According to the results of their study finance related barriers seem to be the biggest challenge for exporters and likely exporters, while non exporters consider firm size to be the biggest barrier (“firm size is too small to internationalize”) followed by a lack of market knowledge and international experience (Shaw & Darroch, 2004).

Neupert et al (2006) undertook a different qualitative cross national approach to investigation of barriers to export. Their study revealed differences in the experienced barriers reported by the managers of American and Vietnamese SMEs (addressing the home country effect). A comparison demonstrated evidence that the challenges are shaped by the country context – SMEs originating in developing economy faced problems related to product quality acceptance, while their colleagues in developed

economy showed more concerns regarding the external barriers such as country differences, foreign government beurocracy and the general business risk from operating in unknown environment (Neupert, Baughn, & Lam Dao, 2006).

The present study takes into consideration both home and host country contexts and expects to see the variance in perceived barriers depending on the dissimilarities between the two, otherwise known as the effect of the institutional distance.

2.2 Institutional distance and internationalization of SMEs

In order to analyze how institutional distance can affect barriers that SMEs experience abroad and their sources of networking it is important to define the meaning, origin and dimensions of the institutional distance.

Institutional distance stems from the institutional theory and represents a measure of difference/similarity between two given countries on regulative, normative and cognitive components (Kostova & Zaheer, 1999). The regulative dimension reflects existing laws, regulations and rules that guide organizations' actions. Normative component includes unwritten norms and values in the society that assess appropriateness of firms' behavior and define the way in which things should be done. The last component is usually referred to as cognitive-cultural (Scott, 1995) and represents shared beliefs and cognitive perceptions in a given society which could be as small as a work team (organizational subsystem) or as global as the whole world (Scott, 1995). Domestic organizations tend to follow those cultural rules without conscious thoughts (Zucker, 1983).

Institutional distance has been largely studied in relation to firm strategies on market choice, entry modes and ownership structure (Meyer, 2001; Gaur & Lu, 2007; Xu & Shenkar, 2002; Pogrebnyakov & Maitland, 2011). Most of the works are exploring the effects of institutional distance on the actions of MNEs' subsidiaries, their adaptation processes in the host countries and the relationship with the headquarters (Kostova & Zaheer, 1999). Much less attention has been placed on the influences of institutional distance on the internationalization of small entrepreneurial firms and international new ventures.

High degrees of institutional distance exist when there are substantial differences between the institutional environments of home and host countries. If the target foreign market is close to the country of origin it is less risky to internationalize there because of transferability of previously acquired market knowledge.

The organizational rationale for explaining the effects of the institutional distance on the barriers to internationalization was introduced by Kostova (1999). She argues that “organizational practices reflect the institutional environment of the country where they have been developed and established; and, therefore, when practices are transferred across borders, they may not fit with the institutional environment of the recipient country” (Kostova, 1999, p. 314).

Most of the previous research on SMEs challenges to internationalization has been done exploring either home or host country effects separately. For example, several studies focused on comparing enterprises from developed and emerging countries and found significant differences where the companies from emerging markets tend to

experience higher degrees of internationalization barriers due to the lack of efficient financial and institutional infrastructures that ultimately result in a competitive disadvantage (Dominguez & Sequeira, 1993; Aulakh, Kotabe, & Teege, 2000). Country of origin perceptions have been also documented as barriers to market penetration and profitability in the foreign markets (Neuper et al, 2006). There are only fragmented studies with little integration of simultaneous effects of the institutional environments of host and home countries in the field of SMEs internationalization.

Vachani, 2005 discovered that, although institutional differences can pose challenges for all ventures deciding to internationalize, SMEs are more susceptible to its negative effects as they are less likely to have previous international experience in various institutional settings and fewer resources to tackle challenges relating to transfer of organizational practices abroad (Vachani, 2005).

One of the few works in the field investigates the effects of external contextual factors in the form of institutional distance on the problems Japanese SMEs` subsidiaries experience abroad compared with the ones faced by the subsidiaries of large MNEs (Vachani, 2005). Vachani (2005) observed that SMEs differ from large companies in their “abilities to withstand demands of host governments and resources available to manage foreign operations”. The results in fact emphasized that shorter economic distance is more advantageous for subsidiary’s operations because of a smaller “knowledge gap”.

Based on the rationale of the institutional distance and the evidence on SMEs' susceptibility to both home and host country environmental factors, the following hypothesis is suggested

Hypothesis 1: the smaller the differences between the institutional environments of home and host countries the less perceived barriers SMEs will experience while operating abroad.

This hypothesis addresses the first research question and is a subject to further empirical tests. The next chapter is aimed to provide theoretical reasoning for the second research question that is examining the relationship between the institutional distance and sources of networking.

3. Networking approach to internationalization of SMEs

Firms' insufficient involvement in the information networks in the country of location presents a competitive disadvantage to internationalization of SMEs (Zaheer & Mosakowski, 1997). The following chapter will provide more insights about the importance of networking mechanism in the process of internationalization via a comprehensive review of network based theory. It will also go over research findings in regards to different types of networking sources that SMEs utilize in order to overcome competitive disadvantages in the foreign markets (Zimmer & Aldrich, 1987; Stuart & Sorenson, 2005) and will attempt to extend current literature by examining the role that the institutional distance play in the choice of networking sources.

Networking aspect of international entrepreneurship refers to the extent to which a firm obtains information and resources through alliance creation or other formal and informal social links (Dimitratos & Plakoyiannaki, 2003). Social relationships have been previously emphasized as a critical factor for entrepreneurial success (Johanson & Mattsson, 1993; Aldrich & Zimmer, 1986; Johannisson, 1996). In network based research scholars perceive a firm as a set of interlinked relationships connecting it with other firms in the market as well as other stakeholders (Ruzzier, Hisrich, & Antoncic, 2006). Network based theory provides a comprehensive framework for understanding “why” and “how” small firms internationalize using their social connections as a tool of gaining knowledge about international opportunities. Personal connections (in a form of referral for example) can also facilitate firm’s integration to the foreign markets and is seen as one of the capabilities of small ventures that boosts the speed of their internationalization (Oviatt & McDougall, 2005). Networking mitigates the risk of entering to unknown markets and increases the chances of small firms’ long term survival (Coviello & McAuley, 1999). The latter is mainly achieved due to the trust and commitment resulting from participation in the essential business and institutional networks (insidership) (Johanson & Vahlne, 2009).

Researchers are mainly interested in the size of entrepreneurial networks, the strength of the relationship they build in the foreign market classifying it for “strong” and “weak” ties and the impact they make on resource mobilization (Liming & Aram, 1995; Kiss & Danis, 2008).

Less has been researched about the sources of information in the host market and their roles in successful internationalization. Riddle and Gillespie (2003) looked at the Turkish clothing export industry to understand the usage of formal and informal social networks in acquiring diverse information about foreign markets. They conducted a survey among 250 new firms' owners within the industry along with in-depth interviews with government officials and industry leaders. The underlying premise was the comparison of informational sources utilized by the newly established and older ventures in the clothing industry. The findings suggest that informal social networks such as friends and family are the key sources of information for new firms especially in the areas of technological development and finding reliable suppliers. The authors then point out formal networks as important sources for market research and legislative information and particularly describe a successful case of ITKIB (the Istanbul Textile and Clothing Exporters' Union) in assisting "born global" enterprises during internationalization process (Riddle & Gillespie, 2003).

Senik et al (2011) based on the experts' view also identified formal and informal sources of networking for SMEs which they presented in three major groups: institutions (government agencies, supporting bodies as well as international trade organizations), personal relations (such as friends and family) and business associates. Their observations concluded that all three sources work in tandem for SMEs in emerging economies and there is a certain level of interaction between all of them. For example, institutions provide a platform for SMEs to establish and maintain relationships with "business associates" – local and foreign MNCs and their subsidiaries via organizing

trading shows or practitioner conferences. The phenomenon called “networking linkages” (Senik et al, 2011) emphasized the collaboration of networking strategies and provided another perspective for facilitating SMEs’ international expansion.

The preceding review provides evidence that identified sources of networking have a large impact on internationalization motives, internationalization pace and successful growth of a small firm in the international markets. However, to the best of our knowledge, there are no studies exploring the influence of environmental contextual factors on the use of one or another sources of networking.

3.1 Institutional distance and sources of networking

The sources of networking that entrepreneurs rely on vary across countries and the institutional contexts where the firm operates. The more institutionally distant are home and host countries of an internationalizing firm, the bigger is the knowledge gap and the higher is perceived degree of institutional uncertainty. In such contexts, it is more difficult for entrepreneurs to understand laws, norms and unwritten shared beliefs that exist in a given society (Kiss & Danis, 2008). Personal inside connections (such as friends and family) in such ambiguous environments can provide early insights about the interpretation of local institutional behaviour and play a central role in facilitating internationalization (Peng & Heath, 1996).

When the home and host institutional environments are more similar, the entrepreneurs feel more confident in the new settings, they possess more procedural knowledge that, due to institutional compatibility, can be transferred to the new foreign

market. In those cases, SME founders/managers see more benefits in building up relationships with more outside sources of managerial information such as business associates and government agencies as they are less costly to maintain and they provide access to more diverse knowledge and resources (Granovetter, 1973). This leads to the following hypothesis

Hypothesis 2: SMEs are more likely to use inside sources of information when the institutional distance between their home and host countries is large and turn to more outside and governmental sources of information when the distance is smaller. In other words, there will be negative correlation between the institutional distance and outside sources of managerial information, and between institutional distance and governmental sources; positive correlation will be determined between the institutional distance and inside sources of managerial information both about customers and suppliers.

The above hypotheses are built on the argument of the direct effects of the institutional distance, however the present study has also taken into consideration several moderating variables in order to provide additional insights about analyzed relationships.

4. Moderating effects

SMEs are usually characterized by lack of international experience which could be a reason for research deficiency exploring this particular construct among small enterprises. On the contrary, MNEs literature suggests a variety of ways to alleviate obstructive impacts of institutional mismatch where previous experience in internationalization is one of the common ones (Barkema, Bell, & Pennings, 1996; Delios & Beamish, 2001).

Operating in diverse contexts allows the firms to gain valuable knowledge and resources conducive to considerably growing their profits in a new environment. For example, lack of former international experience was identified as one of the reasons behind Finnish firms' weak performance overseas (Luostarinen & Lawrence, 1990).

However prior experience may also bring rigidity as small firm's managers/owners develop their own preferred ways of dealing with the challenges that can take away from one of SMEs' competitive advantages – their flexibility and innovativeness (Zahra S. A., 2005). Previously designed successful patterns of behaviour can create hurdles for SMEs to adopt in the new environment and be open for experimentation.

Another potential disadvantage of multiple international experiences stems from transaction cost theory. High degree of international diversity can lead to increase in the number of internal transactions and governance costs which can eventually outweigh the benefits of internationalization (Tallman & Li, 1996).

Controversial views on previous experience in foreign markets derived from the literature on MNEs stimulates us to include it into research design aiming to clarify its effects on the challenges that small and medium sized enterprises experience abroad. Hence, the following hypothesis is suggested

Hypothesis 3: Having experience operating in multiple environments (more than one host countries) will have a negative moderating effect on the relationship between the institutional distance and perceived barriers.

The process of internationalization is usually viewed as a cumulative learning process where each step in overseas markets adds to firm's knowledge (Johanson & Vahlne, 1977). With time entrepreneurs accumulate procedural knowledge of how to address various issues including the information flows in the foreign markets. Reaching the stage of maturity, entrepreneurs usually cultivate absorptive capacity – “an ability to identify, value, select and assimilate knowledge that exists in external environment and make use of it in their operations” (Zahra S. A., 2005, p. 25). Understanding the strategic value of information obtained from local business circles and government sources, entrepreneurs invest more time and resources into building more close relationship with them and become committed to it (Chetty, Eriksson, & Lindbergh, 2006). Hence, the experience the firm acquires along with its maturity in the market allows the firm to leverage the initial institutional deficiency and reassess significance of local social ties. Based on the discussion above, the following hypothesis is suggested

Hypothesis 4: Maturity negatively moderates the relationship between the institutional distance and importance of both outside (H4a) and governmental (H4b) sources of business related information.

The study has identified barriers to internationalization and sources of networking as principal independent variables and international experience and maturity as moderating variables. The following chapter will present the methodological steps and will describe the data sample that was used in order to operationalise the theoretical suggestions and conduct statistical backtesting of the hypotheses.

METHODOLOGY

1. Sample

In order to empirically test the hypotheses developed in the previous section the majority of data was extracted from the “Business Environment and Enterprise Performance Survey 2005” (BEEPS 2005). The datasource is a result of a joint initiative of the European Bank for Reconstruction and Development and the World Bank. The questionnaire contains 74 questions mainly addressing external environment where the firm operates including such issues as government regulations, law rigidity, opportunities for financing, infrastructure and others. All variables are the perceptions-based measures that reflect managers’ assessments of internal and external business environments and subjective evaluation of the firm’s performance. The survey was administered in 27 ECA (Europe and Central Asia) countries covering over 9000 enterprises. BEEPS is a rich source of data that allows to examine business conditions from a firm’s perspective and is continuously used by researchers worldwide.

2. Data descriptions

The main criteria for selecting the data were firm’s size (small to medium) and participation in internationalization activities. Defined as "the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries" (Beamish, 1990, p. 77) internationalization assumes all activities that cross the national borders including establishing subsidiaries in foreign countries. In the present studies the criteria used for internationalization was – 100% ownership by a foreign company.

All the firms that met the criteria for internationalisation were split into two groups: SMEs (up to 500 employees) and large firms (over 500 employees). In this study the upper limit of 500 was used according to the common USITC classification that also corresponds with UN classification and has been previously used in entrepreneurship research (Storey, 2005; Narula, 2004; Gibbons & O'Connor, 2005). For further analysis only Small and Medium Enterprises were retained. Thus the final sample consisted of 357 enterprises operating in 26 countries in the European region.

Due to the fact that the survey was administered only in Europe and Central Asia, the study is set in the context of the European region including countries located in both Western and Eastern Europe (applicable to host countries only, home countries originate from various geographical regions). Unavailability of data on SMEs internationalization behavior in other regions caused certain limitations on generalizability of the present study. However it provides a deeper understanding of the institutional effects on the SMEs operating in the European states, where SMEs play an outstanding role. They represent over 95% of companies in the EU, account for as much as 70% of total employment and contribute to 60% of European exports (European Commission, 2010).

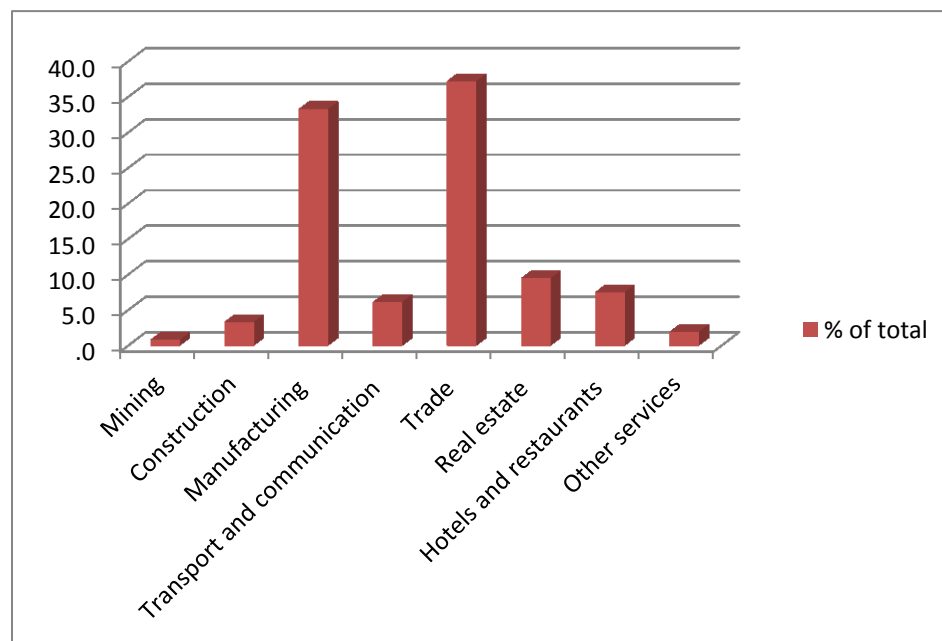
As discussed earlier, European region represents a unique, theoretically-important context for evaluating institutional effects as it combines a multitude of, although geographically close, but institutionally different environments. Eastern Europe is usually described as countries in transition characterized by highly turbulent institutional environment and rapidly changing economic landscapes. Western European region belongs to the group of developed countries characterized by the “exceptional condition

of low or negligible transactions costs” where managers are likely to access information needed for effective decision making (North, 1990). Such institutional diversity in a very geographically proximate territory provides this research an additional layer of exploring the effects of large institutional distances while keeping physical distances relatively small.

In regards to industrial representation, participating firms represented a wide spectrum of industries with the majority of them operating in manufacturing and trade – 33.3 and 37 percent respectively. Such finding is not surprising as researchers usually discover the highest percentage of internationalization among wholesale trade, manufacturing and sale of motor vehicles (European Commission, 2010). Please refer to the chart below that demonstrates a full list of industries.

Figure 1

Industrial representation of SMEs



The home country was also identified for each participating firm. 85.4 % of the source countries belonged to the European region, 7% - to Asia and 7.6% to North America. The cases where respondents failed to provide home country had to be removed from the final sample. The findings are consistent with the research conducted by the European Commission on “Internationalization of European SMEs” where they argue that three quarters of all exporting SMEs are oriented towards markets in other EU Member States (European Commission, 2010). The study on “Opportunities for the Internationalization of European SMEs” also points out that all international activities of European SMEs are mostly geared towards other countries inside the internal market and only about 13% of EU SMEs are active in markets outside the EU (European Commission, 2011).

3. Measures

The hypotheses on the effects of the institutional distance presented in the previous chapters are of theoretical nature and in order to investigate whether they are supported it is essential to develop the measures that will represent the examined variables. The following section will go over the operationalisation of the constructs which was conducted on the basis of two datasources: BEEPS2005 – a survey administered by World Bank in 27 countries of Europe and Central Asia and WGI (Worldwide Governance Indicators) – an index created by World Bank based on the long research program to evaluate the quality of governance and institutional stability.

3.1 Institutional distance

Previous research demonstrates that institutional distance is usually measured by comparing one country institutional profile to another (Phillips, Tracey, & Karra, 2009). In the present research, institutional environments of the home and host countries were measured by the aggregated “Worldwide Governance Indicators (WGI)”. The index combines six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. All of the above were measured based on the data collected from multiple sources including firms and households, non-governmental organizations and a number of multilateral public institutions (Kaufmann, Kraay, & Mastruzzi, 2010). WGI has been previously widely used in the international business literature to study the effect of institutional environment on inward and outward foreign direct investments (Ramasamy, Yeung, & Laforet, 2012; Helpman, 2006), MNC subsidiary profitability in host countries (Lee & Hong, 2010) and economic growth (Durlauf et al. 2005).

The aggregated institutional indices were computed for each home and host country and the institutional distance was brought into analysis as an absolute value of the difference between the two. This variable captures the extent of similarity/dissimilarity between two countries on institutional dimensions (Kostova, 1999).

The rest of the measures used in this study were taken from the survey and represent opinions of SMEs’ managers regarding barriers that they experience operating

in the foreign countries and importance of sources of networking. The table below contains exact questions used to measure the constructs in the study.

Table 1

Hypotheses – Method of operationalization – Relative questions from the survey

Hypothesis	Variables	Method of operationalization (proxies)	Relative questions from BEEPS questionnaire
<p>Hypothesis 1: The smaller the differences between the institutional environments of the home and host countries the less perceived barriers the companies will experience while operating abroad.</p>	<p><i>Independent:</i> Institutional Distance (ID) <i>Dependent:</i> Barriers to internationalization</p>	<p><i>ID:</i> Aggregated Institutional Indices computed from WGI and composed of 6 dimensions (voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption) <i>Barriers to internationalization:</i> aggregated index of 21 problematic factors for operation and growth of business in the host country</p>	<p>Q54 How problematic are these different factors for the operation and growth of your business (access to financing, cost of financing, telecommunications, electricity, transportation, access to land, title of leasing of land, skills and education of available workers, macroeconomic instability, street crime, and anticompetitive practices).</p>
<p>Hypothesis 2: SMEs are more likely to use inside networking sources when the institutional distance between their home and host countries is large and turn to more outside and government networking sources when the distance is small</p>	<p><i>Independent:</i> Institutional distance <i>Dependent:</i> Outside, Inside, Government Sources of Networking</p>	<p><i>Sources of networking:</i> inside, outside and government – derived from factor analysis based on Q21/22 from BEEPS.</p>	<p>Q21/22 How important are the following as potential sources of information about new customers/suppliers for your firm (friends and family; former employees who now work for potential customer or supplier; prior employment of managers by a potential customer or supplier, existing customers or suppliers; government agencies; business associations/chambers of</p>

			commerce; trade fairs and other public sources of information?
Hypothesis 3: Having experience operating in multiple environments (more than one host countries) will have a negative moderating effect on the relationship between the institutional distance and perceived barriers.	<i>Independent:</i> Institutional distance; <i>Dependent:</i> Barriers to internationalization <i>Moderating:</i> International experience	<i>International Experience:</i> Presence/absence of experience in other institutional environments	Q.S 11 Does your firm have holdings or operations in other countries?
Hypothesis 4: Maturity negatively moderates the relationship between the institutional distance and importance of both outside (H4a) and governmental (H4b) networking sources	<i>Independent:</i> Institutional distance <i>Dependent:</i> Outside networking sources; Government networking sources	<i>Firm maturity:</i> the number of years the firm has been operating in the host country	Q. S1a – In what year did your firm begin operations in this country?

3.2 Barriers to internationalization

Barriers to SMEs internationalization refer to the challenges SMEs face while operating in the host country that often entail additional costs and can eventually lead to a competitive disadvantage (Morgan, 1997; Leonidou L. C., 1995). The study used perceptual measures for this independent variable just as other researchers have used perceptual measures to study external barriers to internationalization in the past. The strategic role of human perceptions was emphasized by Andersson (2001) when he wrote “entrepreneur’s impression of the macro-environment is more important than the facts when it comes to choosing international strategies” (Andersson, 2001, p. 69). Elbanna and Child’s study (2007) conducted in Egypt also found out that rationality of strategic decision making process is partially shaped by perceived environmental characteristics

(such as legal regulations, anticipated economic restructuring, changes in competitor's markets etc). Similar findings of a significant impact that perceived environmental attributes exert on business decisions were also reported by other researchers in the past (for example, Bourgeois and Eisenhardt, 1988).

In the present study barriers to SMEs internationalization were measured by an average score on several factor items that were potentially problematic for the operation and growth of the business. The variable is taken from BEEPS 2005 survey. Respondents rated 20 different factors including “functioning of the jury”, “access to financing”, “transportation”, “labour regulations”, “tax administration” and others on the scale from 1 being “no obstacle” to 4 being “major obstacle” (please see Appendix A for the full list of factors). “Tax rates”, “tax administration” and “uncertainty about regulatory policies” were described as the most problematic areas for operations in the host countries (M = 2.37 (1.11); 2.22 (1.08) and 2.28 (1.13) respectively). While infrastructural aspects such as “telecommunications”, “electricity” and “transportation” usually were ranked lower than other barriers (M = 1.4 (.78); 1.46 (.85) and 1.51 (.86) respectively). In order to increase discriminant validity of this study and differentiate local challenges to internationalization from the regulatory barriers already captured by WGI in the form of the institutional distance, the final scale for this measure was comprised of the following dimensions: access to financing, cost of financing, telecommunications, electricity, transportation, access to land, title or leasing of land, skills and education of available workers, macroeconomic instability, street crime and disorder, anti-competitive practices of other producers. Such dimensions as corruption, functioning of the judiciary, tax

administration, uncertainty about regulatory policies, business licensing and permits, customs and trade regulations had to be omitted in order to assure the institutional effect. The final multiple item measure (Index_chal) was considered reliable with Cronbach's alpha = 0.803. The norm dictates that alpha >.80 is a sign of high internal consistency among the items creating the measure (Nunnally, 1967); hence the scale is considered appropriate for the analysis.

3.3 Moderating variables:

International experience refers to the presence/absence of experience in other institutional environments and was measured by a dummy variable with 1 being "firm has operations or holdings in other countries" and 0 – "firm has no operations or holdings in other countries".

To determine firm maturity I used the number of years the firm has been operating in the host country. This approach has been used in a recent research on investigating moderating effect of maturity on perceived environmental dynamism and managerial risk aversion in the field of international new ventures (Gilley, McGee, & Rasheed, 2004) The variable ranged from 2 to 145 years of experience. (M= 13.4 (14.6))

3.4 Sources of networking

An exploratory factor analysis was conducted to make data on local sources of networking more manageable, reduce the number of dimensions and identify underlying common factors. The respondents evaluated the potential sources of information about

new customers and suppliers on the scale from 1 “slightly important” to 4 “extremely important”

Table 2

Descriptive statistics for the sources of managerial information

Type of sources	Potential customers		Potential suppliers	
	Mean	SE	Mean	SE
Friends and family	2.07	1.345	1.94	1.182
Former employees who now work for a potential customer or supplier	1.95	1.182	1.83	1.078
Prior employment of managers by a potential customer or supplier	2.31	1.336	2.09	1.240
Existing customers or suppliers	3.43	1.286	2.86	1.356
Government agencies	2.28	1.291	1.91	1.202
Business associations/chambers of commerce	2.40	1.229	2.06	1.241
Trade fairs and other public sources of information	2.87	1.323	2.58	1.379

Upon running an analysis with 14 variables, the statistical inferences indicated to retain 4 factor loadings (eigenvalues bigger than 1) that explained 52% of the variance with high loadings from components. Principal Axis Factoring was chosen as a method of extraction. Factor 1 was heavily loaded on such sources as “business associations/ chambers of commerce” and “trade fairs and other public sources of information” about both customers and suppliers (Q21f,g and Q22f,g). Hence, factor 1 was named “outside sources of information” Factor 2 and Factor 3 were highly correlated with such variables as “family and friends”, “former employees who now work for a potential customer or supplier” and “prior employment of managers by a potential customer or supplier” respectively for the information about potential customers (Factor 2) and potential suppliers (Factor 3). Hence Factor 2 was named and further analysed as “inside sources of information about customers” and Factor 3 – “inside sources of information about

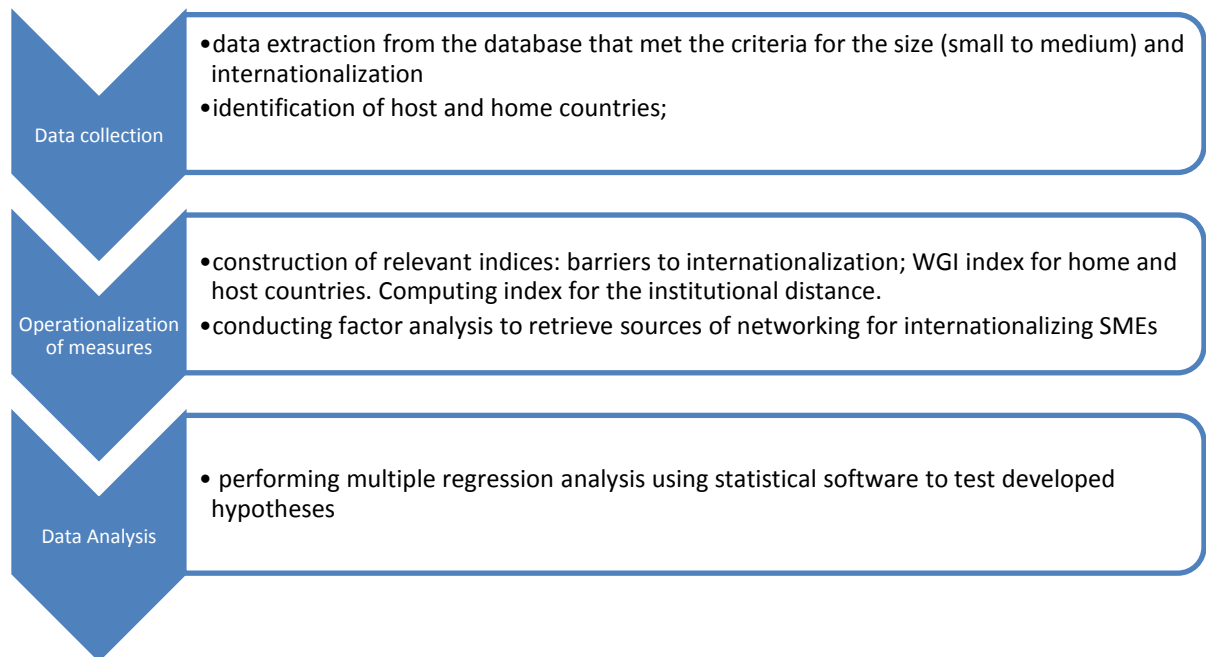
suppliers” –The last factor was highly loaded on the “government agencies” related to both information about customers and suppliers and, hence, is further referred to as “government sources of information”. All resulting variables are standardized ones ranging from – 1.879 to 3.337 (see Appendix B for the full analysis).

DATA ANALYSIS AND RESULTS

This chapter will elaborate on the statistical methodology that was used for data analysis purposes and hypotheses backtesting. The below flow chart demonstrates the three main steps in performing empirical tests of the developed propositions.

Figure 2

Data analysis flow chart



In the second step the factor analysis with Principal Axis Factoring extraction method was used to identify the networking sources of internationalizing SMEs. All 14 potential sources of managerial information for SMEs were fed into analysis and four factors emerged. A four factor solution was therefore extracted accounting for 52.055% of the variance. All 4 factors showed a high degree of reliability with Cronbach's alphas above 0.7 (Kim & Mueller, 1978).

Factor 1: Outside sources of information

Factor 2: Inside sources of information (customer related)

Factor 3: Inside sources of information (supplier related)

Factor 4: Government sources of information

The new standardized variables were then used to test the hypothesis 2 and 4 regarding the institutional effects on usage and perceived importance of proposed networking sources.

Previous research has also segregated similar sources of networking for SMEs in international markets. For example, Senik et al, 2011 used dyadic methodology in their study that involved opinion survey among SME development experts and case studies of SMEs internationalization. The findings revealed three interconnected sources that the authors identified as institutions, business associates and personal relations (Senik, Scott-Ladd, Entekin, & Adham, 2011). Based on the evidence coming from emerging countries they argue that institutions represent supporting government agencies; personal

relations refer to inside informal connections like relatives, friends and colleagues and business associates include other SME owners and managers of both local and foreign companies. The identified sources are similar to the ones suggested in the present study which increases the validity and reliability of the findings.

Table 3 provides descriptive statistics including means and standard deviations for the analyzed variables.

Table 3

Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Barriers to internationalization	357	1.0000	3.64	1.739	.562
Maturity	357	2	145	13.40	14.604
Institutional distance	357	0	71	24.80	17.553

Pearson’s correlation coefficients were computed for all variables included in the research model (see Table 4). The number of cases to compute correlations ranged between 292 and 357.

Table 4

Correlation Matrix

		1	2	3	4	5	6	7
1	Institutional distance	Correlation	1					
		N	357					
2	Age (maturity)	Correlation	-.24****	1				

	N	357	357						
3	Barriers to internationalization	Correlation	.246****	-.065	1				
	N	357	357	357					
4	Outside sources of networking	Correlation	-.207***	.124*	.044	1			
	N	292	292	292	292				
5	Inside sources (customer related information)	Correlation	.115*	.000	.290***	.031	1		
	N	292	292	292	292	292			
6	Inside sources (supplier related information)	Correlation	.278***	-.119**	.124**	.035	.136**	1	
	N	292	292	292	292	292	292		
7	Government sources of networking	Correlation	-.184**	.097	-.049	.060	-.010	.062	1
	N	292	292	292	292	292	292	292	

Note. * $p < .05$; ** $p < .01$; *** $p < .001$

Multiple regressions were conducted to test suggested hypotheses. In regards to the first hypothesis, regression analysis demonstrated statistically significant positive relationship between institutional distance and the local contextual challenges experienced by SMEs ($F=22.88$, $p = .000$). Introducing an interaction effect to test international experience as a moderating variable did not show statistical significance ($t=0.23$, $p = 0.819$), thus the third hypothesis was not supported by the data.

Regression analysis demonstrated negative correlation between the institutional distance and Factor 1 “outside sources of managerial information” ($\beta = -.01$; $F=13$, $p=.000$). Also sufficient negative correlation was found between the institutional distance and Factor 4 “governmental sources” ($\beta = -.01$; $F=10.13$, $p=.002$). Substantial positive relationship was found between the institutional distance and inside sources of information about both potential customers and suppliers (Factor 2 ($\beta=.006$, $F=3.9$, $p =0.05$) and Factor 3($\beta=.013$, $F=24.25$, $p =.000$). The negative sign in the first two relationships means that as the degree of institutional gap between two environments

increases, the managers of small and medium sized enterprises tend to rely less on the outside, more formal sources of information like business associates and government agencies.

Therefore, results supported the second hypothesis and allowed us to conclude that the environment of the home and host countries where SMEs operate has significant influence on the sources of information important to the decision making of SMEs in foreign markets.

For the purpose of testing the moderating effect of firm maturity both age and its interaction with the institutional distance were introduced into the regression model. Maturity came out as a significant moderating variable for the influence that institutional distance has on the perceived importance of outside sources of managerial information, thus, supporting Hypothesis 4a ($F = 6.46$, $p = .000$; $\beta = .000$; $t = -2.08$, $p = 0.039$).

However maturity has no moderating effect in the relationship between institutional distance and perceived importance of government agencies as sources of information, concluding that there is no sufficient evidence to support Hypothesis 4b ($F = 3.73$, $p = .012$; $\beta = .000$, $p = .69$). Please refer to a table below for a summary of the results of testing the hypotheses.

Table 5

Summary of Findings

Hypothesis	Variables	Result
Hypothesis 1: The smaller the differences between the institutional environments of the home and host countries the less perceived barriers	<i>Independent:</i> Institutional Distance (ID) <i>Dependent:</i> Barriers to	Supported

the companies will experience while operating abroad.	internationalization	
Hypothesis 2: SMEs are more likely to use inside networking sources when the institutional distance between their home and host countries is large and turn to more outside and government networking sources when the distance is small	<i>Independent:</i> Institutional distance <i>Dependent:</i> Outside, Inside, Government Sources of Networking	H2a. Outside sources of information – Supported H2b. Government sources of information – Supported H2c. Inside sources of information (about potential customers) - Supported H2d. Inside sources of information (about potential suppliers) – Supported
Hypothesis 3: Having experience operating in multiple environments (more than one host countries) will have a negative moderating effect on the relationship between the institutional distance and perceived barriers.	<i>Independent:</i> Institutional distance; <i>Dependent:</i> Barriers to internationalization <i>Moderating:</i> International experience	Not Supported
Hypothesis 4: Maturity negatively moderates the relationship between the institutional distance and importance of both outside (H4a) and governmental (H4b) networking sources	<i>Independent:</i> Institutional distance <i>Dependent:</i> Outside networking sources; Government networking sources	H4a - Supported H4b – Not Supported

Table 6

Summary of findings (direct effects)

		Barriers to Internationalization	Inside Sources of Networking (customer related)	Inside Sources of Networking (supplier related)	Outside Sources of Networking	Government Sources of Networking
Institutional Distance	Pearson Correlation	.246***	.115*	.278***	-.207***	-.184**
	Sig. (2-tailed)	.000	.049	.000	.000	.002
	N	357	292	292	292	292

Note. *p<.05; **p<.01; ***p<.001

Table 7

Summary of findings (moderating effects)

	Barriers to internationalization	Outside sources of networking	Government sources of networking
International Experience Maturity	t=0.652, sig. = 0.5, N=355	$\beta = .000$; t=-2.08*, sig. = 0.039, N=292	t=3.88, sig. = .69, N=292

Note. *p<.05; **p<.01; ***p<.001

DISCUSSION

This research attempts to improve our understanding of how institutional differences affect internationalization of SMEs particularly focusing on their perceived barriers to internationalization and perceived importance of different sources of networking that SMEs utilize abroad. SMEs were chosen as the main focus of this study based on the assumption that entrepreneurial behavior is largely influenced by their domestic social and institutional context (Welter & Smallbone, 2011). Four hypotheses were developed to determine if institutional distance had a positive relationship with the number of challenges SMEs experience abroad and the type of sources of networking they deem important depending on the similarity/dissimilarity with their home institutional environment.

The analysis showed support for the first hypothesis - significant differences in the perceptions of barriers were identified according to the level of institutional dissimilarity. The results reaffirm the importance of both location-related factors – institutional characteristics of host countries (Aidis, 2005; Sethi & Guisinger, 2002) and

the institutional influences of the country of origin (Aulakh, Kotabe, & Teegeen, 2000; Neupert et al, 2006) along the path of internationalization. Specifically it emphasizes the collaborative effect of both home and host country variables in the form of institutional distance moving research stream further from merely cultural differences that were previously researched in relation to SMEs (Fletcher, 2004).

Analysis of the mean responses of barriers to internationalization underscored the significance of formal issues (items like “tax rates” and “uncertainty about regulatory policies” were scored higher on the scale). These findings are in agreement with the previous studies in the literature where researchers reported lack of government assistance in overcoming export barriers, lack of tax incentives for small enterprises (Sullivan & Bauerschmidt, 1989) and flaws in the legal system (Brunetti, Kisunko, & Weder, 1998). Another interesting observation is that in general participating SMEs held low regard for the majority of barriers studied (the statistical means were commonly below “moderate” levels). The finding suggests that the majority of internationalizing small firms viewed external operational difficulties as manageable rather than insurmountable.

The regression analysis designed to test for moderating effect of the international experience did not yield any significant results. Therefore, contrary to expectations, whether the firm had operations in other countries did not make any impact on the complexity of challenges they deemed problematic for the operation and growth of their business abroad. Although former international experience was repeatedly reported as a typical moderator to facilitate operations of MNEs in the foreign markets (Delios &

Beamish, 2001) it did not come out as strong when the study involved SMEs. There are two possible explanations for such findings.

First, the empirical findings of previous researchers indicate that the main difficulties of internationalizing SMEs are related to the limited capacity of the firm. Such factors as lack of resources and capabilities are described as fundamental obstacles to SMEs growth in the international markets. Financial resource constraints (Shaw & Darroch, 2004) and external firm oriented resources (relationships with various local organizations) are paid special attention in the discussion on successful internationalization of small firms (Ruzzier, Hisrich, & Antoncic, 2006). Although international experience can contribute to SMEs' strategic decision making on resource allocation and the learning knowledge of advantageous application of available capabilities it can not substitute the actual shortage of financial and capital assets or lack of networking contacts in the given host market.

The second explanation stems from the characteristics of the data used in the study. Most of participating firms are European companies internationalizing in Europe. Due to convenience in logistic and infrastructural matters, most of them have operations in other states of the European region. Moreover the majority of data was collected in Eastern Europe – countries like Albania, Belarus, Croatia, Poland, Lithuania are the ones characterized by institutional instability and constantly changing conditions for business operations. Some of them are still in the active transition process from a centrally planned to market based economy (Peng M. W., 2003). Institutional conflicts as the result of the

clash between new and old rules, values and practices are commonly experienced in those countries.

In this case SMEs' previous experience operating overseas can prevent new ventures from adopting and quickly responding to the constant changes in the institutional environment. Previous international experience develops a steady preferred model of behaviour (Zahra S. A., 2005) which, utilized in the conditions of institutional turbulence, may not lead to decrease in perceived environmental challenges and improved performance. The greater the environmental uncertainty, the more managers will see potential benefits in systematic screening of the environment rather than relying on past experiences.

In regards to the set of hypotheses addressing perceived importance of the sources of networking, as predicted, entrepreneurs coming from the environment institutionally distant from the one of host country, placed more importance on the informal personal ties. Due to the strong institutional voids (Peng & Luo, 2000), entrepreneurs rely on the interpersonal ties which serve as a substitute for formal institutional support and initial lack of connection to international networks. Moreover in the first stage of internationalization inside connections may also provide access to resources needed for setting up successful operations overseas (Peng & Heath, 1996).

Russian business realities of the 1990s depicts the practicality of the this argument. So called *blat* - created system of relationships and interpersonal ties (Peng & Luo, 2000) that could open access to resources in the state of poor institutional environment was very popular in the business culture. In case of SMEs expansion the

motivation to draw upon informal personal ties lies in the poor institutional knowledge (as a result of a big gap in institutional distance).

Hypothesis 4 examined if firm maturity in the host market acted as a moderator for the negative relationship between institutional distance and the perceived importance of outside and government sources of information. Results showed that firm maturity can play a role in the relationship with outside sources of networking; however no statistical significance was found for its influence on entrepreneurial perceptions about government sources. Insidership in business circles is critical for firms' survival in foreign markets, it provides tacit knowledge about industry leaders and local competitors (Johanson & Vahlne, 2009). It also requires more time and commitment to build such networks, especially for a foreign firm. Outside business connections along with personal ties represent sources of experiential knowledge (tacit or implicit) which can not be easily taught or transferred; it's acquired from the experience operating in overseas market (Leonidou & Katsikeas, 1996). Hence the longer the company operates in a given market, the more it makes use of outside sources despite initial lack of institutional knowledge.

Relationship with government sources on the other hand is more controversial. Government, especially in developed countries, is usually viewed as a source of objective knowledge (explicit or codified) (Leonidou & Katsikeas, 1996; Johanson & Vahlne, 1977) which can take form of published laws, government statistics, publicly accessible reports. The length of firm's presence in the market can not affect much the relationship between the firm and the government. In emerging markets (in this research represented by Eastern European countries) due to institutional uncertainty described above and

continual changes in the government it is problematic for SMEs to develop steady trustworthy relationship and obtain resources capable to offset the institutional defficiency.

The overall results support research questions outlined in the beginning of the study that institutional differences affect the barriers SMEs face and the networks they build in the host country. Entrepreneurial firms face unique institutional pressures; their survival largely depends on how fast and productive they engage in networking activities not only in the host environments but a lot of the times also in their domestic local markets (Peng M. W., 2003). Due to size disadvantage they usually try to establish contacts with larger and more powerful players. However their home based networking strategies may fail and appear uneffective in a new institutional setting. They can turn to different sources of networking in search of valuable information depending on the degree of differences with their home institutional environment– the main argument that has been supported by the findings of this research. Such importance of interweaving of institutional and networking theories in the field of SMEs’ internationalization is an area this research was trying to bring attention to.

Although this study is based solely on the investigation of small to medium sized enterprises, it can shed some light on the differences in networking activities between SMEs and MNEs. Researchers often mention that there is a lack of actual empirical studies that conduct a systematic review and comparison of internationalization strategies of SMEs and subsidiaries of multinational corporations (Hollenstein, 2005). The next section will present an analysis of networking approaches based on the previous scholarly

findings on MNEs internationalization and the results of this study (subject to further empirical testing).

Previous research on MNEs suggests that large firms have significant bargaining power when dealing with the state and government officials in the host countries (Kostova & Zaheer, 1999; Moon & Lado, 2000). Unlike small firms, they usually represent a greater economic significance and a pool of financial and managerial resources that attract host government attention and increase MNEs' negotiation power (Moon & Lado, 2000; Lecraw, 1984). The results of the present study showed that small companies tend to place more importance to the usage of government sources of networking only when the institutional distance is small. Considering a strong bargaining power of large corporations, the results of the same study conducted with the focus on MNEs would most likely be shifted to the higher usage of government sources even if there is a large institutional distance between the home and host countries. MNEs perceive a higher value in the usage of government networks and frequently leverage the support of the local government in order to achieve the common goals of legitimacy, adaptability and improve local operations (Luo Y. , 2001) .

Another observation regarding the comparison of networking activities of two types of internationalizing firms is related to the "internal/external legitimacy" or the two institutional environments that MNEs' subunits face operating in a foreign country (Kostova & Zaheer, 1999). Unlike SMEs, MNE's performance in the host country is contingent to the conformity with the structure and organizational regulations of the parent company. So while exploring the effects of the institutional distance on the

networking ties of MNEs in the local settings it is not sufficient to take into consideration purely external institutional measures as different types of subunits are characterized with a different level of independency and different degree of embeddedness into the local networks (Birkinshaw & Hood, 2000). For example, Birkinshaw and Hood (2000) suggest that entrepreneurial and more knowledge-oriented subsidiaries will be more engaged into the collaboration with the local actors (including local SMEs). Thus, although the institutional distance is large, MNEs subunits can still be actively involved in the outside more formal local networks due to their mandates dictated by a parent company and large resources and capabilities compared to SMEs. So future research on the impact of institutional distance on networking activities of large corporations should take into account such factors as intraorganizational legitimacy and the bargaining power of MNE subunits.

CONTRIBUTIONS

Despite a big progress and increased attention to international entrepreneurship literature among scholars, the relationship between social networks and differences in the home and host institutional countries remains poorly investigated. The present research addresses this literature gap and attempts to outline the role of institutional dissimilarity in the internationalization process of small enterprises. It examines SMEs internationalization applying several theoretical lenses.

Institutional theory served as a foundation for the present research providing the rationale for exploring macro-level factors and external challenges that SMEs widely experience in international markets. As noted by Leonidou (2004) information

inefficiencies (“knowledge gap”) and politicoeconomic hurdles have a systematically strong obstructing effect on small businesses export behaviour (Leonidou L. , 2004). This research advances the findings by considering institutional distance as the main force that drives SMEs networking behavior in the host country and leverage the barriers they face operating abroad.

Moreover present research provided a different perspective on the role of prior international experience. It turned out that possession of former experience is not always associated with means to overcome or minimize environmental barriers. In case of SMEs it can play a detrimental role by cultivating firm rigidity evolved into lack of flexibility and adoption especially in the countries characterized by unstable institutional environment.

This finding can also be put to a practical use. It should give a stimulus to entrepreneurs to reassess their views on former international experience and to distance themselves from the practices that were working in the past. To assure successful internationalization and obtain up-to-date information, small ventures can engage in frequent environmental scanning especially in the conditions of institutional ambiguity. Such strategic tool implies continuous networking with the purpose of acquiring information beyond firm boundaries.

Another practical implication can address the issue of magnitude of the formal barriers reported by participating firms. Policymakers should take into account such findings and reorient their programs towards providing more information on regulatory environments of the main target markets for SMEs intended to internationalize. The

results of the research program of the European Commission also indicate that “public support goes largely un-noticed”; only 16% of SMEs are aware of the public support initiatives for internationalization and even smaller number actually use them (European Commission, 2011). The policymakers should draw SMEs’ attention to Trade Promotion Agencies and other supporting institutions to boost international activity among SMEs. In the long term the growth in number of internationally active SMEs will result in economic welfare gains. “Small, independent and volatile” firms are considered major contributors to job creation (especially for low-skilled workers). Pro-SME advocates also discuss small firms as boosters of innovation and local competition due to their propensity for risky endeavors and essential mobility (Raynard & Forstater, 2002).

By combining insights from institutional theory with social approach, this study opens a new perspective in the research on SMEs’ networks beyond national borders. Previously social networks were mainly studied as mediating or moderating variables between internationalization and small firm performance (Zhou, Wu, & Luo, 2007 ; Peng & Luo, 2000). This research focuses on the different types of networking sources and their perceived importance according to contextual institutional differences; hence exploring networks as dependent variables. As research showed entrepreneurs’ adherence to certain type of resources is not static, it can change with time as firms gain legitimacy and acquire more institutional knowledge in the foreign market. Linking institutional approach with ideas about sources of social networks in the novel context of SMEs’ internationalization helps us to make further progress in international entrepreneurship research.

LIMITATIONS

There are several limitations to this study of both theoretical and empirical nature. From the theoretical standpoint the research does not take into account ownership types that could change the course of the results. For example, small family businesses may be more rigid and embedded in the local settings, hence will be more susceptible to institutional differences, while technological SMEs moving toward initial public offerings may react differently and have different networking strategies paying more attention to outside sources inspite of institutional unawareness.

Another limitation comes from the operationalization of the construct. Institutional distance is typically measured by comparing one country institutional profile to another with data obtained from objective official data source. However, this does not allow researchers to precisely capture the institutional context experienced by an international firm (Phillips, Tracey, & Karra, 2009). A multi-level approach should be considered to improve current conceptualization of institutional distance. Particularly, introducing the measure of managerial perceptions on home and host countries institutional environment in addition to the current measurement. The actual impressions of the institutional environment and its understanding by SME owners may vary from predetermined measurements. Expanding the boundaries of institutional distance can shed the light on some of the findings. Future researchers may include a moderating variable of entrepreneurs' perceptions of institutions between "hard" measures of institutional environment (used in this study) and analyzed variables. Such moderator will

help to capture the real view of institutions in host and home country through the eyes of entrepreneurs.

The sample had its own limitations as well. All the SMEs participating in the survey has been operating in the international market for at least 2 years, which can indicate that the firms that have ceased their business operations in less than two years were not a part of the study. The consequence of such data specificity could have resulted in the exclusion of entrepreneurial firms that failed to cope with the challenges and withdrew from the market, which, in its turn, could affect the conclusions made in this study.

The last limitation in this research originates from the lack of control variables. It suggests several moderating relationships, controls for the size and the age of enterprises. However other control variables could be tested as well, for example industry effect. It will be then proposed as a suggestion for future research designs.

FUTURE RESEARCH

Further research can examine the institutional effects on proposed networking sources and internationalization barriers in various industry settings. For example, mobile telecommunications or transportation industries being more regulated can contain industry specific institutions (not necessarily captured in the conceptualization of institutional distance) that can change the course of relationship. In the industries with strong state control, government sources of information can prevail even in the early stages of internationalization. According to Phillips, Tracey and Karra (2009) some

industries of a host country's economy may be relatively similar to the home environment due to the universality of their norms and regulations like oil and gas industry for instance. While other industries may be very different such as the banking industry. Therefore two firms internationalizing to the same country but setting up operations in different industries may have a totally different experiences dealing with the same institutional environment.

Another issue that deserves further exploration is conducting a similar study focusing on "born global" enterprises – companies that do not have operations in the home market. It is interesting to see whether the institutional distance will still have a strong impact on the degree of perceived barriers and composition of their social networks. Having no operations in the domestic market may possibly offset the institutional distance but can also lead to some surprising results considering the pure entrepreneurial nature of such businesses and entrepreneur's embeddedness in the social environment.

Future researchers can also broaden to other regions to test the impact of institutional distance and extend external validity of the present study. Cross country comparisons are essential in order to shed more light on the specific national and regional backgrounds. Real life examples suggest that countries first appearing institutionally distant, under a closer look, can have unique common characteristics favourable for growth and successful performance of a given business unit. For example, Gerardo Apolinario discovered USA market thinking about internationalization of his small Filipino restaurant. He was not aware about the concept of institutional distance although

intuitively grasping the notion of it, but he chose a city with a large Filipino community - a key to his success in overcoming institutional defficiencies.

CONCLUSION

In conclusion this study examined the impact of institutional differences between the host and home countries on the barriers small enterprises face in the international markets and the composition of their networking ties. The research was conducted with a help of World Bank database and particularly focused on small and medium enterprises deciding to internationalize to the European region. It demonstrates the positive relationship between the institutional distance and the level of challenges firms experience abroad. It also provides insights about institutional impact on the perceived importance of various sources of managerial information for SMEs suggesting that SME owners from institutionally distance countries rely more on the strong inside connections such as friends and family. However with time they see more benefits in the outside sources of networking.

The study also responds to the call from scholars on further integration of institutional and international entrepreneurship literature. Focusing specifically on international SMEs it addresses the unique needs of one of the most rapidly growing business group worldwide. From the theoretical point of view it undertakes a multidimensional approach linking institutional perspectives with social networking research, thus enhancing the stream of academic literature in the relatively new field of international entrepreneurship.

References

- Abebe, M. A., & Angriawan, A. (2011). The internationalisation of small and medium-sized enterprises (SMEs): a multi-level integrative framework. *International Journal of Entrepreneurship and Innovation Management*, 13(3), 377-397.
- Aidis, R. (2005). Institutional Barriers to Small- and Medium Sized Enterprise Operations in Transition Countries. *Small Business Economics*, 25, 305-318.
- Aldrich, H., & Zimmer, C. (1986). Entrepreneurship Through Social Networks. In R. Smilor, & D. Sexton, *The Art and Science of Entrepreneurship* (pp. 3-23). New York: Ballinger.
- Alvarez, S., & Busenitz, L. (2001). The entrepreneurship of resource-based theory. *Journal of Management*, 27(6), 755-775.
- Amit, R., & Schoemaker, P. J. (n.d.). Strategic assets and organizational rent. *Strategic Management Journal*, 14(1), 33-46.
- Andersson, S. (2001). The internationalization of the Firms from an Entrepreneurial Perspective. *International Studies of Management and Organization*, 30(1), 63-92.
- Andersson, S., & Wictor, I. (2003). Innovative Internationalisation in New Firms: Born Globals - The Swedish Case. *Journal of International Entrepreneurship*, 1(3), 249-275.
- Aulakh, P., Kotabe, M., & Teegen, H. (2000). Export Strategies and performance of firms from emerging economies: evidence from Brazil, Chile and Mexico. *Academy of Management Journal*, 43(3), 342-361.
- Auster, E., & Choo, C. W. (1993). Environmental scanning by CEOs in two Canadian industries. *Journal of the American Society for Information Science*, 44(4), 194-203.
- Barkema, H. G., Bell, J. J., & Pennings, J. E. (1996). Foreign entry, cultural barriers and learning. *Strategic Management Journal*, 17, 151-166.
- Barker, A. T., & Kaynak, E. (1992). An empirical investigation of the difference between initiating and continuing exporters. *European Journal of Marketing*, 26(3), 27-36.

- Barlett, W., & Bukvic, V. (2001). Barriers to SME Growth in Slovenia. *MOCT-MOST*, 177-195.
- Barney, J. B. (1986). Strategic factor markets: Expectations, luck and business strategy. *Management Science*, 31, 1231-1241.
- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17, 99-120.
- Beamish, P. W. (1990). The Internationalisation Process for Smaller Ontario Firms: A Research Agenda. In A. M. Rugman, *Research in Global Strategic Management - International Business Research for the Twenty-First Century* (pp. 77-92). Greenwich : JAI Press.
- Beck, T., Demirguc-Kunt, A., & Levine, R. (2005). SMEs, Growth, and Poverty: Cross-Country Evidence. *Journal of Economic Growth*, 199-229.
- Bell, J. (1997). A comparative study of export problems of small computer software exporters in Finland, Ireland, and Norway. *International Business Review*, 6(6), 585-604.
- Bell, J. R., McNaughton, S. Y., & Crick, D. (2003). Towards an Integrative Model of Small Firm Internationalisation. *Journal of International Entrepreneurship* , 339-362.
- Bilkey, W. J., & Tesar, G. (1977). The Export Behaviour of Smaller-Sized Wisconsin Manufacturing Firms. *Journal of International Business Studies*, Spring/Summer, 93-98.
- Birkinshaw, J., & Hood, N. (2000). Characteristics of Foreign Subsidiaries in Industry Clusters. *Journal of International Business Studies*, 31(1), 141-154.
- Black, J. A., & Boal, K. B. (1994). Strategic resources: Traits, configurations and paths to sustainable competitive advantage. *Strategic Management Journal*, 15(S2), 131-148.
- Bloodgood, J. M., Sapienza, H., & Almeida, J. G. (1996). The internationalization of New High-Potential US Ventures: Antecedents and Outcomes. *Entrepreneurship Theory and Practice*, 20(4), 61-76.
- Bohata, M., & Mladek, J. (1999). The Development of Czech SME Sector. *Journal of Business Venturing*, 14, 461-473.

- Boter, H. (2003). Management Perspectives as Catalysts for Exporting: A Study of Nordic SMEs. *Journal of Global Marketing*, 16(3), 31-52.
- Bourgeois, L. J., & Eisenhardt, K. M. (1988). Strategic decision processes in high velocity environments: four cases in the microcomputer industry. *Management Science*, 34, 816-835.
- Brouthers, K. D. (2002). Institutional, Cultural and Transaction Cost Influences on Entry Mode Choice and Performance. *Journal of International Business Studies*, 33(2), 203-221.
- Brunetti, A., Kisunko, G., & Weder, B. (1998). How businesses see government: responses from private sector surveys in 69 countries. *World Bank Discussion Paper*. Washington, DC: The World Bank.
- Bruton, G. D., Ahlstrom, D., & Li, H.-L. (2010). Institutional Theory and Entrepreneurship: Where are we now and where do we need to move in the future? *Entrepreneurship Theory and Practice*, 421-440.
- Bruton, G. D., Ahlstrom, D., & Puky, T. (2009). Institutional differences and the development of entrepreneurial ventures: A comparison of the venture capital industries in Latin America and Asia. *Journal of International Business Studies*, 40, 762-778.
- Burgers, W., & Padgett, D. (2009). Understanding Environmental Risk for IJVs in China. *Management International Review*, 49(3), 337-358.
- Burpitt, W. J., & Rondinelli, D. A. (2000). Small Firms' Motivations for Exporting: To Earn and Learn? *Journal of Small Business Management*, 1-14.
- Busenitz, L. W., Gomez, C., & Spencer, J. W. (2000). Country institutional profiles: Unlocking entrepreneurial phenomena. *Academy of Management Journal*, 43(5), 994-1003.
- Campbell, A. J. (1996). The Effects of Internal Firm Barriers on the Export Behaviour of Small Firms in a Free Trade Environment. *Journal of Small Business Management*, 34(3), 50-59.
- Chandler, G., & Jansen, E. (1992). Founder's Self-Assessed Competence and Venture Performance. *Journal of Business Venturing*, 7(3), 223-236.

- Chetty, S., Eriksson, K., & Lindbergh, J. (2006). The effect of specificity of experience on a firm's perceived importance of institutional knowledge in an ongoing business. *Journal of International Business Studies*, 37, 699-712.
- Child, J., & Yan, Y. (2003). Predicting the performance of international joint ventures: An investigation in China. *Journal of Management Studies*, 40, 283-320.
- Coeurderoy, R., & Murray, G. (2008). Regulatory environments and the location decision: evidence from the early foreign market entries of new technology-based firms. *Journal of International Business Studies*, 39, 670-687.
- Collis, D. (1994). How valuable are organizational capabilities? *Strategic Management Journal*(Winter special issue 15), 143-152.
- Coviello, N. E., & McAuley, A. (1999). Internationalization and the smaller firm: a review of contemporary empirical research. *Management International Review*, 39, 223-256.
- Crick, D., & Chaudhry, S. (1997). Small Businesses' motives for exporting. *Journal of Marketing Practice*, 3(3), 156-170.
- Davies, H., & Walters, P. (2004). Emergent patterns of strategy, environment and performance in a transition economy. *Strategic Management Journal*, 25, 347-364.
- Delios, A., & Beamish, P. W. (2001). Survival and profitability: the roles of experience and intangible assets in foreign subsidiary performance. *Academy of Management Journal*, 44(5), 1028-1038.
- DiMaggio, P. J., & Powell, W. W. (1988). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48, 147-160.
- Dimitratos, P., & Plakoyiannaki, E. (2003). Theoretical Foundation of International Entrepreneurial Culture . *Journal of International Entrepreneurship* , 187-215.
- Djankov, S., & Pohl, G. (1998). The restructuring of large firms in the Slovak Republic. *Economics of Transition*, 6(1), 67-85.
- Dominguez, L., & Sequeira, C. (1993). Determinants of LDC exporters' performance: A cross-national study. *Journal of International Business Studies*, 24(1), 19-41.

- Durlauf, S., Johnson, P., & Temple, J. (2005). Growth Econometrics. In S. Durlauf, & P. Aghion, *Handbook of Economic Growth* (pp. 555-677). Amsterdam: North-Holland.
- Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: What are they? *Strategic Management Journal*(10-11), 1105-1121.
- European Commission. (2010). *Internationalization of European SMEs*. Brussels: Entrepreneurship Unit Directorate-General for Enterprise and Industry.
- European Commission. (2011). *Opportunities for the internationalisation of European SMEs*. Brussels: Business Cooperation and Support Network Unit Directorate-General for Enterprise and Industry European Commission B-1049.
- Evers, N. (2010). Factors Influencing New Venture Internationalisation: A Case Analysis of the Irish Aquaculture Industry. *Journal of International Entrepreneurship*, 8, 392-416.
- Fey, C., & Bjorkman, I. (2001). The effects of Human Resource Management Practices on MNC Subsidiary Performance in Russia. *Journal of International Business Studies*, 32(1), 59-75.
- Fletcher, D. (2004). International entrepreneurship and the small business. *Entrepreneurship and Regional Development*, 16(4), 289-305.
- Gabrisch, H. (1993). Difficulties in establishing joint ventures in Central Europe. 31(4), 19-32.
- Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of Institutional distance and experience. *Journal of Management*, 33(1), 84-110.
- Gibbons, P. T., & O'Connor, T. (2005). Influences on Strategic Planning Processes among Irish SMEs. *Journal of Small Business Management*, 43(2), 170-186.
- Gilley, M., McGee, J. E., & Rasheed, A. A. (2004). Perceived Environmental Dynamism and Managerial Risk Aversion as Antecedents of Manufacturing Outsourcing: The Moderating Effects of Firm Maturity . *Journal of Small Business Management* , 117-133.
- Goodstein, J. D. (1994). Institutional pressures and strategic responsiveness: employer involvement in work family issues . *Academy of Management Journal* , 350-382.

- Granovetter, M. (1973). The strength of weak ties. *American Journal of Sociology*, 78, 1360-1380.
- Hamel, G. (2000). *Leading the revolution*. Boston: Harvard Business School Press.
- Helpman, E. (2006). Trade, FDI, and the Organization of Firms. *Journal of Economic Literature*, 44, 589-630.
- Hitt, M. A., Ahlstrom, D., Dacin, M. T., Levitas, M. T., & Svobodina, L. (2004). The Institutional Effects on Strategic Alliance Partner Selection in Transition Economies: China vs Russia. *Organization Science*, 15(2), 173-185.
- Hofstede, G. (1994). The business of international business is culture. *International Business Review*, 3(1), 1-14.
- Hollenstein, H. (2005). Determinants of International Activities: Are SMEs Different. *Small Business Economics*, 24(4), 431-450.
- Hooley, G., Cox, T., Shipley, D., Fahy, J., Beracs, J., & Kolos, K. (1996). Foreign direct investment in Hungary: Resource Acquisition and domestic competitive advantage. *Journal of International Business Studies*, 27(4), 683-709.
- Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal*, 43(3), 249-267.
- Hualin, P., & Que, Y. (2004). Why have some transnational corporations failed in China? *China & World Economy*, 12(5), 67-79.
- Inkpen, A. C., & Dinur, A. (1998). Knowledge Management Processes and International Joint Ventures. *Organization Science*, 9(4), 454-568.
- Jack, S. L., & Anderson, A. R. (2002). The effects of embeddedness on the entrepreneurial process. *Journal of Business Venturing*, 17(5), 467-487.
- Johannisson, B. (1996). Personal Relationships as a Wealth of Power in Business. In B. Johannisson, & L. Lindmark, *The Enterprise, the Entrepreneur, and Entrepreneurship* (pp. 122-150). Lund: Studentlitteratur.
- Johanson, J., & Mattsson, L.-G. (1993). Internationalization in industrial systems - a network approach, strategies in global competition. In P. J. Buckley, & P. N. Ghauri, *The Internationalization of the Firm: A Reader* (pp. 303-322). London: Academic Press.

- Johanson, J., & Vahlne, J.-E. (1977). The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies* , 23-32.
- Johanson, J., & Vahlne, J.-E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40, 1411-1431.
- Judge, W. Q., Naoumova, I., & Douglas, T. (2009). Organizational capacity for change and firm performance in a transition economy. *The International Journal of Human Resource Management*, 20(8), 1737-1752.
- Judge, W., & Elenkov, D. (2005). Organizational Capacity for Change and Environmental Performance: Empirical Assessment of Bulgarian Firms. *Journal of Business Research*, 58, 893-901.
- Karagozoglu, N., & Lindell, M. (1998). Internationalization of Small and Medium-Sized Technology-Based Firms: An Exploratory Study. *Journal of Small Business Management*, 44-59.
- Kaufmann, D., Kraay, A., & Mastruzzi, M. (2010, September). The Worldwide Governance Indicators: Methodology and Analytical Issues. *World Bank Policy Research Working Paper No. 5430* .
- Kim, J.-O., & Mueller, C. W. (1978). Factor Analysis: Statistical Methods and Practical Issues . *Paper Series on Quantitative Applications in the Social Sciences* , 7-14.
- Kiss, A. N., & Danis, W. M. (2008). Country institutional context, social networks and new venture internationalization speed. *European Management Journal*, 26, 388-399.
- Kornai, J. (1980). *Economics of Shortage*. Amsterdam: North-Holland.
- Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24, 308-324.
- Kostova, T., & Zaheer, S. (1999). Organizational Legitimacy under Conditions of Complexity: The Case of the Multinational Enterprise. *Academy of Management Review*, 24, 64-81.
- Lane, P. J., & Lubatkin, M. (1998). Relative absorptive capacity and interorganizational learning . *Strategic Management Journal* , 461-477.

- Lecraw, D. J. (1984). Bargaining power, ownership and profitability of subsidiaries of transnational corporations in developing countries. *Journal of International Business Studies, Spring-Summer* , 27-43.
- Lee, S.-H., & Hong, S. J. (2010, June). Corruption and subsidiary profitability: US MNC subsidiaries in the Asia Pacific region. *Asia Pacific Journal of Management*.
- Leonidou, L. (2004). An analysis of the Barriers Hindering Small Business Export Development. *Journal of Small Business Management, 42(3)*, 279-302.
- Leonidou, L. C. (1995). Empirical Research on Export Barriers: Review, Assessment and Synthesis. *Journal of International Marketing, 29-43*.
- Leonidou, L., & Katsikeas, C. S. (1996). The export development process: An integrative review of empirical models. *Journal of International Business Studies, 27(3)*, 517-551.
- Li, S. L. (1998). Understanding diversification in transition economies: A theoretical explanation . *Journal of Applied Management Studies* , Vol.7, Issue 1.
- Lichtenthaler, U. (2009). Absorptive Capacity, Environmental Turbulence, and the Complementarity of Organizational Learning Processes. *The Academy of Management Journal, 52(4)*, 822-846.
- Liming, Z., & Aram, J. D. (1995). Networking and growth of young technology-intensive ventures in China. *Journal of Business Venturing, 10(5)*, 349.
- Lu, J. W., & Beamish, P. W. (2001). The Internationalization and Performance of SMEs. *Strategic Management Journal, 22(6/7)*, 565-586.
- Luo, Y. (2001). Toward a Cooperative View of MNC-Host Government Relations: Building Blocks and Performance Implications. *Journal of International Business Studies, 32(3)*, 401-419.
- Luo, Y., & Park, S. H. (2004). Multiparty cooperation and performance in international equity joint ventures. *Journal of International Business Studies, 35(2)*, 142-160.
- Luo, Y., & Peng, M. W. (1999). Learning to compete in a transition economy: Experience, Environment, and Performance. *Journal of International Business Studies, 30(2)*, 269-295.

- Luostarinen, R., & Lawrence, W. (1990). *International business operations* . Helsinki, Finland : Helsinki School of Economics .
- Lyles, M. A., & Salk, J. E. (2007). Knowledge acquisition from foreign parents in international joint ventures: an empirical examination in the Hungarian context. *Journal of International Business Studies*, 38, 3-18.
- Madhok, A., & Tallman, S. B. (1998). Resources, transactions and rents: Managing value through interfirm collaborative relationships. *Organization Science*, 9(3).
- Madsen, T. K., & Servais, P. (1997). The internationalization of Born Globals: an Evolutionary Process? *International Business Review*, 6(6), 561-583.
- Manolova, T. S., Edelman, L. F., Brush, C. G., & Greene, P. G. (2002). Internationalization of Small Firms: Personal Factors Revisited. *International Small Business Journal*, 20(1), 9-30.
- Manolova, T. S., Eunn, R. V., & Gyoshev , B. S. (2008). Institutional environments for entrepreneurship:Evidence from emerging economies in Eastern Europe. *Entrepreneurship Theory and Practice*, 32(1), 203-218.
- May, R. C., & Steward, W. H. (1998). On the inside looking out: Russian bank executives' perceptions of strategic threats and opportunities in transitional environment. *Journal of Emerging Markets*, 3(2), 5-26.
- McDougall, P. P., & Oviatt, B. M. (2000). International Entrepreneurship: The Intersection of Two Research Paths. *The Academy of Management Journal*, 43(5), 902-906.
- McDougall, P. P., Oviatt, B. M., & Shane, S. (1994). Explaining the Formation of International New Ventures: The Limits of Theories from International Business Research. *Journal of Business Venturing*, 9(6), 469-487.
- McKenzie, B. (2000). Strategic issue classification in transition economies. *Management Decision*, 38(7), 453-461.
- McMillan, J., & Woodruff, C. (2002). The central role of entrepreneurs in transition economies. *Journal of economic perspectives*, 16(3), 153-170.
- Meyer, K. E. (2001). Institutions, transaction costs and entry mode choice in Eastern Europe. *Journal of International Business Studies*, 357-367.

- Miesenbock, K. J. (1988). Small business and exporting: a literature review. *International Small Business Journal*, 6(2), 42-61.
- Minniti, M. (2005). Entrepreneurship and network externalities. *Journal of Economic Behavior and Organization*, 57(1), 1-27.
- Moon, C. W., & Lado, A. A. (2000). MNC-Host Government Bargaining Power Relationship: A Critique and Extension Within the Resource-Based View. *Journal of Management*, 26(1), 85-117.
- Morgan, R. E. (1997). Export Stimuli and Export Barriers. *Evidence from Empirical Research Studies*, 97(2), 68-79.
- Narula, R. (2004). R&D collaboration by SMEs: new opportunities and limitations in the face of globalisation . *Technovation* , 153-161.
- Neupert, K. E., Baughn, C. C., & Lam Dao, T. T. (2006). SME exporting challenges in transitional and developed economies. *Journal of Small Business and Enterprise Development*, 13(4), 535-545.
- Newman, K. L. (2000). Organizational transformation during institutional upheaval. *Academy of Management Review*, 25, 602-619.
- North, D. (1990). *Institutions, Institutional Change, and Economic Performance* . New York: Norton .
- Nunnally, J. C. (1967). *Psychometric Theory*. New York : McGraw-Hill .
- Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review*, 16(1), 145-179.
- Oliver, C. (1997). Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18(9), 697-713.
- O'Regan, N., & Ghobadian, A. (2004). Testing the homogeneity of SMEs: The impact of size on managerial and organisational processes. *European Business Review*, 16(1), 64-77.
- Oviatt, B. M., & McDougall, P. P. (2005). Defining International Entrepreneurship and Modeling the Speed of Internationalization. *Entrepreneurship Theory and Practice*, 29(5), 537-553.

- Peng, M. (1997). Firm growth in transitional economies: Three longitudinal cases from China. *Organization Studies*, 385-413.
- Peng, M. (2000). *Business strategies in transition economies*. Thousand Oaks, CA.: Sage Publications.
- Peng, M. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28(2), 275-296.
- Peng, M. (2006). *Global strategy*. Thompson: South-Western.
- Peng, M. W. (2001). How entrepreneurs create wealth in transition economies? *Academy of Management Executive*, 15(1), 95-109.
- Peng, M. W. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28, 275-296.
- Peng, M. W., & Heath, P. S. (1996). The growth of firm in planned economies in transition: institutions, organizations, and strategic choice. *Academy of management review*, 21(2), 492-528.
- Peng, M. W., Wang, D. L., & Jiang, Y. (2008). An institution based view of international business strategy: a focus on emerging economies. *Journal of International Business Studies*, 39, 920-936.
- Peng, M., & Luo, Y. (2000). Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(3), 486-501.
- Peteraf, M. (1993). The cornerstones of competitive advantage: Resource-based view. *Strategic Management Journal*, 14, 179-191.
- Phillips, N., Tracey, P., & Karra, N. (2009). Rethinking institutional distance: strengthening the tie between new institutional theory and international management. *Strategic Organization*, 7(3), 339-348.
- Pogrebnyakov, N., & Maitland, C. F. (2011). Institutional distance and the internationalization process: The case of mobile operators. *Journal of International Management*, 17, 68-82.
- Pfeffer, J., & Sutton, R. (2000). *The knowing-doing gap*. Boston: Harvard Business School Press .

- Ramasamy, B., Yeung, M., & Laforet, S. (2012). China's outward foreign direct investment: Location choice and firm ownership. *Journal of World Business*, 47, 17-25.
- Rangone, A. (1999). A resource-based approach to strategy analysis in small-medium enterprises. *Small Business Economics*, 12(3), 233-248.
- Raynard, P., & Forstater, M. (2002). *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries*. Vienna: UNIDO Private Sector Development Branch.
- Reuber, R., & Fischer, E. (1997). The Influence of the Management Team's International Experience on the Internationalization Behaviours of SMEs. *Journal of International Business Studies*, 28(4), 807-825.
- Riddle, L. A., & Gillespie, K. (2003). Information Sources for New Ventures in the Turkish Clothing Export Industry. *Small Business Economics*, 20(1), 105-120.
- Ritchie, B., & Brindley, C. (2005). Cultural determinants of competitiveness within SMEs. *Journal of Small Business and Enterprise Development*, 104-119.
- Rodriguez, P., Uhlenbruck, K., & Lorraine, E. (2005). Government Corruption and the Entry Strategies of Multinationals. *Academy of Management Review*, 30(2), 383.
- Ruzzier, M., Hisrich, R., & Antoncic, B. (2006). SME internationalization research: past, present and future. *Journal of Small Business and*, 476-497.
- Schwens, C., Eiche, J., & Kabst, R. (2011). The Moderating Impact of Informal Institutional Distance and Formal Institutional Risk on SME Entry Mode Choice. *Journal of Management Studies*, 48(2), 330-351.
- Scott, W. R. (1995). *Institutions and Organizations: Theory and Research*. Thousand Oaks, CA: Sage.
- Scott, W. R. (2007). *Institutions and organizations: Ideas and interests*. Thousand Oaks, CA: Sage Publications.
- Senik, Z. C., Scott-Ladd, B., Entekin, L., & Adham, K. A. (2011). Networking and internationalization of SMEs in emerging economies. *Journal of International Entrepreneurship*, 9(4), 259-281.

- Sethi, D., & Guisinger, S. (2002). Liability of foreignness to competitive advantage: how multinational enterprises cope with the international business environment. *Journal of International Management*, 8(3), 223-240.
- Shaw, V., & Darroch, J. (2004). Barriers to Internationalisation: A Study of Entrepreneurial New Ventures in New Zealand. *Journal of International Entrepreneurship*, 327-343.
- Stewart, D. B., & McAuly, A. (1999). The Effects of Export Stimulations: implications for export performance. *Journal of Marketing Management*, 15(6), 505-518.
- Storey, D. J. (2005). Entrepreneurship, Small and Medium Sized Enterprises and Public Policies. In Z. J. Acs, & D. B. Audretsch, *Handbook of Entrepreneurship Research* (pp. 473-511). Springer US.
- Stuart, T. E., & Sorenson, O. (2005). Social networks and entrepreneurship. In O. Sorenson, S. Alvarez, & R. Agrawal, *Handbook of entrepreneurship research: Disciplinary perspectives* (pp. 233-252). New York: Springer-Verlag.
- Sullivan, D., & Bauerschmidt, A. (1989). Common factors underlying barriers to export: a comparative study in the European and US paper industry. *Management International Review*, 20(1), 67-73.
- Tallman, S., & Li, J. (1996). Effects of International Diversity and Product Diversity on the Performance of Multinational Firms. *Academy of Management Journal*, 39(1), 179-196.
- Thomas, A. S., & Mueller, S. L. (2000). A case for comparative entrepreneurship: Assessing the relevance of culture. *Journal of International Business Studies*, 31(2), 287-301.
- Tsang, E. W. (2002). Acquiring knowledge by foreign partners from international joint ventures in a transition economy: Learning-by-doing and learning myopia. *Strategic Management Journal*, 23, 835-854.
- Uhlenbruck K., M. K., & M.A., H. (2003). Organizational Transformation in Transition Economies: Resource-based and Organizational Learning Perspective. *Journal of Management Studies*, 40(2), 257-282.
- Vachani, S. (2005). Problems of foreign subsidiaries of SMEs compared with large companies. *International Business Review*, 14, 415-439.

- Veciana, J. M., & Urbano, D. (2008). The Institutional approach to entrepreneurship research. Introduction. *International Entrepreneurship Management Journal*, 4, 365-379.
- Welch, L. S., & Luostarinen, R. K. (1988). Internationalization: Evolution of a Concept. *Journal of General Management*, 14(2), 36-64.
- Welter, F., & Smallbone, D. (2011). Institutional Perspectives on Entrepreneurial Behavior in Challenging Environments. *Journal of Small Business Management*, 49(1), 107-125.
- Wernerfelt, B. (1985). A resource-based view of the firm. *Strategic Management Journal*, 5, 171-180.
- Wood, R., & Bandura, A. (1989). Social cognitive theory of organizational management. *Academy of Management Review*, 14(3), 361-384.
- Wright, R. W., & Ricks, D. A. (1994). Trends in international business research: Twenty-five years later. *Journal of International Business Studies*, 25, 687-701.
- Xu, D., & Shenkar, O. (2002). Note: Institutional distance and the multinational enterprise. *Academy of Management Review*, 27(4), 608-618.
- Yadong, L., & Peng, M. W. (1999). Learning to Compete in a Transition Economy: Experience, Environment, and Performance. *International Business Studies*, 30(2), 269-295.
- Zacharakis, A. L. (1997). Entrepreneurial entry into foreign markets: A transaction cost perspective. *Entrepreneurship Theory and Practice*, 21, 23-39.
- Zaheer, S. (1995). Overcoming the Liability of Foreignness. *Academy of Management Journal*, 38(2), 341-363.
- Zaheer, S., & Mosakowski, E. (1997). The dynamics of the liability of foreignness: a global study of survival in financial services. *Strategic Management Journal*, 18(6), 439-464.
- Zahra, S. A. (2005). A theory of international new ventures: a decade of research. *Journal of International Business Studies*, 20-28.

- Zahra, S. A., Ireland, R. D., & Hitt, M. A. (2000). International expansion by new venture firms: international diversity, mode of market entry, technological learning and performance. *Academy of Management Journal*, 43(5), 925-950.
- Zahra, S. A., Korri, J. S., & Yu, J. (2005). Cognition and international entrepreneurship: implications for research on international opportunity recognition and exploitation. *International Business Review*, 14, 129-146.
- Zhan, W., & Luo, Y. (2008). Performance implications of capability exploitation and upgrading in international joint ventures . *Management International Review*, 227-253.
- Zhan, W., Chen, R., Erramilli, K., & Nguyen, D. T. (2009). Acquisition of organizational capabilities and competitive advantage of IJVs in transition economies: The case of Vietnam. *Asia Pacific Journal of Management*, 26(2), 285-308.
- Zhou, K. Z., Tse, D. K., & Li, J. J. (2006). Organizational changes in emerging economies: drivers and consequences. *Journal of International Business Studies*, 37, 248-263.
- Zhou, L., Wu, W.-p., & Luo, X. (2007). Internationalization and the performance of born global SMEs: the mediating role of social networks . *Journal of International Business* , 673-690.
- Zimmer, C., & Aldrich, H. (1987). Resource mobilization through ethnic networks. *Sociological Perspectives*, 30(4), 422-445.
- Zucker, L. (1983). Organizations as institutions. In S. Bacharach, *Research in sociology of organizations* (pp. 1-47). Greenwich: JAI Press .

Appendix A – Mean values for Barriers to internationalization

Table 1

Barriers to internationalization	Mean value	SE
Access to financing (e.g. collateral required or financing not available from banks)	1.77	.940
Cost of financing (e.g. interest rates and charges)	1.95	1.029
Telecommunications	1.40	.782
Electricity	1.46	.852
Transportation	1.51	.857
Access to land	1.56	.934
Title or leasing of land	1.62	1.004
Tax rates	2.37	1.113
Tax administration	2.22	1.082
Customs and trade regulations	1.94	1.028
Business licensing and permits	1.82	1.011
Labour regulations	1.87	.960
Skills and education of available workers	1.94	1.072
Uncertainty about regulatory policies	2.28	1.129
Macroeconomic instability (inflation, exchange rate)	2.20	1.148
Functioning of the judiciary	1.83	1.055
Corruption	1.89	1.097
Street crime, theft and disorder	1.59	.924
Organised crime	1.51	.878
Anti-competitive practices of other producers	2.07	1.093
Other	2.20	1.091

Appendix B – Factor Analysis for Sources of Networking

Correlation Matrix

	q21a	q21b	q21c	q21d	q21e	q21f	q21g	q22a	q22b	q22c	q22d	q22e	q22f	q22g	
Correlation	q21a	1.000	.558	.421	.359	.103	.156	.013	.613	.377	.251	.145	.088	.122	.059
	q21b	.558	1.000	.597	.314	.294	.222	.094	.313	.530	.363	.140	.214	.235	.107
	q21c	.421	.597	1.000	.249	.296	.314	.177	.159	.305	.539	.175	.228	.284	.083
	q21d	.359	.314	.249	1.000	.008	.208	.232	.232	.168	.216	.341	.028	.153	.221
	q21e	.103	.294	.296	.008	1.000	.392	.204	-.059	.058	.135	.051	.626	.266	.128
	q21f	.156	.222	.314	.208	.392	1.000	.474	.008	.109	.186	.140	.308	.536	.347
	q21g	.013	.094	.177	.232	.204	.474	1.000	-.024	.037	.190	.147	.188	.368	.534
	q22a	.613	.313	.159	.232	-.059	.008	-.024	1.000	.413	.234	.266	.152	.171	.124
	q22b	.377	.530	.305	.168	.058	.109	.037	.413	1.000	.506	.333	.232	.256	.142
	q22c	.251	.363	.539	.216	.135	.186	.190	.234	.506	1.000	.355	.261	.313	.245
	q22d	.145	.140	.175	.341	.051	.140	.147	.266	.333	.355	1.000	.201	.278	.289
	q22e	.088	.214	.228	.028	.626	.308	.188	.152	.232	.261	.201	1.000	.518	.263
	q22f	.122	.235	.284	.153	.266	.536	.368	.171	.256	.313	.278	.518	1.000	.525
	q22g	.059	.107	.083	.221	.128	.347	.534	.124	.142	.245	.289	.263	.525	1.000
Sig. (1-tailed)	q21a		.000	.000	.000	.040	.004	.414	.000	.000	.000	.007	.067	.018	.159
	q21b	.000		.000	.000	.000	.000	.055	.000	.000	.000	.008	.000	.000	.034
	q21c	.000	.000		.000	.000	.000	.001	.003	.000	.000	.001	.000	.000	.078
	q21d	.000	.000	.000		.444	.000	.000	.000	.002	.000	.000	.314	.004	.000
	q21e	.040	.000	.000	.444		.000	.000	.157	.163	.010	.194	.000	.000	.015
	q21f	.004	.000	.000	.000	.000		.000	.449	.032	.001	.008	.000	.000	.000
	q21g	.414	.055	.001	.000	.000	.000		.342	.262	.001	.006	.001	.000	.000
	q22a	.000	.000	.003	.000	.157	.449	.342		.000	.000	.000	.005	.002	.017
	q22b	.000	.000	.000	.002	.163	.032	.262	.000		.000	.000	.000	.000	.008
	q22c	.000	.000	.000	.000	.010	.001	.001	.000	.000		.000	.000	.000	.000
	q22d	.007	.008	.001	.000	.194	.008	.006	.000	.000	.000		.000	.000	.000
	q22e	.067	.000	.000	.314	.000	.000	.001	.005	.000	.000	.000		.000	.000
	q22f	.018	.000	.000	.004	.000	.000	.000	.002	.000	.000	.000	.000		.000
	q22g	.159	.034	.078	.000	.015	.000	.000	.017	.008	.000	.000	.000	.000	

KMO and Bartlett's Test

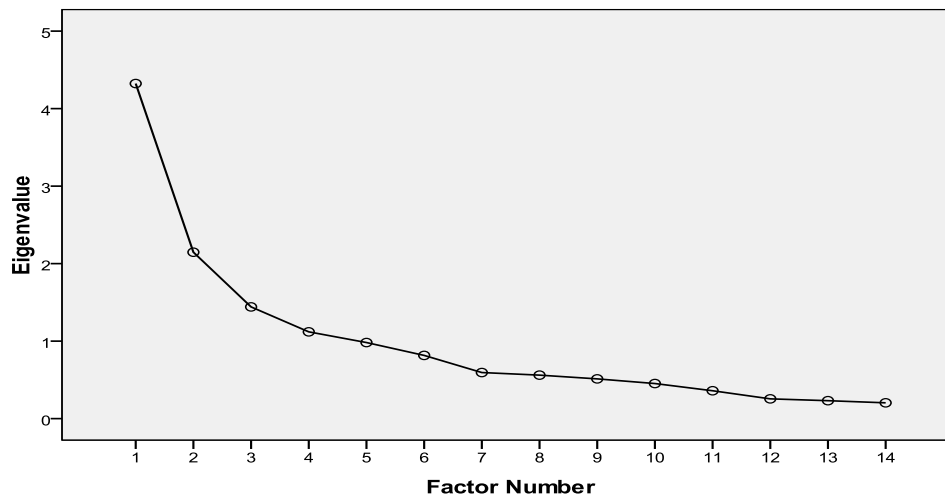
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.721
Bartlett's Test of Sphericity	Approx. Chi-Square	1574.981
	df	91
	Sig.	.000

Communalities

	Initial	Extraction
q21a	.581	.533
q21b	.598	.671
q21c	.556	.583
q21d	.294	.266
q21e	.545	.564
q21f	.465	.492
q21g	.406	.523
q22a	.496	.494
q22b	.503	.464
q22c	.482	.356
q22d	.296	.290
q22e	.575	.930
q22f	.558	.548
q22g	.453	.574

Extraction Method: Principal Axis Factoring.

Scree Plot



Factor Matrix^a

	Factor			
	1	2	3	4
q21a	.521	-.509	-.015	-.051
q21b	.656	-.379	-.197	-.242
q21c	.626	-.193	-.177	-.351
q21d	.400	-.160	.265	-.101
q21e	.434	.353	-.488	-.110
q21f	.531	.377	.063	-.253
q21g	.417	.431	.343	-.216
q22a	.421	-.450	.118	.317
q22b	.551	-.349	.006	.196
q22c	.577	-.142	.046	.025
q22d	.421	-.054	.241	.227
q22e	.591	.420	-.485	.411
q22f	.628	.355	.116	.120
q22g	.481	.375	.439	.100

Extraction Method: Principal Axis Factoring.

a. Attempted to extract 4 factors. More than 25 iterations required. (Convergence=.003). Extraction was terminated.

Rotated Factor Matrix^a

	Factor			
	1	2	3	4
q21a	-.033	.542	.487	-.032
q21b	.041	.737	.322	.151
q21c	.168	.709	.148	.176
q21d	.285	.286	.289	-.136
q21e	.164	.294	-.150	.654
q21f	.581	.286	-.063	.262
q21g	.712	.102	-.053	.053
q22a	-.040	.181	.678	-.021
q22b	.044	.321	.587	.119
q22c	.235	.351	.397	.143
q22d	.285	.040	.452	.046
q22e	.190	.004	.234	.916
q22f	.580	.087	.252	.375
q22g	.711	-.075	.236	.087

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

Factor Transformation Matrix

Factor	1	2	3	4
1	.514	.554	.515	.404
2	.593	-.423	-.503	.465
3	.591	-.265	.257	-.717
4	-.184	-.667	.645	.325

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

Factor Score Covariance Matrix

Factor	1	2	3	4
1	.774	.024	.026	.051
2	.024	.771	.101	-.008
3	.026	.101	.721	.050
4	.051	-.008	.050	.911

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

Factor Scores Method: Regression.

APPENDIX C. - Regression Analysis

1. Regression analysis testing Hypothesis 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.246 ^a	.061	.058	17.038

a. Predictors: (Constant), Index_CHALLENGE

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6642.291	1	6642.291	22.883	.000 ^a
	Residual	103048.589	355	290.278		
	Total	109690.880	356			

a. Predictors: (Constant), Index_CHALLENGE

b. Dependent Variable: I_distance mod

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.444	2.934		3.900	.000
	Index_CHALLENGE	7.681	1.606	.246	4.784	.000

a. Dependent Variable: I_distance mod

2. Regression analysis testing Hypothesis 3

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.272 ^a	.074	.066	16.988

a. Predictors: (Constant), Interaction, Index_CHALLENGE, Inter_experience

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8081.344	3	2693.781	9.334	.000 ^a
	Residual	101300.695	351	288.606		
	Total	109382.039	354			

a. Predictors: (Constant), Interaction, Index_CHALLENGE, Inter_experience

b. Dependent Variable: I_distance mod

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.748	3.638		2.679	.008
	Index_CHALLENGE	7.777	1.936	.249	4.017	.000
	Inter_experience	3.004	6.256	.082	.480	.631
	Interaction	.805	3.508	.039	.230	.819

a. Dependent Variable: I_distance mod

3. Regression analysis testing Hypothesis 2

3.1 Regression analysis testing relationship between Institutional distance and the perceived importance of the outside sources of information

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.207 ^a	.043	.040	.86242656

a. Predictors: (Constant), I_distance

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.672	1	9.672	13.003	.000 ^a
	Residual	215.696	290	.744		
	Total	225.368	291			

a. Predictors: (Constant), I_distance

b. Dependent Variable: REGR factor score 1 for analysis 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.255	.087		2.935	.004
	I_distance mod	-.010	.003	-.207	-3.606	.000

a. Dependent Variable: REGR factor score 1 for analysis 1

3.2 Regression analysis testing relationship between Institutional distance and the perceived importance of the government sources of information

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.184 ^a	.034	.030	.93976334

a. Predictors: (Constant), I_distance mod

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.946	1	8.946	10.129	.002 ^a
	Residual	256.115	290	.883		
	Total	265.061	291			

a. Predictors: (Constant), I_distance mod

b. Dependent Variable: REGR factor score 4 for analysis 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.245	.095		2.590	.010
	I_distance mod	-.010	.003	-.184	-3.183	.002

a. Dependent Variable: REGR factor score 4 for analysis 1

3.3 Regression analysis testing relationship between Institutional distance and the perceived importance of the inside sources of information (related to the information about potential customers)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.115 ^a	.013	.010	.87358427

a. Predictors: (Constant), I_distance mod

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.977	1	2.977	3.901	.049 ^a
	Residual	221.313	290	.763		
	Total	224.291	291			

a. Predictors: (Constant), I_distance mod

b. Dependent Variable: REGR factor score 2 for analysis 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.141	.088		-1.607	.109
	I_distance mod	.006	.003	.115	1.975	.049

a. Dependent Variable: REGR factor score 2 for analysis 1

3.4 Regression analysis testing relationship between Institutional distance and the perceived importance of the inside sources of information (related to the information about potential suppliers)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.278 ^a	.077	.074	.81731993

a. Predictors: (Constant), I_distance mod

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.197	1	16.197	24.247	.000 ^a
	Residual	193.723	290	.668		
	Total	209.921	291			

a. Predictors: (Constant), I_distance mod

b. Dependent Variable: REGR factor score 3 for analysis 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.330	.082		-4.007	.000
	I_distance mod	.013	.003	.278	4.924	.000

a. Dependent Variable: REGR factor score 3 for analysis 1

4. Regression analysis testing Hypothesis 4**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.251 ^a	.063	.053	.85627359

a. Predictors: (Constant), maturity, I_distance, Interaction2

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.205	3	4.735	6.458	.000 ^a
	Residual	211.163	288	.733		
	Total	225.368	291			

a. Predictors: (Constant), maturity, I_distance, Interaction

b. Dependent Variable: REGR factor score 1 for analysis 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.001	.134		.011	.992
	I_distance mod	-.003	.004	-.058	-.673	.501
	Interaction2	.000	.000	-.248	-2.078	.039
	age2	.016	.007	.287	2.483	.014

a. Dependent Variable: REGR factor score 1 for analysis 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.193 ^a	.037	.027	.94123728

a. Predictors: (Constant), Interaction2, l_distance mod, age2

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.914	3	3.305	3.730	.012 ^a
	Residual	255.147	288	.886		
	Total	265.061	291			

a. Predictors: (Constant), Interaction2, l_distance, maturity

b. Dependent Variable: REGR factor score_4 for analysis 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.211	.147		1.437	.152
	l_distance mod	-.010	.005	-.195	-2.238	.026
	age2	.001	.007	.018	.158	.875
	Interaction2	.000	.000	.047	.388	.698

a. Dependent Variable: REGR factor score_4 for analysis 1