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**Modelling international entry mode choice and speed:  
Locational and cognitive insights in Pakistani Small businesses**

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**A thesis to be submitted in partial fulfilment of  
the requirements for the degree of Doctor of Philosophy**

**University of Huddersfield  
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## **Abstract**

This thesis intends to explore the process of foreign investment and entry mode choices of small firms from Pakistan. Pakistan being an epicure of global terrorism and ethnictension is an economy that is driven by small sector. The small sector is facing extreme difficulties to expand their international operations. This needs a comprehensive research to see beyond basic infrastructural impediments to small firms in Pakistan. What are the major behavioural and analytical impediments to their international expansion? Cognitive biases are the behavioural impediments and so far there is no research in Pakistan in general and in advanced countries in particular, to see how cognitive heuristics and biases affect the foreign investment decision process?

Entry mode is said to be the building block of internationalisation, and due to their small size, resource limitations and lack of international knowledge, small firms often try to obtain first-mover advantages through strategic alliances or joint venture operations abroad. Post entry speed is the international development of small firm, once the process of entry mode choice is completed. Entrepreneurial managers perceive cooperative modes and other equity investments as high-risk oriented strategies due to the legal and moral hazards associated with co-operative modes of entry. This creates a dilemma as to how to maintain a sustainable post-entry international speed?

The absence of a unique set of enduring dispositional preferences is striking. There is no research that explores the role of entrepreneurial cognition/biases in small firm entry mode choices process. This applies particularly when small firms expand their international operations from emerging to developed economies. Based on the integration of cognitive capabilities and the Dunning eclectic framework, this study develops a rigorous model by introducing the new resource value generation taxonomies, and explores the impact of cognitive biasness in small firm entry mode choice process and cognitive dynamism in post-entry speed. A sub-modal for the enquiry of cognitive biases in foreign investment decision process is also introduced. This sub model by qualitative enquiry found the significant role of heuristics and biases in foreign investment decision process.

The data was collected from a stratified sample of three major provinces of Pakistan through postal and drop-off survey/personal visits. Ten in-depth personal and telephonic interviews were conducted to triangulate the entry mode choice process with speed model. Triangulation of positivist and interpretivist approach confirms the validity and reliability of the research findings. The dependent variable is dichotomous for post-entry speed. Logistic regression for post-entry speed is used to analyse the quantitative data set.

Foreign investment and/or entry mode choice process are the simultaneous terms used in the entire thesis. The findings support the central role of biases in foreign investment decision process and ownership, location and cognitive advantages in the post-entry speed. The new value generation entry mode choice taxonomies (high and low value generation modes) and cognitive biases during the three stages of foreign investment decision process introduced in this research, contributes significantly to present literature. Complexities associates with IB research highlight the need for further empirical, cross-cultural and longitudinal studies.

One of the most important challenges that the managers in small firm in developing economies face is to find new ways to enhance the probability of their exports' success through a suitable entry mode choice process (foreign investment decision process). This research through careful deliberation presents useful implications that will enhance the international activity of small firms from developing economies in general and advanced economies in particular. The findings are generalizable because the cognitive biases emerge as behavioural and analytical impediments in any event, process and/or in any system of relationships. The dispositional tendencies of managers identified in this thesis are the source of mitigating the negative effects of the biases. Thus this study is unique in its nature that contributes to both economic and behavioural theories.

## Glossary

**Ambiguity/uncertainty:** Ambiguity/uncertainty is the second most important dimension of transaction cost theory and refers to the uncertainty due to opportunistic behaviour on the part of either party. Ambiguity or uncertainty is the major source of cognitive biases in managerial decision making (Buckley and Casson, 1976; Islam, Ali, and Sandhu, 2011; Mtigwe, 2006).

**Asset specificity:** Asset specificity refers to the loss of assets when they are utilised in alternative transactions (Buckley and Casson, 1976; Williamson, 1975).

**Cognitive-contextual misfit:** Cognitive-contextual misfit is the degree of mismatch between an individual's preferred and dominant cognitive style (the way of processing information and arriving at a conclusion) and the style demanded of a particular context (Brigham, De Castro, and Shepherd, 2007: 107; Corbett and Hmieleski, 2007: 105).

**Cognition:** cognition refers to all processes by which sensory input is transformed, reduced, elaborated, stored, recovered and used (Braisby and Gellatly, 2005; Mitchell, Busenitz, et al., 2002).

**Constellation and investment (C&I) modes:** C & I modes of foreign market servicing, are the modes of investment that create value for both the partners in local as well as in foreign market. These modes are also termed as high value generation modes of investment, such as licensing, franchising, joint ventures, strategic alliances and subsidiaries (Dimitratos, Johnson, Slow, and Young, 2003; Sharma and Erramilli, 2004).

**Cultural cognition:** Tendency of an individual to engage in and benefit from rational decision making in unknown cultures abroad (Johnson, Lenartowicz, and Apud, 2006; Westerberg, Singh, and Häckner, 1997).

**Emerging Economies (EEs):** EEs are low-income, rapid-growth countries using economic liberalisation as their primary engine of growth (Hoskisson, Eden, Lau, and Wright, 2000: 249).

**Entrepreneurship:** Entrepreneurship can be viewed in its essence to be individuals or teams, creating works, such as product and service, for other persons in a market place (Mitchell, Busenitz, et al., 2002: 96).

**Entrepreneurial cognition:** Entrepreneurial cognition refers to the knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation and growth (Mitchell, Busenitz, et al., 2002: 97).

**Exploration:** Exploration refers to the search for new ideas, markets, or relations (Brouthers, Nakos, Hadjimarcou, and Brouthers, 2009; March, 1991).

**Exploitation:** Exploitation is associated with direct actionable behaviour that may provide more immediate and direct results (Brouthers, et al., 2009; March, 1991).

**Extent:** Extent refers to the percentage of sales achieved in international market (varies from 25 to 75%) (Dib, da Rocha, and da Silva, 2010; Gabrielsson and Manek Kirpalani, 2004; Knight and Cavusgil, 2004).

**Foreign Direct Investment (FDI):** Foreign Direct Investment refers to the establishment of remote office or remote manufacturing unit in the target country of investment. This term has also used to select the entry mode, wholly owned subsidiary or green field operations in the foreign country (Buckley and Casson, 1985; Dunning and Lundan, 2008b).

**High value generation modes:** The modes that are capable of transformation capabilities recommended by the resource based view of the firms (RBVF) (strategic alliances/ licensing and joint ventures) are termed as *high value generation modes* (Barney, 1991; Newbert, 2007; Sharma and Erramilli, 2004).

**International rapidity of small firms:** *Speed, scope and extent* are three ways to define international rapidity of newly established small firms also called international new ventures (INVs) and/or born global firms (McDougall and Oviatt, 2000; Oviatt and McDougall, 1994).

**International new venture (INV):** Oviatt and McDougall (1994: 49) define a born global/INV ‘as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries’.

**Legal and moral hazards:** Legal and moral hazards are the contextual, analytical and behavioral factors in developing countries, like extreme terrorism, ethnic tension, high corruption rate and cognitive biases associated with decision situations.

**Low value generation modes:** The modes that are not capable of transformation capabilities recommended by the resource based view of the firms (RBVF) (Barney, 1991; Newbert, 2007; Sharma and Erramilli, 2004). The exports modes and sole ventures are termed as *low value generation modes*.

**Planning Fallacy:** Time and cognitive pressure create a cognitive bias, *planning fallacy* that emerges as a limitation to decision situation, when the decision maker concludes that the ‘...experience is often a poor teacher, being typically quite meagre relative to the complex and challenging nature of the world in which learning is taking place’ (Levinthal and March, 1993b: 96).

**Proactivity:** Proactivity refers to a way of looking forward, seeking opportunity, a tendency to anticipate and shape the future environment (Bateman and Crant, 1993; Gupta and Bhawe, 2007; Lumpkin and Dess, 2001).

**Pluralistic ignorance:** *Pluralistic ignorance* is a social comparison error where an individual holds an opinion – e.g. the Pakistani SMEs want FDI in Iran, mistakenly believes that others (majority shareholders/investors) hold the opposite opinion (Halbesleben and Buckley, 2004: 126; Prentice and Miller, 2002; Shelton and Richeson, 2005).

**Resource based view of the firms (RBVF).** According to Barney, (1991) firms make their resources unique by increasing the stock of available resources and their

competitors' degree of difficulty in acquiring these resources (immobility). These resources are valuable and non-substitutable in the market.

**Risk-adjusted return:** The term *risk-adjusted return* is a trade-off between control, resource commitments and finally the outcome of international strategy both in financial and non-financial terms (Anderson and Gatignon, 1986; Garcia-Canal and Guillen, 2008; Gatignon and Anderson, 1988).

**Small and medium size enterprises (SMEs):** The definition of SMEs used in this study uses the criteria of the number of employees being up to 250 and having paid-up capital/sales of up to Pak Rs. 250 million. This criteria is most commonly used in studies of small firms in other nations, such as the Netherlands (Masurel, Van Hemert, and De Groot, 2009), Slovenia (Ruzzier, Antoncic, Hisrich, and Konecnik, 2007), the UK (Pinho, 2007), and Spain (Arranz and De Arroyabe, 2009).

**Scope:** Scope refers to the diversification of international operation; firm serves one or more international market or the location of international markets (few markets, same continental region, and/or various regions of the world) (Chetty and Campbell-Hunt, 2004; Gabrielsson, 2005; Musteen, Francis, and Datta, 2010; Rasmussen, Madsen, and Servais, 2010).

**Single outcome calculation:** *Single outcome calculation* is a managerial biasness in which the decision maker, instead considering all the alternatives the decision makers due to cognitive limitations favours one alternative to others and tries to convince others for this choice (Chao, 2011; Schwenk, 1984).

**Speed:** *Speed* is the time span between foundation and the beginning of international activity (Acedo and Jones, 2007; Dib, et al., 2010; Knight and Cavusgil, 1996).

**Tolerance to ambiguity:** The personality dimension of an entrepreneur who can make prudent decisions in risky and uncertain environment (Westerberg, et al., 1997).

**The ownership, location and internalisation (OLI) framework:** OLI framework, also referred to as eclectic paradigm/theory but more often known as the MNEs FDI framework (Dunning and Lundan, 2008a, 2008b) attempts to explain the determinants of foreign direct investment (production) decisions by MNEs. This model can also be applied to test the foreign expansion process of small firms (Mataloni Jr, 2011; Rasiah, 2011).

**The UUU complexity:** The UUU complexity is a term derived from (McKenzie, Woolf, van Winkelen, and Morgan, 2009), who describes the decision process as a complex process creating cognitive dissonance and unrest for all those who are involved in the decision making process. UUU complexity is a major source of creating cognitive biases in foreign investment decision process.

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# **Chapter 1**

## **Introduction and background**

### **1.1 Introduction**

Among the internationalisation dimensions, the choice of appropriate entry modes and post-entry rapidity present significant challenges to small resource-starved firms. A firm seeking distinctive competencies through international operation must choose the most suitable mode of entry. Inappropriate international entry choices pose a profound threat for the survival and growth of the small firms. Legal and moral hazards/biases along with variable levels of control and risk are considerable impediments for small firms' accelerated internationalisation. This chapter presents an introductory background on the choice of entry modes by small businesses and small and medium-size enterprises (SMEs), the aims/objectives of the study and outlines the thesis structure.

### **1.2 Background**

The majority (80-90%) of modern economies are driven by small businesses and small and medium-size enterprises (SMEs) and entrepreneurial firms (Chaimahawong and Sakulsriprasert, 2013; Day and Reynolds, 2011; Ullah and Taylor, 2007; Wolff and Pett, 2006). Keeping in view the continuous global expansion and the vast flow of technology (Anokhin and Wincent, 2012; Cassiman and Golovko, 2011), innovation (Brettel, Mauer, Engelen, and Kupper, 2012; Pansiri and Temtime, 2010) and fierce competition firms cannot remain isolated from cross-border threats forever (Bartlett, Ghoshal, and Beamish, 2008; Lu and Beamish, 2006). Firms that remain isolated will realise sooner or later that there isn't any local or domestic market for their survival and growth. International growth is not a matter of choice, but rather a compulsion. Firms that take early decisions become lead movers (Bartlett, et al., 2008; Lu and Beamish, 2006; Prashantham and Young, 2011).

In order to understand how SMEs maintain a higher degree of internationalisation and performance, it is important to recognise that an internationalisation decision has considerable implications for SME's entrepreneurial managers (Pansiri and Temtime,

2010), keeping in view the political, social and economic contexts in which the SME operates abroad (Musteen, et al., 2010; Wolff and Pett, 2006).

According to Freeman, Edwards, and Schroder (2006: 35) ‘...to expand early and rapidly and to penetrate global segments to protect and exploit proprietary knowledge and lock in clients as a first mover is the main objective of the small born-global firms’. Small firms’ timely international decisions play an important part in their sustained growth, which in turn can generate employment and lead to the economic wellbeing of society (Bell, Filatotchev, and Rasheed, 2012; Chaimahawong and Sakulsriprasert, 2013; Wolff and Pett, 2006). Conversely, firm stagnation or failure may be the outcome of low performance or an undesirable degree of internationalisation, and this results in threat to firm survival and negative economic ramifications (Prashantham and Young, 2011; Saridakis, Mole, and Storey, 2008; Wolff and Pett, 2006).

According to Mintzberg et al. (1976), the strategic decision process comprises three stages. The identification phase (recognition/diagnoses) of decision making, the development phase (search/design) of decision making, and the selection phase (screening/evaluation) of decision making. Analogous to this individual decision making process, the research stream in the international investment decision process (Dimitratos, Petrou, Plakoyiannaki, and Johnson, 2011; Larimo, 1995; Sykianakis and Bellas, 2005; Wei, Liu, and Liu, 2005) has adopted a behavioural approach and followed Aharoni’s (1966) three phases of Foreign direct investment (FDI) decision process: the initial idea generation stage, the investigation stage and the final decision making stage. ‘The strategic decision process is characterized by novelty, complexity and open-endedness...and only a vague idea of what that solution might be and how it is evaluated when it is developed’ (Mintzberg, et al., 1976: 250).

A synthesis of recent literature suggests that there are four streams of contributions exploring the dimensions of internationalisation or cross-border first mover advantage in internationalisation: (1) In the identification phase, firms are motivated to find the answer to the as to why they should go abroad or the firm’s degree of internationalisation and its long-term impact on performance (Acedo and Florin, 2006; Collinson and Houlden,

2005; Frynas, Mellahi, and Pigman, 2006; Ruzzier, et al., 2007). In the development stage, a firm tries to find the answer to two questions, when and where should they go abroad? (2) When a firm goes abroad concerns timing/speed and/or accelerated internationalisation (Acedo and Jones, 2007; Dib, et al., 2010; Freeman and Cavusgil, 2007; Oviatt and McDougall, 2005a); (3) Where a firm goes is dealt with in location- (context-) specific studies on internationalisation (Dunning and Lundan, 2008a; Ojala, 2009; Stoian and Filippaios, 2008a). In the selection, stage a firm has to find the answer to the most important question; (4) how does a firm go abroad? This refers to market entry modes (Brouthers, 2002; Brouthers and Nakos, 2004; Claver and Quer, 2005; Pinho, 2007).

Theoretical approaches ranging from the Uppsala model to the innovation-based models (Anokhin and Wincent, 2012; Brettel, et al., 2012; Johanson and Vahlne, 2009) provide inadequate/incomplete explanations regarding internationalisation, speed or entry mode choice of small firms. This scholarship is interested in analysing whether the economic perspective of entrepreneurial dispositional preference is more powerful or behavioural dispositional preference is stronger given the appropriate trigger (Brettel, et al., 2012; Day, Reynolds, and Lancaster, 1998; Johanson and Vahlne, 2009). Scholars use performance (foreign sales as a percentage of total sales) (Chaimahawong and Sakulsriprasert, 2013; Fleury, Borini, Fleury, and Júnior, 2008; Sullivan, 1994), structural (foreign assets as a percentage of total assets), and attitudinal measures of internationalisation (Acedo and Florin, 2006; Pangarkar, 2008). One limitation associated with firm's degree of internationalisation is that there is no agreement among scholars as to what IB theory to adopt and there is no unified measure for its analysis.

The definition of international rapidity varies significantly and there is an incomplete understanding of the notion of speed (Acedo and Jones, 2007; Dib, et al., 2010; Morgan-Thomas and Jones, 2009). Some argue that small firms' speed reflects the level of export ratio achieved; from 5-25% in case of born global (Knight and Cavusgil, 2004; Weerawardena, Mort, Liesch, and Knight, 2007; Zahra, Ireland, and Hitt, 2000) or from 50-80% within six to ten years (Gabrielsson, 2005; Gabrielsson, Sasi, and Darling, 2004;

Morgan-Thomas and Jones, 2009) as an average period from the initiation of international activity (Acedo and Jones, 2007; Coviello and Jones, 2004). Other inconclusive notions of accelerated internationalisation include characteristics of International New Ventures (INVs)/born global firms that start foreign servicing in their formative stages or immediately after their inception (McDougall, Oviatt, and Shrader, 2003; Oviatt and McDougall, 2005a), after widespread domestic market sales (Bell, McNaughton, and Young, 2001) and INVs that take less than 3 years (Knight and Cavusgil, 2004); up to 5-6 years (Acedo and Jones, 2007; Dib, et al., 2010; Zahra, et al., 2000) and up to 15 years, with 50% sales (Gabrielsson, et al., 2004) from the start of internationalisation.

The focus of location- (context-) specific studies tends to be large firms seeking the benefits of ownership or location (institutional determinants) advantages in FDI choices (Dunning and Lundan, 2008a; Stoian and Filippaios, 2008a; Sullivan, 1994). Ownership studies have analysed the innovative capabilities of entrepreneurs in the form of various traits associated with founder of the firm (Bell, 1996; Chiao, et al., 2010; Gupta and Muita, 2013; Jiang, 2001). Day and Reynolds (2011: 03) argued that entrepreneurship is associated with behaviour and action — not in traits and is indifferent to organization type and ownership. Furthermore, ‘As a practice, entrepreneurship is deeply influenced by behavioural and cognitive approaches’ (Smith, 2011: 10). One of the limitations of previous location specific studies is that proxy variables/archival data have been used (Anokhin and Wincent, 2012; Chiao, et al., 2010; Stoian and Filippaios, 2008a), and ‘...archival data do not inventory the psychometric attributes of managers or firms’ (Sullivan, 1994: 330), thus neglecting the decision makers perceptions/cognition that may result in an inappropriate entry strategy (Bell, 1996; Chiao, et al., 2010; Gupta and Muita, 2013; Jiang, 2001).

Kumar and Subramanian (1997: 64) pinpointed that ‘...the *mode of entry* decision is a complex, ill-defined, irreversible and a significant decision for the firm entering a foreign market’. Final entry mode selection is influenced by multiple contradictory forces (unfamiliarity/ambiguity /instability) and the *cognitive preferences* of the decision maker

(Mitchell, et al., 2007; Zahra, Korri, and Yu, 2005). Entry mode decisions are not reversible (Prashantham and Young, 2011; Sapienza, Autio, George, and Zahra, 2006) and so sub-optimal decisions may result in de-internationalisation / market exit. , (Boehe, 2011; Fletcher, 2011) and lead to fatal *growth/survival* consequences. At present, there is no universally accepted model that can elucidate such complex phenomenon. It is important to note that the Mintzberg's and Aharoni's decision models can be applied to answer all the questions of why internationalisation, when/where (timing /location) and how (entry choices) for both small and large multinationals (Table 1.1).

**Table 1.1 Linking cognitive stages and small firms' international motivations**

<b>Dimensions Stages</b>	<b>Why</b>	<b>When/where</b>	<b>How</b>
<b>Recognition</b>	Initial stimuli for internationalisation	Identification of suitable time and location	Identification of and/or linking stimuli with mode choice
<b>Screening</b>	Screening of alternatives	Screening of suitable time /location	Screening of strategy and entry choices
<b>Selection</b>	To go or not to go international/ make a joint venture or FDI	Time and location selection	Final choice of entry mode

Aharoni et al. (2011: 138) recently pinpointed that 'Researchers have primarily been concerned with organisational-level learning, rarely devolving into the *cognitive attributes* of individual managers. We found *no research* that specifically addresses the role of managers in the entry mode decision process'. The small firm internationalisation literature to date either explores the international dimensions of high-technology firms (Crick and Spence, 2005; Jones, 2001; Ojala, 2008), or explains the process of international development, heavily relying on transaction cost framework to explain the international behaviour of small firms (Brouthers and Hennart, 2007; Erramilli, et al., 1997; Erramilli and Rao, 1993).

How small firms expand their international operations in the presence of *rationality-bounded cognitive preferences* remains an under-researched area and has considerable

research and managerial implications. Cognitive biases are the rationally bounded mental heuristics and simplification tools to reduce the complexity of a managerial problem/process (Kahneman and Tversky, 1979; Schwenk, 1984). The literature is silent on the subject of the effects of cognitive biases in foreign investment decision process. In particular, small firms' entry mode choice remains inconclusive in both advanced and developing nations. This study focuses on the effects of cognitive biases in entry mode selection process and stable cognitive preferences in post-entry speed behaviour of small firms from Pakistan.

### **1.2.1 Cognitive biases in entry mode selection process**

Emerging economies (EEs) are low-income, rapid-growth countries using economic liberalisation as their primary engine of growth (Hoskisson, et al., 2000: 249). In the EEs, the entry mode choice process of small firms is a complex phenomenon due to legal and moral hazards<sup>1</sup> associated with this process. In the choice of strategic alliances and joint ventures, hybrid structures and networks lead to strong expropriation risks/failure and inimitability is never assured (Musteen, et al., 2010; Oviatt and McDougall, 1994). Small firms in EEs fail to acquire, integrate and transform the resources due to their stickiness, casual ambiguity and embeddedness (Kogut and Zander, 1992; Zhan and Chen, 2010). In small entrepreneurial firms managers are more proactive but they can suffer from cognitive limits. Before reaching an outcome, the entry strategy decision in small firms is influenced by *probabilities* that cannot be objectively stated and/or utility of outcome is influenced by: (1) uncertainty; (2) conflicting alternatives; (3) time limitations; and (4) cognitive preferences of the decision maker about the utility of outcome (Braisby and Gellatly, 2005; Mitchell, et al., 2007; Zahra, et al., 2005).

It is well documented that, the decision making style of entrepreneurs is very different from non-entrepreneurs (Levinthal and March, 1993a; Simon and Houghton, 2002). This is due to *uncertainty* and *ambiguity* involved in entrepreneurial decision making. Poor information channels in cross border involvement (Brettel, et al., 2012), tendency of

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<sup>1</sup>Legal and moral hazards are the contextual factors in developing countries, like extremist terrorism, ethnic tension, high corruption rate as compared to other developed countries.

individuals to overlook necessary inputs due to cognitive limits (Arslan and Larimo, 2011) and interaction with information overload results in cognitive limitations (Levinthal and March, 1993a). Due to this tendency organizations tend to respond immediate stimuli which results in ignoring the long run survival and growth of the firm (Levinthal and March, 1993a). A goal that cannot be stated objectively needs more resources to be deployed and cognitive pressure to respond quickly to environmental changes, forces decision makers to use heuristics/ rule of thumb (Drucker and Gumpert, 2007). In this readjustment and revisions process the decision maker ignores or underestimates the time dimension of decision making and profits that could result from first mover actions. In the *identification phase* of decision making ignoring this dimension results in cognitive biasness called *planning fallacy*, which involves overlooking the past experience and underestimating the amount of time required to complete a given task (Arslan and Larimo, 2011).

*Probabilities* in strategic decision making some times present very glooming picture and the decision maker think that the goals are associated with his ability to achieve the outcome (Hardies, Breesch, and Branson, 2012). But in reality the uncertainty, unrest and unpredictable events forces the decision maker to redesign the task (McKenzie, et al., 2009). These readjustments in conflicting alternatives needs further input which results in wastage of stakeholders' time. Time limitations are interlinked with cognitive limitations. This tendency in identification/recognition stage of decision making results in *cognitive/temporal myopia*, which refers to ignore the long run picture, overlook failures in complex alternatives and success trap in chosen alternative (Levinthal and March, 1993a). The opportunity is missed due to extended time in diagnosing the recognition of stimuli, or to find feasible solutions to achieve desired goals.

Another situation arises when subjective *probabilities* do not provide a clear picture that leads to the achievement of desired goals. A decision maker starts thinking that this time the situation is different from earlier failure and he expects more favourable situation to achieve his desired goals (Keh, Foo, and Lim, 2002a). Cognitive diversity in goals results in redesigning the goals. *Single outcome calculation* during the *development phase* of

decision making is to prefer one alternative rather than evaluating all the possible alternatives. Such biasness in evaluation stage of decision making results when the decision maker do not follows and overlook the rational decision making rules (Chao, 2011; Schwenk, 1984). In the EEs the decision makers are more inclined to find a local search of solution, and they are forced to bear in mind the complex iterative process for information search (Keh, et al., 2002a).

In the *selection stage* the decision maker tend to re-estimate his resource and capabilities. Cognitive capabilities of individuals vary from culture to culture. *Pluralistic ignorance* is the tendency of a culture to create a stereotype threat for a particular group or individual, so that they are discriminated (Kahneman and Lovallo, 1993; Prentice and Miller, 1993; Shelton and Richeson, 2005). This biasness hinders the development of alternatives. Pluralistic ignorance is a social comparison error where an individual holds an opinion – mistakenly believes that others hold the opposite opinion (Halbesleben and Buckley, 2004: 126). Cognitive conflicts in national diversity are likely to affect scanning, interpretation and selection of relevant information in foreign investment decision process (Aharoni, et al., 2011; Nielsen and Nielsen, 2011).

Past studies have failed to provide subsequent development of knowledge due to their weak base and disjointed hypothesis from theory (Sullivan, 1994), and the literature is deficient to answer the research question that why some of the *unique set of cognitive principles* are more important for entrepreneurs for opportunity identification and exploitation (Acedo and Florin, 2006; Bloodgood, Sapienza, and Almeida, 1996; Mitchell, Busenitz, et al., 2002). The previous literature predominantly deals with the entry choice of firms by controlling certain variables, and such studies have assumed that the decision making process is more structured and well documented. This study is unique in its application as it deals with cognitive mind-set and its link with the entry selection process of SMEs in Pakistan.

### **1.2.2 Foreign entry process and post-entry speed**

Oviatt and McDougall, (1994) in their seminal conceptual contribution, by integrating the traditional MNE concepts of internalisation, location and entrepreneurship, identified



four basic attributes of INVs for sustained rapidity: (1) internalisation of some transactions; (2) alternative governance structures; (3) foreign location advantage; and (4) unique resources. ‘Despite the considerable research attention paid to accelerated internationalization, an unanswered question is: what explains differential internationalization speed among INVs, *after* their initial entry into international markets?’ (Prashantham and Young, 2011: 275). Born global, global start-ups and international new venture firms are interchangeable terminologies used in studying the behaviour of small rapid international firms (Dib, et al., 2010; Rasmussen, et al., 2010; Weerawardena, et al., 2007).

Oviatt and McDougall (1994) identified that the first and third element of INVs are based on Hymer’s FDI and Dunning’s location and internalisation advantages of MNE international activities. In the second element of INVs, small firms are encouraged to choose hybrid structures, such as licensing and franchising, to pool their shared assets. ‘... entrepreneurship is socially constructed via a network of personal ties and commitments’ (Smith, 2011: 03). Networks are also beneficial in terms of trust and moral obligations. In the fourth element, unique resources are imperfectly imitable if they have unique organisational history, and are socially complex and completely ambiguous. A meta-analysis of accelerated internationalisation suggests that an abundance of literature focuses on incorporating International entrepreneurship (IE) theory, the Uppsala model theory (Casillas, Moreno, and Acedo, 2012) and/or network theory in isolation to study the speed behaviour of small firms (Rasmussen, et al., 2010; Weerawardena, et al., 2007; Zucchella, Palamara, and Denicolai, 2007). The cross-fertilisation of the ownership, location and internalization (OLI) theory/model with latest theories, the IE models (see chapter 4 section 4.2) is completely absent in international business literature, to the best of this researcher’s knowledge.

In the EEs due to legal and moral hazards, hybrid structures and networks lead to strong expropriation risks/failure and inimitability is never assured (Musteen, et al., 2010; Oviatt and McDougall, 1994). Such impediments do not leave any room for patents and copy rights to implement them properly; therefore the knowledge does not remain socially

complex and ambiguous (Chao and Chandra, 2012). The most compelling factor is that, due to moral/legal hazards, even in network relationships co-operation does not dominate opportunism (Oviatt and McDougall, 1994). This creates a dilemma as to how INVs should tackle their value creation activities in EEs? How might small firms maintain their sustained rapidity through value generation modes such as licensing, franchising or joint venture operations in EEs?

Contingency theory is a popular theory used in many entrepreneurial settings (Smith, 2009b). Contingency theory on entry mode decision, endorsed by Kumar and Subramanian (1997), states that beside locational determinants, decision 'task-related factors' and the *decision maker's characteristics* and FDI experience are fundamental contributors to a firm's entry mode process (Kumar and Subramanian, 1997; Wallsten, 1980). '...managerial attitudes and preferences are at the core of a venture's internationalisation activities' (Zahra, et al., 2000: 945). Decisions made by managers depend on the *manager's perception* of the value of the knowledge available to reach the decision, as managers of global corporations face time and resource constraints when making their decisions (Kumar and Subramanian, 1997).

'The ability to export is becoming a critical factor in the development and long-term survival of many SMEs' (Yamin, Sinkovics, and Hadjielias, 2008: 08). Arguably, internationalization speed is, to some extent, a performance variable in itself (Prashantham and Young, 2011), that ensures *survival and growth* of small firms (Autio, Sapienza, and Almeida, 2000; Hambrick and Mason, 1984; Prashantham and Young, 2011). However, premature entry as per process theorists is a "shock" to the organization and might threaten firm's *survival*, and proponents of speed behaviour suggest that a late mover will lose both performance and growth opportunity threatening firm's *survival* (Prashantham and Young, 2011; Sapienza, et al., 2006). 'But despite numerous empirical studies and some conceptual contributions referring to pace or speed of internationalization, the topic of post-entry speed is little researched or understood' (Prashantham and Young, 2011: 277). No research exploring the link of cognition to international strategy choices and post-entry speed is known to this author. There is a gap

in the literature, and it has not been explored whether or not cognitive factors associated with mental models of experienced managers play a more important part in international rapidity in non-equity based or equity based operations. This study contributes to testing the post-entry speed as a proxy of small firm's *performance* which leads to both *growth* and *survival* of small firms.

Cognitive factors such as cognitive orientation, tolerance to ambiguity, proactivity and especially investment risk perception play an important part in the choice and selection process of entry modes, firm's performance and rapidity (Acedo and Jones, 2007; Knight and Cavusgil, 2004). Theoretical approaches ranging from Uppsala model to innovation based models (Casillas, et al., 2012) provide inadequate/incomplete explanation regarding internationalisation (Coudounaris, 2012; Johanson and Vahlne, 2009), firm performance (Brettel, et al., 2012; Chen and Yu, 2012), entry mode choice process and post-entry speed of small firms (Garc a-Villaverde, Ruiz-Ortega, and Parra-Requena, 2012). This study will focus on incorporating the least-utilised resource-based view (dynamic capabilities) in Dunning's eclectic framework on the significance of cognitive biases associated with entrepreneurs in entry mode selection process and cognitive capabilities in post-entry speed behaviour.

There is no consensus in the literature about the *speed* (time), *scope* (diversification) and/or the *extent* (ratio)<sup>2</sup> that actually makes a firm 'born international'. In the EEs, any criteria of small firms' speedy development are completely absent. The speed and scope of international development in small firms are more subjective terminologies. This study adopts a broader definition of born global as a firm that with early and accelerated diversified internationalization (scope) receives initial revenues from international operations within 10 years of the start of international activity (speed). However, the ratio of sales development (extent) is an objective term and can be used correctly to estimate

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<sup>2</sup>*Speed* is the time span between foundation and the beginning of international activity, literature offers 2-15 years of time span for born globals (Dib, et al., 2010; Kiss and Danis, 2008; Knight and Cavusgil, 1996), *scope* refers to the diversification of international operation (few markets, same continental region, and/or various regions of the world) (Musteen, et al., 2010; Rasmussen, et al., 2010), *extent* refers to the percentage of sales achieved in international market (varies from 25-75%) (Dib, et al., 2010; Gabrielsson and Manek Kirpalani, 2004; Knight and Cavusgil, 2004).

the speed behaviour of a firm. This definition will serve the purpose of both qualitative and quantitative analysis to see the casual link between managerial cognition, heuristics/ biases in process and dispositional preferences in speedy development of born global in Pakistan. This study operationalizes the tentative measurable dimension of post-entry *speed* for quantitative inquiry introduced by Oviatt and McDougall (1994) and Oviatt and McDougall (2005a) namely, foreign sales achieved within ten years from the start of first international activity. This measure covers both performance and timing of international activity. Majority of speed literature uses the threshold of 25-50% of foreign sales (with inconsistent timing) as accelerated entry into the market (Dib, et al., 2010; Knight and Cavusgil, 2004; Morgan-Thomas and Jones, 2009).

This study adopts the term (regular)*rapid international* for quantitative analysis as denoting a firm that achieves a sales speed of (25%)50% within ten years from the start of first international activity (Chetty and Campbell-Hunt, 2004; Gabrielsson, 2005; Morgan-Thomas and Jones, 2009). Therefore, in some ways this study contributes to the IE/born global phenomenon, but mainly this study explores the role of traditional models (the OLI model has not been tested in speed literature) in explaining the post entry speed behaviour of small firms from Pakistan.

### **1.3 Theoretical background**

The conceptual frameworks on entry mode literature have a long history of development and they range from classical to innovation models (De Maeseneire and Claeys, 2012; Dunning, 2001; Johanson and Vahlne, 2009). However, theoretical frameworks ranging from neoclassical to innovation models are lacking the provision of a fuller explanation of the entry mode phenomenon. According to Dunning and Rugman (1985), and Ekeledo and Sivakumar (2004), FDI and internalisation theories ignore the effect of location-specific advantage and government policy on the FDI entry mode decisions. The resource based view (RBV) is also criticised being based on tautological assumptions (Priem and Butler, 2001), having unclear boundaries resulting in lack of specificity and a disjointed model (Hoopes, Madsen, and Walker, 2003), and on the grounds that it is not justified to

ignore situational contingency surrounding the decision maker, capacity of collaborative agreements and location advantages (Smith, 2011; Zhao and Decker, 2004).

In a nutshell, all the IB theories are incomplete and seriously neglect the role of decision makers in entry mode selection process. The innovation-based modes contribute to this, but in general the innovation model (international process not followed by rapid firms) and international entrepreneurship, neglecting the environmental/location factors explained by Dunning's framework, and unclear domains/weak theoretical assumptions remain striking (Moreno and Casillas, 2008; Rauch, Wiklund, Lumpkin, and Frese, 2009), and in particular, there is no study that explores the role of cognitive dimension as a firm-specific advantage in entry mode selection process and post-entry speed<sup>3</sup>.

### **1.3.1 Dynamic capabilities and small firms' foreign investment decision**

The firm-specific resources and capabilities that are one of the basic foundations of RBV are in fact also the foundation of Hymer's (1960) FDI theory (Claver and Quer, 2005; Mtigwe, 2006; Prashantham and Young, 2011), which states that FDI occurs when the imperfections in the market (knowledge advantage and economies of scale) become dominant in exploiting cross-border activities. The eclectic paradigm of Dunning (1981) also stresses the firm's specific resources such as ownership (experience, brand development or commercial resources), internalisation and location advantage that can be pooled through sharing of assets or through being the sole operator abroad. Despite its limitations, the RBV is also applied in other pioneering theories e.g., Internalisation Theory (Buckley and Casson, 1976; Williamson, 1975), Network Theory (Johanson and Mattsson, 1988), and International Entrepreneurship Theory (McDougall and Oviatt, 2000). However, the application of RBV (in particular the dynamic capability view as an extension of RBV) as endorsed by Brouthers and Hennart (2007) and Canabal and White III (2008) in their recent literature reviews, is very limited in entry mode literature. A firm's tangible resources are exploitable but the development of dynamic capabilities

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<sup>3</sup>The distinction between initial and post-entry speed is particularly critical for the long-term growth and success or failure of knowledge- and technology-intensive INVs' (Prashantham and Young, 2011: 277).

(technical and managerial know-how and perceptions) is a gradual, time-consuming process and hard to imitate (Amit and Schoemaker, 1993; Prahalad and Hamel, 1990).

Choice of suitable alternative is one of the basic characteristic of any *decision* process. There is a dearth of information about, and scant attention has been paid to, understanding the application of RBV (dynamic capability view) to entrepreneurial cognition and cognitive biases in investment process. This is particularly true of the cognition associated with choice of *resource generation* modes (suitable alternatives of investment, i.e. in the choice of strategic alliances/joint ventures for foreign operations. Previous empirical work tends to be at the level of the firm, or to assess the general attitude of CEOs in international activity, and there is a call from implications of research by Nummela, Saarenketo, and Puumalainen (2004), Coviello and Jones (2004), and Canabal and White III (2008) for research specifically directed towards the mental models of INVs. These authors mention that the “cognitive systems” are the basis of tolerance for ambiguity and risk-oriented decision.

Of the internationalisation dimensions the most controversial is the (cognitive) dimensions, and there is no research exploring the role of cognition in firm entry mode selection process and post-entry speed dynamics. Entry mode is regarded as a cornerstone and building block (Casillas, et al., 2012; Jones, 2001; Root, 1994) of small firm internationalisation. In other words, the entry mode is the central nervous system (Mathews, 2006) of small firms deciding on the path of arrangements for foreign servicing. This study explores the role of ownership, location/environmental and cognitive biases in the entry mode selection phase of small firms from Pakistan. In the entry mode selection phase the cognitive biases are explored through phenomenological approach and is triangulated with quantitative methods to explore the role of cognitive adoptability in post-entry speed behaviour of small firms.

The FDI and location- specific theories (OLI model and transaction cost theory) classify the entry choices as equity (wholly owned subsidiary) and non-equity choices

(exporting/licensing and franchising)<sup>4</sup>. OLI stresses the role of control, while the transaction cost stresses the minimization of investment costs in foreign transactions. Equity choices offer higher control, but at the expense of higher investment risk in full control mode (Chiao, et al., 2010; Forlani, Parthasarathy, and Keaveney, 2008), and higher dissemination risk in constellation and investment (C&I) modes, due to opportunistic behaviour on either side (Dong, Zou, and Taylor, 2008; Hill, Hwang, and Kim, 1990).

The value generation of any entry mode choice/alternative for small firms in EEs depend upon the partner's strength and capabilities. This also depends on the managerial capability to take risks in turbulent conditions. Cognitive biases serves to limit the decision capacity of a manager or they tend to create over optimism in choice of alternatives. To resolve this dilemma, based on entry mode literature (Forlani, et al., 2008; Karhunen, et al., 2008; Meyer, Estrin, et al., 2009), by integrating the OLI and dynamic capability view, new alternative parameters/comparators (value generation potential) of entry choices are introduced in this thesis.

Small firms' entry mode choice is quite different from that of their large counterparts. The resource- based view of firms (RBVF) provides an alternative classification for mode choices as compared to old traditional models. The modes that are capable of value creation<sup>5</sup> and transformation capabilities recommended by the pioneering resource-based view (RBV) contributions (Barney, 1991; Kahiya, 2013; Newbert, 2007; Sharma and Erramilli, 2004) (strategic alliances/ licensing and joint ventures) are termed as *high value generation modes*, while modes lacking this capacity (exports and sole ventures) are termed *low value generation modes*.

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<sup>4</sup>The resource-basedviewclassification is different from that of FDI and OLI models. Strategic alliances, licensing and joint ventures are the modes that are compatible with a small firm's likelihood and ability to transfer advantages that generate resources to host country/partners (see section 6.3.2). This study adopts the resource-based view of firms' (RBVF) classification of entry choices (Barney, 1991; Sharma and Erramilli, 2004).

<sup>5</sup> Strategic alliances and joint ventures are the modes that create higher order value for small firms. For speedy development, such modes are capable of reducing cost, and benefit from a partner's differentiation strategies.

No empirical research focusing on unique taxonomy of entry mode choice is known to the author. This classification is the integration of old economic and RBV models, adopted for qualitative analysis of this study. According to the resource-based view, this integration has more explanatory power than any single parameter explained by the transaction cost or OLI paradigms. The qualitative analysis will focus on the question that, how the cognitive biases will affect the choice of two alternatives i.e. the choice of low and high value generation modes? Further, how this choice process will affect the post-entry speed of small firms in Pakistan?

### **1.3.2 Aims and objectives of the study**

The main task of this thesis is to examine the international behaviour of small firms from developing countries, specifically Pakistan. In particular, this thesis as a firm level analysis, focuses on the international entry mode choice process and post-entry speed behaviour. An evaluation of previous contributions suggests that a number of issues remain under-researched. On the one hand, from an academic and strategic point of view, these contributions have pinpointed the new venture formation, internationalisation degree or firm performance (Brouthers, Brouthers, and Werner, 2008; Kropp, Lindsay, and Shoham, 2008; Pansiri and Temtime, 2010; Zhan and Chen, 2010). The most novel issues, in particular the effect of cognitive aspects on the tools to capture foreign markets as a firm-specific advantage through appropriate mode of entry and international rapidity, remain under-researched.

Buckley and Chapman (1996: 244) proposed that the foundation of the researcher's initiative lies in '...developing a set of core concepts which are analytically rigorous and tractable, yet remain flexible'. Johanson and Vahlne (2003: 84), pioneers of the Uppsala Model suggested that '...there is a need for new and network-based models of internationalisation. We think it might be worthwhile to reconcile and even integrate the two approaches'. In order to achieve the dual goals of combining multidisciplinary events Coviello and Jones, (2004: 498) made the comment that. '...it is necessary to integrate core concepts from entrepreneurship and international business theory into a flexible yet tractable conceptual model'. Keeping in view the recommendation of these pioneers, this



research will integrate RBV (rarely used in entry mode literature) and Dunning's framework to explore the role of cognitive underpinnings in foreign servicing.

Conceptually this study identifies *what* major *entrepreneurial cognitive* dimensions are significant in small firm's international behaviour, *when/where* the small firm feels comfortable to expand its operation/location advantage and finally *how* small firms expand their international operation/entry mode selection process. To this end, this study explores the role of ownership, location/environmental and cognitive biases in the entry mode selection process of small firms from Pakistan. At the same time, by incorporating cognitive factors as a third pillar of Dunning's OLI framework this study will offer an opportunity to explore the bridging effect of the new extension of RBV (dynamic capability view) in post-entry speed dynamics. This integration will give a new dimension to the existing literature and has significant managerial implications regarding entry mode selection process in Pakistani SMEs. The major objectives can be summarised as follows:

1. To identify the entrepreneurial cognitive biases and cognitive dimensions faced by small firms expanding their international operations from Pakistan.
2. Bearing in mind the complexity of the IB phenomenon, the second objective is to determine the proper theories that can be helpful to integrate and explain the small firm's international entry mode choice process.
3. To explore the role of entrepreneurial biases and cognition as a dynamic capability that helps to influence small firm's entry mode choice process and their international rapidity from emerging economies, when it is incorporated as a third factor into Dunning's OLI framework.
4. To develop a model of integration of international business entry choice process with cognitive psychology and its link with the identification of a new IB theory for emerging economies (EE), i.e. OLC theory.

## **1.4 Thesis structure**

Figure 1.1 shows the outline of thesis structure and organisation. Part one consists of background of study, research objectives, and contributions of this study to knowledge and thesis structure. Part two comprises three chapters. Chapter 2 presents the context background and the situation of small firms and entrepreneurship in Pakistan. Chapter 3 presents the literature review of parameters of entry mode, and Chapter 4 is the literature review of the entry mode theories. This chapter also presents major limitations and gaps in entry mode models and theories in previous research. This research focused on stage three of entry mode decision and post-entry speed dynamics in SMEs of Pakistan. Finally, Chapter 5 presents the conceptual framework, research problem and hypothesis tested for this study.

Part three of the thesis includes two chapters. Chapter 6 sheds light on the population and sample, research design, and data analysis techniques used for testing the conceptual model and hypothesis. Reliability and validity of the data set are also included in this chapter.

Part four of the thesis contains the final data analysis and testing of logical hypotheses. Two chapters are devoted to this part and contain final results and discussion. Chapter 7 presents the basic profiles of the responding SMEs in Pakistan. Chapter 8 presents the qualitative results and discussion. Chapter 9 and 10 hypothesis testing and decision model analysed for this study and deals with core findings regarding the role of the Dunning framework integrated with the dynamic capability view in explaining SMEs entry choices in Pakistan and post-entry speed dynamics.

Part five of this thesis draws together the main findings and presents the major research and practical implications for the managers in Pakistani SMEs. This part also deals with the major limitations and contribution of this study to theory and practice.

**Figure 1.1 Thesis structure and organization**

<b>PART ONE</b>	<b>INTRODUCTION AND BACKGROUD</b>
Chapter 1	Introduction
<b>PART TWO</b>	<b>CONTEXT BACKGROUND AND LITERATURE REVIEW</b>
Chapter 2	Research context and SME background
Chapter 3	Literature review parameters of entry mode
Chapter 4	Literature review entry mode theories
<b>PART THREE</b>	<b>HYPOTHESIS AND METHODOLOGY</b>
Chapter 5	Research questions and hypothesis
Chapter 6	Research design
<b>PART FOUR</b>	<b>RESULTS AND DISCUSSION</b>
Chapter 7	Basic profiles of responding firms
Chapter 8	Qualitative results and discussion
Chapter 9	Hypothesis testing and decision model
Chapter 10	Discussion of results
<b>PART FIVE</b>	<b>CONCLUSION AND IMPLICATIONS</b>
Chapter 11	Conclusion and implications

## **1.5 Summary**

This chapter presents the introductory background of the study. In EEs, for first mover advantage, the preferences for entry mode of large firms in general and small firms in particular remain inconclusive. The literature offers the role of general demographics/personality traits in small firm's entry mode choice and explains the born global phenomenon as a proxy for international rapidity. The theoretical models from Uppsala to innovation-based models fail to account for the role of entrepreneurial cognition in small firms' entry mode choices. So far, to the best of our knowledge there has been no empirical or conceptual contribution that explores the role of entrepreneurial cognition in entry mode selection and post entry international rapidity. This study mainly contributes by exploring the role of ownership, location and cognitive advantages in small Pakistani firms' entry choices. The next chapter presents a literature review of the parameters of entry mode, with special reference to EEs.

## **Chapter 2**

### **Research context and SME background**

#### **2.1 Introduction**

The combination of diverse nations and ideologies makes Pakistan a multi-cultural territory, where the individual cultural identity is not defined. This multi-cultural ideology emerged as a complex state, where it was difficult to interpret how social classes are defined, how and when the democracy will bring about change in political instability. Local ethnic groups and ideologies, including Punjabi, Pathan, Baluchi, and Sindhi with a different languages and heritage were usually attached to agrarian culture, less emphases was given to industrial revolution. “Muhajirs” in Karachi city and some elite classes of Punjab province “Arain Brathery” took active part in industrial civilization, and Karachi (Sindh) and Punjab provinces was more developed than other provinces of Pakistan.

Entrepreneurial culture is more complicated as Pathan and Baloch are not well educated, hence they are not status-oriented. On the other hand Sindhis, Muhajirs and Punjabis are well educated and they tend to more entrepreneurial and business oriented. This disparity in social and life style creates multifaceted dichotomy between agrarian and industrial landowners, where the industrial land owner become “elite” and the farmer lives a life of lower and middle income group. The narrative story of the socio-cultural environment in Pakistan described above links with the Khan and Amine’s assertion that amalgamation of these two cultures and societies pushed political and economic institutions of Pakistan to backlog, more complex and multifaceted.

In order to asses micro-level SME’s business culture and their internationalisation behaviour, it will be worthwhile to elucidate compelling endogenous and exogenous forces associated with small business growth and survival. This chapter sheds light on a global scenario of entrepreneurship development and its comparison with developing countries. To this end, a brief auto-ethnographic view is introduced first. In the subsequent sections, economic and historical background of Pakistan is presented.

Further, this analysis includes, but is not limited to, the socio-cultural, political-legal, economic and competitive situations of entrepreneurship and their effect on SMEs' extra-border operations.

## **2.2 Research context – cultural and personal aspects**

After qualifying with a Masters in Economics, and MBA and serving Allied Bank of Pakistan as foreign exchange officer, I joined academic field. At Allied Bank I met entrepreneurs doing cross border business who told of their daily difficulties arising from the weak infrastructure for FDI in Pakistan. In 2005 I attended a conference in Serina Hotel Quetta (Pakistan) and was surprised to learn that Pakistan was classified as a factor driven economy (that is, an economy that relies on its natural resources) with the GDP per capita of less than \$2000. In contrast, neighboring countries (India, China, Taiwan and Korea) were classified as innovation-driven economies with per capita GDP of more than \$10000. I was curious know why these countries were FDI leaders, and what are the cultural and behavioral impediments to the development of Pakistan. This was the trigger to launch my research studies in the field.

In 2006 I enroll onto the M.Sc. in Management Research (MRes) programm in University of Glasgow to study entrepreneurship in Pakistan. Inspired by many academics (Acedo and Jones, 2007; Davies, Kenny, and Trick, 1996; Young, Dimitratos, and Dana, 2003) I came to believe that the political, social and cultural barriers are the primary source of cognitive barriers to FDI development. My Ph.D. research thus arose from a motivation to build academic career, and also to contribute understand and support in the development of marginal entrepreneurs and farmers working in Pakistan.

I belong to multicultural environment of Baluchistan (Pakistan) and have command of three major languages spoken in Pakistan (Brahvi, Pushto and Urdu). Language similarity, access and trust in relationships with ethnic community made it possible for me, as a relative insider, to get richer and deep information about their context. Despite their reluctance to provide financial information and difficulties in data collection through questionnaires, the Phattan community welcomed me as a researcher and provided every possible assistance in learning about the social, cultural and behavioral

aspects of the business. The cultural and ethnic heritage demanded that I adopt traditional dress (Saunders, Lewis, and Thornhill, 2007; Yin, 2012), and the respondents were keen to see a researcher's role in entrepreneurship culture. This rapport made it possible to uncover the cognitive biases that influence the foreign investment process adopted by the small firms in Pakistan.

### **2.3 The territory and small firm's growth in Pakistan**

Pakistan, having a population of over 162 million and being seventh most populous nation in the world, is an important gateway to China, India, the Persian Gulf and Southeast Asia (Global Insight, 2007; Talbot, 1998). Pakistan is an economy driven by the agriculture and the service sector. During the last decade on average the contributions of agriculture and service sector were 21.6% and 53.3% respectively. Due to multiple contradictory forces,<sup>6</sup> the ranking of Pakistan is declining every year in terms of its global competitiveness (92 during 2007-08 but 101 during 2008-09) as compared to other developing and newly-industrialised countries (NIC), Malaysia (21), Korea (11) and Taiwan (17) (Bosma, Acs, Autio, Coduras, and Levie, 2009; World Bank, 2009).

Small firm growth plays a vital role in the development of nations, and almost 90% of all economies are dominated by small firms (Ial Rohra and Panhwar, 2009; Wolff and Pett, 2006). Economies that are successful in the development of *entrepreneurship* and the international development of small firms become world leaders. The advanced nations are in a sound competitive position and their share of global exports is increasing every year. In particular, on average during 2008-09, German exports contributed 47% of the country's GDP, followed by USA (38%), Canada (38%) and China (35%). Apart from Sri Lanka (.06%) and Bangladesh (.10%), Pakistan's total share in world trade (.13%) is the lowest of the developing nations, e.g. India (1.16%), Malaysia (1.08%) and Indonesia (.73%) (Bosma, et al., 2009; World Bank, 2009). Economists suggest that this is related

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<sup>6</sup> See section 2.5 for details.

to the failure of fiscal and monetary policies, corruption at grassroots level and threat of global terrorism<sup>7</sup> to the Pakistan economy.

### 2.3.1 The economic situation of Pakistan

The Cold War between the Soviet Union and the United States of America lasted two to three decades. This cold war affected the geographical, political and business environment in Pakistan in at least three ways (Khan and Amine, 2004; Schofield, 2000): (1) due to its weak political, industrial and institutional structure, its undesirable dependence on the World Bank, IMF debt burdens and associated corruption made Pakistan into a front line partner in the Cold War ; (2) the ties of its historical rival India (due to its near geographical location) with the Soviet Union created a regional upset. East Pakistan (the present Bangladesh) separated from Pakistan 1971. War with India and Pakistan losing a huge region and ultimately being divided into two parts made it a less attractive market for world players; (3) this Cold War as a result of the weak economic situation, compelled Pakistan to become a strategic Cold War partner to the United States, and this affected its sovereignty in terms of economic and political decisions. Although Pakistan was emerging as an atomic power and was still struggling to push itself out of political and economic crises. The alliance with the western world and the global financial crises and their counter affects are striking threats to its political and financial autonomy.

Beside these threats Pakistan, due to its well-known Islamic heritage, adopted its basic principles of peace and harmony to reconcile the differences with rival India at the end of Cold War (Khan and Amine, 2004; Schofield, 2000), trying to shift the overall scenario

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<sup>7</sup> News International in its Jan 14<sup>th</sup> 2011 printed edition says “**Mullen says Pakistan epicentre of global terrorism**” Top US commander Admiral Mike Mullen, the Chairman Joint Chief of Staff said, it is absolutely critical that the safe havens in Pakistan get shut down.

The Economist in its Jan 3<sup>rd</sup> 2008 edition says ‘So, ironically, *America’s support* for Mr Musharraf (President of Pakistan ), justified as necessary to combat extremism next door, has fostered extremism at home’.

News International in its Jan 2<sup>nd</sup> 2011 printed edition says, **the US drone attacks** targeting the al-Qaeda and Taliban hideouts in the tribal belt of Pakistan, killed 98 people every month, 23 people every week and 3 people every day in 2010. According to conservative estimates some 4000 people have died as a result of bomb blasts since 2007 (The News International March, 9, 2011: p, 10).



towards better growth and economic prosperity. Pakistan is also a signatory of economic and political organisations such as the South Asian Association of Regional Cooperation (SAARC) and the United Nations Organisation (UNO), and is on the path towards the development of an effective infrastructure for the business world. Due to such a number of positive developments, Global Insight decided to upgrade the political risk rating from 4.25 to 4 in 2007 (Global Insight, 2007).

On the other hand, the National Corruption Perception survey (2009) conducted by the Pakistan Chapter of Transparency International declared that the amount of corruption increased from Rs. 45 billion during the last decade to Rs. 195 billion in 2009. The transparency score of the corruption level improved from 1 out of a full score of 10 in 1996 to 2.7 in 1998, which proved to be higher than in the following decades and the basis for declaring Pakistan the second most corrupt country of the world (Pakistan Defence Forum, 2009). The corruption level of India and China were at the same level in 2002, India improved to attain a score of 3.4 and China improved it to 3.6 in 2008. With a corruption level of 2.5 in 2008 and 2.3 in the year 2010, corruption stands at 75% which means that of every Rs.100 we spend on development, almost Rs 75 are lost in corruption' says senior economist Naveed Anwar Khan ( Pakistan Defence Forum, 2009).

The economic situation in Pakistan became more severe when the corruption combined with serious natural threats during the last decade. Mr. Miranda, the president of the Asian Development Bank, declared that the damage caused by the floods in 2010 was greater than the combined impact of the Indian Ocean tsunami in 2004, the 2005 earthquake in Pakistan and the Haitian earthquake in January 2010 (Green, 2010). There are serious concerns of the world community over the misappropriation/corruption of funds for flood victims.

Despite such paradoxical situations, Pakistan, having a very important geographical location, is a combination of fertile land, forests, mountain peaks and vast deserts. In the south, Arabian Sea and in the north, the mountains of Karakoram invite international

visitors to be inspired by the beauty of Pakistan and to enjoy some of the world's highest peaks, such as K2 (2825sq.fts).

### **2.3.2 A brief history of Pakistan, the context**

The political and religious conflicts between Muslims and Hindus in the Indo-Pak subcontinent came to an end in 1947, and British India gave birth to two culturally distinct states: *Pakistan* and *India*. The word Pakistan is the combination of two words, Pak (meaning Holy) and Stan (meaning Land). East and West Pakistan jointly remained part of combined Pakistan for 25 years after their independence (Malik, 2008; Talbot, 1998). In the year 1971 due to a huge political upset and economic crisis, East Pakistan separated from united Pakistan and became an independent state named Bangladesh, The and present Pakistan is actually in the western region and is called the Islamic Republic of Pakistan.

Kashmir has been a disputed territory since the independence of both India and Pakistan, both of which claim Kashmir as their state (Dixit, 2002; Schofield, 2000). India says Kashmir is its 'Atot Atang' (Vital Part of their Body), and Pakistan claims Kashmir as their 'Shah Rug' (a vital artery in the neck, which, if cut, may lead to death). Due to this disputed territory both countries fought three wars in 1949, 1965, and 1991; the issue is still on top UN agenda and a number of resolution have passed in favour of free referendum in Kashmir so that people of Kashmir can decide their right to self-determination, but the issue is still disputed and unresolved.

Pakistan become the only Muslim nuclear state in the year 1998, under the democratic government of prime minister Nawaz Sharif of the Pakistan Muslim League (Coy, Shipley, Omer, and Khan, 2007) but still faced a lower literacy rate (48%) than that of many developing nations. Despite having nuclear power, the country has been unable to deal with the internal challenge of instable political situation in the last several decades (Malik, 2008; Talbot, 1998). Three unavoidable periods of Martial Law (army regime) since partition have shaken the confidence of the world community and the low survival rate of periods of democracy is a profound challenge in the present era.

Pakistan having four culturally distant provinces, the provinces *Sarhad (Khyber Pakhtunkhwa)* and *Baluchistan* is situated on the Iranian plateau, and the province *Punjab and Sindh* are situated in the north-western region of the Indian plateau (Malik, 2008; Talbot, 1998). The North West border of Pakistan touches with the Durand Line border of Afghanistan, the western border with Iran, with China in the north and India situated to the eastern border of Pakistan.

## **2.4 Growth in global exports**

Global exports dramatically increased, particularly after World War II. In 1945, the total of exports worldwide was approx. \$40 billion (Bosma, et al., 2009; World Bank, 2009). After 1997-98, due to the Asian financial crisis, there was an overall declining trend of foreign expansion in general and in production and investment in particular. Real GDP in East Asia fell to 5.3% in the year 2009, compared to 8% in 2008 (World Bank, 2009). According to world economic sources, the global domestic product due to recent financial crises and recession contracted to 2.9% annually in 2009. 'Much of the blame falls on a steep drop in global trade, down 10% annually in dollar terms, and near-halving in foreign investment this year, to \$363 billion worldwide' (Scott, 2009: 10). Table 2.1 summarises the G-8 economic/export performance details; it is evident that the economies high in export performance enjoy high GDP and ultimately lead the world in terms of economic and strategic power.

The beginning of the year 2009 brought the world into economic and financial crisis, with high inflationary and poverty pressures in emerging economies (Bosma, et al., 2009; World Bank, 2009). The large economies, due to their strong institutional and political base, managed to remain competitive and there was no large swing in the international ranking of the United States, which is a leading economy of the world. Economists attribute the feature of advanced nations to their highly innovative industry structure followed by high company spending on R&D (ranked 3<sup>rd</sup>) and collaborations of educational institutions with business developments (ranked 1<sup>st</sup>) in the world (Bosma, et al., 2009; World Bank, 2009).

<b>Table 2.1 G-8 Export rank an overview</b>				
<b>Country</b>	<b>GDP (Billion \$)</b>	<b>Exports % of GDP</b>	<b>GDP Rank</b>	<b>Export Rank</b>
<b>USA</b>	13980	38	1	1
<b>Japan</b>	4909	24	2	3
<b>Germany</b>	3280	47	3	2
<b>UK</b>	2645	26	4	4
<b>France</b>	2453	27	5	5
<b>Italy</b>	2293	29	6	6
<b>China*</b>	4326	35	7	2*
<b>Canada</b>	1400	38	8	8
<b>India*</b>	1217	24	9	4*
<b>Russia</b>	1607	33	10	10
Source: (China Financial Daily, 2010; World Bank, 2009)				
*Not members of G8				

Despite the top economies having high-ranking exports, particularly the G-8 countries' efforts in pushing \$750 billion of funding by the year 2009-10 to improve IMF policies for developing countries, the world economy shows a gloomy picture as poverty remains below 2% in developing countries, which ultimately affects the developed economies as well (Ial Rohra and Panhwar, 2009; World Bank, 2009). The lower economic health in rural areas shifts their populations to urban areas; therefore, the population shift from developing countries to developed countries having 'high living standard charm' creates a shift in developed countries. This is because the unemployment rate rose to 9.5% in US in 2009, the highest ever in the previous 25 years (Scott, 2009; World Bank, 2009). The responsibility rests with the G-8 countries to allow their policies to be implemented at global and more precisely, at regional levels, not at their own country level.

Although the entire world is bearing the brunt of economic and financial crises, China and other newly-industrialised countries (NICs) have shown remarkable progress in their foreign expansion (World Bank, 2009). In 2009, the Chinese GDP growth forecast rose to the respectable figure of 7.2 %, as compared to the Pakistan GDP of \$143.60 million and growth of 4.6 % in 1987-97 and 6.4% 2007. East Asian middle-income countries, due to

their effective policies, faced the financial crisis in a better way than Pakistan. These countries include Thailand, Malaysia, Indonesia and the Philippines (World Bank, 2009).

Table 2.2 below compares the average annual % GDP growth of East Asian countries; it is evident that NICs and other countries such as Indonesia and Malaysia enjoy a respectable rising trend in average annual growth. In particular, Indonesia increased its annual growth from 4.1% to 5.1% in terms of GDP and from 2.2% to 6.3% in terms of its average annual growth of exports of goods and services, ultimately effecting its growth in world trade. Similarly, Malaysia has emerged as one of the most important contributors to world trade share, and in the near future will emerge as a strong competitor to NICs (Bosma, et al., 2009; World Bank, 2009; 2010). It is evident that Pakistan's total share in world trade is among the lowest of all the developing countries at .13%, which surpasses only Sri Lanka's figure of .06% and Bangladesh's figure of .10%. However, Pakistan is the seventh most populous country in the world. Even countries smaller in terms of population are contributing more than Pakistan to world trade and therefore are in a better position to build their higher GDP figures.

<b>Table 2.2 Population and trade share comparisons in developing and NIC economies</b>				
<b>Country</b>	Population Millions	<b>Gross domestic product comparisons</b>		
		Million \$ 2007-08	Per capita \$ 2007-08	(%) Share in world trade
Pakistan	164,625	145,784	896	.13
Bangladesh	147,100	70,436	444	.10
Malaysia	26,200	171,753	6,475	1.08
Indonesia	228,100	427,519	1,895	.73
Sri Lanka	21,100	31,014	1,540	.06
India	1,135,600	1,144,027	1,018	1.16
China	1,331,400	3,140,980	2,379	7.32
Korea	48,100	951,436	19,569	2.70
Singapore	4,400	146,857	32,357	2.08
Sources: (Bosma, et al., 2009; World Bank, 2009)				

Even other developing countries such as Iran, Sri Lanka and former East Pakistan, Bangladesh, are also showing rising trends in terms of average annual growth in GDP. It is evident that Pakistan, although showing a positive trend in average annual growth in

terms of GDP, has a striking negative growth in terms of its export of goods and services, as its share of growth in world trade shows a constant negative trend (Table 2.3).

<b>Table 2.3 World trade share growth comparison</b>			
Country	World trade share growth (%)		
	2000-04	2005-07	2008-09
Pakistan	2.6	-3.4	-13.7
Bangladesh	-1.4	0.9	5.5
Malaysia	-0.6	-2.4	-4.1
Indonesia	.1	2.2	6.3
Sri Lanka	-3.3	-4.5	-1.7
India	6.6	14.9	1.0
China	14.2	9.3	3.2
Korea	2.9	2.2	2.7
Singapore	0.4	0.2	2.9
Source: (Bosma, et al., 2009; World Bank, 2009)			

Other developing countries such as Iran, Sri Lanka and Bangladesh are also showing declining trends, but are far from negative figures (World Bank, 2009).

‘Advisor to the Prime Minister on Finance, Shaukat Tareen, said that overall exports recorded a negative growth of 3.0 percent during July-April 2008-09 against the positive growth of 10.2 percent in the corresponding period of last year’ (Economic Survey, 2009). According to the Federal Bureau of Statistics, the global share in the export market dropped to .13% during the year 2008-09, from .21% in 1999. Exports dropped from \$19.1 billion to \$17.8 billion in 2008-09 (Economic Survey, 2009; Pakistan Defence Forum, 2009). Economists attribute this to several factors such as poor manufacturing infrastructure, failure of monetary/fiscal policies to control high inflationary pressures (22.3% during 2008-09 as compared to the previous year’s 10.3%), energy/power break down problems (10-13 hours of power load shedding in 24 hours), inefficient government/credit support and lack of trust on the part of international customers in the quality of manufactured products.

Japan, South Korea and other advanced nations are paying considerable attention to the promotion of SME facilities such as access to credit, training and development and

international orientation for the small business sector. Japan provides 50% of total loans to SMEs. The People's Bank of China declared in their policy statement the prioritisation of commercial bank credits for small enterprises. South Korea allocates 47% of total loans to the SME sector and SMEs contribute 63% of total employment (Bashir, 2006).

In India, SMEs contribute 57% of total employment, in Indonesia SMEs employ 60% and in USA 63%, of the total workforce. SMEs in Japan contribute 81% of labour force employment, 53% to GDP and 38% in total exports, whereas in Pakistan SMEs employ 78% of the workforce and contribute only 30% to GDP and 26% to total exports (Bashir, 2006; Ial Rohra and Panhwar, 2009).

For the purpose of evaluating global economies, the Global Competitive Index (GCI) provides robust criteria for measuring the competitiveness of different countries. The competitive position of countries is divided into three stages. Economies in the factor-driven stage rely basically on their natural resources, such as land, agriculture and an unskilled labour force. This is the reason that the economies heavily reliant on the agricultural sector and not on the manufacturing sector fall into the category of factor-driven economies (Figure 2.1). Factor-driven economies, despite substantial efforts, do not usually surpass the GDP per capita figure of US\$ 2000.

<b>Figure 2.1 Income threshold for establishing stages of development</b>	
Stage of Development	GDP per capita (in US\$)
Stage 1: Factor driven	< 2,000
<i>Transition from stage 1 to stage 2</i>	<i>2,000–3,000</i>
Stage 2: Efficiency driven	3,000–9,000
<i>Transition from stage 2 to stage 3</i>	<i>9,000–17,000</i>
Stage 3: Innovation driven	> 17,000
Source : (Bosma, et al., 2009)	

Pakistan, along with other developing countries such as Sri Lanka, Nepal and Bangladesh are factor-driven countries (Table 2.4). Such countries are heavily disadvantaged by their weak institutional base, unstable governments, high corruption, turbulent climate (floods/earthquakes) and unhealthy/illiterate workforce. Recently, Pakistan has come to

the world's attention as a powerful ally in the U.S.-led war<sup>8</sup> against terrorism, and the ethnic tensions<sup>9</sup> in three provinces makes the situation worse (Khan and Amine, 2004).

<b>Table 2.4 A comparison of developing countries at each stage of development</b>					
Country	Stage 1	Transition from 1 to 2	Stage 2	Transition from 2 to 3	Stage 3
Pakistan	X				
Bangladesh	X				
Malaysia			X		
Sri Lanka	X				
Nepal	X				
China		X			
India	X				
Taiwan				X	
Korea					X
Source: (Bosma, et al., 2009)					

Efficiency- and innovation-driven economies are characterised by sophistication, and an efficient work force driven by technological skills, capturing high competitive *domestic/foreign markets* in production and processes (Bosma, et al., 2009). NIC countries by competing with the world leaders in technology, innovation and political stability have passed the transition stages and are enjoying efficiency- or innovation-driven stages of development.

## **2.5 State of small firms and entrepreneurship in Pakistan**

The development of a high ranking in terms of competitiveness and innovation in developed economies is attributed to critical private enterprises (Bartlett, et al., 2008;

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<sup>8</sup> News International in its March 4<sup>th</sup> 2011 printed edition says under the headline “**Terror tactics**” “Faisalabad, the country’s third largest city, has faced its largest terrorist attack in many years (25 dead and 132 injured), up until now, the populous textile manufacturing centre had not been hit - blasts in the Punjab, for the most part took place in Lahore or Rawalpindi, that houses the military headquarters (Taliban claim responsibility)”.

<sup>9</sup> News International in its Jan 18<sup>th</sup> 2011 printed edition states “**Chaos in Karachi**” “The continuous killing in Karachi means the city remains in chaos. The “partial curfew” announced by authorities...seems unlikely to have any real impact on the violence in Karachi.”



Coy, et al., 2007; Wolff and Pett, 2006). The old concept of heavy reliance on large firms is no longer an attractive concept, as most advanced nations are striving hard to build a basic infrastructure for small firms' growth and development. These economies include, but are not limited to, the United States, Japan, Germany, Canada and the United Kingdom. The concept of 'big is beautiful' is no longer applicable (Ullah and Taylor, 2007), as 90% of modern economies will be led by small firms (Bartlett, et al., 2008; Mtigwe, 2006; Wolff and Pett, 2006).

Pakistan is an economy driven by the agriculture and service sectors; the contribution of the agriculture and service sectors to GDP is 21.6% and 53.3% respectively. The manufacturing sector's contribution to GDP is 18.2% as compared to Indonesia's 28.1%; Korea's 28.4%, Singapore's 28.4% and China's 33.5% (Bosma, et al., 2009). Pakistan's being heavily relying on agricultural sector and weak growth in manufacturing sector forces it to remain a factor-driven economy in stage one (Table 2.4). The weak contribution of the manufacturing sector reflects the poor health of the small business sector and even the large business sector is unable to contribute significantly as other developing nations do.

According to Lal Rohra and Panhwar, (2009: 1073), in advanced countries the SME sector contributes 55% of GDP and over 65% of total employment, whereas in Pakistan the SMEs represent 90% of all enterprises, employing 78% of the labour force contribute only 30% to GDP. A number of factors contribute to this paradoxical situation. Pakistan's ranking is declining every year in terms of its global competitiveness in developing and NIC nations (92 during 2007-08 whereas 101 during 2008-09), and its score (3.65) is the lowest among factor-driven economies in terms of the Global Competitive Index (GCI). The significant contribution of SMEs to GDP but the lower role of exports and international competitiveness is attributed to the shortage of skilled labour for the newly-privatised sector coupled with a lack of finance, weak government policy and corruption at grassroots level (Table 2.5).

**Table 2.5 Global competitive index (GCI) comparisons**

Country	GCI Rank 2007-08	GCI Rank 2008-09	GCI score 2008-09
Pakistan	92	101	3.65
Bangladesh	107	111	4.02
Sri Lanka	70	77	4.02
Indonesia	54	55	4.24
China	34	30	4.70
India	48	50	4.33
Malaysia	21	21	5.04
Korea	11	13	5.28
Taiwan	17	17	5.28
Singapore	7	5	5.53

Source: (Bosma, et al., 2009)

Pakistan, like other developing nations, has 3.2 million SMEs/establishments. Out of these establishments the majority (56%) are in urban areas and 99% of these establishments' employee 1-10 employees. Although large-scale enterprises contributed to 10.10% growth, small-scale industry has been striving hard to maintain the small average growth rate of 4.46% during the last three decades. During the 1990s, the SME sector had fewer than 99 workers on average, contributed 14-15% growth, and generated 25% of export earnings. A recent census conducted by the Federal Bureau of Statistics (FBS) reported that currently the SME sector contributes 25% in export earning and 35% in manufacturing value addition (Ial Rohra and Panhwar, 2009; Rohra, Junejo, Lal, and SALU-Khairpur, 2009).

Khan and Amine (2004) explained the historical and economic profile of Pakistan, stating that Pakistan used to be a planned and closed economy and in its early decades of independence small-scale industry proved to be an informal sector (Haque, 2007). In this era, the import substitution role was mainly attributed to poor infrastructure in the industrial manufacturing sector, which recorded an average growth rate of 7-8%, competing with rest of the well-established economies, although it was hampered due to a host of factors (Fayyaz, Mian, and Khan, 2009).

Since its early independence Pakistan has declared itself committed to industrial civilisation, freedom of speech and entrepreneurial independence. However, this early egalitarian rhetoric proved an illusion due to rent-seeking activities, and manipulation of economic activities by bribery and corruption ultimately led to a dismal entrepreneurship culture (Haque, 2007).

During the 1960s, President Field Marshal Muhammad Ayub Khan's regime took a strong initiative to promote industrialisation, and economic growth accelerated at a stable pace (Bashir, 2006; Dixit, 2002; Talbot, 1998). After a political and economic rift with East Pakistan, its subsequent separation from Pakistan and emergence as an independent state, Bangladesh, further hindered the performance of the industrial sector (Bashir, 2006). The establishment of the Pakistan Industrial Development Corporation (PIDC) was one of the significant steps taken by the federal government. However, all such efforts were to promote the facilitation of *large enterprises* and the 2% growth rate of small firms provided strong proof of large sector development (Bashir, 2006). In Pakistan, policies are made for elite. 'This is especially true of the economic policy, which has been biased towards the large sector' (Haque, 2007: 09).

During the 1970s a couple of rich families dominated the Pakistan economy as a result of *Bhutto's nationalization* of the large-scale service and manufacturing sector. This nationalisation was a red light for the further growth of the economic sector, but the nationalisation not only proved dangerous but also bad for the flourishing of the small sector competitive environment. Rent-seeking was enjoyed by some elite and dominant families 'were able to influence the exchange rate, import, credit, fiscal and other policies' (Haque, 2007: 11). The large-scale sector recorded a growth of 18-25% per annum on average during the 1960s-70s. As a result, decentralisation and privatisation era began to take root in the 1990s, and the importance of small firm growth was realised in all four provinces of Pakistan (Fayyaz, et al., 2009; Haque, 2007; Khan and Amine, 2004) namely *Punjab, Sindh, Sarhad /Khyber Pakhtunkhwa and Baluchistan*, along with one territory (Federally Administered Tribal Areas/FATA).

In this era, the government began to realise the importance of the small sector. The government started to establish province-level advisory services along with the Small Business Finance Corporation (SBFC), the Small and Medium Size Development Authority (SMEDA), the SME Bank and the Khushali Bank. Such steps improved the growth rate of small firms and the small sector recorded a growth of around 6-8% per annum on average during the 1990s (Bashir, 2006).

Pakistan is predominantly an agricultural economy; in particular, the provinces of Punjab and Sindh not only contribute significantly through agricultural but also through an effective manufacturing industry. In the capital city of Punjab (Lahore), the '*Lohar braderi*' is contributing significantly to steel and engineering manufacturing. Similarly the '*Arian Braderi*' is capturing the textile sector in Faisalabad (Punjab), and the '*Chiniotis*' and the '*Rajpot family*' are significantly contributing to sports and surgical sector development in Sialkot (Punjab).

The development of these sectors significantly improved the SMEs' health in Pakistan after privatisation. The share of exports, which contributed 6-8% to GDP during 1970, has grown to 13-16% on average in the present decade. SMEs played a key role in the up grading and diffusion of local and international technology. The textile sector on average contributed 60-65% of total exports in the country (Fayyaz, et al., 2009; Khan and Amine, 2004). The textile sector is vital for the development of SMEs, as this sector is the backbone of agricultural economies such as Pakistan.

The importance of *Sindh* province to overall economic and export development is not inconsequential. The share of SMEs in the total export earning of Pakistan is 25% and Sindh province contributes 9% of the overall exports of Pakistan (Ial Rohra and Panhwar, 2009). Sindh province has a world-class port that makes international exports easier by connecting important regions of the world through the Arabian Sea. This natural ability gives rise to the production of fish and its preparations for local and international markets. Beside fish, Sindh province also contributes through the export of rice, raw cotton/ textile products, leather products, fruit and carpets.

The provinces of *NWFP/ Sarhad* and *Baluchistan* are famous for their natural resource endowments such as marble, chromites and carbon reserves. In particular, Baluchistan province is famous for its world-class gems and jewellery hidden in vast hill areas. Unfortunately, despite the richness of its natural resources, the development of international standards of marble exports is lacking in Pakistan. The problems that hinder its development include, but are not limited to, social class inequalities/ethnic tensions, lack of information technology and psychological capacity building/international managerial talent.

## **2.6 Definition and characteristics of small firms**

A comprehensive unified definition of a small firm is lacking in the entrepreneurship and international business field (Coy, et al., 2007; Tambunan, 2009). A small firm may range from a handicraft business run by a husband and wife in a rural area of Bengal, to a modern software firm employing 200-300 workers in Tokyo *Japan*. Small firms can be roughly categorised into four different typologies. Typically, firms with fewer than 10 employees are termed micro enterprises, those with up to 50 employees as small enterprises (SEs), and firms having 50-250 or in some cases up to 500 employees, are categorised as medium enterprises (MEs).

Other developing nations categorise small firms in three distinction taxonomies: micro enterprises (MIEs); small enterprises (SEs) and medium enterprises (MEs). In *Malaysia* the Small and Medium Industries Development Corporation (SMIDEC) defined SMEs as enterprises with an annual sales turnover not exceeding RM 25 million and full time employees not exceeding 150 (Tambunan, 2009).

In *Indonesia*, the National Agency for Statistics with the collaboration of the Ministry of Cooperative and Small and Medium Enterprises (Menekop and UKM) uses number of workers to differentiate MIEs, SEs and MEs. In their distinction, MIEs have 1-4 workers, SEs has 5-19 workers and MEs have 20-99 workers. In 2008, the Ministry issued a new law by differentiating the three units as MIEs having fewer than 5 employees and a turnover not exceeding RM 250000; SEs having 5-50 employees and a turnover between

RM 250000-10million; and MEs as having 51-150 employees and a turnover of RM 10m-RM 25m (Tambunan, 2009).

According to the state bank of Pakistan, SMEs in Pakistan are defined as any concern (trade, service or manufacturing) having a sales turnover of less than Rs. 300 million per year (State Bank, 2004). SME policy introduced by the government of Pakistan in 2007 introduced a more precise definition of SMEs: an SME should have a workforce of up to 250, and sales of up to Rs. 250million (Fayyaz, et al., 2009; Mustafa and Khan, 2005).

The definition of SMEs used in this study uses the criteria of the number of employees being up to 250 and having paid-up capital/sales of up to Pak Rs. 250 million. This criteria is most commonly used in studies of small firms in other nations, such as the Netherlands (Masurel, et al., 2009), Slovenia (Ruzzier, et al., 2007), the UK (Pinho, 2007), and Spain (Arranz and De Arroyabe, 2009).

Small firms, due to their particular characteristics of *ownership style, scale/scope of operation and unity of control and command*, face unique challenges as compared to their larger counterparts (Albaum, Strandkov, and Duerr, 2002; Tambunan, 2009). Their particular characteristics demand a high degree of managerial talent to cover survival shocks. Profound global recession along with domestic uncertainties requires a different perspective to organise activities of continuous change and innovation. Bashir, (2006) pointed out that due to these liabilities of smallness, newness (Lu and Beamish, 2006) and foreignness (Zaheer, 1995), small firms are discriminated against around the globe in at least three ways:

First, when small firms approach credit institutions, due to their low rate of survival, they are perceived as risk-based ventures unable to repay loans in case of their liquidations. In the developing countries, the share of Development Financial Institutions (DFIs) in extending finance to small firms is nominal. In Pakistan, DFIs extended 10% of credit to SMEs, whereas large firms enjoyed a share of 88% from financial institutions. On the other hand, the advanced nations are more prone to prioritise the small sector in credit facilities. Indonesia allocates 23%, USA 43%, South Korea 47% and Japan 50% shares for small enterprises (Bashir, 2006).

Second, small firms, due to their liability of smallness and foreignness(Bell, et al., 2012), are unable to provide sufficient security/collateral, and resource constraints in developing countries restrict small firms to a 60-40 loan-equity ratio. Further, the documentation procedures in developing countries are more cumbersome as compared to advanced nations. In Pakistan, exports can be managed through letters of credit through financial institutions and the documentation/process of the letter of credit is so lengthy, that small firm owners, having limited resources, usually avoid the process. As an example, Singapore needs 4 documents to process an export case, which requires 49 days and US\$ 456 (per container cost of exports). Similarly in Malaysia, 7 documents, 33 numbers of days and US\$450 are required to process an export case. On the other hand, in Sri Lanka 8 documents and US\$ 865 are required to process an export case. In Pakistan 9 documents, 44 days, US\$ 611 per container are required for export shipments (World Bank, 2009).

Third, small firms are discriminated against by the aforementioned risk-perception and collateral, and the situation becomes worse when the small firms are charged higher rates of interest as compared to their larger counterparts. Small and large firms are assessed on the basis of the five Cs principle of bank lending. They are, character, capacity, collateral, credit-worthiness and conditions. Character is considered to be one of the most important assessment attributes for small and large sector enterprises. Small firms are given a low ranking in terms of character due to their low survival rate and sudden disappearance in developing countries. In Pakistan, small firms face an interest rate of 15% on business and export credit loans, while the large sector is charged 10% interest on business and letters of credit for export purposes. There is for sound small firm policy to be implemented by concerned quarters for the development of small enterprises.

## **2.7 SMEs' evolution: theoretical developments**

The economies of scale concept dominated the world trade regime for at least two centuries. The economies of scale dominated as an acceptable wisdom during the 19<sup>th</sup> and 20<sup>th</sup> centuries, and until the 1970s, the concept of economic success was to build dragon multinationals such as automobile factories, steel mills and large manufacturing plants

(Mathews, 2006; Smith, 1776). The small firms were demoted to insignificant roles to provide raw materials to giants, ‘...dismissed as tradition-bound, low income and economically backward activities, offering few and probably decreasing opportunities for raising incomes’ (Tambunan, 2009: 24).

The psychometric scanning refers to the term used by cognitive psychologists to investigate any event, process or system of relationship in a systematic pattern (Mintzberg, et al., 1976; Simon, 1956; Sitkin and Weingart, 1995). A psychometric scanning of past literature suggests that there are two dominant paradigms in firm evaluation, its link with a firm’s own performance, increasing income and economic development. The classical scholarship/pro-MNE scholarship holds the view that the economic share of multinational enterprises (MNEs) will rise with the dominance of economies of scale captured by the majority of large firms in the economy (Dunning and Lundan, 2008b; Penrose, 1959; Polyakov, 2005; Smith, 1776; Townsend, Yeniyurt, and Talay, 2008). This view concluded that the more a large firm’s resource combination is in domestic vs. International activities, the more the firm will be engaged in domestic vs. international activities. Put differently, the higher the resource combination in international activities by MNEs, the higher will be the resource generation potential in international operations and vice versa (Foley and Fahy, 2009; Polyakov, 2005; Stienstra, Baaij, Van den Bosch, and Volberda, 2004; Wiklund and Shepherd, 2009). This stream of research declared that the share of small firms in gross domestic product will decline steadily (Beck, Demirgüç-Kunt, and Levine, 2003; Tambunan, 2009), and ultimately this share, as a source of increasing income and competitive advantage, will become less reliable.

In the 1980s, the dominant view of “flexible specialization” introduced by the seminal work of Piore and Sabel (1984), (Cited in : Berry, 1998; Tambunan, 2009) which replaced the traditional, classical view of Fordist (mass production) by the non-Fordist approach (Berry, 1998; David, 2005). This research stream was predominant in introducing pro-SME behaviour in advanced nations.



The former research philosophy, which can also be referred to as an *anti-pro-SME subsidising* paradigm, is consistent with industrial organisation theories, which generally support the view that large firms are more effective in job creation, fostering innovation, poverty alleviation and pro-active internationalisation. However at *firm* and at *cross-country* levels, this view provides inconsistent results regarding the effectiveness of pro-SME or pro-MNE view and its role in profitability and economic development. This research found no support for their hypothesis that the pro-SME policies will help to alleviate poverty, foster innovation, quality of corporate governance, economic growth and, subsequent internationalisation (Beck, et al., 2003; Berry, 1998; Terjesen and Hessels, 2009).

Studies exploring the role of firm at cross-country level and at individual level argued that the developing nations (Bashir, 2006; Beck, et al., 2003; Berry, 1998; Coy, et al., 2007) have particular characteristics such as individualism in Taiwan and collectivism in Japan, which differentiates them in terms of their capabilities, attitudes and export orientation. In NIC countries, small firms are dominant in literature and small firms dominate in such economies. Such firms at individual levels in developing countries such as Pakistan, Sri Lanka and Bangladesh might adapt the characteristics of independent firms in Taiwan, but are still unable to grow internationally (Beck, et al., 2003; Berry, 1998). Therefore, the cross-country analysis is unable to provide us with conclusive evidence that any interpretation of cross-country findings will lead to sound policy implications and subsequent studies. Taiwan and Japan, through the development of their small enterprises, contribute to economic development, but the poor economies of Pakistan, Sri Lanka and Bangladesh are still in the trap of the classical economist who believes that the development can only be achieved through pro-MNE policies.

In developing countries, the *classical/pro-MNE view* was more dominant as international firms transfer technology to local firms to their own advantage or local firms imitate the behaviour of large foreign competitive firms (Mathews, 2006; Stoian and Filippaios, 2008a; Yamakawa, Peng, and Deeds, 2008). These results support the premise that financial constraints hurt small firms more (Saridakis, et al., 2008) and large growing

firms have easier access to finances thus, ensuring the survival and growth of large firms in the international arena. The technology imported through collaboration with international partners becomes a source of competitive advantage and a firm's own size really matters (Alexander and Korine, 2008; Hutchinson, Quinn, and Alexander, 2006), as economies of scale can only be achieved through competitive collaboration with a large-scale partner. Thus, mass production becomes a source of increasing profits and it is perceived that SME subsidisation is of little or no use for developing economies. It is striking that there is only limited research on this concept (Table 2.6).

**Table 2.6 SME developments: a comparison of classical and flexible literature**

<b>Paradigm</b>	<b>Focus</b>	<b>Policy implications</b>	<b>Theories/ level of analysis</b>
Classical view	Developing countries	<ul style="list-style-type: none"> <li>• Pro-MNE policies</li> <li>• Cross-country data</li> </ul>	FDI theories
		<ul style="list-style-type: none"> <li>• Pro-SME policies</li> <li>• Individual country data</li> </ul>	<b>No research so far</b>
Flexible specialisation	Developed economies	<ul style="list-style-type: none"> <li>• Pro-SME policies</li> <li>• Individual country data</li> </ul>	Modern theories

**Source: Author**

According to Fayyaz, et al. (2009) and Haque (2007) very few small enterprises in Pakistan rely on sophisticated technology of international standards, which results in a wastage of processing material of around 45-55%. The situation is coupled with a lack of government interest in small firms, as the authorities feel that the entrepreneurship in large firms is more useful in boosting economic development. In this effort, the majority of entrepreneurship development policies of the government of Pakistan, apart from some recent developments in the form of the Small and Medium Size Enterprise Development Authority (SMEDA), the SME Bank and the Khushali Bank, still favour the classical/pro-MNE view or large enterprises (Fayyaz, Khan, and Mian, 2008; Fayyaz, et al., 2009), through the establishment of the Board of Investment (BOI), the Trade Development Authority of Pakistan, and the Central Board of Revenue (CBR).

Despite recent developments and new the SME policy of 2007 which helps to promote SME international entrepreneurship culture, the small sector still perceives a lack of managerial skill in entrepreneurship, actual access to formal/reliable finance, and corruption at national/ political levels in small firms, as common obstacles to small firm international development.

The most important drawback in the developing economy of Pakistan is that there is no formal data available on SME development, nor any proper directory of SMEs and there is limited research on the concept that whether based on the classical view or on flexible specialisation, the pro-SME policy or pro-MNE policy relates to economic growth, and how an international pro-SME view can be promoted for the development of economy. In this respect, this research fill the gap by exploring location-/context-specific, ownership and cognitive antecedents as a means of identifying the foreign service mode/success-growth path for the international development of small firms in the emerging economy of Pakistan.

## **2.8 Research focus – situational aspects**

To conclude this chapter, the following section will illustrate how the chaotic and complex context of the Pakistani environment had a direct impact on the conduct of the research reported in this thesis. The cultural mix of weak managerial abilities, infrastructure failure, ethnic conflicts, in-grained corruption and global terrorism found in Pakistan has a profound effect on the conduct of business. Likewise, the social, cultural and behavioural characteristics of the country leave little room for a systematic research process.

One of the primary challenges in the research lay in obtaining information about potential respondents. In Pakistan, there is no standard industrial classification of exporting SMEs in Pakistan. This posed a number of real practical and logistical challenges. Email is not widely adopted as a standard form of communication amongst SMEs and less-educated are, in any case, reluctant to use e-mail. Not having complete address and contact details of the owner or export manager of the firms meant that the researcher had to travel

extensively, using very poor infrastructure, to make personal visits were needed to obtain contact information for respondent companies.

Once contact details were collected, the Pakistani context influenced the data collection process. The export managers and CEOs in certain cities in the Baluchistan and Punjab regions tend to be inexperienced in research initiatives and the researcher found there to be a lack familiarity of data collection methods which are common in the West. Mechanisms such as completing a questionnaire returning it in a pre-paid envelope were largely unfamiliar. As a result, the researcher is needed to rely on multi-method data collection (a combination of probability and non-probability sampling) in a process including mail survey, e-mail, drop-off/personal visits. The period of data collection lasted a period of some nine months and required extensive travel and personal follow-up with individual managers. This entire scenario depicts a complicated process where the researcher has to involve friends, colleagues and in particular University students of different ethnic groups, who are influential in areas of Baluchistan region (illustrating the significance of social capital and networks).

Furthermore, in the Baluchistan and Khber-Phaktoonkhawa there is a deep reluctance to provide research and financial information due to generalized mistrust of the financial/taxation structure (such as corruption at gross root levels) and in research initiatives. There were a number of consequences for this research. Considerable effort was needed to reassure individual managers that the financial information provided would be confidential and not disclosed to the tax authorities or utilized other than for research purposes.

Such socio-political constraints experienced in the conduct of this research illustrate at the micro level the constraints experienced at the nation level of a tendency towards inaction, stifled innovation and entrepreneurial development. The context is thus highly complex. This thesis intends to uncover whether the cognitive mechanisms used by decision makers to simplify this complexity will be a source of international diversification. In such a context, it is very interesting to examine the unfolding picture

of cognitive errors made by less privileged entrepreneurs in small firms, where internationalization is a compulsion not a choice.

## **2.9 Summary**

This chapter presents auto-ethnographic situation of context, an overview of the Pakistani economy, the state of entrepreneurship in Pakistan and theoretical developments in SME evaluation. Pakistan, as a developing country, still lags behind the NICs and even very poor nations in terms of its development in international markets. This chapter also focuses on the theoretical developments in international market literature. A review of the literature reveals two broad paradigms. First, there is the classical paradigm which favours the pro-MNE view and presents analysis at firm and cross-country levels. At cross country level, these results revealed the insignificant role of SMEs in economic development and the results are not conclusive. At individual country level, the pro-SME view is highlighted. One of the significant limitations of the pro-SME view is that the majority of the studies originate from developed nations.

The second paradigm, referred to as ‘flexible specialisation’, predominantly tends to focus on the pro-SME role in economic growth. The role of small firms in economic development in both the approaches (classical or flexible specialisation) remains limited in emerging economies and there is no conclusive evidence about the exact criteria of small firms’ success in emerging economies and how small firm research might be helpful in identifying and exploiting international opportunity. This thesis fills this void by explaining the ownership, location and cognitive dimensions of small firm internationalisation in general, and entry choice in particular. The next chapter presents the literature review of the parameters of entry modes.

## Chapter 3

### Literature review: parameters of entry mode

#### 3.1 Introduction

Academicians, SME managers, entrepreneurs and policy makers are making an effort to answer the question of why a firm expands its operations from domestic to foreign operation. Why some firms are quicker in crossing borders and why some firms are unable to face even domestic competition and disappear without any contribution to the economy or society? If a firm is successful in the domestic market, what makes it possible to gain proper utility from the right choice of building block/ tool (Entry Mode) to face volatile competition abroad? The mode of entry decision is ill-defined, complex process leading to cognitive biases. This chapter sheds light on the arguments that the cognitive values represent the principles for ordering alternatives/entry choices according to the time and cognitive preferences. Such preferences are bound to the decision makers' limitations and the context in which the entrepreneur is working.

Entry strategy decision comprises three distinctive stages. The stages are identification, development and selection of entry choices. This chapter also reviews the relevant literature on the comparators and parameters of entry modes. This literature review leads to the development of entry strategy and their link with utility of entry decision in the form of post-entry speed.

#### 3.2 Stages of foreign entry mode process

Mintzberg, et al (1976: 250) explained that the strategic *decision process* is characterized by novelty, complexity and open-endedness. Decision may be categorized by the stimuli that evoked along a continuum. Decision may be opportunity based, problem/crises based and complexity/commitment based. At one extreme are *opportunities based* decisions, those initiated purely voluntary basis, to improve an already secure situation. Decision may be *problem decisions* (evoked by milder pressure) or *crises decision* (where organization respond to intense pressure). Decision process can shift along the

continuum: an ignored opportunity can later emerge as a problem or crises or a manager can use a crises or problem situation as an opportunity to innovate. Decision may be a complex/committed business decision. This type of decision develops long term opportunity for a firm. This decision is deliberate and the decision maker, after a comprehensive planning works out a project for sustainability of the organization.

Decision may be classified by solutions; first the solution may be given *ready-made*, that is, at the start of the process, or can be developed during the process. Second, *custom-made* solution may be developed especially for the solution. Finally, the solution may combine ready-made and custom-made features— are *modified to fit* particular situations (Haynie, Shepherd, Mosakowski, and Earley, 2010; Mintzberg, et al., 1976). What constitutes a good decision? Strategists are most often concerned with outcome: a good outcome means a good decision. Economic psychologist, Wickham, (2006:58) taking a broader view, asserted that while the outcome of the decision is not ignored, emphasis is also placed on the “process” of the decision. There are three stages of strategic decision process.

### **3.2.1 Identification phase**

Mintzberg, et al., (1976: 253) defines decision as a specific commitment to action (usually a commitment to resources) and a *decision process* as a set of action and dynamic factors that begins with the identification of stimulus for action and ends with specific to action. Strategic decision do not emerge as a simple, linear decision, they do not present themselves to the decision maker in convenient ways, problems and opportunities in particular must be identified in the streams of ambiguous, largely complex and verbal data that decision maker receives. Opportunities, problems and crises are most clearly distinguished in the identification phase, the decision makers tend to *recognize* that the opportunity or problem is important for the survival of the firm. The strategic decision making comprises both the exploitation of opportunity and the reaction to problem and crises, perhaps the later behaviour more prevalent.

The first step following recognition is the collection of relevant information about the nature and strength of the international opportunity. This phase also *diagnosis* the current

issue and decision maker start a formal process of investigation. While problems and crises based decisions, offer an array of partially ordered data, and decision maker found himself in a situation where heuristics and biases are more attractive diagnosis. The role of heuristics and biases is almost totally absent in both descriptive and normative literature. Mintzberg, et al., (1976: 254) pinpointed that the opportunities do not requires much investigation—there is nothing to correct, only something to improve—while intense problem and crises may produce *time and cognitive pressures* that discourage the use of formal diagnosis.

Time and cognitive pressure create a cognitive bias, *planning fallacy* that emerges as a limitation to decision situation, when the decision maker concludes that the ‘...experience is often a poor teacher, being typically quite meager relative to the complex and challenging nature of the world in which learning is taking place’ (Levinthal and March, 1993b: 96). They end to treat the current situation different, thus isolating it from the past experience (Kahneman and Lovallo, 1993). The plans and forecasts of intuitive judgment are often anchored on scenarios of success rather than on past results, and the decision maker may be overly timid or overly optimistic (Kahneman and Lovallo, 1993; Keh, et al., 2002a). Intuition and experienced learning related with complex historical records, memory decay — in the form of bounded rationality induces long run optimal outcome as noisy and confusing. Decision makers notoriously reluctant to give up such mental models, and the rigidity associated with past events tend to waste the time and scarce resources (Kahneman and Lovallo, 1993; Levinthal and March, 1993b). *Planning fallacy* is a result of two sub-themes; temporal myopia and narrow decision frames. *Temporal Myopia*<sup>10</sup> is a cognitive biasness; in which decision maker is prone to ignore the long run procure in favour of short run outcomes. *Narrow decision frames*<sup>11</sup> is

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<sup>10</sup>Tendency to ignore the long run (Levinthal and March, 1993a).

<sup>11</sup>Narrow decision frames occurs when the decision maker ignores or underestimates objective dimension of decision making, isolating the current problem with from other choices. Ignoring this dimension results in cognitive errors which declines firm’s performance (Arslan and Larimo, 2011; Kahneman and Lovallo, 1993; Keh, et al., 2002a).



induced in decision making and the firms are forced to subjective planning of their decision rather to consider objective obstacles.

### **3.2.2 Development phase**

Mintzberg, et al., (1976: 255) pinpointed that, the heart of the decision making process is the set of activities that leads to the development of one or more solution to a problem or crises or to the elaboration of an opportunity. Development may be described in terms of two basic routines, *search and design*. *Search* is evoked to find readymade solutions or to modify ready-made solutions; design is used to develop custom-made solutions or to modify ready-made ones. The decision maker starts either memory, passive and/or active search of alternatives. Memory search is the scanning of organization or human memory. Passive search is waiting for unsolicited alternative to approach. Active search is the direct scanning of alternatives. The *design* decision can be narrow down to choose custom-made and those modified to fit alternatives.

The research questions that pertain to decision making in general and entry mode choice process in particular are those that seeks to search and design the alternatives. Where did management seek solutions? Were many alternative solutions proposed or did management "satisfice" by taking and testing alternatives one at a time? To what extent was each step or subroutine programmed. The question specific to international marketing: How to assess sales opportunities in specific marketing? What differentiates a market form other markets? What is the best entry mode? How to select overseas distributors for available entry mode alternatives? How to adopt product for foreign customers? How joint venture and alliances helps to increase sales speed? (Cavusgil, 2006; Kinnear and Taylor, 2003; Mintzberg, et al., 1976: 248)

In search of optimal *alternatives*, the decision maker redesign initial consideration of utility of outcome with respect to resource limitations (Jones, 2001; Jones and Coviello, 2005), cognitive limitation/heuristics /biases (Duhaime and Schwenk, 1985; Kahneman, 2003) and strategic limitation. Behaviour decision theory pinpointed that the managers use simplification as "heuristics" to redesign the complexity in entire process. *Single outcome calculation* is a managerial biasness in which the decision maker, instead

considering all the alternatives the decision makers due to cognitive limitations favours one alternative to others and tries to convince others for this choice (Chao, 2011; Schwenk, 1984). Two sub-themes of single outcome calculation identified are: *inference of impossibility*—in which decision maker selectively underestimates the negative aspects of non-preferred alternatives; *adjustment and anchoring*—in which the final estimates of values to a choice are biased towards the initial values. The decision maker fails to revise these judgements as new data comes in (Baron and Ward, 2004; Schwenk, 1984; Tversky and Kahneman, 1986).

### **3.2.3 Selection phase**

Mintzberg, et al., (1976: 255) pinpointed that the selection is logically considered to be the last step in the decision process: however, because the development phase frequently involves factoring one decision into a series of sub decisions, each requiring at least one selection step, one decision process could involve a great number of selection steps, many of these intricately bound with development phase. Selection is typically a multistage, iterative process, involving progressively deepening investigation of alternatives. *Screening* is used to reduce a large number of ready-made alternatives to a feasible ones; *evaluation choice* is then used to investigate the feasible alternatives and to select the final course of action.

Mintzberg, et al., (1976: 259) presented a series of situation to choose final alternative; the decision can be made by judgment, bargaining and analysis. In judgment the decision maker makes a choice by using his past experience, his own mind (perceptual considerations) and situational complexities. Bargaining principal, used by group of decision makers with conflicting goal system, invites more time and cognitive pressures in decision making. In analysis the process of evaluation is carried out by technocrats, followed by judgment. In this phase the firms try to develop and select an alternative that provides survival, sustained growth and long term opportunities. The research questions remains unanswered in final market and entry mode selection process are: How to prioritize and select final international market? How to overcome the liability of foreignness? How to choose from available entry alternatives? How to prepare and

implement marketing plans? How to monitor performance of foreign subsidiaries and distributors? How to maintain a desirable sales speed in the international market?

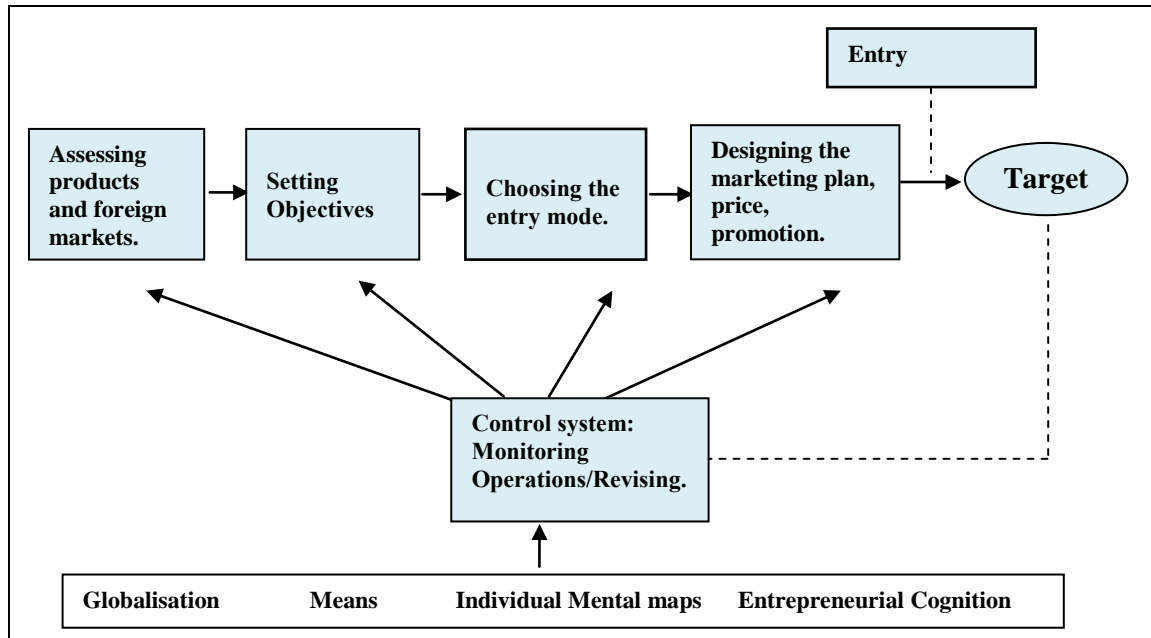
### **3.3 Strategic value of entry strategy decisions**

It is well documented that entry into the international market is the reflection of companies' objectives, goals, resources, and a set of systematic efforts to achieve a targeted market through a comprehensive plan (Aharoni, 1966; Root, 1994). 'Location choice is one of the most crucial decisions that MNEs need to make in their internationalization process' (Duanmu, 2012: 64). However, international entry *decision* is described as a process of choosing a mix of several individual product/market plans in diversified markets (Brouthers, et al., 2009; Karabulut, 2013; Root, 1994). It is believed that for the most companies the individual decision to invest in a particular market becomes fruitful, and needs less time, information and cost to enter in subsequent markets. Aharoni (1966: 79) points out that '.... Any business man would endeavour to investigate the possibilities of investment in all countries over the globe'. Therefore, it is not wise to adopt same entry strategy in all markets (Brouthers, et al., 2009), as the response to entry strategies is always different in terms of time and cost in multiple international markets (Root, 1994; Young, Hammill, Wheeler, and Davies, 1989).

In practice, the entry strategy requires *decisions* on (1) the choice of a target product/market, (2) the objectives and goals in the target market, (3) the choice of an entry mode to penetrate the target country, (4) the marketing plan to penetrate the target market, and (5) the control system to monitor performance in the target market (Figure 3.1). Choice of international market entry cannot be taken lightly in SMEs due to their small size and resource constraints as compared to their larger counterparts (Acedo and Jones, 2007; Day and Reynolds, 2011; Roper and Scott, 2009). 'Location is costly to alter, and also has a profound impact on the efficiency and effectiveness of firms' overseas investment' (Duanmu, 2012: 64). It must be noted that the screening process should not be too narrow to analyse the contingency involved and at the same time it must be sufficiently viable to exploit first mover advantage in diversified markets. The

utility of entry strategy is the result of *timely decisions* and appropriate diversification is the first step toward accelerated internationalisation.

**Figure 3.1 The elements of entry strategy**



Source: Adapted from Root (1994).

There are varieties of approaches to *decision* making, and an increasing preoccupation of with cognitive psychology (Aharoni, 1966; Ayton, 2005; Cardon, Foo, Shepherd, and Wiklund, 2012). However the decision to invest abroad is influenced by disciplines that are outside psychology - particularly from *economics/mathematics* and *sociology* (Ayton, 2005; Braisby and Gellatly, 2005; Zahra, et al., 2005). Mathematicians and economists typically try to find the ideal decisions, but, they often appear not to be interested in the questions of how people actually make decisions.

Mathematicians and economists, influenced by transaction cost framework, assume that decisions are rational/computable and they are made under the condition of certainty (Aharoni, 1966; Ahmad, 2010; Brouthers, et al., 2009; Buckley and Casson, 1976). Sociologists posit that a decision is always environment-constrained and that individual decision making is influenced by the social norms and the society/context in which the decision is made (Haynie, Shepherd, and Patzelt, 2012; Mitchell, et al., 2007; Zahra, et

al., 2005). Thus the choice and selection of an individual idea/market is influenced by the interaction of *cognitive preferences* and the experience with a particular *culture/context*. The decision rationality is more likely to be influenced by factors *external* to decision maker (Nummela, Saarenketo, and Puumalainen, 2004; Zahra, et al., 2005).

International strategy decision is an entrepreneurial phenomenon and subject to uncertainty and risk (Baron and Ward, 2004; De Maeseneire and Claeys, 2012; Morgan-Thomas and Jones, 2009). Individual preferences are subject to hubris. The entrepreneur's ego, affected by social norms and legitimacy in personal decisions, affects the strategic decision. The role of entrepreneurial cognition has been highlighted (Mitchell, et al., 2007; Zahra, et al., 2005). Entrepreneurial cognition 'is the knowledge structures that people use to make assessment, judgment, or decisions involving opportunity evaluation, venture creation and growth' (Mitchell, Busenitz, et al., 2002: 97). Zahra, et al. (2005) state that while a cognitive approach has its short comings, it offers multiple benefits that can enrich the literature. The literature ignores the role of entrepreneurial cognition and biases in small firm's entry mode choices and post-entry speed.

Psychologists argue that decisions are not rational and entrepreneurially stable *internal attributes* such as cognitive orientation, proactivity, tolerance to ambiguity and risk perception are fundamental in decision making (Ayton, 2005; Haynie, et al., 2012; Zahra, et al., 2005). Decision analysis is the subjective evaluation of the quality/utility of outcome<sup>12</sup>. Before reaching an outcome, the entry strategy decision in small firms is influenced by *probabilities* that cannot be objectively stated and/or utility of outcome is influenced by: (1) *uncertainty*; (2) *conflicting alternatives*; (3) *time limitations*; and (4) *cognitive preferences* of the decision maker about the utility of outcome (Braisby and Gellatly, 2005; Mitchell, et al., 2007; Zahra, et al., 2005). Psychologists assume that the decisions are more likely to vary from person to person and international strategy, being iterative in nature needs continuous trial and error for a fruitful outcome.

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<sup>12</sup>'Organizational outcomes—both strategies and effectiveness—are viewed as reflections of the *values and cognitive bases* of powerful actors in the organization' (Hambrick and Mason, 1984: 193).

Small firms' international entry is well documented in literature, but little is known about how a small firm expands its borders in the presence of *uncertainty and turbulent environment*. The evolution of investment and entry strategy is an iterative process with multiple loops (Kaleka, 2012; Root, 1994). Decision makers shy away from *uncertain complex control system* and unproductive small markets (Brigham, et al., 2007; Kumar and Subramanian, 1997). Pessimistic psychological and geographic biases may emerge as an element injected into the evolution process (Baron and Ward, 2004; Simon, Houghton, and Aquino, 2000). Bias or distortion in the decision process can be drastic for small neophyte firms, as small firms can disappear from globe without any contribution to the market/society. Aharoni (1966) endorses two elements of prejudice in the foreign investment decision process: first, in the evolution process, executives might not be willing to retract prior policies; second, a complex organisational structure may not be able to create a comprehensive document of decisions and control system.

Recent IB literature has a research focus on dynamic SMEs and international new ventures (INVs) (Majeed, et al., 2011; Prashantham and Young, 2011). Utility of outcome is highest for *timely decisions*. 'Internationalizing too slowly may mean lost growth opportunities but internationalizing too rapidly could be fatal' (Prashantham and Young, 2011: 285; Sapienza, et al., 2006), resulting in survival risk and failure (Casillas, et al., 2012; Sapienza, et al., 2006). *Speed* (time), *scope* (diversification) and *extent* (sales ratio) of international entry by small firms are the three basic attributes researched in new venture literature (Musteen et al., 2010; Rasmussen et al., 2010; Sommer, 2010). There is no consensus concerning the time horizons (initial and post-entry speed) for small firms' international development. 'The distinction between initial and post-entry speed is particularly critical for the long-term growth and success or failure of knowledge- and technology-intensive INVs' (Prashantham and Young, 2011: 277). This is why there exists multiple terminologies such as instant global, born global and multi-domestic due to their accelerated movements in the international arena since their inception (McDougall and Oviatt, 2000; Oviatt, Shrader, and McDougall, 2004).

Hambrick and Mason (1984) and Nielsen and Nielsen (2011: 187) pinpointed that a decision maker's *cognitive base* is made up of: (1) knowledge or assumptions/ambiguities about future events; (2) knowledge of alternatives and; (3) knowledge of consequences/outcomes attached to alternatives. 'Cognitive values, in turn, represent the principles for ordering alternatives according to *preference*'. *Cognitive preferences* are linked with time limitations and appropriate screening of the context in which the entrepreneur is working (Cardon, et al., 2012; Casillas, et al., 2012). The literature on small firms fails to identify the enduring cognitive preferences of entrepreneurs keen to build their international strategy for long run growth. In particular, the literature says little or nothing about advanced and/or EEs in finding a true solution for small firm's entry choices in the presence of *cognitive preferences*.

This study focuses on the entry mode choices of small firms from Pakistan. In particular, this study explores the role of cognitive biases/preferences in small firms' entry mode choices. The subsequent sections shed light on<sup>13</sup>: (1) *alternatives* available to firms/classification; (2) the measures a firm has to adopt for an *entry control system/comparators*; (3) the criteria of final selection/*parameters* in entry strategy analysis. Finally, this leads to the link between entry strategy choices and (4) *cognitive preferences*, which is the main focus of this thesis.

### 3.4 Categories of Entry Modes

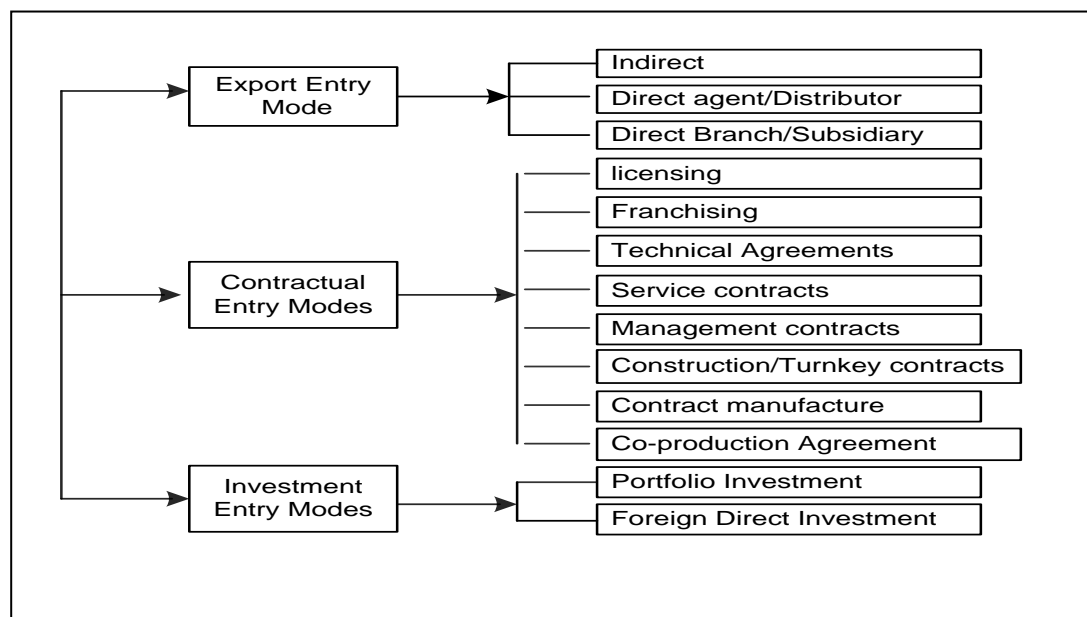
Choice of a new market plan is always influenced by multiple contradictory forces (Arregle, Hébert, and Beamish, 2006; Brouthers, 2002). A firm's allocation of resources and utilisation of its capacity to deploy resources is deemed crucial to explain its value-generating potential in international expansion (Amit and Schoemaker, 1993; Arranz and De Arroyabe, 2009). There are two schools of thought regarding decision making in

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<sup>13</sup>Small firms have limited entry mode choices/alternatives; section 2.2 discusses the categories/alternatives of entry modes available to firms. The firm entry choice screening process is affected by varying/ambiguous levels of control, risk, return and resource commitments (Anderson and Gatignon, 1986; Hill, et al., 1990). Section 2.3 discusses the measures/comparators of entry mode choices. ***Cognitive preference*** of decision makers depends upon the internal and external forces/parameters working with the firm/environment. Section 2.4 discusses the link of such forces/parameters with firm's profitability/outcome.

international strategy. From an *economist's perspective*, if the domestic market is sufficient to generate resources, then entry in the international market through exports remains best. In this stream of research, the FDI theorists argue that, if it is viable to transfer the resources to the host nation—cheap labour and economies of scale (Mataloni Jr, 2011; Nielsen and Nielsen, 2011), production in the host nation allows maximum resource generation (Dunning and Lundan, 2008b; Hymer, 1960). From a *management perspective* (Kumar and Subramanian, 1997; Root, 1994), when a firm wants to enter a geographical region, there are several modes of entry to choose from. The extant literature classifies entry mode into three basic generic categories (Figure 3.2).

**Figure 3.2 Foreign market entry mode options**



Source: adapted from entry mode literature

### 3.4.1 Export entry modes

Three aspects of internationalisation, international strategy, international marketing and international business are interlinked (Johanson and Mattsson, 1995). International strategy involves the goals of a firm and its resources available for strategic deployment (Boehe, 2011; Johanson and Mattsson, 1988; Root, 1994). International marketing helps



to identify and evaluate the target markets, and international business involves the selection and evaluation of entry choice (Fletcher, 2011; Johanson and Mattsson, 1988). The choice of entry/market is one of the most critical decisions for a firm, as the choice must be based on an assessment of a nation's long-term profit potential (Johnson, Scholes, and Whittington, 2008; Root, 1994). Export is the simplest initial form of international expansion for inexperienced novice firms and a primary foreign-market entry mode used by small firms (Yamin, et al., 2008: 08). The export mode sets a firm's targets for long-term selection of markets for advanced commitments (Dana, Hamilton, and Wick, 2009; Fleury, et al., 2008; Root, 1994).

Discovering international opportunities is an entrepreneurial phenomenon and exporting is said to be the first step towards entrepreneurial success (Jones, 2001; Leonidou, Katsikeas, Palihawadana, and Spyropoulou, 2007). An evaluation of exporting literature suggests that exporting provides the basic knowledge/experience for *early starters to remove anxiety* about the availability of bona-fide opportunity and further development in the international arena (Cheng, 2006; Ekeledo and Sivakumar, 2004; Johanson and Vahlne, 1977).

Johanson and Mattsson (1995) and Johanson and Vahlne (1977) analysed internationalisation as a gradual, learned process of increasing foreign commitments. Johanson and Mattsson (1995) pioneers of Network approaches stated that the studies using the Uppsala model also described this step-stage process and its transition to the situation of the 'lonely international'. Exporting is a viable tool for '*early starter*' firms having fewer less formal relationships with firms abroad (Figure 3.3). In the early stages of international development, exporting helps to give the advantage of first mover and thereby reduces the risk of investment (Johanson and Mattsson 1995: 63), by:

- Minimisation of the need for knowledge development
- Minimisation of the demands for adjustments
- Utilisation of the position in the markets of already established firms.

**Figure 3.3 An analysis of the Network model for exporting**

		Degree of Internationalisation of the Market	
		L	H
Degree of Internationalisation of the firm	L	<b>The Early Starter</b>  <b>The Lonely International</b>	<b>The Late Starter</b>  <b>The International Among others</b>
	H		

Source: Johanson and Mattsson(1988)

Root (1994 :73) maintained that ‘To go international for the first time, a company must overcome *anxiety* about its ability to compete international markets.’ Bartlett, et al. (2008 :80) expand this classification and indicate that ‘Management thinkers concluded long ago that the dominance of today’s global giants is rooted in their removal of anxiety and first mover status.’ Coca Cola built its brand image as the first soft drinks company in the world. Caterpillar became the first recognised overseas competitor, and first mover Matsushita created the Video Home System (VHS), thus becoming the technical leader in video cassette recorders (Bartlett, et al., 2008).

On the other hand, a neophyte small firm faces uncertainties/pioneering costs (a first mover cost later entrants can avoid), and the liability of foreignness becomes high(Bell, et al., 2012), if the targeted market or the chosen mode in question is turbulent/inappropriate (Alexander and Korine, 2008; Root, 1994; Zaheer, 1995). Indirect exporting helps to overcome and control *anxiety*<sup>14</sup>, pioneering (first mover) costs, and

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<sup>14</sup> Anxiety and depression are terms used by cognitive psychologists. A small firm’s entry strategy needs a comprehensive framework to explore such preferences. Tolerance to ambiguity is an objective term to explore the cognitive strength of entrepreneur used in this study. Higher tolerance reduces anxiety. Ainducto-deductive approach of scrutiny has more value in terms of its application to turbulent environments.

liability of foreignness by learning through an agent (Bell, et al., 2012; Fleury, et al., 2008; Katsikea and Skarmas, 2003).

Direct and indirect exporting are primary tools for small firms for international diversification (Brouthers, et al., 2009; Driscoll, 1995). Organisation learning theory (Johanson and Vahlne, 1977) also concludes that the internationalisation process of small firm initiated with higher export intensity increases the export exploration and exploitation potential of small firms (Brouthers, et al., 2009; Dana, et al., 2009; Prashantham, 2008). Brouthers, et al., (2009) found that the export intensity and multinationality of firms is positively associated with their perceived international performance.

No doubt export is the first step of cross-border success for small firms, but it suffers from many drawbacks. Katsikeas, Leonidou, and Morgan (2000) believe that export planning is not determined by the financial performance of a firm in terms of profitability, sales and growth, but is a function of flexibility, adoptability and is a *managerially proactive* response to international markets (Aharoni, et al., 2011; Nielsen and Nielsen, 2011). They further outline that firm size and experience are not the basic determinants but might prove strong stimuli to exports. Researchers in this area tend to conclude that no doubt export provides higher flexibility but at the expense of reducing *control* and lowering *profitability* (Anderson and Gatignon, 1986; Hill, et al., 1990; Kumar and Subramanian, 1997).

Another stream of research exploring the behaviour of knowledge-intensive firms observed that the exporting does not help small software firms in speedy development (Crick and Spence, 2005; Fink, Harms, and Kraus, 2008; Jones, 2001). Crick and Spence (2005) and Jones (2001) found that the speedy non-sequential internationalisation of small software firms was attributed to technological development and *networks* with foreign partners. Others, according to the innovation-based view, argue that neither firm size, nor a firm's resources play any part in international success, but that the *decision maker's vision/network development* is compelling factor towards rapid development

(Brazeal and Herbert, 1999; Elg, Ghauri, and Tarnovskaya, 2008; McDougall and Oviatt, 2000).

One of the important shortcomings in previous research is that the multinationality research is dominated by MNE activities or research on SMEs from advanced nations (e.g. Annavarjula and Beldona, 2000; Bhaumik and Gelb, 2005; Brouthers, et al., 2009), while little research is available on multinationality or export intensity of small firms from EEs and their link with accelerated internationalisation. Styles, Patterson, and La (2005) commented that there is limited research into the export stimuli of service firms and they also agreed with and reported that the combination of technology and appropriate use of capabilities (Alexander and Korine, 2008; Almquist and Lee, 2009) along with personal interest of top executives are the critical success factors in export stimuli.

### **3.4.2 Contractual entry modes**

In terms of technology transfer or skills, contractual modes e.g. licensing, franchising and strategic alliances parties (Clegg and Cross, 2000; Clegg and Kamall, 1998; Driscoll, 1995), involve non-equity association between/among firms at home or abroad (Nakos and Brouthers, 2008; Root, 1994). Contractual modes are differentiated from exports in terms of their value-generating potential (Erramilli, Agarwal, and Dev, 2002; Madhok, 1997). Licensing, franchising and strategic alliances are major contributors to value-creation in small and large firms (Gomes, Cohen, and Mellahi, 2011; López-Navarro, Callarisa-Fiol, and Moliner-Tena, 2013; Young, et al., 1989). *Licensing* has the benefit of incorporating an established name in its on-going process without a presence in psychically-distant markets (Erdilek, 2008; Johanson and Wiedersheim-Paul, 1975), without equity and without bearing any additional costs (Driscoll, 1995; Root, 1994). Licensing also shares scarce resources to target additional markets without any additional inputs (Doole and Lowe, 2008; Jeannet and Hennessey, 2006).

*Franchising* is the other form of licensing and is very popular for service firms, as the franchisor sells the trade mark and franchisee agrees to abide by the rules set by leader in exchange for a particular level of compensation acceptable to both parties (Clegg and

Cross, 2000; Clegg and Kamall, 1998; Driscoll, 1995). International licensing and franchising evidently have a number of features in common (Clegg and Cross, 2000). Motivation and duration of franchising might differ from licensing. The franchisor with the intention of developing a permanent relationship with franchisee assists in the organisation and overall management of the task (Clegg and Cross, 2000; Root, 1994). Doole and Lowe (2008) asserted that franchising is a steady and predictable stream of income without the requirement of any excessive investment. Franchising with a long-term stable partnership carries psychological involvement, which proves beneficial even in manufacturing enterprises. McDonald's, Burger King and other multinational fast food chains used franchising as a viable international tool for long-run value generation (Jeannet and Hennessey, 2006; Young, et al., 1989).

*Strategic alliances* are third most attractive contractual mode of entry for both small and large firms (Gomes, et al., 2011; Young, et al., 1989). The analytical psychometric literature dealing with strategic alliances concluded that no contract or agreement is comprehensive (Anderson and Gatignon, 1986; Meyer, Wright, and Pruthi.S., 2009) and the capacity of international alliance depends upon tailored contracts based on trust (Karhunen, Löfgren, and Kosonen, 2008; Malhotra, 2009), procedural /interactional justice (Gomes, et al., 2011), compatibility of strategic goals (Byung Il, et al., 2009; Park, Giroud, and Glaister, 2009) and joint ownership (Lee and Makhija, 2009; Nakos and Brouthers, 2008). Wiklund and Shepherd (2009) in their study of 319 Swedish SMEs found that the more a domestic firm was involved in domestic resource exploitation activity, more the firms were engaged in domestic alliance/acquisition and the more an international firm was involved in resource combination activity, the more the firm was involved in international alliances. As trust-based contracts avoid dissemination risks, the cost of monitoring contracts/partner behaviour and ability of knowledge transfer (Byung Il, et al., 2009; Rahman, 2008; Tse, Pan, and Au, 1997; Wiklund and Shepherd, 2009).

Contractual modes provide value-creation to small firms but have various limitations. Contractual modes having low investment risk carry a high expropriation risk (Claver, Rienda, and Quer, 2008; Hill, et al., 1990), as the know-how transferred to licensees

might be used for their own benefit (Bhaumik and Gelb, 2005; Madhok, 1997) or the know-how can also be transferred to potential competitor (Anderson and Gatignon, 1986; Barney, 1991). The marketing function remains unaffected and uncontrolled by licensees, so the real value creation potential of royalty payments and revenues suffers (Arranz and De Arroyabe, 2009; Jeannet and Hennessey, 2006). Doole and Lowe, (2008: 243) assert that franchising ‘...is considered to be less risky business start-up,...but still harness the motivation, time and energy of the people who are investing their own capital in the business’.

Meta-analyses of the alliance/acquisition literature suggest that the big companies fail due to weak value generation potential—operational, logistic and strategic synergies—strategy-driven limitations (Figueira-de-Lemos, Johanson, and Vahlne, 2011; Wiklund and Shepherd, 2009; Williams, Round, and Rodgers, 2009). Several small firms due to their confined infrastructure, narrow organisational setting, and overambitious individual<sup>15</sup> needs ‘... smaller buffer to deal with mistakes. This should give paramount importance to their ability to appropriately combine internal and external resources’ (Wiklund and Shepherd, 2009: 195). The literature on small firms fails to identify the situational complexities of alliance formations in the presence of environmental turbulence. The alliance literature both in the advanced and emerging economies is deficient in findings answer to a question, whether for a small neophyte firm, strategy-driven, crises-driven<sup>16</sup> and/or personality-driven alliance is beneficial? In particular, the literature says little or nothing about role of crises-driven alliances for international expansion of small firms in the presence of weak value generation potential.

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<sup>15</sup> McCarthy (2003) in their study of small manufacturing, service and software Irish firms found that, when the entrepreneurs described their objectives, there was a touch of idealism in their accounts. The comments of stakeholders suggested that the profit goals of some entrepreneurs were unrealistic. Another entrepreneur realised that his plans at start-up were unrealistic stating that “there is no point in trying to be IBM when you are in the garage-style operation.”

<sup>16</sup> Crises are the events that *threatens the company survival*, notably a currency crises, change in customer taste, and the change in the preference—risk-taking mentality of the entrepreneur (McCarthy, 2003)

### 3.4.3 Investment entry modes

As firms develop their international operations they rely on open markets and foreign direct investment (FDI) (Dana, Welppe, Han, and Ratten, 2008; Driscoll, 1995; Root, 1994). FDI involves higher control and ownership in the form of acquisition, mergers, Greenfield and sole venture operations (Dong, et al., 2008; Forlani, et al., 2008; Root, 1994). Shared modes of ownership and control include equal or majority joint ventures. In depressed markets and with volatile competition, companies most probably choose their operations through 100 percent share of ownership. Empirical evidence on FDI endorsed by Young et al., (1989: 19) differentiates three basic forms/motivations of wholly-owned subsidiaries (Bhaumik and Gelb, 2005; Dunning and Lundan, 2008b; Erdilek, 2008; Tayeb, 2003).

1. Market-oriented investments – also known as import substituting investment - where the company replaces exports, wholly or partially, by manufacturing within the country (although the evidence in fact shows substantial complementarities between investment and exports).
2. Cost-oriented investments, usually based on low-cost labour or other input costs, with the subsidiary being used to service third-country markets or world markets in general, or to be linked into the global manufacturing strategy of the MNE. This is sometimes termed export platform or rationalised manufacturing investment.
3. Resource-oriented investment. This relates primary to energy and extractive investments, where the activities of the multinational are vertically integrated from extraction to perhaps, retailing, as in the oil industry.

High growth, saving and cost is the common rational for acquisition and merger investment strategies (Dunning and Lundan, 2008b; Tayeb, 2003). Due to a wide range of differences in national and corporate cultures, the domestic acquisition varies in terms of their performance and value-generating potentials (Cheng, 2008; Collinson and Houlden, 2005). International acquisitions/mergers having psychic distance aspects involve serendipity, with uncertain outcomes (Doole and Lowe, 2008; Wiklund and Shepherd, 2009). Knowledge and capability augmentation emerge as a source of effective value creation when a strong, well-managed firm takes control over a *weaker* or less well-established rival (Karhunen, et al., 2008; Meyer, et al., 2009). Achieving comprehensive global reach by the merger of two *equals* is another rationale when both equal rivals

perceive this merger as a source of combined success, e.g. Glaxo-Wellcome and Smith line and Beecham as equal rivals, targeted markets for combined value creation (Doole and Lowe, 2008).

While exporting transfer products, licensing transfer know-how and ‘...stronger ties between the two partners characterised by a solid reciprocal relationship’ (Frynas, et al., 2006: 333) in joint ventures /investment modes make it possible for a firm to transfer financial and non-financial resources to penetrate effectively in the target market (Erdilek, 2008; Frynas, et al., 2006; Masurel, et al., 2009). Large market size, cheap labour/raw material, economies of scale and saving in transportation/custom duties are the main drivers of FDI that cannot be obtained through exports or licensing (Arranz and De Arroyabe, 2009; Bhaumik and Gelb, 2005; Dunning and Lundan, 2008b). Local production also targets the needs, preferences and purchasing power of the customers. Face-to-face communication between the investing firm and local distributors reduces the contractual risk/costs (Masurel, et al., 2009; Root, 1994; Tayeb, 2003).

No doubt Investment modes maintains higher control but at the expense of certain pitfalls. Joint ventures, international mergers and acquisitions face cross-cultural challenges (Hofstede, Neuijen, Ohayv, and Sanders, 1990; Mead, 2005), conflicts in governance structures (Fleury, et al., 2008; Sykianakis and Bellas, 2005) and finally, the perception of customers about the merger or acquisition deal affect the future value-creation potential of the new enterprise (Dong, et al., 2008; Doole and Lowe, 2008; Garcia-Canal and Guillen, 2008).

Empirical evidence presents contradictory results on factors affecting the choice and selection of FDI mode of operations. Cheng (2006) indicated that the more specific the firm assets transferred to the foreign market, the higher the likelihood of its FDI through greenfield operation. Claver and Quer (2005) found that a firm’s size and international experience played significant roles in selecting FDI modes. Li and Meyer (2008) found that general international experience favours sole venture operations, while in emerging economies, partner selection dominates due to idiosyncrasies involved in less-developed markets.



### 3.5 Measures and Comparators of entry modes

The psychometric literature on entry modes contains a variety of measures and comparators for entry mode choice. Key measures and comparators in FDI and entry mode literature include but are not limited to *Degree of ownership/control* (Anderson and Gatignon, 1986; Root, 1994; Smith, 2009a; Young, et al., 1989), *level of resource commitment* (Burgel and Murray, 2000b; Johanson and Vahlne, 1977), *level of risk* (Claver, et al., 2008; Driscoll, 1995; Hill, et al., 1990), *flexibility* (Erramilli, et al., 2002; Lee and Makhija, 2009) and *level of fixed and variable cost* (Buckley and Casson, 1985; Welch and Luostarinen, 1988). Control refers ‘to authority over operational and strategic decision making’ (Hill, et al., 1990: 118). Anderson and Gatignon (1986) described control as “the ability to influence systems, methods and decisions”. In contractual operations, cheating pending international activity and misrepresentation of information are major pitfalls, if the parties involved follow their own interests without thinking about the partner’s interests (Buckley and Casson, 1985; Mtigwe, 2006; Young, et al., 1989).

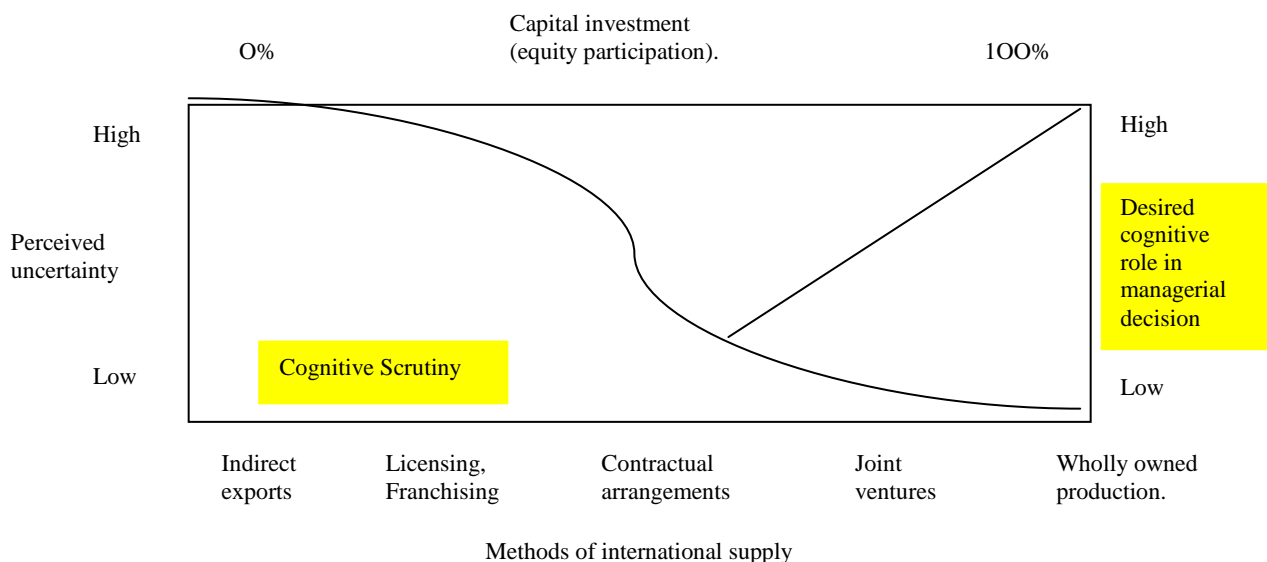
Control of entry operations becomes a cause of strategy revision in search of a possible viable future outcome (Anderson and Gatignon, 1986). Control involves higher equity and resource commitment and in the long term, choice of alternative mode increases the switching cost that has a dominant effect on the risk-adjusted return trade off (Young et al., 1989). Control ‘...is a focus of entry mode literature because it is the single most important determinant of both risk and return’ (Anderson and Gatignon, 1986: 03). The term Risk-adjusted return refers to the capacity of a firm to adjust the probability of outcome with respect to its profits both in financial and non-financial terms. This is a trade-off between control, resource commitments and finally the outcome of international strategy (Anderson and Gatignon, 1986).

Higher control encounters higher international risk and ultimately, a higher level of resource commitment (Forlani, et al., 2008; Hamel, Doz, and Prahalad, 1989). Keeping in mind the trade-off between control and resource commitment, firms try to adopt a strategy that increases their financial performance and control, and at the same time minimises their international risks (Ahmed, Mohamad, Tan, and Johnson, 2002;

Anderson and Gatignon, 1986). The entry mode literature refers this also as *risk-adjusted return* (Anderson and Gatignon, 1986; Garcia-Canal and Guillen, 2008; Gatignon and Anderson, 1988).

The trade-off between control, resource commitments, risk and flexibility is of paramount importance (Young et al., 1989). Perceived uncertainty in entry choice, resource deployment and psychic cost in this analysis ranges from 0 to 100%. Higher the perceived uncertainty, the higher may be the psychic and sunk costs associated with foreign operations (Bianchi, 2009; Johanson and Vahlne, 1977). However, exact measurement of uncertainty is not always possible due to limited information and the capacity of the human mind (Brigham, et al., 2007; Kumar and Subramanian, 1997). Greater perceived uncertainty and risk in international operations needs cognitive scrutiny of the internal and external environments. Managers perceive that a different lens should be available to organise cross border uncertainty, resource deployment, and control vs. risk trade-off (Figure 3.4).

**Figure 3.4 Comparative control, risk and psychic cost trade-off**



Source: Adapted from: Simyar and Argheyd, (1987: 228)

Flexible firms are more prone to control costs as compared to controlled organisations (Fleury, et al., 2008; Lee and Makhija, 2009). Anderson and Gatignon (1986: 03) described flexibility as “the ability to change systems and methods quickly and at a low cost”. Similarly, a fair degree of control is offered by exports, can be switched to higher level of control and can be supported by direct investments in marketing operations abroad (Young, et al., 1989).

The literature investigating the measures and comparators in entry choices found that a firm increases its level of commitment when it is able to exploit cross-border opportunity through general and experiential knowledge (Claude-Gaudillat and Quélin, 2006; De Carolis, Litzky, and Eddleston, 2009; Ekeledo and Sivakumar, 2004). An increase in knowledge and experience increases the probability of resource commitment and tendency of overcoming the fixed and variable cost associated with unforeseen events and alien environment abroad (Claver and Quer, 2005; Johnson, et al., 2006). More formalised and controlled organisations found it difficult to allocate resource commitments in collaborative arrangements (Arranz and De Arroyabe, 2009), change their systems quickly and control costs associated with unforeseen events (Polyakov, 2005; Roper and Scott, 2009; Welch and Luostarinen, 1988).

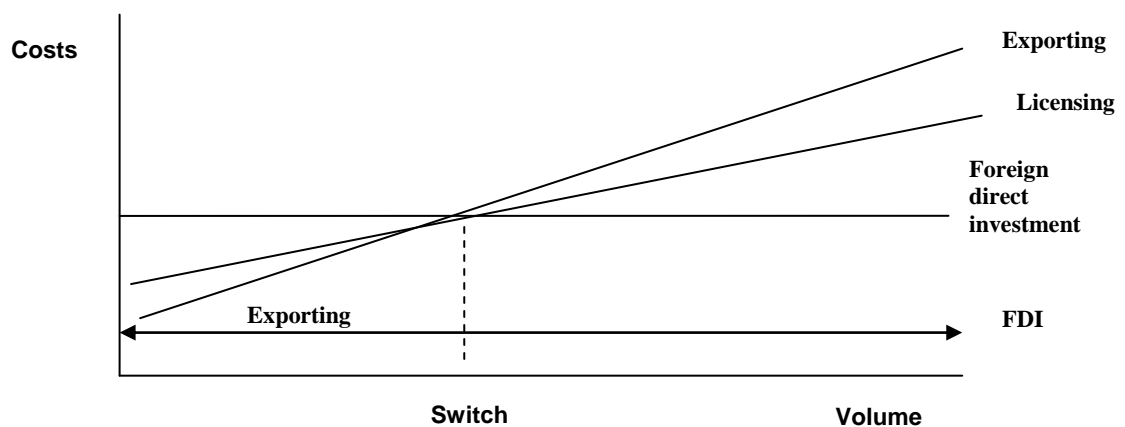
Entry mode with higher control usually carries a higher risk of investment. Unstable economic, political or legal systems are the basis of high-investment risk. In a high-risk situation, firms shy away from equity investments as switching cost becomes substantial (Agarwal and Ramaswami, 1992; Pinho, 2007). Anderson and Gatignon (1986) argue that transaction cost analysis suggests that in a volatile environment, entrants are better off accepting low-control entry modes (the “default option”). However, there are also some contradictory empirical findings, e.g. Nakos and Brouthers (2002) and Pinho, (2007), who found no significant relationship between lower risk perception and choice of a non-equity investment.

Beside investment risk, dissemination risk is one of the other novel issues in entry mode selection (Brouthers, 2002; Erramilli, et al., 2002). Firms seldom agree to share and disseminate their know-how, since the reduction in quasi-rents diminishes the value-

generating potential of knowledge (Brouthers, Brouthers, and Werner, 2003; Hill, et al., 1990). When behavioural constraints are not restricted by market forces or rule of law, firms are forced to take contractual risks. Opportunistic behaviour becomes the basis of disseminating know-how to use for their own benefit (Erramilli and Rao, 1993; Nakos and Brouthers, 2002; Sharma and Erramilli, 2004). In cases of licensing and minority share in joint venture, the risk of dissemination remains high, and in the case of majority joint venture and wholly-owned subsidiary, the risk of dissemination remains low (Anderson and Gatignon, 1986; Hill, et al., 1990). In foreign operations, both contractual and non-contractual modes involve the use of dedicated assets (resource commitment) that cannot be redeployed to alternative use without loss of value (Erramilli, et al., 2002; Hill, et al., 1990; Sharma and Erramilli, 2004).

Figure 3.5 presents the economic (cost) comparison of three generic modes: exporting, licensing and FDI. The fixed cost in exporting depends upon the volume of investment in the distribution system, but usually remains lower than FDI. However, the variable costs due to transportation and tariff payments remain high in exporting as the volume of the business increases. In contrast, the fixed cost in FDI remains high in manufacturing ventures.

**Figure 3.5 Economic comparison of fixed and variable costs in entry modes**



Source: Adapted from Buckley, PJ and Casson, M (1985).

To conclude, full equity ownership, sole ventures and wholly owned subsidiaries provide full control. In the case of a wholly-owned subsidiary, the control on temporary activities may be delegated to subsidiaries, but the actual control remains with the corporate office (Hill et al., 1990). Equal partnership and contractual agreements provide moderate control and minority equity agreements, exports and non-restrictive contracts provide a low level of control. In relation to choice of a particular level of control, risk and resource commitment, Table 3.1 shows the form of modelling process involved in the selection of control, risk and resource commitments used in prior literature (Kumar and Subramanian, 1997; Root, 1994; Young, et al., 1989).

**Table 3.1 Measures and comparators of entry modes**

Characteristics	Exporting	Shared modes (Licensing, J.V)	Integration modes (FDI)
Investment risk	Low	Moderate	High
Dissemination risk	Low	high	Low
Return	Low	Moderate	High
Control	Low	Moderate	High
Integration	Low	Moderate	High

Sources: (Kumar and Subramanian, 1997; Root, 1994; Young, et al., 1989).

A robust scan of psychometric literature on FDI measures and comparators concluded that the international entry choices depend not only on resource commitments, but also on the cognitive preferences of decision makers (Brouthers and Hennart, 2007; Canabal and White III, 2008; Nadkarni and Barr, 2008). Literature has neglected this (Andersson and Florén, 2008; Rahman, 2008) and economic-based approaches concentrate either on environmental comparators or on personal demographics in isolation (Benzing, Chu, and Kara, 2009; Herrmann and Datta, 2006; Manolova, Brush, Edelman, and Greene, 2002; Riley, Kalafatis, and Manoochchhri, 2009). The strategic behaviour of the firm with respect to cognitive style should be incorporated in economic-based approaches for empirical validation, and this research need is also recognised by (Canabal and White III, 2008; Dunning and Lundan, 2008b; Young, et al., 1989). Therefore, this study incorporates the strategic behaviour,

cognitive adoptability and biases to explore the effectiveness of Dunning's economic model to analyse entry mode selection process of small firms from Pakistan.

### **3.6 Parameters of entry mode**

Choice of international supply is dependent on a number of complexities involved and subject to the application of suitable conditions for transferring resources/capabilities in extra-border operations (Erramilli, et al., 2002; Morschett, Schramm-Klein, and Swoboda, 2010; Pansiri and Temtime, 2010; Young, et al., 1989). Even strategy choice may be matched to any situation; switching entry choice bears substantial psychic costs, in that alteration cannot be carried out without profit deterioration and serious long-term capability value-erosion (Brouthers, et al., 2008; Erramilli, et al., 2002; Root, 1994). MNEs' resource abundance in terms of management, capital, and technology has more numerous diversified entry options (Root, 1994). However, SMEs' entry choice is a drain on scarce resources (Collinson and Houlden, 2005).

Small firms' corporate strategic positioning with respect to inter-country expansion is a consequence of dealing affectively with two forces: (1) internal forces (firm resources and characteristics, managerial competency and attitude); and (2) external forces (industry and foreign market opportunities and threats). Arranz and De Arroyabe (2009) pointed out that these forces do not work in isolation and therefore an integrated approach to handling the cross-sectional effect on both forces results in successful internationalisation.

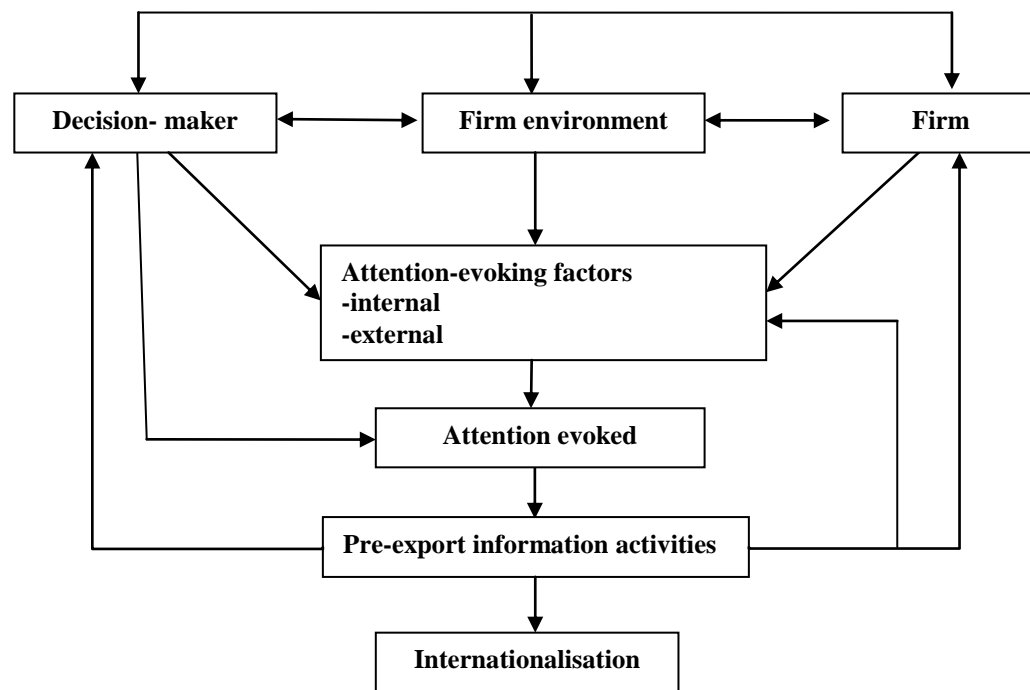
#### **3.6.1 Home country screening**

A number of pioneering authors have argued that pre-export behaviour is the first step towards increased involvement in extra-regional activities (Aharoni, 1966; Hessels and Kemna, 2008; Wiedersheim-Paul, Olson, and Welch, 1978). Some state that pre-export success in domestic market creates a stimulus for international expansion (Wiklund and Shepherd, 2009). Others argue that saturation of the domestic market or fortuitous orders create a stimuli/responses to environmental pressure, i.e. reactive-external stimuli (Westhead, Ucbasaran, and Binks, 2004). In order fully grasp entry mode complexities, it

is useful to explore firms' pre-export behaviour from the early seventies, when pioneers began to initiate the dynamic process of firm's international involvement and valuable IB theories began to emerge as accepted wisdom. In this effort, linking pioneering theoretical contributions to more advanced exploration will be very useful to understanding and evaluating the effect of post-entry speed dynamics.

Pioneer sWiedersheim-Paul, Olson, and Welch (1978) introduced a dynamic model that was widely acceptable and generated new ways of exploring a firm's 'pre-export' activities and their effects in further higher involvement (Figure: 3.7).

**Figure 3.6 Factors affecting the pre-export activities of a firm**



**Source: Adapted from Wiedersheim-Paul, Olson, and Welch (1978)**

This model provided the basis of further debates on factors such as SMEs' internal and external stimuli/attention-evoking factors, firms' characteristics, and decision maker's characteristics (demographics) associated with pre-export behaviour. In their model Wiedersheim-Paul, Olson and Welch (1978) posit that the decision maker is influenced by and exposed to different kinds of environmental and firm level attention-evoking

factors during the extra-regional expansion process – this model stresses the pre-export activity of the firms as an important explanation of the start of an international process. The interplay between the three factors of decision maker, environment and the firm itself decides the nature and strength of the attention evoked. This is a two-way process and the demographics of the decision makers, the nature /strength of available opportunity and alternatives available to the firm decide whether the environment is conducive. All these pre-internationalisation activities are also based on pre-export information activities: the activities are grouped into three phases.

- Willingness to start exporting
- Information collection activity
- Information transmission activity

The movement from domestic to international activity, as described by the model, is dependent on the decision maker's willingness as to collection, favourable perception and effective transmission of information. Decision makers' past experience with profitable outcomes might result in fostering internationalisation. First mover advantage and penetration of a target market/country without delay are also influenced by the market and environmental factors in the home country (Morschett, et al., 2010; Pansiri and Temtime, 2010). The home country screening process has multiple facets. Home country internal factors, such as, *cost of information/production*, *nature of the domestic rivals*, communications between the key *resource personnel* and clarity of *operational goals* have pivotal role in foreign investment decision process (Aharoni, 1966; Johnson, et al., 2008; Root, 1994).

Aharoni (1966: 80) asserted that cost of investigation increases due to four different conditions in foreign investment decision process. (1) The investigation process being uncertain and confronted with limited time and resources, the business person cannot afford to think of investing in more than 200 countries in the world. (2) Investigations or information are always carried out or collected at built-in check points, i.e. the sequence of information gathered, evaluated and communicated becomes haphazard. 'In the first phases, assessment is based on "hunches", "rules of thumb" .... And the information is



very crude.... even in the last phase of investigations not all the information that may be available is gathered, digested and analysed'. (3) Investigators tend to avoid areas of possible friction with prior policies (4) Final responsibility for information is not accepted and the final document contains complex and biased opinions of decision makers, increasing the cost of information.

In screening home market factors, a perfectly competitive atomistic<sup>17</sup> industry in the home country is more likely to target international markets by lowering commitments (Johnson, et al., 2008; Root, 1994; Young, et al., 1989). Market penetration and its ultimate effect on international operations can be fruitful for extra-border penetration, initially through exports and gradually through more advanced modes. On the other hand, large oligopolistic firms are more biased towards production activities; and therefore create a higher order threat for small rivals. Small firms have to follow the imitation strategy of the giants to commit higher resources via equity modes (Root, 1994; Young, et al., 1989).

Home country screening presented in current literature presents two major rationales for first mover advantage. The traditional process theorists rely on gradual increments in international markets without reliance on Information and Communications technologies (ICTs), or diversified markets and with considerable psychic distance involved in early internationalisation (Chetty and Campbell-Hunt, 2004; Morgan-Thomas and Jones, 2009). The rationale behind this logic is that the Uppsala model needs a *strong domestic market*, being sceptical about strategic development, and needs the *chance/necessity* for further development (Chetty and Campbell-Hunt, 2004; Zafarullah, Ali, and Young, 1997). Such imperatives are logical for experienced firms.

High-technology firms do not rely on *domestic push* and do not follow a gradual incremental process. Such firms ignore the psychic distance involved in international development. There is also the role of planned to informal serendipitous encounter in international opportunity exploitation. The market is not limited to culturally close

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<sup>17</sup> In atomistic industry, the market forces determine the price strategy of small firms; therefore small firms are less prone to remain domestic in intense competitive domestic markets.

countries (Arenius and Clercq, 2005; Crick and Spence, 2005; Ojala, 2009). This school of thought also suggests that the non-sequential internationalisation process is the product of mutual interdependent forces (Etemad, 2004; Osarenkhoe, 2009; Rasmussen, et al., 2010).

Born-global theorists argue that the *domestic market* does not contribute and as such, the psychic distance becomes unimportant for rapid international development (Arranz and De Arroyabe, 2009; Chetty and Campbell-Hunt, 2004; Oviatt and McDougall, 1994). However, paradoxical findings are also reported by born-global theorists, e.g. Chetty and Campbell-Hunt (2004), who found that the early internationalised firms also preferred manufacturing operations, contrary to previous literature which found that the more internationalised firms prefer highly-committed modes (Cheng, 2006; Chetty and Campbell-Hunt, 2004; Osarenkhoe, 2009).

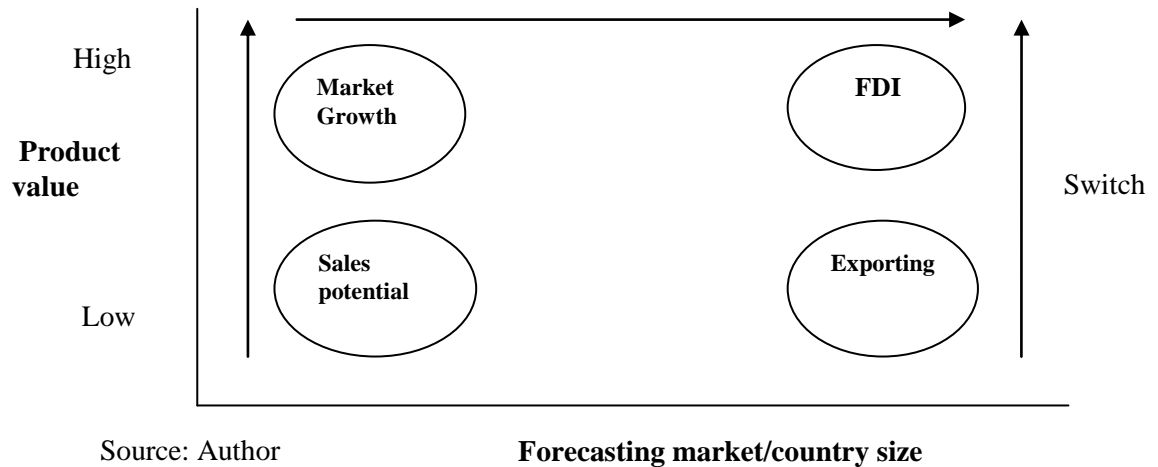
### **3.6.2 Target country / Market Analyses**

Small firms are not just “little big” business, but a number of stereotypes challenge their international path (Dimitratos and Lioukas, 2003; Pansiri and Temtime, 2010). There are several alternative methods available to MNEs and SMEs for country / market screening. The entry strategy depends upon the political/economic situation in the host country and size/growth potential of the target market (Mohamad and Hoshino, 2013)(Young et al, 1989; Root, 1994). The companies that do not get first mover in the potential international market will lost their edge on competitors, threatening their growth and survival (Frynas, et al., 2006).

Firms with lower sales potential rely on exporting, while accelerated internationalisation encourages small firms to move towards FDIs in their early stages (Chetty and Campbell-Hunt, 2004; Jeannet and Hennessey, 2006; Musteen, et al., 2010). Markets such as China and India having large populations and different social norms (low price/cheap labour economy) and therefore it may not be viable to capture them with lower commitments (Figure 3.8). ‘Since it is often impossible to shift quickly into another... special attention has to be focused on the need to ensure that the chosen entry strategy offers a long-term opportunity to maximize profits’ (Jeannet and Hennessy, 2006: 385). Less-developed and

politically unstable economies bearing a high risk in the case of a wholly owned subsidiary can be exploited through co-operative agreements to capture suitable market share.

**Figure 3.7. Analysis of market/company sales potential**



Source: Author

Forecasting market/country size

Literature offers contradictory evidence for analysing international risk factors. Welch and Luostarinen, (1988) posit that few firms internationalise in their early foundation years. Such firms are slow in strategy imperatives, or international risk factors contribute to their slower international growth. The traditional process theorists argue that psychic distance is the basis of international risk factor (Johanson and Vahlne, 1977; Ojala, 2008). In the FDI vein of research the authors also found support for their hypothesis that in an environment of high political constraints and higher cultural distance firms will favour a joint venture operation or lower equity modes compared to wholly owned subsidiaries (Demirbag, Glaister, and Tatoglu, 2007; Demirbag, Tatoglu, and Glaister, 2009).

‘The RBV draws attention to those firm controlled factors — resources and capabilities — that are developed, combined and deployed by the firm, in the process of creating competitive offerings in its current and potential markets’ (Kaleka, 2012: 94).

Innovation-based models assume that the small firms are quicker to internationalise (Crick and Spence, 2005; Jones, 2001), and refer to these episodes of rapid internationalisation as “the gusher”: three- to four-year periods during which sales double and double again every year and the firm radically transforms from a domestic to an international focus (Chetty and Campbell-Hunt, 2004; Rasmussen, et al., 2010). Such born global do not screen or ignore the international risk factors. This study also found a negative association between international risk and intentions to qualify for immediate entry in international markets (Acedo and Jones, 2007; Sommer, 2010).

Contemporary process theorists assume a non-sequential process of internationalisation, attributed not only to technology, but also to *entrepreneurial proves/global mind-set* (Etemad, 2004; Osarenkhoe, 2009). International screening process is therefore based on the strategy development of the entrepreneur, reliance on networks and firms’ capabilities of internationalisation.

### **3.7 Forecasting entry mode and profitability**

Small firms, whether they are born global or late movers, take a considerable risk as they decide to enter in the international market (Zahra, et al., 2005). Zahra et al. (2005) posit that the difference in performance arises from the quality of opportunity and modes of exploitation. Differences in incremental revenues and costs determine the forecasting of profitability (Root, 1994). Opportunity, mode set-up and on-going costs are always higher in the initial stages of any proposed venture. Targeting low-cost labour in a populated country with sound marketing initiatives also boosts the performance of the venture, along with higher rent-generating potentials. To give an illustration, Volkswagen, to benefit from low-cost labour, moved its manufacturing operation of higher priced Golf cars, ‘Polos’, from Germany to Spain (Yip, 2008).

In the case of contractual relationships, licensing is generally referred to as a marginal mode, and does not need any careful deliberation and evaluation of its benefits and costs (Morschett, et al., 2010; Root, 1994). On the other hand, an underestimation of the risk of dissemination of knowledge and value erosion potential of capabilities warrants licensing as a high risk-oriented venture (Erramilli, et al., 2002). Factors include cost and

availability of skills varies across countries. Targeting low-cost, high-skill countries can increase productivity, but at the expense of the danger of training future extra-border rivals (Chiao, et al., 2010; Yip, 2008).

Erramilli et al. (2002:190) further endorse this point and argue that *decision makers* must decide carefully ‘when it makes sense to transfer resources and capabilities via franchising (quasi-market mode) and via management service contracts (quasi-internal mode)’. The quasi-market mode carries more value erosion potential as the licensor /franchisor might also influence and control the working environment.

In forecasting mode choice and profitability, the literature offers contradictory results. One school of thought argues that domestic and international cooperative modes are more prone to value- and resource-generation potential (Foley and Fahy, 2009; Wiklund and Shepherd, 2009). This perspective also applies to small businesses in the high-technology sector, which has endorsed the role of networks along with external screening as a holistic approach (Arenius and Clercq, 2005; Crick and Spence, 2005; Ojala, 2009). Other studies have found an inverted J-curve or U-shaped relationship between strategy choices and performance (Fleury, et al., 2008; Kaleka, 2012; Ruigrok and Wagner, 2003).

No doubt both schools of thought have enhanced our understanding of strategy choices and their link with firm’s performance. However, international strategy of both perspectives suffer from at least one of the following major limitations (Leonidou, et al., 2007; Yamakawa, et al., 2008):

1. The studies focus heavily on short-term performance or degree of internationalisation without shedding light on their sustained rapidity/post-entry speed dynamics; and
2. In most studies, no proper conceptual /theoretical framework is used. Lack of unified methodology results in a variety of inconsistent, fragmented and conflicting results, which do not lead to any subsequent development;
3. Lack of proper theoretical models results in weak research and managerial implications.
4. The strategy literature to date, as discussed in the previous section, has predominantly focused on the internationalisation behaviour of small or large firms from *developed to developed and/or developing economies*. However there is a dearth of literature that sheds light on the development of SMEs from emerging economies (EE) to (DE) developed economies

5. The internationalisation literature ignores the *role of entrepreneurial cognition* in cross-border operations.

### **3.8 Emerging economies and small firms' entry choices**

Freeman et al. (2006: 35) point out that 'The exploitation of new and existing networks, to expand early and rapidly and to penetrate in global segments to protect and exploit proprietary knowledge and lock in clients as a first mover is the main objective of the small born-global firms'. In the EEs, due to weak infrastructure, lack of credible institutions and the presence of legal and moral hazards (Chiao, et al., 2010; Musteen, et al., 2010), small firms suffer from survival threats as compared to their counterparts. Freeman et al. (2006) argue that even in advanced economies, reactive small firms are comparatively weak in terms of managing risk and uncertainty. SMEs typically suffer from three weaknesses: (1) lack of economies of scale (Arranz and De Arroyabe, 2009); (2) lack of financial and knowledge resources (Jansson and Sandberg, 2008; Maurel, 2009) and; (3) risk aversion. This leads to an important question. How are small firms able to avoid failures and obtain first mover advantage in EEs in the presence of legal and moral hazards?

Grimes et al. (2007) put forward the argument that SMEs' international motivation and born global capabilities in the extant literature centres around three categories:

1. Firm's characteristics (e.g. size, product characteristics )
2. Marketing strategy-related variables (e.g. R and D )
3. Firm competencies

One of the important limitations associated with internationalisation literature is that the existing strategy literature exploring the behaviour of SMEs/MNEs from DE/MDC (developed economies/more developed countries) to DE and/or EE/LDC (emerging economies/least developed countries) explains only the process of internationalisation based on firm-specific variables or management-related *general demographics* (Johanson and Vahlne, 1977; Pinho, 2007; Reid, 1981). Innovation-related models (McDougall and Oviatt, 2000), shed light on the role of decision maker but again, the innovation-based models, being in their infancy, are not adequately tested, and this model ignores the

dimensions of environmental and locational motivations in internationalisation (Collinson and Houlden, 2005; Rauch, et al., 2009).

Recently, Wright et al. (2005) and Yamakawa et al. (2008) complained that there was no research explaining the behaviour of small firms' internationalisation from EE/LDC to DE/MDC, Cell 4 (Figure: 3.9).

**Figure 3.8 Analysis of internationalisation of firms based in EE**

		<i>Direction of internationalisation</i>	
		From DE/MDC → DE/EE/LDC	From EE/LDC → DE/MDC
<i>Firm size</i>	Large	Cell 1: <b>Research focus 1</b> (Johanson and Vahlne, 1977);(Volberda, Baden-Fuller, and van den Bosch, 2001);(Stienstra, et al., 2004);(Arranz and De Arroyabe, 2009)	Cell: 2 <b>Research focus 2</b> (Zou, Fang, and Zhao, 2003);(Townsend, et al., 2008; Vrontis and Kitchen, 2005);(Townsend, et al., 2008);(Erdilek, 2008)
	Small	Cell:3 <b>Research focus 3</b> (Bell, 1995);(Crick and Spence, 2005);(Hessels and Kemna, 2008);(Osarenkhoe, 2009);(Fernhaber and McDougall-Covin, 2009); (Morgan-Thomas and Jones, 2009)	Cell: 4 <b>Research focus 4</b>  <i>(No research)</i>

Source: Adapted from Yamakawa et al.(2008)

### 3.8.1 Role of international entrepreneurship and entrepreneurial cognition

Entrepreneurship authors propose that perception, learning, opportunity recognition, and analytical decision making are the process lens of behavioural research that can shed light both on people and firm side-opportunity exploitation (Acedo and Jones, 2007; Haynie and Shepherd, 2009). To clarify the concept, it is worth analysing the basic concepts given by the original contributors. Lumpkin and Dess (2001: 431) describe “entrepreneurial orientation” as the strategy-making processes and styles of firms that engage in entrepreneurial activity. Despite a sound wisdom behind international

entrepreneurship (IE), the IE has been criticised as a broad theory that fails to explain the dynamics of entry mode choice. There is no agreement about the measurement of constructs which define entrepreneurial orientation as innovative, proactive and risk-taking behaviour on the part of the firm (Moreno and Casillas, 2008; Rauch, et al., 2009: 762).

Rauch et al. (2009) argue that the entrepreneurship field is lagging behind due to the following drawbacks: (1) entrepreneurship is based on weak theoretical assumptions as there is no unanimity about the key issues that explains its domain; (2) there is inconsistency regarding the results of entrepreneurial constructs, i.e. innovativeness, risk-taking and productiveness, and their effect on firm performance or growth (Moreno and Casillas, 2008); (3) the entrepreneurship research ignores the location effects explained by RBV and the Dunning framework as a firm-specific advantage (Moreno and Casillas, 2008; Rauch, et al., 2009). The conceptual and empirical contributions exploring the role of EO explain their direct effect on firms' performance and growth without mediating any variable, and there is no *conceptual or empirical contribution* that sheds light on SMEs' building block/tool for foreign development, i.e. their entry mode choice.

The role of the decision maker is central in IE research. The international back ground of the individual leads to experience of techniques, knowledge and skills needed to identify the existence of opportunity. This construct is said to be the driving force for pursuit of an appropriate opportunity, if the opportunity is perceived as bona fide (Baron and Ward, 2004; Herrmann and Datta, 2006). In sum, the international psychological mind-set is not only able to explore opportunity but I also helpful in identifying bona fide service mode for post-entry speed evaluation.

Entrepreneurial cognition is defined as "... the knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation and growth' (Mitchell, Busenitz, et al., 2002: 97). Entrepreneurial cognition is the combination of two attributes 'Entrepreneurship' and 'Cognition'. Cognition is the interpretation and perception of information by individuals for effective decision making when combined with 'entrepreneurship' (Kickul, et al., 2009); the concept becomes



helpful in the analysis of internal and external information for entrepreneurial discovery and exploitation.

Andersson and Florén (2008) argued that to understand entrepreneurship, it is important to understand the entrepreneur, but also the context in which he/she operates. The environment generates the *mental models* for future strategies, as the basic definition of entrepreneurship ‘... does not address the entrepreneur *per se*’ (Andersson and Florén, 2008: 37), and does not take into account the effect of environmental turbulence associated with SME internationalisation (Rauch, et al., 2009); it is therefore unable to explain the complexity involved in SME foreign servicing. Andersson and Florén (2008: 38) also concluded that ‘[S]o far there are no studies focusing on the behaviour of managers in SMEs with an international orientation’ (Figure 3.10).

**Figure 3.9 Research exploring the role of human capital/demographics**

Focus	CEO/Individual/top management	Firm/market
Human factors and internationalisation	(Cavusgil, 1984); (Bloodgood, et al., 1996); (Manolova, et al., 2002); (Herrmann and Datta, 2002); (Halikias and Panayotopoulou, 2003); (Andersson, Gabrielsson, and Wictor, 2004); (Volery, 2004); (Nummela, et al., 2004); (Ruzzier, et al., 2007); (Pinho, 2007); (Riley, et al., 2009); (Evald, Klyver, and Christensen, 2011)	(Hymer, 1960); (Dunning, 1988a); (Andersson, et al., 2004);
Cognition and SME entry choice	<b>No contribution so far (Research gap)</b>	(Johanson and Vahlne, 1977); (Johanson and Vahlne, 1990) (Acedo and Florin, 2006); (Acedo and Jones, 2007)

Acedo and Florin (2006: 52) pointed out that ‘... other cognitive characteristics typically identified in past research in connection with entrepreneurs’ behaviour should be included in such a construct to provide the link between attitude and behaviour’. Past

literature recommends the linkage of environment, EO, and selected cognitive constructs (Allinson, Chell, and Hayes, 2000; Crick and Spence, 2005; Dib, et al., 2010; Sommer, 2010). In the past research both in empirical and archival studies; in developing and developed economies, the results remain paradoxical and or inconclusive. Rasmussen et al. (2010) and Chetty and Campbell-Hunt (2004) found that the psychic distance was flattened through cooperative arrangements/networks. Others pinpointed that managerial cognition in small business and SMEs favours the use of cooperative arrangements and service their international customers through franchising and strategic alliances for speedy developments in international market (Acedo and Jones, 2007; Dimitratos, et al., 2003; Jones, 2001).

Crick and Spence examined the internationalisation process of 12 UK SMEs and concluded that no single theory was ideal to explain the extra-border expansion of small firms. IE and SME scholars (Acedo and Jones, 2007; Crick and Spence, 2005; Sommer, 2010) have emphasised the integration of theories, as ‘such integrative studies would provide interesting insights in the investigation of the mode of market servicing and the internationalisation of value-added activities in the IE research’ (Young, Dimitratos, and Dana, 2003: 35).

In particular, to the best of this researcher’s knowledge gained through the extensive literature review, to date there is no research that sheds light on the role of psycho-cognitive decisions in foreign servicing process and post-entry speed dynamics. The Current IB literature focus on demographic general characteristics and they are taken as a proxy of psycho-cognitive attitude and behaviour, yet in reality, the psycho-cognitive profiles<sup>18</sup> cannot be an alternative to general demographics in understanding the international involvements of small firms (Jantunen, Nummela, Puumalainen, and Saarenketo, 2008; Kickul, et al., 2009). Cognitive conflicts in national diversity are likely to affect scanning, interpretation and selection of relevant information in foreign

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<sup>18</sup>‘The use of demographic measures as proxies for managerial cognitions remains a source of criticism in upper echelons research (Nielsen and Nielsen, 2011: 191). There might be several grounds for this criticism; most important is, ‘...the cognitive bases, values and perceptions of upper level managers are not convenient to measure or even amenable to direct measurement’ (Hambrick and Mason, 1984: 196).

investment decision process (Aharoni, et al., 2011; Nielsen and Nielsen, 2011). ‘...tenure and functional background do not have close psychological analogues’ (Hambrick and Mason, 1984: 196), therefore cognitive diversity is completely different from that of demographic diversity (Nielsen and Nielsen, 2011; Zahra, et al., 2005). Aharoni et al. (2011: 138) pinpointed that individual demographics are poor measure of managerial cognition, and strongly encouraged that researchers to eschew demographic variables in favour of variables (cognition ) that are more difficult to measure (Aharoni, et al., 2011). More recent competitive scenarios give rise to the innovative role of the decision maker. There are number of heuristics and biases that underpins the strategic decision making process, but this study focuses on *particular biases* that effects entry mode selection process. This thesis contributes to current literature in cognitive behaviour in foreign servicing and post-entry speed dynamics as a firm-level analysis.

### **3.8.2 Post-entry speed and entrepreneurial cognition**

Oviatt and McDougall (1994: 49) define born a global/ international new venture (INV) firm as ‘a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries’. Oviatt and McDougal (2005) identified four forces of speedy development (Table 2.2). In international speed literature there is no consensus about the speed (time), scope (diversification) and/or the extent (ratio) which actually make a firms ‘born international’ (Dib, et al., 2010; Kiss and Danis, 2008; Musteen, et al., 2010).

‘But despite numerous empirical studies and some conceptual contributions referring to pace or speed of internationalization, the topic of post-entry speed is little researched or understood’ (Prashantham and Young, 2011: 277). The notion of time is loose in IE literature, where time generally refers to the discovery of international opportunity and its first entry in the international market (Oviatt and McDougall, 2005a). Similarly, the scope of operation is also a subjective terminology and there is no consensus as to how much diversification actually results in accelerated internationalisation. However, the ratio of foreign sales to total sales is an objective phenomenon and therefore this study uses this attribute for international rapidity—*post-entry speed*.

IE enhances our understanding in speed literature, and besides IE, the Uppsala model and network theory are extensively used in understanding the behaviour of small *high-technology* firms as mediating or moderating forces (Rasmussen, et al., 2010; Weerawardena, et al., 2007; Zucchella, et al., 2007). In the EEs ,due to legal and moral hazards, hybrid structures and *networks* lead to strong expropriation risks/failure and inimitability is never assured (Musteen, et al., 2010; Oviatt and McDougall, 1994). Such impediments do not leave any room for patents and copyrights to be correctly implemented; therefore knowledge does not remain socially complex and ambiguous. The most compelling factor is that, due to moral/legal hazards, even in network relationships, co-operation does not dominate opportunism (Oviatt and McDougall, 1994).

The development of information and communication technology plays a weak role as a *mediating force* in EEs. Current literature fails to offer a clear distinction between initial and post-entry speed of small neophyte firms (Prashantham and Young, 2011). In particular literature fails to identify proper moderating or mediating forces for post-entry speed development. In the entrepreneurship literature described above, entrepreneurial actor's *preference* is central in international development. Aharoni et al. (2011: 138) pinpointed that individual demographics are poor measure of managerial cognition. In the current speed literature *preferences* are tested with general demographics as a mediating force, but in actual sense; cognitive preferences are central *enabling force* in accelerated internationalisation (Table 3.2).

<b>Table 3.2 Categorising the typical forces of speedy developments</b>		
<b>Category</b>	<b>Typical forces for speedy development</b>	<b>Contributions</b>
<b>Enabling forces</b>	Information and communication technologies	(Autio, et al., 2000);(Dimitratos and Plakoyiannaki, 2003);(Knight and Cavusgil, 2004);(Dimitratos and Jones, 2005);(Gabrielsson, 2005);(Zhang, Tansuhaj, and McCullough, 2009);(Rasmussen, et al., 2010);(Sommer, 2010);
<b>Motivating forces</b>	Domestic competitive /institutional forces	(Chetty and Campbell-Hunt, 2004);(Etemad, 2004);(Gabrielsson,

		2005);(Dimitratos and Plakoyiannaki, 2003);(Zucchella, et al., 2007);(Thai and Chong, 2008);(Naudé and Rossouw, 2010);(Rasmussen, et al., 2010)
<b>Mediating forces</b>	Entrepreneurial demographics, experience/orientation	(Bloodgood, et al., 1996);(Etemad, 2004);(Gabrielsson, 2005);(Dimitratos and Jones, 2005);(Zucchella, et al., 2007);(Thai and Chong, 2008);(Naudé and Rossouw, 2010);(Dib, et al., 2010);(Sommer, 2010)
<b>Moderating forces</b>	Networks and learning	(Oviatt and McDougall, 1994);(Etemad, 2004);(Zucchella, et al., 2007);(Thai and Chong, 2008);(Zhang, et al., 2009);(Dib, et al., 2010);(Rasmussen, et al., 2010);(Musteen, et al., 2010)
<b>Cognitive forces</b>	<b>As an enabling force</b>	<b>No contribution</b>

The literature is deficient in integrating the old traditional FDI models with dynamic capabilities to explain the entry choice process of small firms from developing nations. In particular literature fails to explore the role of cognition as enabling force in small firm's post-entry speed after a particular entry mode choice process. Therefore, in some way this study contributes to IE/born global phenomenon, but mainly it explores the role of traditional models (integration of cognitive capabilities with the OLI model not tested in speed literature) in explaining the post-entry speed behaviour of small firms from Pakistan.

### 3.9 Summary

This chapter presents the strategic value of entry strategy decision and the role of comparators and parameters of entry screening process in final selection. One of the most important limitations of the literature is that it is deficient in explaining the entry screening process of small firms from developing nations. Another limitation of the literature is that it does not explore the *outcome* of entry selection in the form of accelerated entry—post-entry speed.

Previous research highlights the manager's demographics as a proxy of cognitive global mind set in SME international development, whereas in reality this is not so. Managers' demographics characteristics explored in literature are ambiguous, inconclusive, focus

heavily on descriptive conceptualisation and ignore the context in which small firms operate. Cognitive diversity is completely different from that of demographic diversity.

This study will be unique in nature in that it explores the affect of cognitive limitations in strategic decision making and its subsequent affect in the form of post-entry speed. To this end, this thesis explores the role of ownership, location and cognitive advantages in small firm's international post-entry speed development. The next chapter presents the review of entry mode theories.

## Chapter 4

### Literature review: Entry mode theories

#### 4.1 Introduction

The internationalisation of small firms is an idiosyncratic phenomenon, as small resource-starved firms try to create value chain activities through self-reliance or through collaborative arrangements. Both strategic choices can help to achieve first mover advantage: the first, if the business principals integrate with certain logics (previous policies/theories); and the second, if the qualified deduction from the screening process matches with the cognitive preferences of the decision maker and they start to perceive certain logics as a viable strategic choice. This chapter presents a review of research domain and entry mode theories related with behavioural and economic domains. To this end this review pinpoints the major limitations of past empirical contributions. This analysis leads to the identification of a gap in the IB literature, in particular as regards the role of entrepreneurial cognition ignored in foreign servicing and post-entry speed.

#### 4.2 Research domain

Three aspects of internationalisation, international strategy, international marketing and international business are interlinked (Johanson and Mattsson, 1995). International strategy involves the goals of a firm and the resources available for strategic deployment. International marketing helps to identify and evaluate the target markets, and international business involves the selection and evaluation of entry choice *decision*. This is the main research agenda of this thesis. A robust scanning of internationalisation suggests that here are two dominant paradigms that explain the international behaviour of cross border outward movement of firms. These are (1) *Economic decision*-based approaches or market imperfection/failure paradigm and; (2) evolutionary/*behavioural approaches*, which include the *alliance paradigm* (see section 6.2.1, Table 6.2).

There are many facets to the decision making process; the two paradigms are influenced by *economics, sociology and psychology*. The economics field of research either

neglected the role of the “personality of the entrepreneur” (Brigham, et al., 2007), which they deemed not particularly fruitful, or assumed managers were *rational* and well-informed in decision making. Sociologists posit that entrepreneurs’ rationality is environmentally constrained and influenced by past experience (Cardon, et al., 2012; Zahra, et al., 2005). This paradigm was influenced by the step-stage process of international decision making. Later born global theorists suggested that accelerated international strategies are led by entrepreneurs with strong track records (Knight and Cavusgil, 2004; Morgan-Thomas and Jones, 2009). This paradigm introduced the role of a type of small firm dynamic firm, the international new ventures (INVs), referred to all those small firms and Small and medium size enterprises (SMEs) who start their international operation since their inception (McDougall and Oviatt, 2000; Oviatt and McDougall, 1994).

This paradigm suffers from various limitations. Decision makers operate in an international business *culture* where decisions are often far from certainty and agreement, as they involve *hubris, egos and chaos* (McKenzie, et al., 2009; Zahra, et al., 2005). This line of research focuses on examining the role of the decision maker’s experience, while neglecting the dimensions of unrest, uncertainty and unpredictability<sup>19</sup> (U-U-U-complexity) in future decisions. These limitations lead to misleading results (see section 2.7). Further inappropriate methodologies (see section 6.2.1) failed to lead to logical theoretical developments.

The entrepreneurial decision making process is linked more with cognitive psychology (Ayton, 2005; Braisby and Gellatly, 2005; McKenzie, et al., 2009). In the entrepreneurship literature, the link of cognitive psychology with entrepreneurial intentions (Cardon, et al., 2012), entrepreneurial decision process and “the personality of the entrepreneur” misrepresented (Brigham, et al., 2007; Shaver and Scott, 1991). This misrepresentation of entrepreneurial personality is due to the cultural diversity in the world regions, wide ranges of complex methodologies in the international business

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<sup>19</sup>The UUU complexity is a term derived from (McKenzie, et al., 2009), who describes the decision process as a complex process creating cognitive dissonance and unrest for all those who are involved in the decision making process. UUU complexity is a major source of creating cognitive biases in foreign investment decision process.



context, and disjoint hypothesis from theory building process. Previous research has offered only an inadequate explanation of the entrepreneurial decision process, leading to distinctive fields.

First, the *behavioural paradigm* appears more interested in examining the role of previous international experience, demographics and/or *cognitive determinants* of entrepreneurial behaviour (Baron and Ward, 2004; Bloodgood, et al., 1996; Brigham, et al., 2007; Mitchell, Busenitz, et al., 2002). As discussed before Day and Reynolds (2011) argued that the entrepreneurship is associated with behaviour and action not in traits. Again, the role of cognitive approaches is striking and cognitive approaches have their roots in sociology and psychology (Gupta and Mui, 2013; Mitchell, et al., 2007; Zahra, et al., 2005). Psychologists argue that cognitive decisions are not rational and might be misled by cognitive adaptability and internal preferences such as proactivity, tolerance to ambiguity and risk perception. Decision is not only influenced by cognitive adoptability but also by *Heuristic thought*- cognitive processing that is guided by “mental rules of thumb” and *cognitive biases* (Arslan and Larimo, 2011).

Second, in the *alliance capitalism paradigm*, the entrepreneurship research focused on entrepreneurial orientation in firm level decision making process to explore the proactive, innovative and risk-taking behaviour of the firm, but neglecting the role of context in which the firm operates (Kropp, et al., 2008; Lumpkin and Dess, 2001; Moreno and Casillas, 2008). This paradigm also neglected the step-stage process and was more inclined to argue that the international process was non-sequential in nature, leading to accelerated internationalisation. No doubt international entrepreneurship (IE) enhances our understanding about a firm’s exposure to the international arena, yet the unclear domain of IE appears to have dissuaded scholars to adopt proper framework of investigation (see section 2.8.1).

How small firms expand their intentional operations in a turbulent environment remains an under-researched area and has significant research and managerial implications. Aharoni et al. (2011: 138) recently pinpointed that ‘There is even some evidence that external factors may influence patterns of *managerial cognition* with respect to *entry mode decision*, but cognition are not specifically explored in this line of research’. In

particular, in a small firm's entry mode *decision*, to date there has been no research that identifies an entrepreneur's *stable psychological preferences* and their link with *utility* of outcome (post-entry speed). The role of cognitive *adaptable preferences*<sup>20</sup> is highlighted. Managerial cognition is rationally bounded and is influenced by the context in which small firms operate. Entrepreneurial cognitive preferences of the entrepreneur (Cardon, et al., 2012), when integrated with recognising opportunity, results in entrepreneurial success (Butler, Doktor, and Lins, 2010; Herrera and Sánchez-González, 2013). The cognitive approach allows the interaction of rational and non-rational elements in decision making (Zahra, et al., 2005: 136).

The literature is deficient in integrating the old traditional FDI models with dynamic capabilities to explain small firms' entry choice process. This research explores the role of enduring cognitive preferences borrowed from *cognitive psychology/entrepreneurial cognition* to explore the role of ownership, location and cognitive adoptability<sup>21</sup> and rigidity in entry mode selection process and post-entry speed dynamics of small firms from Pakistan. In sum, the *domain* of this research falls into both the economics and behavioural paradigms to contribute to a holistic approach of enquiry into the nature and causes of small firms' entry selection process and post-entry speed.

For small firms, international rapidity has both growth and failure consequences. Late entry compared to competitors, and/or 'too little speed' results in loss of potential opportunity and first mover advantage (Herrera and Sánchez-González, 2013; Sapienza, et al., 2006). However there is a danger of 'over-speed' because of the 'liability of smallness, newness and foreignness' (Bell, et al., 2012; Lu and Beamish, 2006) might lead to fatal risk of failure/survival (Prashantham and Young, 2011; Sapienza, et al., 2006). This study explores the role of ownership, location/environmental and cognitive

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<sup>20</sup>Entrepreneurial cognitive preferences include: cognitive orientation, tolerance to ambiguity, proactivity, cultural cognition and risk perception: such attributes are vital in cognitive entrepreneurial process (noticing opportunity, acting on opportunity, successful international entrepreneurship) in small firms operating in turbulent environments.

<sup>21</sup>Cognitive adaptability is a multifacet term, the is borrowed from emotional intelligence (EI), metacognition and cognitive psychology. This refers to dynamism and self-regulative and flexible tendency of an entrepreneur to sense the opportunity (Cardon, et al., 2012). The cognitive rigidity are the cognitive biases/heuristics that effects the decision making process.

biases in the entry mode selection phase of small firms from Pakistan. In the entry mode selection phase the cognitive biases are explored through phenomenological approach and is triangulated with quantitative methods to explore the role of cognitive adoptability in post-entry speed behaviour of small firms. By measuring post-entry speed, this thesis intends to explore the *utility* of entry mode choice in the form of the speed of sales development, to some extent a performance outcome, which is certainly a behavioural perspective, but overlaps with the economic paradigm. Next section presents the overview of both behavioural and economic theories of internationalization.

### **4.3 Entry mode and small firm's speed theories**

The pioneering doctoral thesis by Hymer (1960) contributed to explaining the rationale behind MNE foreign production activities. FDI theory explains that market imperfections in the shape of exchange rate disequilibrium, market failures and economies of scale are the bases of international production (Buckley, 2011; Hymer, 1960; Mtigwe, 2006). Foreign modes of entry such as exporting (direct or indirect), contractual arrangements or joint ventures have not been the subjects of the main investigations carried out by FDI scholars (Buckley, 2011); rather they have been more concerned with answering the question as to why an MNE might establish a foreign operation (Buckley, 2011; Mtigwe, 2006). The main theme of FDI theory is the exercise of control and monopolisation of power through management, technology and access to tangible resources. These contingencies become a source of competitive advantage when the local market becomes unsuitable for the exploitation of these opportunities. Hymer's (1960: 25) FDI theory posits that control and monopolisation of power are desirable and profitable when 'various enterprises are owned and controlled by one firm'.

However, FDI theory was criticised on several grounds. 'This macro, impersonal approach fitted with an interest rate driven model of flows of funds' (Buckley, 2011: 65). According to Dunning and Rugman, (1985: 229) 'No discussion of the Coasian theory of the firm can be found in Hymer'. Hymer's (1960) theory highlights the structural market imperfections while ignoring the internalisation of transactions or other associated costs in the foreign operations. Further, Hymer ignores the effect of location-specific

advantage and government policy on the FDI decision (Dunning, 1988a; Dunning and Rugman, 1985).

According to Welch and Luostarinen (1988: 34), the early market imperfection theories ignore the stages that a firm has to go through before making a final decision to exploit cross-border activities. Further, early scholars were 'involved with documenting and explaining the spread of multinational corporations, and assessing their impact, with an emphasis on their foreign investment activities' (Welch and Luostarinen, 1988: 34)

A breakthrough was introduced by Aharoni (1966), who introduced the concept of the international cross-border activity of MNEs as an investment process (Aharoni, et al., 2011; Dimitratos, et al., 2011). Aharoni describes uncertainty, risk of failure, and time and resource constraints as fundamental barriers in the foreign investment decision process. He also highlights strong interest by one or several executives, a strong outsourcing proposal, and fear of losing a current market as *initiating forces* in the investment decision process. Similarly, a strong market, utilisation of technology, and capitalisation of know-how, together with an indirect return to lost markets are contingent *auxiliary forces* in the investment decision process (Aharoni, 1966; Aharoni, et al., 2011).

Theories of international business (Buckley and Casson, 1976; Dunning and Lundan, 2008b), particularly the literature related to entry mode choice (Bell, 1996; Root, 1994), have emphasised the effect of four major constructs: country-specific, industry-specific, product-specific and firm-specific factors. However, the drivers of the selection of a particular mode of entry in MNEs in general and SMEs in particular (due to their small size and resource limitation) remain inconclusive. This study acknowledges four theoretical backgrounds used by international business scholars regarding entry mode choice: *transaction cost theory and its extensions* (Buckley and Casson, 1976; Coase, 1937); *internationalisation theory* (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975); the *OLI* (ownership, location and internalisation) *framework* (Dunning, 1988b, 1995); and the *resource-based view of firms* (Barney, 1991; Penrose, 1959). Each of these will be considered in turn in relation to entry mode selection.

#### 4.3.1 Transaction cost theory and its extensions

The branch of internalisation theory known as transaction cost theory is the most widely-used theory in entry mode literature (Chiao, et al., 2010; Islam, et al., 2011; Jiang, Chu, and Pan, 2011). The basic premise of transaction cost is to internalise the complex value-adding activities as a compensating advantage to reduce the liability of foreignness (Bell, et al., 2012; Chiao, et al., 2010; Zaheer, 1995), mode set-up, and recurrent fixed and variable costs (Anderson and Gatignon, 1986; Mtigwe, 2006; Williamson, 1975).

Transaction cost theory, focuses on the role of the three factors: *asset specificity*, *ambiguity* and *frequency of transaction* as the basis of deciding internalisation advantage (Buckley and Casson, 1976; Chiao, et al., 2010; Mtigwe, 2006). As a cut-off point to decide the level of internalized activities, marginal revenue should always remain above the marginal cost of transaction (Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Jones, 1996; Karabulut, 2013). Entry modes are assessed by the value of resource commitments and equity ownership and by the level of control (Chiao, et al., 2010; Dong, et al., 2008). According to the internalisation theory, three types of costs, mode set-up cost, recurrent fixed cost and recurrent variable cost, are the function of choice of equity or control in international entry (Anderson and Gatignon, 1986; Buckley and Casson, 1976; Islam, et al., 2011).

*Asset specificity* refers to the loss of assets when they are utilised in alternative transactions (Buckley and Casson, 1976; Williamson, 1975). Asset specificity is the most commonly-cited transaction cost variable in most empirical studies (Brouthers, 2002; Chiao, et al., 2010; Palenzuela and Bobillo, 1999). R & D and/or advertising intensity are the most common measures used for asset specificity (Brouthers, 2002; Brouthers and Nakos, 2004; Palenzuela and Bobillo, 1999). Perceptual measures such as service, technological and human specificity are also used in numerous studies (Brouthers, et al., 2003; Chiao, et al., 2010; Erramilli and Rao, 1993; Palenzuela and Bobillo, 1999). The empirical literature contains mixed, often contradictory, findings and it remains inconclusive. While Erramilli and Rao (1993), Chiao, et al. (2010), Brouthers and Brouthers (2003) and Brouthers and Nakos (2004) found support for their hypothesis

that higher asset specificity is positively associated with higher control modes, this hypothesis was not supported by another stream of research (Hennart, 1991; Islam, et al., 2011), which found that R & D-intensive firms/firms with highly proprietary assets did not show a greater probability of choosing WOSs (Delios and Beamish, 1999; Hennart, 1991; Jiang, et al., 2011).

*Ambiguity/uncertainty* is the second most important dimension of transaction cost theory and refers to the uncertainty due to opportunistic behaviour on the part of either party (Buckley and Casson, 1976; Islam, et al., 2011; Mtigwe, 2006). There are two types of ambiguity, external and internal uncertainty. A meta-analysis of previous literature endorsed by Zhao et al (2004) suggests that previous studies used two constructs to measure *external ambiguity*: (1) country risk (including, but not limited to, size of the market, industry growth, perceived political and economic stability and market growth potential (Demirbag, et al., 2007; Demirbag, et al., 2009; Islam, et al., 2011; Jiang, et al., 2011); and (2) cultural distance (Brouthers, 2002; Brouthers and Brouthers, 2003; Contractor and Kundu, 1998; Luo, 2001).

The absence of uniformity in the methodologies has led to inconclusive results and widespread criticism, endorsed by Drogendijk and Slangen (2006), that Hofstede's (1984) and Schwartz's (1994) cultural dimensions fail to capture the complexity involved in national cultures (Harzing, 2004; Kim and Gray, 2009). Subsequent efforts to develop more rigorous measures have attempted to respond to the call from more recent scholars such as Harzing (2004) and Tihanyi, Griffith, and Russell (2005) to develop more *cultural capability dimensions*. As a result, scholars with an interest in cognitive culture capability invented two new cultural capabilities, i.e. *culture intelligence* (Earley and Mosakowski, 2004; Earley, 2006) and *cultural competence* (Johnson, et al., 2006; Muzychenko, 2008). To date, the empirical literature is lacking in measures of these two dimensions. One of the contributions of this thesis contributes is the testing of cultural-cognition in entry mode choices and post-entry speed.

The second type of ambiguity, relates to *internal uncertainty* in measuring the performance of contracts. Previous studies utilised a variety of measures to assess

internal uncertainty, such as number of international experiences as a proxy of reduced uncertainty (Cheng, 2006; Ruzzier, et al., 2007; Sommer, 2010), or number of foreign operations or number of years of sales in the foreign country (Delios and Beamish, 1999; Hennart, 1991; Luo, 2001). Again, there is mixed empirical evidence regarding firm experience and absence of uniformity in measuring cultural distance. Authors such as Gatignon and Anderson (1988) and Hennart (1991) found that the experience was negatively associated with joint venture entry modes, while others found there to be a positive association (Cheng, 2006; Ruzzier, et al., 2007).

*Frequency of interaction* is the third construct used to decide the level of fixed or variable costs for internalisation of transactions. A large volume of transactions is justified to higher fixed or variable costs (Brouthers and Hennart, 2007; Chiao, et al., 2010; Williamson, 1975). The empirical literature is deficient in providing sound evidence that frequency of interaction as a perceptual measure helps to choose a contractual- or equity-based mode (Brouthers and Brouthers, 2003; Brouthers and Hennart, 2007; Erramilli and Rao, 1993). In general, firms facing contractual risks such as the cost of making a risky contract, and the risks of dissemination of knowledge, or of losing service value/products quality, will avoid entering a particular country, or ultimately, a low-resource commitment might be offered (Anderson and Gatignon, 1986; Brouthers and Nakos, 2004; Erramilli and Rao, 1993).

In sum, transaction cost theory holds that lower asset specificity (use of assets in multiple transactions); increased intensity of opportunistic behaviour on the part of a third party and the higher cost of interaction (contracts) will be associated with low equity and control modes (Brouthers and Hennart, 2007; Chiao, et al., 2010; Hill, et al., 1990; Nakos and Brouthers, 2002).

Despite widespread application of transaction cost theory, it has numerous limitations. Mtigwe, (2006: 11) pointed out that ‘... the theory is based on failure as being the reason for internationalisation of the firm when in reality market success plays a great role in a firm’s decision to internationalise’. Transaction cost theory highlights the internal production mechanism; therefore a firm’s internal hierarchy is unable to internalise the

external market failure or factor costs. High reliance on monopolistic advantage increases social costs and creates short-term compensating advantage rather than sustained competitive advantage (Itaki, 1991; Madhok, 1997). This theory also neglects the institutional constraints, ownership and location-specific advantages (Dunning and Lundan, 2008b) and excludes non-transaction benefits; therefore, the actual costs associated with ambiguity, frequency of interaction and entry choice remain uncertain (Anderson and Gatignon, 1986; Zhao, 2005).

#### **4.3.2 Internationalisation theory**

Theories of FDI and other economic-based theories (Buckley, 2011; Buckley and Casson, 1985; Hymer, 1960) have contributed to the examination of foreign production and internal cost mechanism of MNEs. This means that the internationalisation behaviours of small firms in general and their entry choice in particular, have been largely ignored by FDI theorists (Collinson and Houlden, 2005). FDI theories have also failed to explain the role of the decision maker and the complex dynamic processes (Figueira-de-Lemos, et al., 2011; Fletcher, 2011; Itaki, 1991) that small businesses encounter to analyse or when they actually want to start foreign operation.

In order to fill this gap and address complexities hitherto neglected, and to forecast the foreign involvement process of small businesses and SME's, a dynamic process-based theory of internationalisation began to take root (Figueira-de-Lemos, et al., 2011; Johanson and Vahlne, 2009; Karabulut, 2013; Mtigwe, 2006). A theoretical dimension more rigorous than its predecessors in explaining the role of MNEs foreign expansion activities emerged as accepted wisdom and was found equally applicable to SMEs' foreign expansion process (Johanson and Wiedersheim-Paul, 1975; Young, et al., 1989). The Uppsala school in Sweden contributed to the development of a step-stage model, which has become well-known as the "establishment chain" school of thought.

The rational is that Uppsala model is a process model that explains how small and large firms expand their operation in international markets. The past results show that the Uppsala modal can be fruitfully applied to both small and lager sectors to explain the



complexities of process of foreign expansion (Agndal and Elbe, 2007; Arranz and De Arroyabe, 2009; Bell, 1995).

Johanson and Wiedersheim-Paul (1975) in their pioneering work, contributed to the theory of the development of SMEs' foreign expansion process and their efforts were recognised by the international business world as a sound, applicable process for SME internationalisation behaviour. In their case study of four Swedish firms, namely, Sandvik AB, Atlas Copco, Facit and Volvo, they described four basic stages of international involvement:

- No regular exporting
- Exporting via independent representative (agent)
- Sales subsidiary and
- Production/Manufacturing.

The Nordic school step-stage model, or the Uppsala model as it is also known, describes a firm's internationalisation and entry mode choice as a function of *psychic distance*, covered over a period of time through a gradual process of learning and knowledge development (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). The basic assumption of the internationalisation process is '... that firms first develop in the domestic market and that the internationalization is the consequence of a series of incremental decisions' (Johanson and Wiedersheim-Paul, 1975 :306). Firms have a tendency to initiate foreign operations in nearby countries having a similar culture and behaviour to their own.

The first step in the international process described by Johanson and Wiedersheim-Paul, (1975) is that the firm makes no commitments to resources due to *complexities /psychic distance* and lack of the basic information needed for extra-border expansion. In the second stage, the firm is able to identify sales potential through preliminary knowledge of the market acquired from reliable sources. The third and fourth steps in the international process refer to higher resource commitments due to the availability of controlled information about marketing and sales channels.

The Uppsala model went some way towards covering shortcomings of previous theories that ignored the firm's specific advantage in their analysis. Factors such as differences in language and culture, and the factors preventing the flow of information between the firm and the market were referred to as "psychic distance". The authors of internationalisation theory further defined psychic distance as the '... factors preventing or distributing the flows of information between firm and market' (Johanson and Wiedersheim-Paul, 1975 :306). This model also reported that, together with psychic distance, market potential and market size also influence decisions as to internationalisation process and entry mode choice. Overall, Johanson and Wiedersheim-Paul (1975) found negative relationship between psychic distance and sales subsidiary establishments, while agency relations and sales subsidiaries both were influenced by the size of the market.

Hallén and Wiedersheim-Paul (1999) further refined and developed the role of psychic distance and developed the network theory of firms. They offered three different measures of psychic distance.

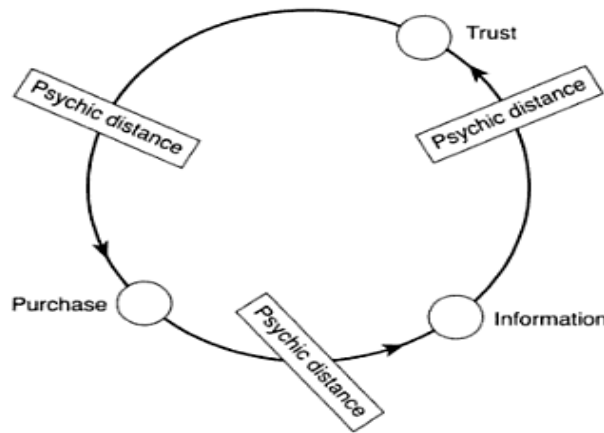
- Inter-firm distance, which denotes psychic distance within the firm's boundaries, as they defined psychic distance as a difference of perception.
- Intra-firm distance, which denotes the psychic distance between any two actors in each of the organisations, i.e. the differences between the perceptions that different people in the same firm have of the same issue.
- Inter-country distance, which denotes the psychic distance between two countries, i.e. the difference between the perceptions that foreign and by domestic businesspeople has of an average firm in a country.

Inter-country and inter-firm differences are the consequences of differences in language, in business cultures, and in communication and technology standards, and lead to mistrustful relationships (Hallén and Wiedersheim-Paul, 1999; Islam, et al., 2011). Hallén and Wiedersheim-Paul (1999) further analyses led to the development of the concept of the role of psychic distance in a firm's internationalisation process and towards the development of dynamic model of psychic distance (Figure 4.1).

The initial stage of contact results in purchase if the buyers and sellers are able to overcome their perceptions resulting from differences in language, business culture and

technical standards. Psychic distance will decrease as information-sharing and trust lead to the diminishing of inter-country and inter-firm distances (Hallén and Wiedersheim-Paul, 1999; Islam, et al., 2011).

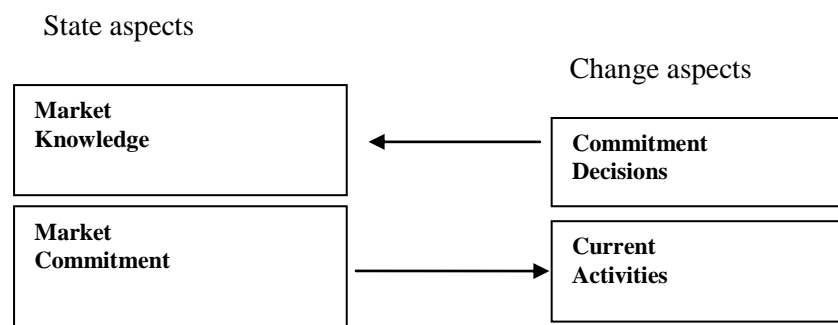
**Figure 4.1 Interaction and psychic distance**



Source: Hallen and Wiedersheim-Paul (1979).

Further development and refinement of the pioneering work of the internationalisation process was carried out by (Johanson and Vahlne, 1977). Johnson and Vahlne (1977: 306) extended the model to *Organizational Learning Theory* and asserted that the ‘most important obstacles to internationalisation are lack of knowledge and resources’.

**Figure 4.2 Organisational learning approaches.**



Source: Johanson and Vahlne (1977)

If a firm decides the target market for expansion, the experiential knowledge determines the level of resource commitment in the foreign operation (Figure 4.2).

The obstacle of psychic distance in deciding the target market and lack of knowledge/resources are covered in a gradual process of incremental steps referred to as the “establishment chain” and international expansion can be carried out through four different modes of entry (Johanson and Vahlne, 1977; Karabulut, 2013; Sharma and Erramilli, 2004): (1) indirect exports; (2) direct exports; (3) sales subsidiary and; (4) wholly-owned subsidiary.

Studies utilising internationalisation theory in entry mode choice have focused on the transferability of international operations through the establishment chain, taking into consideration the host market characteristics, (psychic distance) involved (Bell, 1995; Erdilek, 2008; Fleury, et al., 2008; Ojala, 2008). Studies such as Erdilek (2008: 754) and Ojala (2008) confirmed that both SMEs and MNEs used outward foreign direct investment as a source of cumulative learning to expand their international operations, first in psychically close countries, as predicted by stage theory, towards more intensive internationalisation.

Erdilek (2008) in his study of eight MNEs in Turkey, found that the MNEs followed the step-stage model. Initially the MNEs preferred majority-owned joint ventures with local partners, to minimise uncertainty and start-up costs and to cope with bureaucratic costs/obstacles. In the latter stages, when the benefits of JV were exhausted, they acquired full ownership of foreign affiliates through Outward Foreign Direct Investment (OFDI) and/or Brown Field FDI. This study also reported that the bulk of OFDI was in the central Asian republics. As all of these countries are geographically and/or culturally close to Turkey, this confirmed the step-stage application of Uppsala model. Similar findings are reported by Ojala (2008).

However, there are numerous contradictory findings. For instance, Bell (1995) found that small software firms did not follow progressive developments in entry choices and

argued that ‘... all stage theories is in their use of linear models try to explain complex, dynamic, interactive and frequently non-linear behaviour. Thus, neither the “stage” theory nor the “network” approaches fully explain the internationalisation process’ (1995: 72). Similar findings are reported by Jones (2001). Young, Dimitratos, and Dana, (2003: 34) also proposed that born-global firms and high technology firms do not follow the incremental proposition of the stage theory and that such firms from their inception ‘disregard their domestic market in favour of international markets’. Similarly Freeman et al (2006) carried out case studies of three Australian born-global firms and confirmed the absence of certain steps in the incremental process. This evidence shows that born-global firms do not follow all the steps of a stage model and they proceed in international markets without any incremental order.

Despite the wide spread application and recognition of the incremental process in foreign expansion, the internationalisation theory has been criticised on a number of grounds. According to Sharma and Erramilli (2004), the theory fails to explain comprehensively the location and ownership advantage dimensions of entry modes, nor does it and ‘explain the contractual and joint venture modes’ (p.5). Arranz and De Arroyabe (2009) questioned the validity of the incremental mental model on two bases: (1) The model fails to account for the *logical sense* of the international process as it does not explain how a firm initiates this process; therefore, an alternative framework is needed for international new ventures; (2) the theory originated in the mid-1970s; therefore, due to rapid technological innovation, the conditions described are no longer valid to assess whether the process will work in this age of information overload (Oviatt and McDougall, 1994).

Fleury et al (2008) reported that the Uppsala model fails to explain the internationalisation behaviour of high technology firms, as these firms do not follow the gradual incremental process of international operations. Although the literature on the Uppsala model offers various conceptual and longitudinal explanations, the Uppsala model as a single theory, fails to explain the behaviour of small firms. Therefore, as argued by Young et al (2003), greater integration of this theory with other theories is warranted. Freeman et al (2006) point out that the stage model also ignores born-global

inward strategies (bringing foreign suppliers products into the domestic market, i.e. reseller alliances). Such strategies are used by SMEs and born-global firms to bring products into the home market to resell in home and foreign markets during an economic downturn or when there are high costs associated with home production. The application of the step model to inward connections and reseller-alliances represents a gap and gathering diverse evidence from various countries could be a fruitful area for future research.

#### **4.3.3 The OLI model**

The ownership, location and internalisation (OLI) framework, sometimes referred to as theory but more often known as the MNE FDI framework (Dunning and Lundan, 2008a, 2008b) attempts to explain the determinants of foreign direct investment (production) decisions by MNEs (Mataloni Jr, 2011; Rasiah, 2011). According to the OLI model (also known as the eclectic theory) the equity/control of FDI or entry mode selection is the function of three advantages: (1) ownership advantage; (2) location advantage and; (3) internalisation advantage. The OLI framework combines concepts from the resource-based view (firm-specific), institutional (location), and transaction cost (internalisation) theories (Brouthers and Hennart, 2007).

Ownership advantage refers to the unique resources of a firm that are capable of providing it with sustained competitive advantage (Dunning and Lundan, 2008b). Nakos and Brouthers (2002) argued that the firm equity mode choice or control depends upon the value sacrificed on account of transfer of ownership position and mobility in the market. If the firm feels that ownership advantage will be disseminated by transfer of know-how to a third party, leading to a possible loss in the value of capabilities, the firm will prefer non-equity investments (Anderson and Gatignon, 1986; Erramilli, et al., 1997; Islam, et al., 2011). A firm's valuable ownership resources, i.e. (1) size; (2) international experience (both general and specific) and; (3) ability to innovate and produce differentiated products, viewed as ownership advantages, have been the basis of past research (Ekeledo and Sivakumar, 2004; Li and Meyer, 2008; Pinho, 2007).

Scholars exploring the effect of size and international experience have found a positive relationship between ownership advantage (firm size and international experience) and the choice of full control mode (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004; Li and Meyer, 2008). There are also a few contradictory findings regarding firm size/international experience/R & D intensity and full control modes (e.g., (Pinho, 2007). Authors have also reported some inconsistent evidence with respect to international experience/R & D intensity and found that greater international experience/R & D intensity may lead to non-equity mode choices (e.g., (Erramilli, 1991; Hennart, 1991; Kogut and Singh, 1988).

Location advantage is the second building block of the OLI framework (Dunning and Lundan, 2008b; Mataloni Jr, 2011). A key determinant of international expansion, location advantage has *market growth potential*. Economies of scale and building strong relationships with foreign governments with the aim of exploiting marginal costs and benefits are other effective international expansion drivers (Agarwal and Ramaswami, 1992; Pinho, 2007; Root, 1994). Research in this area (locational antecedents) has tended to concentrate on growth potential and foreign investment risk. Brouthers and Nakos (2004) stress that international expansion together with benefits of profitability and growth, also carries a *foreign investment risk*. Unstable political, economic and legal international environments may restrict high commitments in the international market (Dunning, 1995; Erramilli, et al., 1997). Host government attitude, control of foreign assets and favourable government policies on international trade regulations are sources of a reduction in international risk perceptions. Studies examining locational effects found that a firm will favour an entry mode with higher commitments for high market growth potential and lower investment risks (Agarwal and Ramaswami, 1992; Pan and Tse, 2000; Pinho, 2007). Nakos and Brouthers (2002) found SMEs perceiving high growth potential tended to favour high commitment modes of investments. Similar results were found by (Pinho, 2007).

However, earlier work also reported inconsistencies in locational determinants (Mataloni Jr, 2011). Partial support for such an hypothesis were found by Agarwal and Ramaswami

(1992) for a firm entering in high growth and having a high investment risk. Pinho (2007) and Nakos and Brouthers (2002) found no significant relationship between an SME's perception of lower investment risk and high commitment modes of investments. More recently, institutional dimensions such as corruption, ethnic tensions and expropriation risk (locational institutional determinants of FDI) have been adopted by scholars for incorporation in the OLI framework (Dunning and Lundan, 2008a; Stoian and Filippaios, 2008a).

The third building block of the OLI framework is the *internalization advantage* of a firm, which stems from minimising the cost associated with external resource acquisition and thereby replacing and reducing the internal transaction and control costs. The venture sharing mechanism should avoid the bureaucratic costs associated with control activities and parties involved should not feel '... that one of the parties to the exchange becomes an employee [subsidiary] to the other' (Hennart, 1989: 215). A suitable balance between adopting an internal control mechanism within the firm and sharing resources and skills with foreign affiliate results in fruitful ventures (Agarwal and Ramaswami, 1992; Brouthers and Nakos, 2004).

Brouthers and Nakos (2004: 2) commented that 'firms tend to select entry modes that balance the advantages of integration with the additional costs of control'. Lower control modes are preferred if the managers are unable to ascertain environmental uncertainties and if costs on entering a contract are high (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002). Ruzzier, Hisrich, and Antoncic (2006: 481) asserted that 'Antecedent to market internalization is a process of information gathering and assessment, through which management determines the best foreign expansion approach'.

The OLI framework is considered to be a sound rationale for MNE international production behaviour. Its application to small firms' entry mode choice remains limited. To date there have been only two contributions exploring the role of OLI in SME entry mode choice (Brouthers, Brouthers, and Werner, 1996; Nakos and Brouthers, 2002), and to the best of the researcher's knowledge there exists no empirical contribution that explores the role of managerial cognition in SME entry mode choice.



Fleury et al. (2008) argue that the OLI framework carries four major limitations: (1) it concentrates almost exclusively on MNE's FDI activities; (2) its static character does not play any role in explaining the information edge, learning and knowledge development effect on the firm or on the market (Andersson and Florén, 2008); (3) it lacks on explaining co-operative arrangements in international strategies and; (4) it ignores the role of the decision maker's ability to make a rational choice (Andersson and Florén, 2008; Itaki, 1991). Jansson and Sandberg, (2008) argue that FDI theories do not allow for investigation of the importance of network relationships in SME entry mode choice; therefore, the role of the international dyads and triads<sup>22</sup> are also deficient in Dunning's FDI framework.

#### **4.3.4 Resource-based view of the firm**

The resource based-view was developed by Penrose (1959) to explain firms' competitive position as a compelling effect of resource exploration and exploitation (Chiao, et al., 2010; Zhan and Chen, 2010). FDI strategies such as mergers/acquisition and joint ventures with partners augment the resource generation potential. Based on the premise of Penrose (1959), Wernerfelt's (1984) pioneer theory developed the argument and explained the value of resource development with respect to the value of *product development*. Analogous to entry barrier (product) so called "resource position barrier" as a resource holder's defensible mechanism emerged as an early incarnation. By introducing a resource-product matrix, Wernerfelt (1984) stressed the need for portfolio investment in multiple markets, initially through sequential entry in the local market and finally by its exploitation in the international arena.

A combination of early snapshots of the resource-based view led to the emergence of the most widely accepted *resource-based view of firms* (RBVF), introduced by Barney (1991). According to Barney, firms make their resources unique by increasing the stock of available resources and their competitors' degree of difficulty in acquiring these

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<sup>22</sup> From a Network perspective, establishment point in foreign market network are defined as entry nodes, dyads-direct relationship with customers/suppliers and triads-indirect relationship with agent/distributor/WOS (Ellis, 2011; Jansson and Sandberg, 2008).

resources (immobility). He further argues that these resources are valuable and non-substitutable in the market.

Barney improved his own model in 1998 and his new framework replaced the old VRIN (valuable, rare, inimitable and non-substitutable) criteria with VRIO (valuable, rare, inimitable and organization) criteria (Barney and Wright, 1998). In this advanced version Barney and Wright (1998) argued that resources should be unique, but the firm must also be able to exploit these resources to gain sustained competitive advantage. A further refinement of this view was adopted by contemporary scholars and a unified view of *dynamic capability* emerged as accepted wisdom (Chiao, et al., 2010; Zhan and Chen, 2010). Sustained competitive advantage was referred to as the function of combination of resources and capabilities (managerial know-how, organisational routines), previously achieved through industrial barriers and internal low-cost mechanisms (Amit and Schoemaker, 1993; Sharma and Erramilli, 2004; Teece, Pisano, and Shuen, 1997).

According to Erramilli et al. (2002) *resources* include ‘all assets, organizational processes, firm attributes, information and knowledge controlled by a firm that enable it to conceive and implement strategies efficiently and effectively’. Resources must be unique so that they are capable of generating multiple outputs when deployed in different locations. Capabilities refer to the combination of resources that create higher order competencies (Grant, 1991; Madhok, 1997). The capabilities are firm-specific advantage and include technical, managerial and financial know-how. They are drawn from unique historical and socially-complex ambiguity and tacit knowledge makes them difficult to imitate (Amit and Schoemaker, 1993; Erramilli, et al., 2002; Madsen, 2013).

In organization capability framework the choice and selection of entry mode depends upon the capability transfer and in some cases the control itself is unable to determine the strength of choice (Erramilli, et al., 2002). Madhok (1997: 40) refers value ‘in terms of the potential rent generating abilities of an asset or know-how’. If due to opportunistic behaviour, location or ownership effects the chances of erosion of value is high, it will result in greater proclivity towards non-collaborative modes (Madhok, 1997; Sharma and Erramilli, 2004).

Based on Uppsala model the RBVF and its extension, the dynamic capability view, the research in this area concentrates on firm specific resources particularly the firm size and experience is commonly investigated antecedents of resource/capability transfer (Chen and Chen, 2003; Delios and Henisz, 2000). Earlier researchers also utilized RBVF to find that the u-shape relationship (low and high level of experience) favour full control mode (Erramilli, 1991). More recently another research stream found that the firm specific resources, firm size and international experience is positively associated with full control modes (Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Li and Meyer, 2008).

A new direction of research on RBVF and capability exploitation examines the role of dissemination risk on mode choice. Hill et al. (1990) proposed that due to high dissemination risk the capability exploitation becomes difficult in strategic alliance and joint venture operations. Tan, Erramilli, and Liang, (2001) analysed the role dissemination risk on management's strategic choices. Erramilli, et al., (2002) and Dev, Erramilli, and Agarwal (2002) found that due to dissemination risks the possession of capabilities lead to choice of the management service contracts over market modes (franchising). Bruce Kogut and Zander (1992,2003) proposed that when the capabilities are distantly related the firms chooses to develop internal cost mechanism or rely on joint ventures. On the other hand contrary to this Chen (2008) in their study of Japanese subsidiaries contrasted the acquisition and Greenfield investments. They found that capability procurement is a significant predictor of full rather than partial acquisition.

#### **4.4 Synthesis of entry mode literature**

FDI and economic based models explained the rational of MNE's foreign production activities. Beside FDI models early main stream entry mode theories describe the international expansion as a gradual incremental process. The theories include Uppsala model (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), internalization theories (Buckley and Casson, 1976; Coase, 1937), economic based theories; like (Dunning, 1981, 1995) and RBVF (Barney, 1991; Penrose, 1959).

During the last two decades the entry mode research contributed to identify firm-specific, product specific, industry specific and country specific antecedents for international servicing. Transaction cost theory attracted greatest attention (Brouthers and Brouthers, 2003; Chen and Chen, 2003; Tsang, 2005). Some contributions integrated institution and RBV theory with transaction cost theory (Brouthers, 2002; Chen and Chen, 2003). Brouthers and Hennart, (2007) and Canabal and White III (2008) in their recent literature review articles concluded that the application of RBV, particularly the dynamic capability view (Teece, et al., 1997) is fairly limited in entry mode literature. The antecedents of entry choices examined empirically includes but not limited to:

- Firms size (Cheng, 2006; Nakos and Brouthers, 2002; Pinho, 2007)
- CEO characteristics (Herrmann and Datta, 2002, 2006; Ruzzier, et al., 2007)
- Cultural distance (Brouthers, 2002; Chen and Hu, 2002; Pinho, 2007)
- International experience (Cheng, 2006; Claver and Quer, 2005; Erramilli, 1991; Li and Meyer, 2008)
- Asset specificity and ambiguity (Chen and Chen, 2003)
- Innovation/R & D (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002)

Table 4.1 presents the empirical contribution and major limitations of entry mode theories. The meta-analysis of entry mode literature suggests that there is no research that explores the role of entrepreneurial cognitive capabilities along with environmental factors in foreign servicing.

**Table 4.1 An assessment of existing entry mode theories and models**

Theory	Contributions	• Major limitations
Transaction cost theory and its extensions	(Coase, 1937);(Williamson, 1975); (Buckley and Casson, 1976);(Anderson and Gatignon, 1986); (Gatignon and Anderson, 1988);(Hennart, 1991);(Erramilli and Rao, 1993);(Hennart and Park, 1994);(Tse, et al., 1997);(Hennart and Larimo, 1998);(Delios and Beamish, 1999);(Palenzuela and Bobillo, 1999);(Burgel and Murray, 2000a);(Delios and Henisz, 2000);(Meyer, 2001);(Luo, 2001);(Brouthers, 2002) ;(Chen and Hu, 2002);(Brouthers and Brouthers, 2003);(Brouthers, et al., 2003);(Brown, Dev, and Zhou, 2003);(Chen and Chen, 2003);(Tatoglu, Glaister, and Erdal, 2003);(Brouthers and Nakos, 2004);(Tsang, 2005);(Dong, Zou and Taylor, 2009);(Chiao, et al., 2010);(Jiang, et al., 2011);(Islam, et al., 2011)	<ul style="list-style-type: none"> <li>• Limited application ability with respect to complex multidimensional choices of entry mode (Anderson and Gatignon, 1986; Zhao, 2005)</li> <li>• Ignores transactional characteristics of complementary assets, location and ownership advantages in firm internationalisation (Dunning and Lundan, 2008b; Hennart, 2009)</li> <li>• Transaction cost themselves are ambiguous and difficult to measure(Hennart, 2009; Zhao, 2005).</li> <li>• Neglects the institutional regulations, excludes non transaction benefits(Anderson and Gatignon, 1986; Huang and Sternquist, 2007).</li> <li>• Limited applications for the managers in practice as it ignores connection with corporate governance (Zhao, 2005).</li> </ul>
Uppsala model	(Johanson and Wiedersheim-Paul, 1975); (Johanson and Vahlne, 1977); (Bell, 1995);(Brouthers, Brouthers, and Werner, 2000);(Burgel and Murray, 2000a);(Delios and Henisz, 2000);(Rasheed, 2005);(Blomstermo, Sharma, and Sallis, 2006);(Gil, Nakos, Brouthers, and Brouthers, 2006);(Pease, Paliwoda, and Slater, 2006);(Erdilek, 2008);(Fleury, et al., 2008);(Ojala, 2009);(Boehe, 2011);(Ellis, 2011)	<ul style="list-style-type: none"> <li>• Fails to explain the location and ownership advantage (Sharma and Erramilli, 2004);</li> <li>• Ignores the importance of INV and technology based born-global firms that do not follow step stage process(Crick and Spence, 2005; Fleury, et al., 2008; Jones, 2001)</li> <li>• The stage model also ignores the born-global inward strategies (reseller alliances) during economic down turn(Freeman, et al., 2006)</li> </ul>
OLI model	(Dunning, 1988a);(Dunning, 1995);(Dunning and Lundan, 2008a); (Agarwal and Ramaswami, 1992);(Brouthers, et al., 1996);(Brouthers, Brouthers, and Werner, 1999);(Pan and Tse, 2000) ;(Brouthers, Brouthers, and Werner, 2001);(Luo, 2001);(Nakos and Brouthers, 2002);(Pan, 2002);(Tsai and Cheng, 2002);(Tatoglu, et al., 2003);(Roberto, 2004);(Ruckman, 2004);(Meyer, Nguyen, Down, and Vietnam, 2005);(Somlev and Hoshino, 2005);(Pinho, 2007);(Stoian and Filippaios, 2008a);(Garcia-Canal and Guillen, 2008);(Rasiah, 2011);(Mataloni	<ul style="list-style-type: none"> <li>• OLI framework is exclusively MNE-centric FDI model (Fleury, et al., 2008; Hennart, 2009).</li> <li>• OLI model ignores the role of institutions in entry and location choices(Huang and Sternquist, 2007)</li> <li>• Fails to explain the dynamics of internationalisation process and role of situational contingency surrounding the decision maker (Andersson and Florén, 2008; Itaki, 1991);</li> <li>• OLI ignores the transactional characteristics of country specific/local complementary assets(Hennart, 2009)</li> <li>• OLI model is static in nature, ignores the role of learning and knowledge on firm/ market behaviour(Fleury, et al., 2008)</li> <li>• Ignores the role of, collaborative agreements, networks, dyads and triads (Jansson and Sandberg, 2008; Sharma and Erramilli, 2004)</li> </ul>

	Jr, 2011)	
Resource based view and its extensions	(Wernerfelt, 1984);(Barney, 1991);(Madhok, 1997); (Contractor and Kundu, 1998);(Burgel and Murray, 2000a);(Chen and Hennart, 2002);(Erramilli, et al., 2002);(Dev, et al., 2002); (Brown, et al., 2003);(Chen and Chen, 2003);(Ekeledo and Sivakumar, 2004);(Claver and Quer, 2005);(Claude-Gaudillat and Quélin, 2006);(Rasiah, 2011)	<p>Cont; p-102</p> <ul style="list-style-type: none"> <li>• Resource heterogeneity is based on tautological assumptions, ignores resource value change overtime and it is difficult to measure and manipulate resource and their heterogeneity(Priem and Butler, 2001)</li> <li>• Valuable and inimitability terms are obsolete, having unclear boundaries resulting in lack of specificity and disjoint model (Hoopes, et al., 2003);</li> <li>• Firm capacity is beyond the scope of ownership advantage, it is not justified to ignore situational contingency surrounding the decision maker, capacity of collaborative agreements and location advantages(Zhao and Decker, 2004).</li> </ul>

According to Dunning (1995) the original version of his OLI theory and other economic theories were based on market failures and capitalism embeddedness proved dominated by MNE FDI research process. Therefore the early version of OLI framework was unable to explain the joint venture modes and intricacies involved in co-operative modes particularly in SME's internationalisation process.

According to Itaki (1991) the neglected effect of cost of acquiring assets/ ownership advantage seriously undermines the explanatory power of Dunning framework. Theory bears a double counting effect as the location and internalization advantages are differentiated and facing limitation of **'inseparability of the ownership advantage from the location advantage' (p: 448)**. OLI is further analysed as a crucible of FDI and internalization theories having three overlapping pillars, ignoring the international process of small firms facing resource constraints (Itaki, 1991; Jones, 1996)

According to Sharma and Erramilli (2004), the economic based theories partially explain the entry mode phenomenon, ownership and locations dimensions. Considering entry mode as a function of ownership (monopolistic advantage due to market imperfection) it explains only FDI production modes or marketing modes such as licensing etc. but fails to explain exports or the idiosyncrasies involved in partial ownership modes such as joint venture operations.

The new version of OLI Dunning, (1995) covered these shortfalls but even its empirical verification remains limited and contradictory in SMEs, as its new version is still in its infancy (Sharma and Erramilli, 2004). New OLI framework sheds light in the co-operative modes of MNEs. The empirical verification of entry choices by SMEs remains invalid as the *perception of decision makers is seriously* ignored in new framework as well (Jones, 1996).

Even a widespread application of RBV in strategy literature Priem and Butler (2001: 29-32) criticize the RBVF on the following grounds: (a) RBV is based on tautological assumptions when ‘...this model assumes that firms within an industry (or group) may be heterogeneous with respect to strategic resources they control’ (Barney, 1991: 101); (b) RBV ignores seriously the resource value change when it states that resources are said to be valuable ‘when they enable a firm to conceive off or implement strategies that improves its efficiency and effectiveness’ (Barney, 1991: 106); (c) RBV lacks operational validity as categories of resources might be inherently difficult for practitioners to measure and manipulate.

Hoopes, Madsen, and Walker (2003: 890-891) presents some other limitations of RBV: (a) the RBV terms value and inimitability are two compelling forces for sustained competitive advantage. These terms are obsolete, having unclear boundaries, therefore the model is disjoint and so are the results ; (b) the RBV lack of clarity regarding its core premise and its lack of any clear boundary impedes fruitful debate. Given the theory’s lack of specificity, one can invoke the definition based or hypothesis-based logic any time.

Process of international involvement and choice of entry modes is dominantly focused on the MNEs with large size and having adequate resources to coup the investment risk challenges. Collinson and Houlden (2005) puts forward the comments and draws attention towards the questionable argument came into existence when this process and choice of entry mode were challenged by the SME scholars.

## **4.5 State of International entrepreneurship: a synthesis**

The SME scholars like Coviello and Jones (2004) and McDougall and Oviatt (2000) stressed the role of international entrepreneurship. They argued that the process of international involvement in small firms is driven by the decision maker, ignored by OLI framework and ‘International entrepreneurship is a combination of innovative, proactive, and risk seeking behaviour that crosses national borders and is intended to create value in organizations’ (McDougall and Oviatt, 2000: 903). The role of decision maker varies in various theoretical backgrounds. The economic and transaction based theories analysis the rational of minimizing costs while the innovative based models analysis the propensity of risk tolerance and innovation potentials, an idea borrowed from cognitive psychology ‘mental maps act as an influencing factor in the way individuals perceive their spatial environment and make Locational decisions’ (Collinson and Houlden, 2005: 17). Despite a sound wisdom the IE is being criticized as broad theory fails to explain the dynamics of entry mode choice. Past conceptual or theoretical contributions in IE research has no agreement if the EO constructs is uni-dimensional or multi-dimensional Phenomenon (Jantunen, et al., 2008; Kropp, et al., 2008; Madsen, 2013). Empirical contributions shed light on EO construct and its effect on performance or new venture start-ups (Frishammar and Andersson, 2009; Kropp, et al., 2008; Moreno and Casillas, 2008). Literature reviews suggest that the Foreign Service modes carry high order complexity. This complexity is attributed to their variable control, resource commitment and disseminations risks. Little is known how EO along with environmental and cognitive attributes of entrepreneur effects the foreign market service choices.

Oviatt and McDougall, (1994) in their seminal conceptual contribution, by integrating the traditional MNE concepts of internalization, location and entrepreneurship identified four basic attributes of INVs for sustained rapidity of INVs: (1) internalization of some transactions; (2) alternative governance structures; (3) foreign location advantage; and (4) unique resources. In the EEs due to legal and moral hazards, hybrid structures and *networks* lead to strong expropriation risks/failure and inimitability is never assured (Musteen, et al., 2010; Oviatt and McDougall, 1994). Synthesis of international speed



literature suggests that the scholars are interested to use IE, Uppsala model and network theory in understanding the speed behaviour of INVs (Rasmussen, et al., 2010; Weerawardena, et al., 2007; Zucchella, et al., 2007). ‘Despite the considerable research attention paid to accelerated internationalization, an unanswered question is: what explains differential internationalization speed among INVs, *after* their initial entry into international markets?’ (Prashantham and Young, 2011: 275). No research centring on enduring *cognitive preferences* in small firms entry mode choice and *post-entry speed behaviour* is known to the author. Recently Evald et al (2011: 15) pinpointed that there is an urgent need for research into the interaction between a firm’s and individual characteristics when looking at export entry and expansion process.

There keeping in view these limitations there is a compelling need to integrate economic and strategic theories. Tallman (2004: 51), also endorsed this tie and in his contributions he stresses the need of future integration of international business and strategic management models in these words.

As with the original RBS, capability models, and particularly models of dynamic, or evolutionary, capabilities (Teece, et al., 1997) provide a general theory of the firm and its strategic activities that can be applied directly to the Eclectic Model... Without Dunning’s Eclectic Model, this connection between *international business models and strategic management would have been much less certain (Italic added).*

Dunning (1995: 77) surmise that explaining the international activity of the firms without ‘...location-bound endowments and capabilities are like throwing the baby out with the bath water’. IB is being criticized as overlapping phenomenon and encompassing a large set of disparate variables, making a systematic testing difficult (Dunning, 1995; Fleury, et al., 2008; Itaki, 1991). Dunning, (1995: 91) further pinpointed that no model of IB is perfect and strategic management main strand is how the resources/capabilities are created, acquired and utilized and the way in which the markets are identified and serviced. ‘...the various strands of the governance of cross-border activities must be *integrated*. Strategic choices then become a “dynamised add-on variable” ‘... effecting the OLI configuration,... this is now being recognize by giving

more attention to issues of innovation and entrepreneurship as they impinge upon the internationalisation of business’.

#### **4.6 Research focus**

The role of cognitive potential as an adequate empirical verification remains a limitation in the extant literature. This leads to the parsimonious view of the role of decision maker as a firm-specific advantage in the internationalisation process. Cognitive IB scholars argue that mental maps recognise the prudence in human perceptions and in turn, these maps influence existing and required capabilities (Baron, 2004; Collinson and Houlden, 2005; Teece, et al., 1997). The author suggests that when the RBVF, particularly the cognitive dimensions, as a dynamic capability framework is integrated with Dunning’s eclectic framework, it provides a bridge between *economic and strategic* choices. This integration complements OLI in explaining the SME building block of foreign servicing, as RBVF, despite its limitations, bridges the link between the ownership, location and cognitive capability dimensions in international involvement.

This study fills the gap in literature in many ways: (1) The extant studies on entry mode selection focus on the transaction cost framework of the selection of most elaborative modes of FDI in MNEs, i.e., JV or wholly-owned subsidiary, green-field or acquisition, (e.g. Brouthers and Nakos, 2004; Cheng, 2006; Cheng, 2008). This study incorporates cognitive mapping into Dunning’s OLI framework and examines the role of cognitive dimensions in entry mode choice. The cognitive mapping is a firm’s specific advantage; therefore this study sheds light on RBV’s bridging (interactive) capacity with respect to exploiting cross-border capabilities; (2) An evaluation of previous contributions suggests that a number of issues remain under-researched. On the one hand, from an academic and strategic point of view, these contributions have highlighted the new venture formation, internationalisation degree and/or performance (Collinson and Houlden, 2005; Nummela,

et al., 2004; West, 2007). Most novel issues<sup>23</sup>, e.g. the effect of cognitive aspects on the building block /tools to capture foreign markets as a firm-specific advantage through appropriate *mode of entry selection process and post-entry speed*, remain under-researched; (3) On the other hand the entrepreneurial firms discussed in the previous literature originate from developed countries. This study is unique in its application and goes beyond the extant literature, as it deals with the effects of the complex cognitive mind-set explained by a resource-based view of firms and its link with the *selection process of foreign entry and post-entry speed*. There are number of heuristics and biases that underpins the strategic decision making process, but this study focuses on *particular biases* that effects entry mode selection process. This thesis contributes to current literature in cognitive behaviour in foreign servicing and post-entry speed dynamics as a firm-level analysis.

Before the actual commencement of FDI operations in a foreign location the *internalization advantage* cannot be prioritised (Brouthers, et al., 1996; Dunning, 1995). Agarwal and Ramaswami (1992) argued that asset specificity (a transaction cost determinant) is somewhat similar to ownership advantage; others also took the same stance (Hennart, 1991, 2009). Clarifying this point, Dunning and Lundan,(2008b: 587) argued that ‘...equating ownership and internalization advantage should be perceived ...as a reflection of the sum total of make-or-by decisions made by a the firm’

The two determinants of *asset specificity and uncertainty*, i.e. R & D intensity and international experience, are also used as ownership advantages in the OLI framework. The risk of losing service value, knowledge and product quality (dissemination risk) explained by the *frequency of transaction* antecedent of transaction cost is similar to losing ownership advantage.

The value-added activities of the firms determine the cost hierarchies and market cost of exchange which control and influence this institutional behaviour ‘... yet the transaction

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<sup>23</sup>Aharoni et al. (2011: 138)recently pinpointed that ‘There is even some evidence that external factors may influence patterns of managerial cognition with respect to *entry mode decision*, but *cognition* are not specifically explored in this line of research’.

cost can be used to explain these boundaries in a static framework, we believe that in order to explain dynamic growth...reference to ...firm-specific capabilities is necessary' (Dunning and Lundan, 2008b: 587). The institutional mechanism is a locational constraint and transaction cost theory fails to explore the effects of locational choices. Therefore, entrepreneurial cognitive capabilities as a third pillar are incorporated in the OLI model to explain SMEs' outward building block mechanism.

## **4.7 Summary**

This chapter has presented a review of theoretical frameworks in IB. In small firms, the entry choice emphasised by the RBVF is determined by limited access to potential resources/finances and their mobility. Therefore in the present era of fierce competition, SMEs have to shift their strategic choices to value creation and rent-generating capacity rather than the traditional performance and profitability. The role of decision makers is salient in this process and not addressed by the FDI theories. This becomes important in the integration of the framework that addresses the complex issues involved in strategic choices. The main contribution of RBVF and innovation-based models is the inclusion of the role of decision maker, ignored in the international value creation process by the eclectic framework. However, as international entrepreneurship is still in its infancy, its application and empirical validation as a stand-alone theory undermines its explanatory power. SMEs facing limitations have to confront dynamic threats; therefore managerial perceptions have a compelling effect on the internationalisation process. In particular, there is no research exploring the role of entrepreneurial cognition and biases in SME entry mode choice process.

In other words, ignoring the capability dimension explained by RBV in which the eclectic framework operates alone, and the behavioural theory separately may result in inferior research and policy implications in SMEs (Erramilli, et al., 2002; Sharma and Erramilli, 2004). The eclectic theory has been criticised in the SME literature as being poorly grounded and is a combination of three dimensions already explained by its predecessors. Thus RBV capability dimension complements the eclectic framework as an integrative phenomenon, and if RBV alone is applied in extra-border opportunity exploitation, it fails

to explain complexities as RBV itself has been criticised as being a tautological assumption.

This study, by incorporating cognitive behaviour as a component in a firm's specific advantage in the Dunning framework, contributes to going beyond the extant literature and the limits reached by previous scholars. The resource-based view is integrated with the eclectic theory, as the explanatory power of the model is enhanced when they are integrated. The following chapter presents the research questions and hypotheses developed for this purpose.

## **Chapter 5**

### **Research questions and hypothesis**

#### **5.1 Introduction**

Based on the theoretical entry mode reviews in the previous chapter, this chapter leads to theoretical framework for final investigation. The major conceptual framework is grouped as three strategic stages of foreign entry decision making process adopted by small firms. The three stages are: (1) initiation/recognition of stimuli; (2) development of alternative stages; and (3) selection/evaluation of choice. Bearing in mind the crucial importance of all the three stage, this thesis explores the role of cognitive biases in selection process of the entry mode of small firms from Pakistan. Key research questions and hypothesis are based on post-entry speed development.

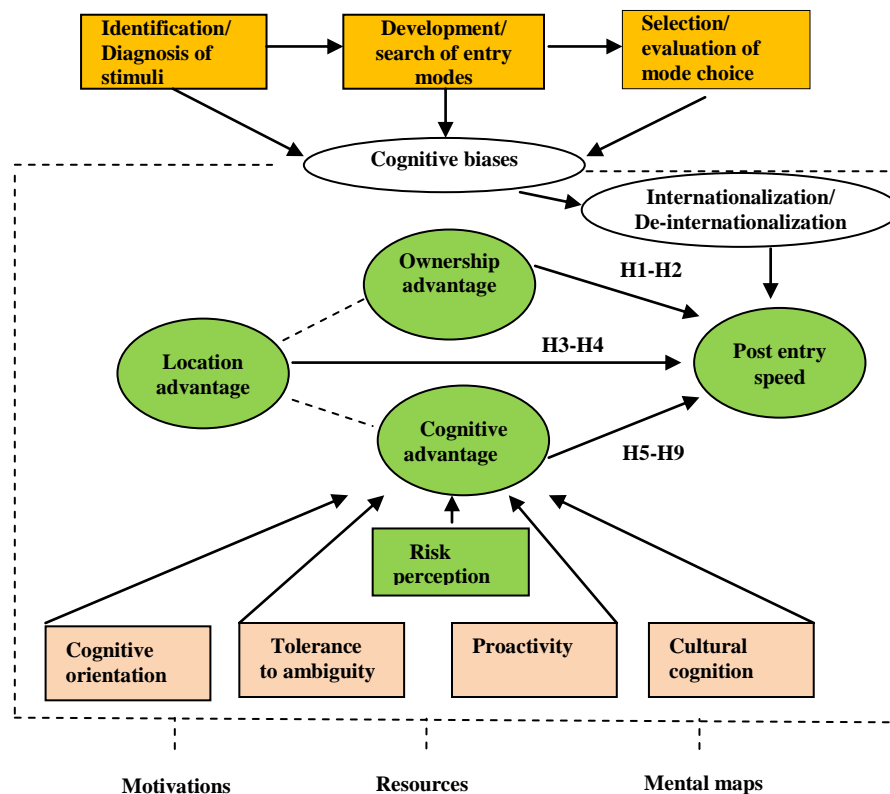
#### **5.2 Analytical conceptual model**

The development of a major conceptual framework acknowledges the contribution of international business scholars particularly Root (1994), Aharoni (1966), Aharoni et al. (2011), Kumar and Subramanian (1997), Acedo and Jones (2007), and Morgan-Thomas and Jones (2009), as they argued that the FDI and small firm's international decision is a complex process and/or interplay of many contradictory forces. Dunning (1981) also endorsed this argument and highlighted the importance of ownership, location and internalisation (OLI) advantages in FDI process. These advantages are in fact the off-shoot of factors presented by Root (1994) as firm-specific, product-specific, country-specific and industry-specific factors. All these factors are taken into account during the entry decision process.

Figure 5.1 presents a major conceptual framework based on three stages of foreign investment decision process. The three stages include: (1) initiation/recognition of stimuli (2) development of alternative stage (3) selection/evaluation of choice. International business is a complex and dynamic process, and it is likely that due to this complexity there is a need to build a theoretical entry mode process that should not remain isolated from hypothesis as the elucidation of this process is not possible through any single

measure (Bell, 1995; Majeed, et al., 2011; Mtigwe, 2006; Sullivan, 1994). Once the strategy is planned, the screening and selection stage bears psychic costs and managerial ‘preferences’ play an important part in entry mode selection process (Johanson and Vahlne, 1977; Kumar and Subramanian, 1997). The managers *cognitive bases and values* sequentially influence the decision making process as the decision maker is unable to scan every aspect of organization and environment (Hambrick and Mason, 1984: 193; Nielsen and Nielsen, 2011). The *selection* is influenced by: (1) the manager’s *field of vision*- the attention is restricted, posing a sharp limitation on eventual *perception*; (2) decision maker *selectively perceives* only some of the phenomenon included in the field of vision; (3) the final *selection/preference* is subject to further filtration on the bases of *cognitive bases and values* that might be quite different from the *actual perception*.

**Figure 5.1 Analytical conceptual model**



Source: adopted from (Acedo and Jones, 2007; Aharoni, 1966; Dunning and Lundan, 2008b; Kumar and Subramanian, 1997; Teece, et al., 1997).

In the initial development the individual biases may affect the decision make process, but once the process replication becomes the domain of every day activity the cognitive adoptability emerges as a sound wisdom. This logic leads to study *cognitive biases* in initial process and *cognitive adoptability* in post-entry speed development. To encapsulate the intricacy of entry mode phenomenon, this study will shed light on all stages in general and in stage 3 in particular. This is because that the scholars argue that the selection stage is an iterative process with multiple loops and decision makers have to revise/revisit all the process in this stage.

Pioneers of the born global view have suggested that ‘... there is a need to draw on *multiple theories* such as the Uppsala model, the born-global approach, entrepreneurship theory, and the network approach to improve the understanding of how and why decision makers behave the way they do in the internationalisation process’ (Chetty and Campbell-Hunt, 2004: 77). Others have recommended that there is a need to incorporate *dispositional enduring preferences* i.e. stable over time cognitive preferences (Madsen, 2013; Mitchell, Busenitz, et al., 2002; Westerberg, et al., 1997) on a person’s part for thinking or acting in a specific environment, particularly when the firm is small and the environment is turbulent (Westerberg, et al., 1997: 256). To encapsulate the intricacy of entry mode phenomenon, this study will shed light on all stages in general and in stage 3 in particular. Therefore, this thesis focuses on stage 3 of the choice and selection of entry mode process and subsequently explores the role of ownership, location and cognitive advantages in post-entry sales development.

Stage 3 is the actual combination of two outcomes, the entry mode selection and choice evaluation. Abundant literature focuses on post-entry performance measurements, but this study is unique as it focuses on post-entry speed dynamics involved in small firms. Subsequent sections shed light on the development of the research problem, the research questions and the development of hypotheses based on stage 3, which is the main research agenda of this thesis.



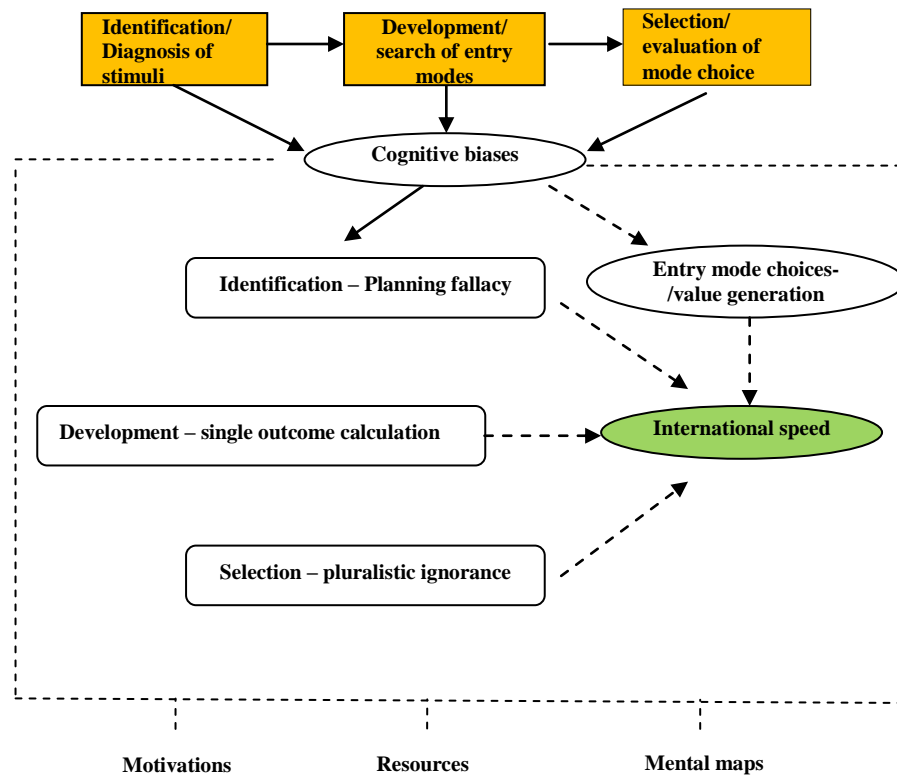
### 5.2.1 Dunning framework and entrepreneurial cognition

The Dunning eclectic framework is based on three pillars (Dunning, 2001: 545), ownership, internalization and location based advantages:

1. The (net) competitive advantages which firms of one nationality possess over those of another nationality in supplying any particular market or set of markets. These advantages may arise either from the firm's privileged *ownership* of or access to, a set of income-generating assets, or from their ability to co-ordinate these assets with other assets across national boundaries in a way that benefits them relative to their competitors, or potential competitors.
2. The extent to which firms perceive it to be in their best interests to *internalise* the markets for the generation and/or the use of these assets; and by so doing add value to them.
3. The extent to which firms choose to *locate* these value-adding activities outside their national boundaries.

It has been asserted that two broad categories of factors influence the probability that particular individuals will discover particular cross-border opportunities (Mitchell, Busenitz, et al., 2002: 94): (1) the possession of the information necessary to identify a locational opportunity (Wiedersheim-Paul, et al., 1978); and (2) the cognitive properties necessary to exploit it (Mitchell, Busenitz, et al., 2002; Shane and Venkataraman, 2000). According to Dunning and Lundan (2008b), no IB model is perfect and any single theory fails to explain the underlying contingencies associated with entry mode choice (Luo, 2001). The Dunning framework is a tool to identify a locational opportunity and to exploit the potential market based on firm-specific capabilities. The role of entrepreneurial cognition in post-decision analysis is highlighted. Entrepreneurial cognition makes it possible to keep all the information in contact so that the negative effect of *cognitive biases* can be eliminated (Majeed, et al., 2011; Simon, et al., 2000). Figure 5.2 is the qualitative sub-model to test the cognitive biases in foreign investment decision process. Once the cognitive biases are identified, the main conceptual model is tested through quantitative model.

**Figure 5.2 Foreign investment decision process**



Source: (Acedo and Jones, 2007; Aharoni, 1966; Mintzberg, et al., 1976; Simon, et al., 2000).

“Think global and act local” goes the saying, but that is only a half-truth (Das, 2008: 710). An entrepreneur in any part of the world has to think locally and its application to the global standard is mandatory for survival. ‘The fact is that the truths in this world are unique individual, and highly parochial’ (Das, 2008: 710). A cognitive mind-set helps to explore the question of cognitive diversity in beliefs and preferences of entrepreneurs about opportunity identification (West, 2007) and at present, there still does not appear to be a satisfactory answer to the question as to why some people and not others are able to discover and exploit particular (Mitchell, Busenitz, et al., 2002: 94) entrepreneurial opportunities (Baron, 2004; Mitchell, Busenitz, et al., 2002; West, 2007). ‘We also believe that studies in entrepreneurship have not fully explored the possibilities that are

offered by social cognition, managerial cognition, or information processing theory' (Mitchell, Busenitz, et al., 2002: 94).

The extant literature sheds light on a firm's international activities without taking into account the role the global entrepreneurial mind-set plays in a firm's making international decisions (Erdilek, 2008; Yamakawa, et al., 2008). This research incorporates the entrepreneurial cognition mind-set in transferring the contextual capabilities in international context through the Dunning framework, as the '...pivotal importance of people cannot be ignored - firms cannot make decisions, only people can do that' (Dana, et al., 2009: 79). The review of the current literature suggests that scholars are more interested in studying the cognitive mind-set in the creation of a new venture or the effect of the cognitive mind-set on new venture creation/performance (Brigham, et al., 2007; Nadkarni and Barr, 2008). New venture start-up or performance differs from global expansion strategies of small firms, as the start-ups do not worry about the integration, reconfiguration and redeployment (Musteen, et al., 2010; Teece, et al., 1997) of the scarce resources in a context that is different from that of local. Individual cognition as a dynamic capability filters the information needed precipitates certain stimuli and during retrieval and evaluation of resources may *bias* interpretation related to information (Majeed, et al., 2011; West, 2007). Little is known about how a cognitive mind-set makes a context-specific choice in a different setting, in particular, a small firm's entry mode choices in turbulent emerging markets in presence of dissemination and investment risks. This study focuses on certain *cognitive limits/biases* in foreign decision making process where the entrepreneur has to evaluate the strength of one alternative over the other: i. e. entry mode selection process.

### **5.2.2 Statement of research problem**

Organizational decision making process is likely to suffer from cognitive biases (Simon, et al., 2000), but entrepreneurial cognition has the capacity to mitigate the negative effects associated with cognitive biases (Baron and Ward, 2004; Mitchell, Busenitz, et al., 2002). This study, by incorporating entrepreneurial cognition (dynamic capabilities) in Dunning's OLI framework as a third pillar, explores the potential value of ownership,

location and cognitive biases and advantages in entry choice process and post-entry speed dynamics. Based on a sample of Pakistani SMEs' entry choices, the integration of IB strategy and cognitive psychology will add new dimension to existing literature.

### **Research questions**

- Q1. What are the entrepreneurial biases and cognitive dimensions faced by small firms expanding their international operation from Pakistan?
- Q2. Bearing in mind the complexity of the IB phenomenon, what appropriate theories can be helpful to integrate and explain the international entry mode choice process of small firms from Pakistan?
- Q3. As a firm-specific advantage how does entrepreneurial biases and cognition as a dynamic capability help to influence the entry mode choice process and its utility (post-entry speed) of small firms from emerging economies, when it is incorporated as a third factor in Dunning's OLI framework?
- Q4. Could the integration of international business entry choice with cognitive psychology be the basis of new IB theory for emerging economies (EE), i.e. OLC theory?

### **5.3 Model development and hypothesis: post-entry speed**

FDI theory highlights the structural market imperfections, while ignoring the other factors associated with foreign operations (Ekeledo and Sivakumar, 2004). Eclectic theory is a rigorous conceptual model when integrated with other perspectives provides sufficient empirical support (Dunning and Rugman, 1985; Ekeledo and Sivakumar, 2004; Madhok, 1997). According to Dunning and Rugman (1985) and Ekeledo and Sivakumar (2004), FDI and internalisation theories ignore the effect of location-specific advantage and government policy on the FDI entry mode decisions. IB is a complex phenomenon and any single framework fails to explain the dynamics involved and in particular role of decision maker in entry mode selection process. According to Welch and Luostarinen (1988: 34), the early market imperfection theories are mostly "involved with

documenting and explaining the spread of multinational corporations, and assessing their impact, with an emphasis on their foreign investment activities”.

Welch and Luostarinen (2003: 34), pioneers of the Nordic School, suggest that ‘there is a need for new and network-based models of internationalisation. We think it might be worthwhile to reconcile and even integrate the two approaches’. Brazeal and Herbert (1999) propose a rudimentary model which integrates the concepts of change, innovation and creativity with entrepreneurial events. They argue that the integration of these models will be a source of robust understanding of complex entrepreneurial phenomena (Brouthers and Hennart, 2007; Canabal and White III, 2008), as creativity is enhanced through psychological social behaviour, such as ‘management style’ and ‘intrinsic motivational factors’. This can be achieved ‘... through a conscious blending of the cognitive component of creativity and the entrepreneurial event’ (Brazeal and Herbert, 1999: 39). Therefore, this study integrates the Dunning OLI framework with the RBV (dynamic capabilities) of small firms to explore the value of managerial *cognitions* in entry mode selection process and post-entry speed.

### **5.3.1 Resource based view and ownership advantage**

Based on the premise of initial development of Resource Based View (RBV) introduced by Penrose (1959), Wernerfelt’s (1984) developed the RBV theory and explained the value of resource development with respect to the value of *product development*. A combination of early snapshots of the resource-based view led to the emergence of the most widely accepted *resource-based view of firms* (RBVF), introduced by Barney (1991). According to Barney resources should be valuable, rare, inimitable and non-substitutable (VRIN) to achieve sustained competitive advantage. Firms make their resources unique by increasing the stock of available resources and their competitors’ degree of difficulty in acquiring these resources (immobility). He further argues that these resources are valuable and non-substitutable in the market. In the initial development the individual biases may affect the decision making process, but once the process replication becomes the domain of every day activity the cognitive adoptability

emerges as a sound wisdom. This logic leads to study *biases* in initial process and *cognitive adoptability* in post-entry speed development.

Sharma and Erramilli (2004) and Madhok (1997) assert that resource replication is dependent upon *embeddedness* (Schweizer, 2013; Yamin and Andersson, 2011). If the organisational process are cemented and are the medium of exchange for the transfer of resources in organisational routines, then the chance of *erosion* of ownership value becomes negligible (Erramilli, et al., 2002; Tomczyk, Lee, and Winslow, 2013). In such cases where the organisational routines are difficult to replicate, the resources can be transferred to the host market through more committed modes. 'If the firm is able to effectively and/or efficiently make such transfers, it may choose collaborative modes, otherwise, sole ventures (Sharma and Erramilli, 2004: 10).

Empirical evidence suggest that MNEs, due to their *large size* and higher resources as compared to their counterpart SMEs, exploit advantage and are in better position to commit higher resources to entry mode strategies (Agarwal and Ramaswami, 1992; Freeman, et al., 2006). However, the literature on entry mode strategies and its link with firm size stands inconclusive in the international business context (Ekeledo and Sivakumar, 2004; Pinho, 2007). Ekeledo and Sivakumar (2004) make similar comments to the effect that a medium-size firm operating in a local market might no longer be a medium-size firm and might become a large firm in the host market that has a wide array of small firms. The potential market with higher returns on smaller investments through selective entry mode is a guarantee of success in international arena (Nakos and Brouthers, 2002; Pinho, 2007). The size and resource constraint in small firms remains a liability as a managerial perception. Proactive managers having the capability of getting things done and facing every day innovations, evaluate the entry mode choice through a different lens (Majeed, 2009; Majeed, et al., 2011).

***H1: The larger the firm's size, the greater will be the likelihood of a firm becoming a rapid international.***

Second dimension of ownership is the capacity of a firm to produce *innovative products*. In the product innovation vein of research two notable schools of thoughts i.e. product adaptation and product standardisation have different perspective. Product

standardisation theorists assume worldwide customers to be homogenous in their wants and needs (Reynolds, 2002; Townsend, et al., 2008; Vrontis and Kitchen, 2005). Conversely, another school of thought, product adaptation (differentiation) theorists, assumes the screening process should be based on cultural values and norms (Anchor and Kou ilová, 2008; Cayla and Eckhardt, 2007; Zuboff, 2009). Hutchinson, et al. (2006) in their study of British retail SMEs found that the SMEs were keen to focus on differentiating the niche markets with respect to customer purchasing power/ adaptation. Contrary to above observations, Vrontis and Kitchen (2005) found that the firms under study were keen to exploit opportunities by using both adaptation and standardisation strategies. Similarly Evans et al. (2008) found that US retailers used standardisation but their motives changed over time.

Scholars argue that there is a direct relationship among the organisational process, product innovation and higher returns (Pinho, 2007; Vrontis and Kitchen, 2005). The more sophisticated the research and development and organisational process, the higher will be the capacity of the firm to introduce differentiated products (Hill, et al., 1990; Majeed, et al., 2011; Pinho, 2007). The competitors do not show any mercy in the struggle to gain the competitive edge against a firm that is unable to protect its vulnerable position in the market. Pinho, (2007) made the comment that in order to gain the dual benefit of maximising the return and safeguarding the vulnerable edge, SMEs will prefer equity modes for international development.

However, contradictory findings are also reported in the literature. Gatignon and Anderson (1988: 307) and Chiao et al. (2010) found support for their hypotheses that greater control is appropriate/more likely (more efficient) for highly proprietary products or processes. Randøy and Dibrell (2002), in their study of Norwegian firms, found no support for their hypothesis that firms with differentiation capacity will favour a high foreign market resource commitment. Erramilli, Agarwal, and Kim (1997), in their study of 132 Korean firms, found a positive association with the level of ownership in more highly-developed countries but a negatively relation to the level of ownership in less developed countries: therefore

***H2: The higher the SME's ability to innovate/produce differentiated products, the higher will be the probability of international rapidity.***

### **5.3.2 Resource-based view and location advantage**

RBV states that location benefit arises when the firm is able to transfer resources and capabilities to the host market (Morschett, et al., 2010; Zhan and Chen, 2010). The subjective probability of the amount of resources transferred should match with the foreign market requirements (Majeed, et al., 2011; Sharma and Erramilli, 2004). If the nature of the competition in the host market is intense, the subjective measurement might be the source of loss of time/value of the deployed resources (Sharma and Erramilli, 2004; Yamin and Golesorkhi, 2010). The scholars argue that two factors might hinder the development of capabilities in the alien environment abroad (Majeed and Reza, 2009; Sharma and Erramilli, 2004). First the capabilities (e.g. managerial know-how and skills) might be context-specific or *entangled* with the local needs and difficult to exploit due to long-term adherence to the local application. Second, these capabilities might be valuable in the home market but not *compatible* with the factors (host government, policy, ceiling etc.) influencing the foreign market. In such cases, the firm might feel more comfortable to choose marketing channels such as indirect exporting for resource exploitation. If a firm can transfer its value-generating resources to the host market, the firm might be able to choose highly-committed modes (Pinho, 2007; Sharma and Erramilli, 2004).

A country with higher *cultural distance* leads to the choice of different strategy for speedy development (Herrmann and Datta, 2006; Kogut and Singh, 1988; Pinho, 2007). Kogut and Singh (1988) argue that the cost, uncertainty and difference in social behaviour in a host market are the key determinants that influence the perception of managers. Differences in organisational process, routines and employee perceptions differentiate the national culture as a whole. The degree of ownership and control, along with other factors such as the bargaining power of the parties involved (partners, suppliers and distributors) influence the choice of commitments in foreign operation (Kogut and Singh, 1988; Morschett, et al., 2010). Yamin and Golesorkhi (2010:459)



concluded that the theoretical basis for the influence of cultural distance on equity shares in IJVs is not clear-cut in the general cross-border case.

The literature offers a contradictory perspective regarding cultural distance and strategy choice. In the case of a foreign partner's weak absorptive capacity, information asymmetry leading to monitoring costs and in the presence of "double-standards", the wholly owned subsidiary is preferred for accelerated entry into the markets (Morschett, et al., 2010; Yamin and Golesorkhi, 2010). In terms of the capability perspective, small firms expand operation even in geographical and cultural distant countries. Higher cultural distance decreases competitive rivalry, therefore it is more likely that small firm's propensity for cooperative arrangements increases for quick entry into distant markets (Dow and Ferencikova, 2010; López-Duarte and Vidal-Suárez, 2010; Morschett, et al., 2010): Therefore

***H3: The higher the cultural distance between the home and host country, the higher will be the propensity of speedy internationalisation in distant markets.***

***Market potential*** serves as a proxy for location advantage in the host country and a source of motivation for international activity. A firm's long-term investment incentive is directly linked with product demand in the market and its future acceptability in that market as a differentiated product (Dunning, 1988a; Pinho, 2007). The higher the market potential, the higher will be the probability of achieving economies of scale, lower cost of production and choice of investment modes of entry. In general, in order to exploit long-term presence in the host country, the literature favours equity modes of investment if the market growth/sales potential is high (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002).

According to the *dynamic capability view*, learning and exploitation of a *high growth market* is most feasible through cooperative arrangements (Boehe, 2011; Nielsen and Nielsen, 2011), as the delayed entry results in higher opportunity cost (Hennart and Park, 1994; Morschett, et al., 2010). Firms with older and well-codified (explicit) knowledge do not consider opportunism as a threat to their strategic moves; and are more inclined to use *cooperative modes* (licensing) of transaction for early development: therefore

***H4: The higher the growth/sales potential of international market, the higher will be the probability of accelerated internationalisation.***

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

The choice entry mode in small neophyte firms is a complex phenomenon and decision-makers' prior perceptions about the quality of information available becomes a source of effective decision-making (Kumar, 2009; Kumar and Subramanian, 1997). Perceptual mental models are said to be the vital choice for implementing strategic behaviour as compared to knowledge or managerial intuition (Autio, et al., 2000; Kumar and Subramanian, 1997). This is because knowledge (information) may be limited and managerial intuition might not work in situations of uncertainty and complexity (David, 2005; Majeed, et al., 2011; Morgan-Thomas and Jones, 2009). Cognitive preferences might be better sources of prediction of international risk-perception in the choice of international entry mode process (Fig 5.1). Keeping in view the recommendation of pioneers, this research will integrate the cognitive underpinnings in an attempt to apply RBV (dynamic capabilities rarely used in entry mode literature) in foreign servicing. This combination and integration will give a new dimension to existing literature and have significant managerial implications regarding entry mode selection in SMEs. Firms having managers with *entrepreneurial cognition* are always in a competitive position as cognition links entrepreneurial thinking with new and innovative international strategies and anticipates future plans. Baron (2004) points out that an entrepreneur with a cognitive mind-set anticipates and develops advanced strategies based on past actions (counterfactual thinking), and switches promptly from effortless information processing system (heuristic processing) to more productive tasks (systematic processing ).

Cognitive advantage in the main conceptual model is referred to as the *entrepreneurial cognition*, which provides useful insights in analysing the questions why some choose to be entrepreneurs while others do not and why some entrepreneurs are more successful than others 'Finally, the entrepreneur may be more adept at avoiding various cognitive "traps" such as sunk costs' (Baron, 2004: 222). Generally speaking, proactive, innovative and risk-seeking attributes of entrepreneurial managers become the basis of

multidimensional-personality. The firm-specific knowledge might help to overcome the anxiety associated with risk perception, so that the rapidity of the international process is maintained (Bilkey and Tesar, 1977; Johanson and Wiedersheim-Paul, 1975).

The theory of *entrepreneurial cognition* builds upon the argument that the people are the core of entrepreneurial success and entrepreneurial cognition is the knowledge structure that people use to make assessments, judgments or decisions involving opportunity evaluation, venture creation and growth (Mitchell, Busenitz, et al., 2002, p. 97). SME scholars such as Coviello and Jones (2004) and McDougall and Oviatt (2000) stressed the role of *international entrepreneurship (IE)*. They argued that the process of international involvement in small firms is driven by the decision maker, ignored by OLI framework and ‘International entrepreneurship is a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organisations’ (McDougall and Oviatt, 2000: 903). IE stresses the role of the decision maker, but ignores the context in which the firm operates. We are afraid that ignoring the context in which the SME operates will result in an unresolved puzzle (Nadkarni and Barr, 2008). Endorsed by Corbett and Hmieleski (2007, p. 105), a synthesis of entry mode and international entrepreneurship literature suggests that conceptual or empirical literature is deficient in explaining the cognitive-contextual misfit<sup>24</sup>. Cognitive processes allow entrepreneurs to analyse whether the opportunity visually recognised is to be exploited in a specific context (Keh, Foo, and Lim, 2002b; Kickul, et al., 2009). Is the opportunity identified really new and *bona fide*, is it realistic as well as practical, and last but not least, is it novel and unique? (Acedo and Jones, 2007; Baron, 2004).

It is asserted that for small firms’ international activity, the definition of the theory of *entrepreneurial cognition* should be revised to incorporate the cognitive-contextual misfit. Therefore, the new definition of *entrepreneurial cognition (EC)* should take its route by the interaction of OLI and the (cognition) dynamic capability view that ‘international entrepreneurial cognition are the contextual knowledge structures that

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<sup>24</sup> The cognitive-contextual misfit is the degree of mismatch between an individual preferred and dominant cognitive style (the way of processing information and arriving at conclusion) and the style demand of particular context (Brigham, et al., 2007: 107; Corbett and Hmieleski, 2007: 105).

people use to make valuable assessments, judgments, or decisions involving cross border opportunity evaluation and exploitation'. This concludes the development of the new *ownership, location and cognitive* (OLC) advantage theory of small firm's entry mode choices from EEs.

The ***cognitive orientation*** is the lens of personal characteristics (travel interest, education, knowledge and international background) that becomes a bridge between psychological cognitive traits (risk-taking propensity) and risk associated with opportunity exploitation (Oviatt and McDougall, 2005a, 2005b). 'The entrepreneur's exposure to foreign cultures through living, working, or traveling abroad should increase their international orientation to foreign cultures and countries' (Ruzzier, et al., 2007: 18). The practical ***orientation*** that a firm acquires through its entrepreneurial managers is termed by McKenzie et al.(2009) 'cognitive mastery' and is said to be the immune effect on the choice of particular strategy (Agarwal and Ramaswami, 1992; Ruzzier, Antoncic, and Konecnik, 2006). The authors found a positive association between cognitive knowledge/language ability and accelerated internationalisation/performance (Musteen, et al., 2010; Rasmussen, et al., 2010).

'The international experience of managers and entrepreneurs is also an inimitable and irreplaceable resource for their firms' (Ruzzier, et al., 2007: 17). Language ability reduces cultural and psychic distance, and the entrepreneur communicates without any psychic dissonance with foreign partners and clients. This enables the entrepreneur to exploit a foreign opportunity without any mediator, more rapidly than competitors. International operations are often associated with uncertainty and risk (Ahmed, et al., 2002; Majeed, et al., 2011). Highly educated and experienced managers (Rasmussen, et al., 2010), being open-minded and strong initiators, evaluate/guarantee performance (Musteen, et al., 2010). Their 'organisational learning, and (external) access to complementary knowledge' (Meyer, et al., 2009: 558) and growth ensure a suitable entry strategy (Schlegelmilch, 1986). International experience is a conduit through which the negative effects of an alien environment flows and becomes mitigated and 'experienced

actors can do things that novices cannot do or do less well' (Li and Meyer, 2008: 3). Therefore, it is proposed that:

***H5: SMEs having entrepreneurs with a high degree of cognitive orientation are more likely to achieve speedy development.***

Decision theory states that “with uncertainty goes risk” (Gupta and Govindarajan, 1984: 30). According to this view, the term ‘risk’ can only be linked with a situation in which the objective probability of diverse possible effects is known; all other situations are to be treated as decision making under uncertainty. Determination of risk perceived led to the coining of the term ‘***tolerance to ambiguity***’ and is referred to by IB scholars as the personality dimension of an entrepreneurial manager who can make prudent decisions in a risky and uncertain environment (Gupta and Govindarajan, 1984; Westerberg, et al., 1997). Complex legal environments, atypical markets and uncertain economic recessions are common limitations that SMEs face in developing countries as compared to advanced countries and tolerance to ambiguity is also ‘... the extent to which individual feels threatened by ambiguity or ambiguous situations, and the extent to which this affects the individual’s level of confidence when making decision’ (Westerberg, et al., 1997: 256). The lack of experiential knowledge develops uncertainty (Johanson and Vahlne, 1977), while tolerance to ambiguity augments the behaviour of knowledge seeking, learning from mistakes and thwarts the tendency of unnecessary delays in initiatives, which ultimately leads to a rewarding choice. Westerberg et al (1997: 256) argue that uncertainty reduces the tendency of facing competitive turbulent environment ‘... high tolerance for ambiguity causes people to take too many risks in stable environment, when “playing it safe” may be more rewarding’. Westerberg et al (1997: 265) found that higher perceived tolerance to ambiguity was strongly related to a firm’s superior financial performance and the managers being prepared to face uncertain situations. Gupta and Govindarajan (1984) found implicit support for managers having a high tolerance to ambiguity in selecting to build strategies as compared to the harvest strategies in Fortune 500 strategic business units (SBUs). Tolerance for ambiguity develops a linkage with perception of risk and therefore managers with a higher tolerance for ambiguity are more likely to handle the perception of risk in a positive manner. Thus:

***H6: Firms having managers with a high degree of tolerance for ambiguity are more likely to become rapid international.***

International expansion in MNEs in general and in SMEs in particular is triggered by corporate, organisational and financial restructuring (Majeed, et al., 2011; Polyakov, 2005). To grapple with new competitors and even the survival of small firms is contingent upon effective management of limited financial, technological and human resources. The SMEs needs corporate restructuring both in crisis and non-crisis turnarounds, to avoid the tendency of dealing with crises of the present day before they emerge as a signal for change (Majeed, 2009; Polyakov, 2005). The current era of fierce competition demands innovation in process, product and technology and ***proactivity*** refers to a forward-looking, opportunity-seeking tendency to anticipate and shape the future environment (Bateman and Crant, 1993; Gupta and Bhawe, 2007; Lumpkin and Dess, 2001). Gupta and Bhawe, (2007) argue that the entrepreneurship involves unexpected complex problems and challenges, and the people who have proclivity to accept challenges become entrepreneurs. Kropp, Lindsay, and Shoham (2008) argue that the proactiveness enhances the probability that an entrepreneur will anticipate and undertake a new entry for establishing an International Entrepreneurship Business Venture (IEBV). The cognitive proactive aspect also helps to answer the question as to how and why one entrepreneur responds to a turbulent environment, forecasts new business needs, and restructures and transforms international expansion better than others (Baron, 2004).

Classification of stimuli that enhance the export behaviour in international business is well-documented in international business literature (Acedo and Jones, 2007; Caughey and Chetty, 1994; Crant, 2000). However, there is a paucity of literature that explores proactivity as a differentiated and unique variable that plays an important part in the cognition process of entrepreneurial managers in SMEs. The aggregate stimuli may be helpful for the overall disposition of certain tasks (Alexander and Korine, 2008). Directional stimuli augment the implementation power of managers in a sound direction (Entrialgo, Fernández, and Vázquez, 2000; Gençtürk and Kotabe, 2001); thus proactivity

becomes an important stimulus for making decisions in uncertain, risky situations. Thus, it is proposed:

***H7: Firms having entrepreneurial managers with a higher proactive disposition are more likely to prefer rapid international development.***

Due to the lack of extra resources compared to MNEs (Prashantham, 2008), INVs and SMEs may face complex environmental and multidimensional cultural challenges in cross-border activities (Bartlett, et al., 2008; Johnson, et al., 2006; Westerberg, et al., 1997). In addition, they need a particular cultural mind-set, i.e. cultural competence in their internationalisation process to mitigate the diverse effects of ventures abroad (Muzychenko, 2008). Cultural competence in IB ‘...is an individual’s effectiveness in drawing upon a repertoire of skills, knowledge and attributes to work successfully with people from different national cultural backgrounds at home or abroad’ (Johnson, et al., 2006: 533).

*Skills* refer to language competence, and effective stress and conflict management in alien environment. *Personal attributes* refer to leadership traits such as analytical skills, curiosity and ambitions. *Knowledge* refers to cultural-general knowledge (awareness of cultural differences) and culture-specific knowledge (knowledge about the particular geography and economy) (Johnson, et al., 2006). Johnson et al (2006), referring to Earley and Ang (2003), describe the meta-cognitive aspect of knowledge acquisition.

Documentary evidence supports that exposure to an unknown culture can be a source of “*culture shock*”, which refers to the cognitive perception of disorientation and uncertainty felt, that becomes severe in a dissimilar cultural environment (Harris, Moran, and Moran, 2004; Marx, 1999; Milstein, 2005; Muzychenko, 2008).

The entrepreneur might also face culture shock when the actual complexity of the alien environment abroad is perceived to be very higher in ambiguous alternatives. *Cultural cognition* becomes the source of lessening the perceived complexity (Johnson, et al., 2006; Muzychenko, 2008) and a means of adapting to an uncertain environment to exploit a viable opportunity. ***Cultural-Cognition*** is a particular managerial dimension created for this study that incorporates the cultural understanding of the entrepreneur into

the need for a cognition construct. Need for cognition refers to the tendency of an individual to engage in and exercise rational thinking in turbulent environment (Westerberg, et al., 1997).

International expansion in a turbulent environment renders a firm's situation ambiguous (Westerberg, et al., 1997), thus the cultural-cognition in this study will refer to the tendency of an individual to engage in and exercise rational decision making in unknown cultures abroad (Johnson, et al., 2006; Westerberg, et al., 1997). Cultural-cognition can also prove to lessen the negative effects and risk perception in entry mode selection for cross-border activities. Therefore:

***H8: The higher the cultural cognition in entrepreneurial activities, the higher the likelihood of international rapidity.***

‘Once a firm enters overseas markets, a variety of risks (physical, social, political, and financial) can obstruct its progress towards internationalization’ (Ruzzier, et al., 2007: 18). As such, the cognitive triggers have a more profound effect than simple demographics. Interest in seeking and imitating information from rivals (Erramilli, et al., 2002; Lim, Sharkey, and Kim, 1996), innovativeness (Rauch, et al., 2009; Robertson and Chetty, 2000), fit between individual personality and job (Gupta and Govindarajan, 1984; Gupta and Bhawe, 2007) and other characteristics such as dynamism and flexibility (Acedo and Jones, 2007; Holzmuller and Kasper, 1991) are key attributes in international cross-border decisions. The difference in ***risk perception*** plays an important part in opportunity-recognition and international exploitation (López-Duarte and Vidal-Suárez, 2010; Sommer, 2010). Unstable cross-border market coupled with political instability as a firm specific (Al Khattab, Anchor, and Davies, 2007) or external threat discourages small firms from becoming involved in high commitments (Agarwal and Ramaswami, 1992; Sitkin and Weingart, 1995). The financial resources deployed in international operations, in particular the entry mode, once chosen cannot be modified without duplicating efforts which results in loss of time and sunk costs (Nakos and Brouthers, 2002; Root, 1994; 2007). Ruzzier et al (2007) in their study of 165 Slovenian SMEs, found that international risk perception predicted a significant negative effect on internationalisation with respect to product, time, market, operation mode and degree.



International operating activities are supposed to be more uncertain and risk-oriented than domestic activities. Degree of threat from competitors (Benyus, et al., 2009), resource dependency due to liability of smallness and foreignness (Bell, et al., 2012; Lu and Beamish, 2006), susceptibility to distress, hardship, outright failure with respect to environment change (Wolff and Pett, 2006) and uncertainty in foreign locations are the key determinants for ascertaining the degree of risk associated with international activity. Thus:

***H9: The higher the risk perception associated with cross-border activity, the lower will be the probability for accelerated internationalisation.***

## **5.4 Summary**

Based on the final analytical model, this chapter presented the statement of the research problems, research questions and major hypotheses to be tested. Major contributions of this thesis include: (1) Integrating the OLI with the resource-based view (dynamic capabilities) of the firms this study fills a gap in the literature exploring the role of endogenous or firm specific factors (cognitive preferences) along with exogenous factors (industry- and country-specific) for the selection of entry mode process by SMEs. (2) Small firm entry mode choice due to human, managerial and financial resource constraints is a complex phenomenon and the post-entry speed dynamics of ownership, location and cognitive advantage are not provided by any empirical or conceptual contribution. This study is unique in its nature as it provides the resource-based *value enhancement potential* of ownership and cognitive capabilities in the entry mode selection process and post-entry speed dynamics of small firms from Pakistan. (3) The existing literature exploring the behaviour of MNEs/SMEs from Developing Economies (DE) to DE or Emerging Economies (EE) explains only the process of internationalisation based on firm- specific variables. Thus, in order to fill this gap it is vital to analyse the theoretical construct explaining the SME motivation and post-entry speed dynamics from EE to DE. Therefore, this thesis examines the role of ownership, location and cognitive dimensions in entry mode choice process and post-entry speed

dynamics in small firms from Pakistan. The next chapter discusses the research design used for this study.

## **Chapter 6**

### **Research design**

#### **6.1 Introduction**

SME internationalisation in general and entry mode choice in particular, is a broad and complex phenomenon. This chapter discusses the conceptual framework, research process, research philosophy and finally the research design used to study the impact of ownership, location and cognitive advantages on the entry mode choices of Pakistani SMEs.

In this effort, this chapter incorporates the basics of the conceptual framework with the epistemology of SME internationalisation, and its theoretical and ontological link with the research problem. A robust scanning of internationalisation literature suggests that there are two dominant paradigms that explain the epistemology and ontology of the cross- border outward movement of firms. Section 6.2 presents the philosophical assumption of the entry mode paradigm in detail. Section 6.3 presents the measure used. Section 6.4 and subsequent sections present the link of the survey design chosen to the analytical techniques used and its relevance to these. The subsequent sections are then devoted to validity and reliability of the measures used.

#### **6.2 Conceptual framework - revisited**

The international activity of resource-starved small firms in emerging economies, due to their liabilities of smallness, foreignness (Hymer, 1960; Zaheer, 1995), newness (Lu and Beamish, 2006), and outsidership (Johanson and Vahlne, 2009), is a particular phenomenon. Small firm entry mode *decisions* being themselves an ambiguous/ dynamic phenomenon, and with complexities involving psychological constructs (Acedo and Florin, 2006; Brace, Kemp, and Snelgar, 2006) increasing the dilemma, the research process becomes iterative in nature and needs revisiting the literature at each stage by using extensive cross-referencing (Saunders, Lewis, and Thornhill, 2007).

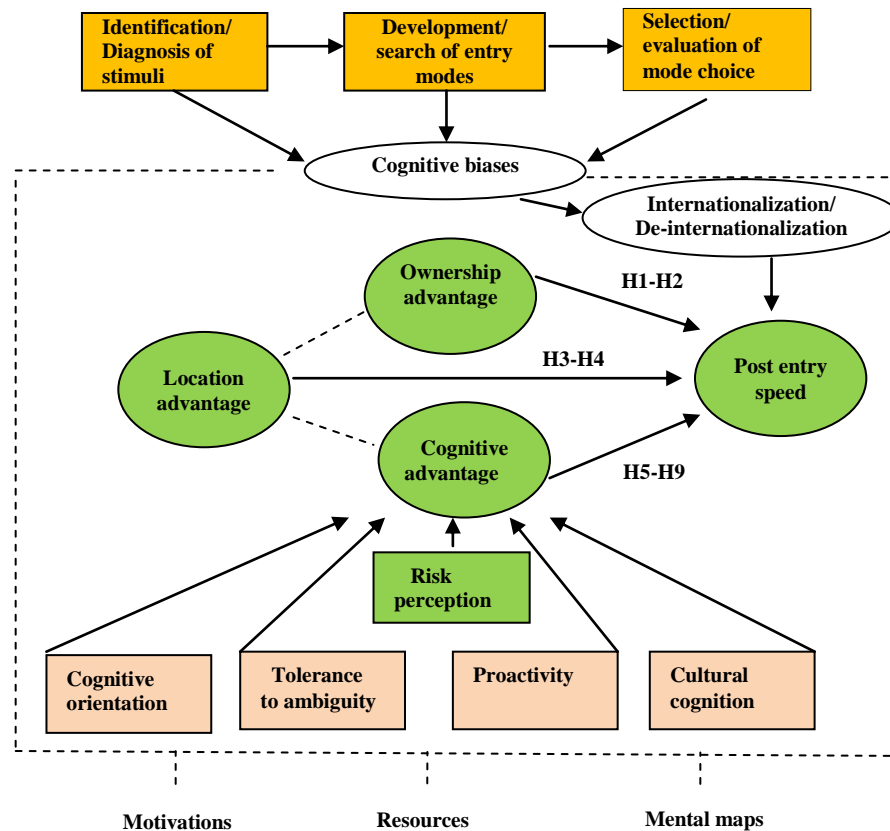
‘Every business problem or *decision making* situation can be classified on a continuum ranging from complete certainty to absolute ambiguity’ (Zikmund, 2000: 49). Business research differs from other social sciences disciplines in the sense that other disciplines describe the research process as linear, rational and straightforward without ambiguity, leading to conclude a phenomenon (Erramilli and Rao, 1993; Hennart, 1989; Zikmund, 2000). Business research, on the other hand, starts with choosing from ambiguous alternatives, and the limited explanatory ranges of pre-established theory further disfigure the horizons of exploration. Finally, it is expected that the contribution should offer a basic guideline for future researchers and practitioners (Saunders, et al., 2007). Therefore, it is stressed that the process of research on in business and management *decisions* starts with problem identification (Zikmund, 2000), linking it with the appropriate paradigm (knowledge and belief that guide the investigation), not only in research strategy (Sekaran, 1991) but as guided by the epistemology and ontology<sup>25</sup> of the constructs.

According to Mintzberg, et al. (1976), the individual behavioural/cognitive decision process comprises three stages. The *identification phase (recognition/diagnoses of stimuli)* of decision making, the *development phase (screening)* of decision making, and the *selection phase* of decision making (see section 1.3). Analogous to this individual decision making process the research stream in international investment decision process (Larimo, 1995; Sykianakis and Bellas, 2005; Wei, et al., 2005) adopted a behavioural approach and followed Aharoni’s (1966) three phases of FDI decision process: the initial idea generation stage, the investigation stage and the final decision making stage. ‘The strategic decision process is characterized by novelty, complexity and open-endedness...and only a vague idea of what that solution might be and how it is evaluated when it is developed’ (Mintzberg, et al., 1976: 250).

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<sup>25</sup> Ontology is the branch of science that describes the nature of reality, whereas epistemology relates with the choice of knowledge from reality (Saunders, et al., 2007)

**Figure 6.1 Analytical conceptual model**



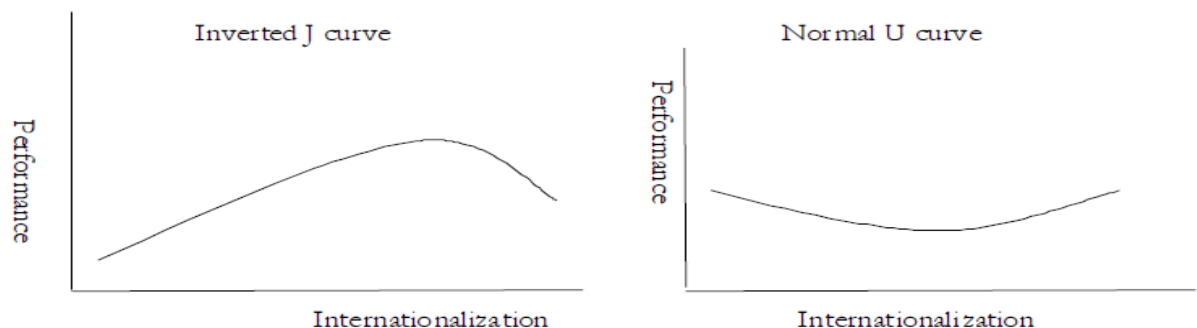
Source: adopted from (Acedo and Jones, 2007; Aharoni, 1966; Dunning and Lundan, 2008b; Kumar and Subramanian, 1997; Teece, et al., 1997).

Past entry mode and born-global studies due to their methodological limitations, present complex and contradictory findings. Choice of single measure, single case studies and proxy variables are the major limitation in entrepreneurship literature. Many studies applying behavioural and economic approaches found non-linear U-shaped (Ruigrok and Wagner, 2003), inverted J-shaped (Fleury, et al., 2008; Gomes and Ramaswamy, 1999), and U+N shaped relationship (Johnson, Yin, and Tsai, 2009; Tatoglu, et al., 2003). Similar results were given by location specific studies to answer the questions when and/or where to invest for lucrative awards (Garcia-Canal and Guillen, 2008; Roberto, 2004; Somlev and Hoshino, 2005; Stoian and Filippaios, 2008b); this is attributed to the

excessive use of inappropriate methodologies or the use of *inappropriate design* in international business studies.

Fleury, Borini, Fleury, and Júnior, (2008) conducted an exploratory research with a sample of 118 out of the 500 largest Brazilian companies. The core hypothesis of Fleury, et al. (2008) research was that there is a positive association between internationalization and performance up to a break point in the developing countries, at which the company becomes a multinational one. Due to methodological limitation, contrary to research carried out in developed countries (normal u-shape curve), the inverted-J curve in the Brazilian case offered an intriguing result (Figure 6.1). Same applies to U+N shaped relationships. Their findings show that, from the level of 15% of exports, results increase up to 100%, and that, precisely when the companies start engaging in foreign direct investment (FDI), an inflexion point appears. This corroborates the perception that the main challenge concerns the transition process from export to FDI (Fleury, et al., 2008).

**Figure 6.2 The relationship between internationalization and performance**



Source: (Fleury, et al., 2008; Gomes and Ramaswamy, 1999; Ruigrok and Wagner, 2003).

Ruigrok and Wagner (2003: 64) pinpointed that, in the inverted-J curve of the relationship, researchers identified an ‘internationalization threshold’, a point in firms’ expansion decision making process (*emphasis added*) at which global complexity starts to *strain managerial* and organizational capacity. The downturn in performance at high levels of internationalization was interpreted as implying that companies may benefit from targeting a certain universally applicable, or at most an industry-specific, ratio of

domestic to foreign operations. As a methodological limitation such relationships are tested by any single quantitative or single case study approaches.

### 6.3 Philosophical assumptions of entry mode paradigms

A robust scanning of the internationalisation literature suggests that there are two dominant paradigms that explain the epistemology and ontology of cross-border outward movement of firms (Saunders, et al., 2007): (1) economic decision-based approaches or the market imperfection/failure paradigm and; (2) evolutionary/behavioural approaches, which include the alliance paradigm (Table 6.1).

<b>Table 6.1 Epistemology/ paradigm of entry mode literature</b>			
<b>Paradigm</b>	<b>Theory</b>	<b>Entry mode choice</b>	<b>Authors</b>
<b>Market imperfection</b>	Hymer's theory	If market imperfection is high, high control mode is preferred and vice versa	(Hymer, 1960);(Hymer and Cohen, 1979);(Buckley and Casson, 1976)
	RBV and its extensions	Purchase resource bundles in high imperfect market through either mode choice; resource position barrier is high, low control mode through market diversification and vice versa	(Wernerfelt, 1984);(Barney, 1991);(Madhok, 1997);(Teece, et al., 1997)
Market Failure	Transaction cost theory and its extensions	If there is low asset specificity, opportunistic behaviour, and high cost of interaction, the greater is the probability of choosing high control modes	(Coase, 1937);(Williamson, 1975);(Buckley and Casson, 1976);(Anderson and Gatignon, 1986);(Erramilli and Rao, 1993)
	OLI model	Higher control mode is chosen if the ownership, location (host market) and internalisation advantage are higher.	(Dunning, 1981);(Dunning and Lundan, 2008b);
<b>Behavioural paradigm</b>	Internationalisation theory	Process-based entry; psychic distance is high, high control mode is preferred and vice versa	(Johanson and Wiedersheim-Paul, 1975);(Johanson and Vahlne, 1977)
Alliance capitalism	Network theory	Not an explicit entry mode theory, explains only shared modes; if dissemination risk is high, high ownership/control is preferred in collaborations and vice versa	(Johanson and Mattsson, 1988);
	International entrepreneurship	Not an explicit entry mode theory, explains timing,	(Oviatt and McDougall, 1994);(McDougall and

		process (both sequential and non-sequential) for network based INVs.	Oviatt, 2000)
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**Source: Author/entry mode literature review**

Earlier work on *internationalisation* tended to focus on economic approaches to internationalisation (Dunning, 1988a; Hymer, 1960), while the recent vein of research has focused on both economic and behavioural approaches/paradigms (Johanson and Vahlne, 1977; McDougall and Oviatt, 2000). Although both paradigms are active in explaining the four questions of why/degree, when/timing, where/location and how/entry mode to go abroad and they are well recognised in enhancing the understanding of general internationalisation of firms, they suffer from at least one of the following serious *methodological drawbacks* (Singh, 2009; Sullivan, 1994).

*Location-specific and entry mode* studies have also been inconclusive and failed to provide a significant methodological contribution, as the majority of studies used archival records for analysis (Erramilli, et al., 1997; Stoian and Filippaios, 2008a), and archival data always neglects the decision makers' perception/cognition on the choice of suitable entry strategy (Bell, 1996; Jiang, 2001). In this research phase, there are a few exceptions and the authors have used the mixed methodologies (Collinson and Houlden, 2005). Again, the studies have failed to provide valid/reliable conclusive evidence as the use of proxy variables was costly, time-consuming and neglected the compatibility of actual entrepreneurial process with managerial perception/cognition. As Sullivan, (1994 :334) asserts, application of positivistic-instrumental approaches '...compound sampling error...consistently over-reporting or under-reporting the attributes of sample...inadvertently reinforcing or diluting the observed relationship among variables'. Use of a mixed methodology makes it difficult to reconcile the research results.

The second vein of *location-specific* research is active in identifying the roles of firm, environment and decision maker in the process of foreign direct investment. This research stream on the international investment decision process (Larimo, 1995; Sykianakis and Bellas, 2005; Wei and Christodoulou, 1997; Wei, et al., 2005) adopted a behavioural approach and followed Mintzberg et al. (1976) and Aharoni's (1966) three



phases of FDI decision process: the initial idea generation stage , the investigation stage and final decision making stage. FDI decision process also face the critical shortcoming of overemphasising the role of MNEs' FDI process and rely heavily on case studies for exploration (Larimo, 1995; Sykianakis and Bellas, 2005; Wei and Christodoulou, 1997; Wei, et al., 2005). Collis and Hussey (2009: 120) assert that 'the criteria for a good research question are less clear in interpretivist studies than in positivist studies'. Findings from a case study are frequently not very effective due to reliability and validity issues involved (Bryman and Bell, 2007; Easterby-Smith, Thorpe, and Jackson, 2008). Contradiction also exists that the case study is also a very popular form of enquiry into the nature and causes of dynamic entrepreneurship (Smith, 2009b, 2011; Smith, Moulton, Burge, and Turnbull, 2010).

A meta-analysis of current *entry mode* literature identifies specific entry mode *sample selection and measurement errors*. (1) Many well-conceived entry mode studies made considerable use of the transaction cost framework and internationalisation theory (Brouthers and Nakos, 2004; Brouthers, et al., 2009). The research exploring entry mode choice and its effects on performance concluded that a firm's choice is exclusively an endogenous phenomenon (Anand and Delios, 1997; Woodcock, Beamish, and Makino, 1994), '...that is, it is choice made by managers and ... entry mode research has almost exclusively focused on rational choice models' (Brouthers and Hennart, 2007: 415).

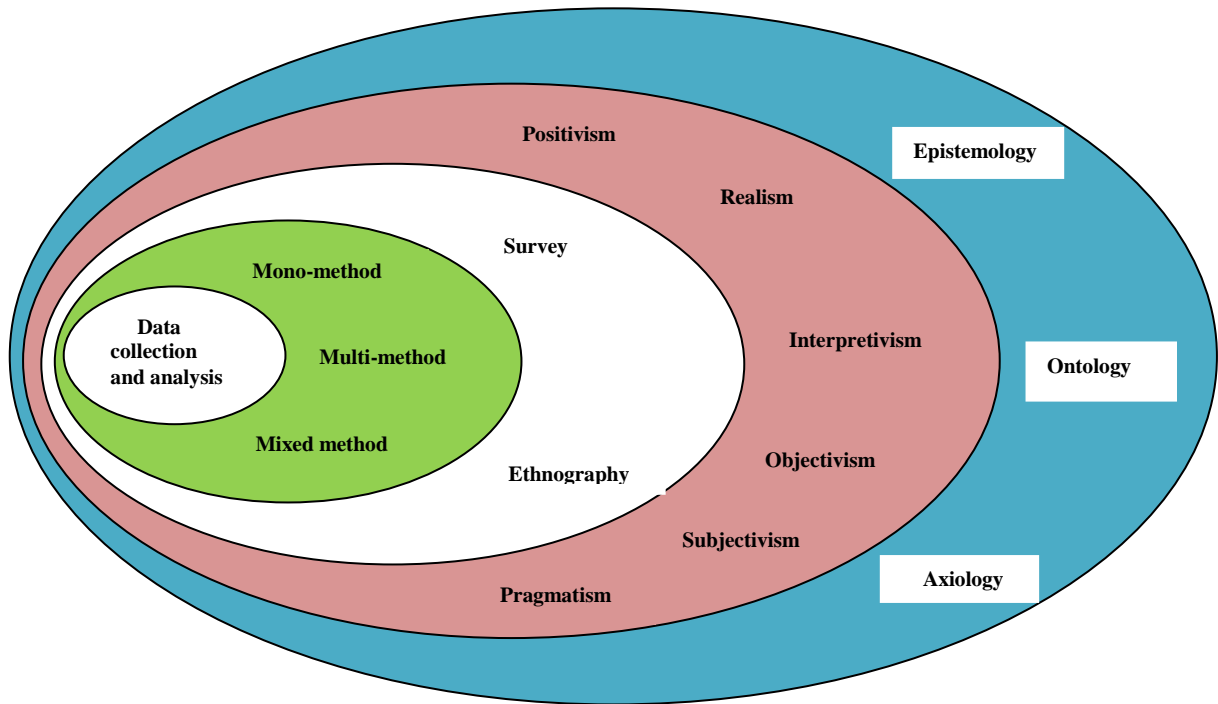
This clearly suggests that the transaction cost framework neglects the exogenous and/or (location-specific) contingencies involved in entry mode choice (Brouthers, et al., 2003; Brouthers and Nakos, 2004; Buckley, 1989; Erramilli and Rao, 1993). In such cases, they tend to use inappropriate *sample of small firms*, neglecting the fact that small firms' mode choice is not rational, but rather it is based on limited human thinking capacity. This creates a mismatch of theory (choices based on rationality) and *selected sample* (small firm choice is not rational), and casts doubt on the theoretical contribution claimed by the '...empirical investigations that are disjointed and inconclusive' (Sullivan, 1994 :325) in small firms' internationalisation.

(2) The second line of research uses the OLI model for both small and large firms' entry mode choice. As a firm-specific advantage, R&D/technology intensity and advertising intensity are the *measures* used in all transaction cost, OLI and resource-based views, either as asset specificity or ownership advantage. Disparate *measures and results* bedevil researchers (Pangarkar, 2008; Thomas and Eden, 2004), when such measures predict higher control modes in both transaction cost and the OLI framework (Stoian and Filippaios, 2008b), at the same time as an asset-specificity measure predicts lower control modes in transaction cost theory (Delios and Beamish, 1999; Palenzuela and Bobillo, 1999). Transaction cost theory clearly indicates that the default choice is lower control modes based on bounded rationality (Anderson and Gatignon, 1986). Such confusing results are due to the use of '...single-item measures or just a single aspect of a multi-item attribute...that... distort the validity of the measure will contaminate, if not ruin, the results' (Sullivan, 1994 :329).

### **6.3.1 Research strategy and design- the research onion**

The 'research onion' (Saunders, et al., 2007), explains the research phases carried out in exploring the ownership, locational and cognitive advantages involved in entry mode choice by small Pakistani firms. The 'onion' is a dynamic tool for structuring the research process in a logical fashion (Figure 6.3). The five stages in the research process are helpful in answering the following two dominant questions. (1) What is the basic research philosophy? Stages one to three help to answer and identify the research philosophy, the basic knowledge (paradigm) and its relationship to actual/real world commitment to a particular view (epistemology/ontology) (2) what is the most appropriate method of exploration? Stages three to five help to identify the most appropriate research strategy and design for in-depth analysis.

**Figure 6.3 The research onion**



**Source:** Adapted from (Saunders, et al., 2007)

In the selection of the research design, two schools of thought are clearly distinguished: the classical/experimental (positivist) tradition and the interpretive (post-positivist) perspective (Bryman and Bell, 2007; Easterby-Smith, et al., 2008). Realism is the branch of epistemology most similar to the positivist approach, but uses action research based on human and organisational interaction in any specific process ‘... in that it assumes a scientific approach to the development of knowledge’ (Saunders, et al., 2007: 105). Unlike the interpretivist tradition, the ‘direct realists’ assume that objects are independent of perceptual capacity. The ‘critical realist’ assumes that the illusions and thinking exist and they might deceive us, because the critical realist recognises the importance of multilevel study (Saunders, et al., 2007). Thus, ‘direct realism’ is closer to positivism as they both rely on scientific enquiry.

During the 19<sup>th</sup> century, innovations and development in scientific methods led to the classical (positivist) tradition; that is, scientific enquiries were used to develop explanatory theories (Collis and Hussey, 2009). The classical dynamic generates a quantified description, clearly-stated antecedents are measured with survey instruments (Likert scale), and a suitable statistical analysis is conducted (MacLeod and Ferrier, 2002; Maylor and Blackmon, 2005). Another distinction is made between ‘resource’ researchers and ‘feeling’ researchers. The resource researcher is positivistic, external to objects (Saunders, et al., 2007), cannot manipulate respondents decisively and is concerned about the reliability and validity of the research (Easterby-Smith, et al., 2008; Gill and Johnson, 2002).

On the other hand, ‘feeling’ researchers accuse the classical school of being ‘...motivated by business performance or profitability and concerned with manipulating ...to those ends’ (Chauvel and Despres, 2002: 209). The proponents of interpretivist/post-positivist/constructivist/naturalistic, or ‘feeling’ research’ (Freeman, et al., 2006; Glaser and Strauss, 1967) are more concerned with the conceptualisation of data with respondents’ sense (Gill and Johnson, 2002; Sekaran, 2003). They are heavily involved with research settings (Collis and Hussey, 2009). This objective is achieved through observation, ethnographic research, case studies, individual/focus group interviews, and repertory grids (Cooper and Schindler, 2008; Maylor and Blackmon, 2005). There is no doubt that observation and case study are rigorous and powerful methods (Larimo, 1995; Mintzberg, et al., 1976; Sykianakis and Bellas, 2005), and ‘...the observation method may be used to describe a wide variety of behaviours, cognitive phenomenon, such as attitudes, ...intentions, and preferences, cannot be observed’ (Zikmund, 2000: 218). However, the observational method provides very little opportunity for the researcher to observe the actual intricacies involved in the cognitive decision process (Arksey and Knight, 1999; Larimo, 1995; Majeed and Polyakov, 2009). Observation is also extremely demanding of *research resources*, which may be ‘either too costly or too difficult’ (Zikmund, 2000), because the strategic decision process typically span periods of years; often implying a study of the process after completion; therefore, researcher is obliged to rely heavily on interviewing. The clearest trace of the completed process remains in the

minds of those people who carried it out, as Mintzberg, et al., (1976: 248) and Larimo, (1995: 26) remarked in their studies.

In the foreign investment decision process, chief executives are directly or indirectly involved in the decision process (Mintzberg, et al., 1976). Interpretivist research is more generalizable in similar settings (Collis and Hussey, 2009), as a single case study, even coupled with *sophisticated* computer analysis, remains questionable and explains only the associated subjective patterns, while positivists create a logical sense in data, although the results are explained simple in percentage terms.

Researchers in the classical tradition claim their research analysis to be error-free due to computers' adaptive capacity/classical statistical techniques and charge feeling researchers with decisiveness and bias (Maylor and Blackmon, 2005; Saunders, et al., 2007). During the interview process there is a chance that human 'feelings' are more involved with an attitude of workers' autonomy (Langdridge and Hagger-Johnson, 2009; Sekaran, 2003) against their boss, as the 'feeling' researcher becomes embroiled in the interview process (Saunders, et al., 2007). 'Researchers are not objective, but part of what they observe. They bring their own interests and values to the research' (Collis and Hussey, 2009: 56), which results in either (Table 6.2) 'social desirability bias' from the respondents' side or 'interviewer cheating' from the researchers' side (Zikmund, 2000); '...of course, that complete freedom from the inclusion of our own values as researcher is impossible' (Saunders, et al., 2007: 104).

**Table 6.2 Philosophical assumptions of two main paradigms**

<b>Philosophical assumptions</b>	<b>Questions</b>	<b>Positivism</b>	<b>Interpretivism</b>
Ontological assumptions	What is the nature of reality?	-Objective reality exists “out there” in the world -Cause influences the outcome	-Reality is subjective meanings of their experience -Researcher is the part of process
Epistemological assumptions	How to distinguish knowledge from reality?	Research is valid/measurable, and researcher is independent of that being researched	-Researcher is involved in participative enquiry and creates the subjectivity.
Axiological assumptions	How do values Affect the research process?	Research is value-free and unbiased	Researcher acknowledges that the research is value-laden and biased
Rhetorical assumptions	How does language affect the research process/	Formal style of language	Personal voice, involvements creates language complexity
Methodological assumptions	What should the actual process be?	-Process is deductive -research is context free -results are accurate and reliable -finding are generalizable	-Process is inductive -Context bound -Reliable only through verification -not generalizable

Adapted from: Creswell (2009); Collis and Hussey (2009)

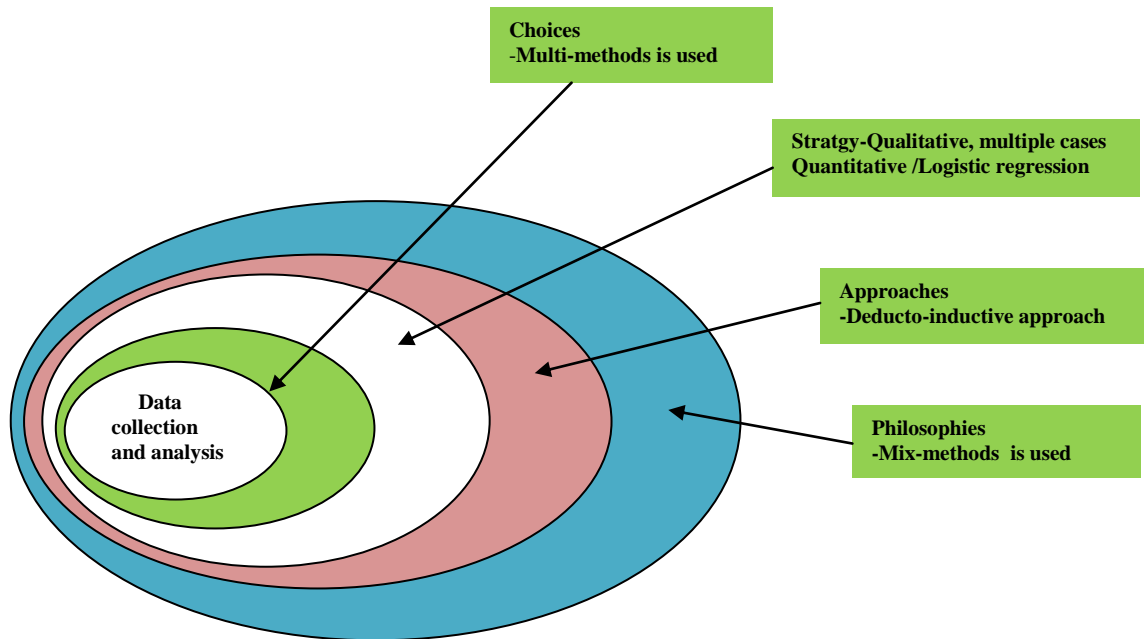
In interviews, the burden on the memories of decision makers results in two errors: distortion and memory failure (Mintzberg, et al., 1976). This might result in deliberate falsification, when there is mistrust of research confidentiality or unconscious misrepresentation (Bryman and Bell, 2007; Zikmund, 2000). Multiple interviews with decision makers reduce the possibility of distortion but are is costly, time consuming and might be possible in only one case study. As for the case of memory failure, most of the information remains unreported due to false starts, unsuccessful efforts and/or interviewer’s bias (Arksey and Knight, 1999; Mintzberg, et al., 1976).

### **6.3.2 The research onion revisited-choice of mix methodology**

The small firm internationalisation process or FDI process can be explored through phenomenological approaches, but the issues of reliability and validity in phenomenological approaches remain unresolved (Easterby-Smith, et al., 2008; Gill and

Johnson, 2002; Reynolds, 2002). Thus, it is problematic to explore FDI or the internationalisation process with survey instruments, as in such processes there are no specific variables to explain the intricacies involved in complex FDI or internationalisation processes. However, in location and post-entry studies, survey research can be sufficiently versatile to ‘...*suggest possible* reasons for particular relationships between variables and to produce models of these relationships’ (Saunders, et al., 2007: 105).

**Figure 6.4 The research onion revisited**



This study uses the mix-methodology as interpretivist-positivist/realist approach for testing entry mode choice process and post-entry of small firms from Pakistan for the following reasons (Figure 6.4).

- The choice of entry mode for small firms is ‘action-outcome’ linkage. The FDI decision process as a whole is inductive in nature, but as this research contributes to highlighting the selection stage of FDI entry choices; therefore, due to the causal relationship of action-outcome, it becomes deductive in nature. ‘It is obvious that the decision making is action-oriented; one has to choose what action...to learn the degree to which action leads to desirable or undesirable outcome’ (Wallsten, 1980: 02). Thus, a small firm cannot afford to follow the ‘trial and error’ method of WOS or JV selection, as the first selection might

prove disastrous, resulting in profound survival threats. Similarly, in such situations the researcher should not distort results by revealing complex cognitive choices by any single approach of enquiry. Therefore 10 interviews were carried out to provide in-depth analysis of foreign investment decision process. The quantitative design and analytical techniques was used for post entry speed. *Mix methodology* is used to analyse interview with deduct-inductive approach to explore the complexity of entry mode process followed by a comprehensive logistic model. Reconciliation of qualitative findings with quantitative results is not an issue in this thesis as the entry process in inductive and post-entry speed results are deductive in nature.

- Subjective phenomenological methodologies, particularly single case study, in FDI process and internationalisation process studies lack generalizability due to a narrow focus on a single industry or firm, thus failing to provide conclusive evidence of process or entry mode decisions. Rather, the profound complexities of such studies, through their use of selective non-probability samples and/or proxy variables, cast doubt on the research implications for practitioners. The being a firm level analysis seeks to provide multiple case-study evidence-based research from developing nation through a logical hypothesis-based research supported by qualitative analysis.

In the initial phases of research three personal and four telephonic interviews were conducted. Personal interview were transcribed. Another two telephonic interviews was re-conducted and recorded during final revisions of this thesis. Once the theoretical saturation was achieved tenth interview was recorded but not transcribed.

There are various drawbacks of telephonic interviews such as possibility of respondent misunderstanding, item non-response rate and respondents might not be willing to disclose important information to a stranger in the interview process. On the contrary the telephonic interviews provide high geographic flexibility, ease of call back, low cost and lower degree of interviewers' influence on the interview answers (Bryman and Bell, 2007; Saunders, et al., 2007; Zikmund, 2000). Past economic and behavioural decision studies found no significant differences in the results of face to face interviews and telephonic interviews (Irvine, Drew, and Sainsbury; Sturges and Hanrahan, 2004). Therefore use of mix methodology and interviews confirms the validity and reliability of the current study.



## 6.4 Entry mode choice process/pre-test stage for qualitative analysis

Previous research has usually focused on high risk-adjusted return trade-off for choosing *entry modes*, which are the basic characteristics that managers are faced with in the selection of appropriate mode of foreign servicing (Anderson and Gatignon, 1986). Managers' attitudes and behavioural factors/ bounded rationality (Buckley and Casson, 1976; McDougall and Oviatt, 2000), availability of resources (Barney, 1991) and need for appropriate control and return (Dunning, 2009b) also determine a firm's entry choices. Put in another way, firms must consider the resource commitments offered, the risk associated, the control needed and finally, the return targeted in foreign services.

The underpinning IB theories, particularly entry mode theories, partially explain the parameters of entry choices. Transaction cost theory based on bounded rationality, transactional uncertainty and opportunism focuses on risk-adjusted return along with variable control dimensions for each entry choice. Transaction cost stresses that higher ownership potential or higher transactional potential will lead to higher foreign control, and, according to the transaction cost view, *the default mode is low ownership mode* (Anderson and Gatignon, 1986; Chiao, et al., 2010). In the OLI and transaction cost frameworks, higher control represents high resource commitment and flexibility reduction, and the degree of control is "...the single most important determinant of both risk and return" (Anderson and Gatignon, 1986 :3). According to OLI, returns are mainly associated with ownership (*equity*); *therefore the default mode is FDI* (Blomstermo, et al., 2006; Dunning, 2009a).

On the other hand, the RBV focus is the resource commitment and *value generation* potential. According to the dynamic capability view (Madhok, 1997; Teece, et al., 1997), non-ownership modes (export modes) will be a low-value generating mode, and for large firms, the default mode should be FDI for high value generation (Chiao, et al., 2010; Forlani, et al., 2008). The RBV explicitly ignores the question as to what is the best entry mode choice for small firms. However, RBV theorists explicitly agree that the small firms are in a better position to exploit international opportunities through strategic alliances and joint ventures for high value creation (Barney, 1991; Newbert, 2007;

Sharma and Erramilli, 2004). To conclude three theories explained above shed light on four parameters that firms must consider before international investment; the resource commitments offered, the risk associated, the control needed and finally, the return targeted in foreign services. Any single theory is unable to capture the complexities of all the *parameters/measures* of entry mode choices.

All these four parameters /comparators have individual as well as collective effects on the choice of foreign servicing in the emerging economies (Luo, 2001). Small firms are usually unable to exploit opportunities through *FDI* due to resource limitations, and researchers in this area tend to conclude that export doubtless provides higher flexibility, although at the expense of reducing *control* and lower *profitability* (Anderson and Gatignon, 1986; Hill, et al., 1990; Kumar and Subramanian, 1997). A synthesis of capabilities suggests that high ownership (equity) for small firms in transition/emerging economies (EEs) does not always lead to high control and high value generation potential (Forlani, et al., 2008; Karhunen, et al., 2008; Luo, 2001; Sengun and Wasti, 2009). As each and every capability is unable to generate a high order value, ultimately not every type of sole ownership or contract will result in high growth potential in EEs.

The value generation of any entry mode choice/alternative for small firms in EEs depend upon the partner's strength and capabilities. This also depends on the managerial capability to take risks in turbulent conditions. Cognitive biases serves to limit the decision capacity of a manager or they tend to create over optimism in choice of alternatives. To resolve this dilemma, based on entry mode literature (Forlani, et al., 2008; Karhunen, et al., 2008; Meyer, Estrin, et al., 2009), by integrating the OLI and dynamic capability view, new alternative parameters/comparators (value generation potential) of entry choices are introduced in this thesis (Table 6.3).

**Table 6.3 Entry mode categorisation – contrast between RBV and OLI**

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

Adapted from: (Forlani, et al., 2008; Karhunen, et al., 2008; Sengun and Wasti, 2009).

The qualitative analysis will focus on the question that, how the cognitive biases will affect the choice of two alternatives i.e. the choice of low and high value generation modes? Further, how this choice process will affect the post-entry speed of small firms in Pakistan? Modes that are capable of transformation recommended by the pioneering RBV contributions (Barney, 1991; Newbert, 2007; Sharma and Erramilli, 2004) (strategic alliances/ licensing and joint ventures) are termed *high value generation modes*<sup>26</sup> while export modes and sole ventures are termed *low value generation modes*. This integration has more explanatory power than any single parameter explained by transaction cost or OLI paradigms.

## 6.5 Questionnaire design/pre-test stages for quantitative analysis

The social and business management research recommends three main phases (Bryman and Bell, 2007; Langdridge and Hagger-Johnson, 2009; Sekaran, 2003; Zikmund, 2000) for effective research instrument development: (1) initial design guided by past research, intuition and analytical thinking about the context of research; (2) expert opinion given by panel of experts in particular area of research, and; (3) pilot testing to initial respondents.

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<sup>26</sup>This study adopts the resource-based classification of entry choices. The RBV classification is different from that of the FDI and OLI models. Strategic alliances, licensing and joint ventures are the modes that are compatible with a small firm's likelihood and ability to transfer advantage-generating resources to host country/partners. This is why, they are termed as high value generation modes (Barney, 1991; Sharma and Erramilli, 2004).

As discussed previously, the research instrument was already pilot tested and discussed with experts in the area of study before the conference presentation. However, for main project, the questionnaire was further improved through revising three steps mentioned previously, which were the following. (1) Before designing the final questionnaire for the main study, the recommendations about wording/language of the questionnaire (Collis and Hussey, 2009; Easterby-Smith, et al., 2008; Gill and Johnson, 2002) were born in mind with respect to the understanding and level of education of respondents revealed during the first pilot test. The wording of the questionnaire also helps to reduce pitfalls, such as loading, leading and double barrelled questions (Zikmund, 2000). Items in the questionnaire were adopted from previous research; however, every effort was made to make them simple, readable, technically clear, and understandable. Suitable instructions were included for each section to introduce briefly the nature of the section and how to provide a reasonable response. In order to “warm up” respondents to the questionnaire and avoid order bias, demographic and classification questions were asked at the beginning of the questionnaire. The questionnaire sequence and style were general to the specific/funnel technique, endorsed by many social and management researchers (Cooper and Schindler, 2008; Zikmund, 2000).

(2) After the initial step of questionnaire development, the questionnaire was discussed with three research colleagues and experts in international business at the Business School of the University of Huddersfield. The author acknowledges the contribution of both supervisors for the valuable time and effort they devoted at this stage. This made it possible to make the design, layout and questionnaire wording of the final draft ready for dispatch. (3) In the pilot test, the respondents were asked to fill in the questionnaire and provide feedback about its design, layout and wording. In order to increase the response rate, telephonic follow up was made (Bryman and Bell, 2007; Easterby-Smith, et al., 2008; Langdrige and Hagger-Johnson, 2009). A total of seven completed questionnaires were received in the first pilot study.

The validations provided by the stage process made it possible to dispatch the final questionnaire to respondents. The questionnaire was split into seven sections. The first

two sections, (A) and (B), contained questions regarding the firm and the respondents' background. The confidentiality of the research findings were also reiterated in the middle sections of the questionnaire. The middle sections of the questionnaire, sections (C) and (D), dealt with the ownership, location and cognitive factors related to small firms' entry mode choice. The final section contained suggestions for improvement and instructions for returning the questionnaire.

### **6.5.1 Measures**

Past research in small firm internationalisation adopted single constructs to provide a deductive framework for analysis. A serious weakness of using a single measure is that it allows measurement error in analysis and extreme correlation with scales to jeopardise reliability/validity, which may distort or contaminate, if not ruin, the results (Sullivan, 1994). In order to assess the proven *face validity* of the research instrument, before the selection of final measures, an extensive review of international business and entry mode literature was undertaken. This review provided more theoretical insight and in-depth complexity of psychological constructs endorsed by IB and cognitive scholars (Acedo and Jones, 2007; Brace, Kemp, and Snelgar, 2006; Pinho, 2007).

#### ***Ownership advantages***

Firm size was measured by most of the past entry mode studies as the number of employees, in addition to the specific range of capital/sales turnover (Nakos and Brouthers, 2002; Pinho, 2007), and a similar strategy was adopted due to the inconclusive definition of SMEs in the Pakistani context. Firm size in this study was measured as having up to 250 employees, in addition to having paid-up capital/sales up to Pak Rs. 250 million. The respondents were asked to provide the range of their sales and exact figure of sales, ranges are from less than 10% as the first range to 76-100% as the final range, with a total of six ranges (see questionnaire item 9). Large firms' literature is using log of sales, but majority of small firms' literature (see Table 3.1) is taking simple sales as firm size. Both operationalizations resulted in similar model fit.

A firm's ability to innovate depends upon administrative processes, technology usage and differentiated products. If the firm has innovation ability in the organisational process, and cutting-edge technology, it will have a greater ability to produce differentiated products. A firm's ability to innovate and to produce differentiated products was measured on five-dimension scales adapted from Pinho(2007).

### ***Location advantages***

Due to inconclusive results and widespread criticism, from, for example, Drogendijk and Slangen (2006), Hofstede's (1984) and Schwartz's (1994) cultural dimensions fail to capture the complexity involved in national cultures (Harzing, 2004; Kim and Gray, 2009). Subsequent efforts to develop more rigorous measures have given rise to the call from recent scholars such as Harzing (2004) and Tihanyi, Griffith, and Russell (2005), to develop more *cultural dimensions*. As a result, scholars with an interest in culture orientation have developed two new cultural capabilities, i.e. culture intelligence (Earley, 2006) and cultural competence (Johnson, et al., 2006; Muzychenko, 2008). Therefore, cultural distance in terms of the perception of managers was measured by five items: differences in home and host country language, and geographic, business, social and environmental dimensions. Such scales are used in entry mode studies and the scale suggested by Jiang (2001) on these five dimensions serves the purpose of this study.

The higher the market potential, the higher will be the probability of achieving economies of scale, lower cost of production and choice of investment modes of entry (Garcia-Canal and Guillen, 2008). In general, in order to exploit long-term presence in the host country, the literature favours equity modes of investment if the market growth/sales potential is high (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002). Market growth and sales potential was measured by five-item scales adapted from (Agarwal and Ramaswami, 1992).

### ***Cognitive advantages***

*Cognitive orientation* is a multidimensional construct that measures the readiness of highly skilled entrepreneurial managers for entering into international markets through C

and I modes (Dichtl, et al., 1990; Dimitratos, et al., 2003; Majeed, 2009). Further, the readiness denotes knowledge of international markets, complications associated with international cross border transactions, feasible inputs for searching the absorptive capacity and opportunity-recognition. Cognitive orientation was measure by the dimensions such as the level of personal involvement in foreign decision making, based on international experience (Caughey and Chetty, 1994), based on international exposure, personal interest in foreign language spoken (Lautanen, 2000), and the tendency of the individual to interest in travel for business purposes, and educational level (Dichtl, et al., 1990; Holzmuller and Kasper, 1991).

Previous behavioural literature shed light on the concept of *tolerance to ambiguity* and adopted different scales to those used in past literature. For example, previous behavioural and international business studies (Acedo and Florin, 2006; Acedo and Jones, 2007) adapted the scales used by Westerberg et al. (1997) and Gupta and Govindarajan (1984) for measuring the tolerance to ambiguity. However, in this study, four-item scales were adapted from Westerberg et al. (1997); these are very popular in international business literature due to their applicability (Acedo and Florin, 2006; Acedo and Jones, 2007).

*Proactivity* is a matter of logical linkage and fit between individual personality and the job (Gupta and Govindarajan, 1984). The situation of the market and the strength of global drivers determine the individual intention and behaviour. The global mind-set becomes the most important characteristic as it controls and manipulates the value chain activities through C&I modes such as strategic alliances and JVs in SMEs. A high level of proactive disposition augments the motivation towards exploitation of greener opportunities. Crant and Bateman (2000) measured proactivity through a 17-item scale. Seibert, Crant and Kraimer (1999) proposed a revised version of this and used 10-item scales to measure the proactivity variable. Although Wood and Robertson (1997) also proposed certain measures of proactive disposition, the 6-item measure proposed by Seibert et al. (1999) was judged more appropriate for the purpose of this study.

It is argued that *cultural competence* is a novel and innovative phenomenon and comprises the skill, personal attributes (self-efficacy), need for cognition, and knowledge of the entrepreneur (Johnson, et al., 2006). Therefore, this study idea borrowed from such attitudes, developed/incorporated a new *cultural-cognitive* measure to capture the effect of cognitive cultural capability on entry mode choice. A seven-item scale for cultural-cognition was developed for this study by incorporating cultural dimensions in the need for cognition attributes used by Westerberg et al. (1997).

The culture and environment in the context of the study supported the adaption of well-defined and rigorous measures of *investment risk and risk perception*; therefore, four scales from the concept of risk perception of Sitkin and Weingart, (1995) and three scales of investment risk in entry choices from Agarwal and Ramaswami (1992) were combined to serve the purpose of this study.

#### **6.5.2 Dependent variable/Post-entry speed (quantitative analysis)**

Speed, scope and extent are three basic features adopted by previous literature as proxies of accelerated internationalisation. The speed and scope of operations are poorly defined and there is no consensus about the exact measurement of such constructs (see section 1.3). However, the literature offers some concrete measure of extent (ratio of sales achieved during a particular period). Based on the international speed literature (Acedo and Florin, 2006; Acedo and Jones, 2007; Morgan-Thomas and Jones, 2009) speed behaviour of small firms (extent of operation) is divided into three groups. This study adopts the 'extent' to measure the sales speed of small firms from Pakistan. More precisely, post-entry speed (the dependent variable, the sales ratio achieved within the ten years of the start of international operations) is divided into three categories. Small firms having achieved a ratio of foreign sales below 25% within ten years of domestic sales are referred to as reluctant internationalizers. Firms with international sales from 26-49% are termed regular internationalizers, and those with sales of above 50% are termed rapid internationalizers. Any firm that achieves the sales speed of 25-50% is considered as achieved the accelerated internationalization status. For the sake of easier interpretation logistic regression was used to test the hypothesis based on two categories i.e. regular



firms were those who achieved sales ratio of less than 50% within ten years of the start of international activity and the rapid firms are those who have achieved the sales speed of more than 50%.

## **6.6 The challenges of data collection in the EEs**

Musteen, Francis, and Datta (2010) and Dib, da Rocha, and da Silva (2010) asserted that the response rate in developing and transition economies remains low because firms are not used to answering questionnaires, the culture of contributing to academic research is absent and firms are highly reluctant to provide information on earnings. The energy and power shutdown/load shedding, legal and moral hazards, and Pakistan being the “epicentre” of global terrorism<sup>27</sup> offer a triple challenge to the data collection mechanism (Khan and Amine, 2004). Another important limitation is that earnings information is not available from any other source. This results in measurement error and possible bias (Dib, et al., 2010; Musteen, et al., 2010). In the follow-up, the researcher found a strong lack of interest in the research among SME owners/ managers due unwillingness to disclose financial information of the company and mistrust of the financial/taxation structure in the underdeveloped/uncertain/corrupt politico-legal environment of Pakistan (Khan and Amine, 2004).

Before the final survey, a pilot study was conducted with 30 questionnaires in the month of March 2010. Only seven questionnaires were returned in this initial survey. In the telephonic follow-up, respondents specified that they were prepared ready to respond to the questionnaire if financial information was kept secret and not disclosed to the tax authorities or utilised other than for research purposes. To this end, in the final data collection process, more than 300 companies were assured over the phone that their information would only be utilised for research purposes.

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<sup>27</sup> See footnotes (section 2.2 and section 2.4).

The Economist in its Jan 3<sup>rd</sup> 2008 edition states “*Pakistan-The world’s most dangerous place*”. The war against Islamist extremism and the terrorism it spawns is being fought on many fronts. But it may well be in Pakistan that it is won or lost: the sectarian divide between Sunni and Shia Muslims; the ethnic tensions between Punjabis, Sindhis, Pushtuns and “mohajir” immigrants from India; the insurgency in Baluchistan; and the spread of the “Pakistani Taliban” out of the border tribal areas into the heartlands.

The demographics of the respondents also play a key role in the low response rate in EEs. Younger export managers and CEOs were found to be more interested in responding to the questionnaire, while the older export managers and CEOs found not to be interested in the research initiative. The educational level and background played a crucial role in the data collection. The export managers and CEOs in certain cities in the Baluchistan and Punjab regions were less educated (matriculation/year 10 certificates), unaware of research initiatives and unable to understand how to return the completed questionnaire in the enclosed post-paid envelope. Due to this, the researcher was forced to rely on multi-method data collection (a combination of probability and non-probability sampling) in a process including mail survey, e-mail, drop-off/personal visits. Postal responses with substantial missing data were revised telephonically.

On the other hand, the researcher found that some of the export managers/CEOs in well-established firms in Lahore and Karachi were highly educated (MBAs and PhDs from the UK and North America), but such highly-educated managers were more reluctant to respond to research initiatives than less-educated ones due to information overload and time limitations. However, it was very encouraging to note that the doctoral research initiative was appreciated and responded to by less-educated exporters interested in achieving future higher qualifications in international business. Because of the complex nature of cognitive scales (Brace, et al., 2006), lack of interest in research initiatives, and fear of company information leakage/misuse for other purposes, the development of personal contacts with SMEs became mandatory. Researcher acknowledges the contribution of friends, colleagues and in particular University students of different ethnic groups who introduced the research areas to their close relatives in small firms in Baluchistan region. Uneducated CEOs, due to personal contacts in the Baluchistan region, were more likely to respond to personal visits when the purpose of the research was explained to them.

Another important observation was that small forms that were newly established and/or new to exporting were more interested in the research initiatives, but well-established, older exporters and companies having higher financial worth were not prepared to

participate in the doctoral research, and their response to research initiatives was highly discouraging. Such companies simply did not respond to the questionnaire and were even reluctant to listen to anything about research initiatives during telephone conversations. During the pilot testing it was revealed that SMEs located in urban areas having post office boxes as addresses were unable to return the questionnaire; therefore post office box addresses were not included in the response set.

The guide lines for an acceptable response rate provided by many prominent authors in business and social research (Bryman and Bell, 2007; Cooper and Schindler, 2008) were born in mind. Every possible effort was made to ensure the respondents' anonymity, privacy and confidentiality (Arksey and Knight, 1999; Easterby-Smith, et al., 2008; Sekaran, 2003). The most important problem in the data collection was to obtain a complete list or directory of SMEs with the complete address and contact details of the owner or export manager of the firms. To this end, the researcher contacted three different agencies working in SME development, namely the Small and Medium Enterprise Development Authority (SMEDA), the Chamber of Commerce and Industry (CCIs) and the Trade Development Authority of Pakistan (TDAP). One of the chief executives working with the TDAP and one with the CCI provided the researcher with Expo-Pakistan, a list of exporters in Pakistan who presented their export products at an annual exhibition in Karachi. The directories for Expo-Pakistan 2006 2008, and 2010 were comprehensive and helped to verify the profiles of owners/CEOs and export managers of 500 SMEs from Pakistan. These three directories also mentioned the name of the CEOs/export managers or contact persons of the firms, which helped the researcher to dispatch the questionnaire to firms' CEOs/export managers. The directory for 2010 was more comprehensive in the sense that it contained the names, e-mail addresses and mobile numbers of the concerned individuals in the company; this helped in following up the responses through e-mail/phone calls.

As there is no standard industrial classification of exporting SMEs in Pakistan, the export associations were also contacted to obtain a comprehensive list of exporters. The export associations included the Pakistan textile exporters association, formerly, the all Pakistan

cloth exporters association; The Pakistan electrical manufacturers association; The Pakistan sports goods manufacturers and exporters association; The surgical instrument manufacturers association of Pakistan; The Pakistan commercial exporters of towels association, and; The Pakistan readymade garments manufacturers and exporters association. A stratified sample of 500 operational managers in SMEs and INVs was selected for this study. Four criteria proposed by Dimitratos et al. (2003: 07) were used for a stratified sample selection: (a) independent business; (b) fewer than 250 employees; (c) wanted to explore international activities in the near future and the firms that controlled and managed value-added activities through various modes in one or more than one country, and; (d) among the leaders in their market niches. In order to increase the response rate, the Presidents and General Secretaries of the associations were requested to encourage association members at their scheduled meetings to respond to survey questionnaires.

A cover letter was addressed to the CEOs/export managers of 500 SMEs in Pakistan requesting their valuable contribution in filling in the questionnaire. Two reminders were dispatched after approximately after every four-week period. In order to increase the response rate, the respondents were assured that they would be provided with a summary of research results and managerial/policy implications, which would help them to identify new competitive strategies. The data was collected from three provinces of Pakistan: Punjab (major cities include Lahore, Faisalabad and Sialkot); Sindh (major cities include Karachi, Hyderabad and Sukkur), and Baluchistan (Quetta). The SMEs located in the Karachi region were more likely to use the Internet and computers and more willing to respond to e-mail questionnaires; hence 11 e-mail responses were received in the follow-up process. 11 questionnaires from SMEs in remote areas without proper postal dispatch system and/or substantial missing data were revised through telephonic follow-up and 22 collected through drop-off/personal visits were also included in the final data set.

Personal visits were arranged with the companies whose CEOs/export managers had little or no education. The majority of uneducated CEOs were found in tribal areas of Baluchistan province (the literacy rate in Baluchistan is only 26%). More than 30

companies replied during the telephonic follow-up that they would not participate in research initiatives due to the company policy or restrictions on CEOs/export managers responding to any research project. More than 70 unusable questionnaires that did not provided adequate total score were excluded in the revised final data set and draft of thesis.

After comprehensive postal reminders, personal, e-mail and telephonic follow-ups, a total of 96 usable questionnaires were included in final data set. This represents a response rate of 19%. This response rate is low as compared to advance nations. This response rate is consistent with the response rate of previous IB studies in EEs, e.g. Malaysia (Ahmed, et al., 2002) and Brazil (Dib, et al., 2010). while studies of entrepreneurship in advanced nations present a response rate from 36-40%, (e.g. (Knight and Cavusgil, 2004; Musteen, et al., 2010). The results of this study should be interpreted with caution.

## **6.7 Validity and reliability of research instrument**

In order to assess the proven *validity* of the research instrument, several dimensions of validity were born in mind (Sekaran, 2003; Zikmund, 2000). Criterion, content (face) and construct validity are the most significant forms for assessing the measurement scales. *Criterion validity* is related to the most accurate measure of the topic concerned. Before selection of the final measures, the results of other studies were examined for consistency across objects and time (Gill and Johnson, 2002; Sekaran, 2003).

For measuring *content validity*, before selection of final measures, the questionnaire and its development process were discussed with five international business and marketing experts. The questionnaire items were adapted from well-established IB and cognitive literature. A pilot study with seven initial interviews and 30 questionnaires was carried out with telephonic follow-up; this provided the basic concept in terms of the clarity and length of the questionnaire.

*Construct validity* relates to the power of the scale to test the theories accurately (Sekaran, 2003; Zikmund, 2000). The extensive literature review of IB and cognitive theories together with the expert opinions resulted in enhanced construct validity. This

review provided some more *theoretical definitions/insight* and in-depth complexity of psychological constructs endorsed by IB and cognitive scholars (Acedo and Jones, 2007; Brace, Kemp, and Snelgar, 2006; Pinho, 2007).

Multicollinearity was identified by scanning a correlation matrix to see if there were any very high correlations (meaning a correlation of above .80 or near to 1). This estimation method has proven superior to other methods to identify “ball park” multicollinearity (Field, 2000; Maddala, 2001; Pryce, 2005). The correlation matrix was examined in detail and it was confirmed that none of the Pearson’s correlations was above 0.80 or near to 1 (Table 6.4). Therefore, we concluded that there was no strong multicollinearity in the model.

**Table 6.4 Mean, standard deviation and Pearson correlation for all variables**

	1	2	3	4	5	6	7	8	9	10
Mean	.42	67.61	3.76	3.28	3.62	3.72	3.55	4.04	3.31	3.70
Standard deviation	.49	70.48	.67	.87	.61	.78	.69	.51	.56	.52
Constant	1									
Firm size	.075	1								
Innovation	.055	.053	1							
Cultural distance	-.057	.054	.148	1						
Market growth	.395**	.061	.286**	.012	1					
International orientation	.129	-.071	.319**	.042	.216**	1				
Tolerance to ambiguity	.259*	.114	.187	.115	.162	.081	1			
Proactivity	.133	.137	.306**	.142	.336**	.294**	.504**	1		
Cultural competence	.191	.163	.226*	.396*	.082	.011	.505*	.390*	1	
Risk perception	.113	.069	.076	.171	.156	.116	.349*	.386*	.313**	1

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

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

### 6.7.1 Reliability analysis

Reliability is the degree to which the observed variable measures the “true” value, and is error-free and consistent over time (Hair, Anderson, Tatham, and Black, 2010; Zikmund, 2000). As a rule of thumb, a scale having a Cronbach’s alpha value of .6 is considered reliable (Hair, et al., 2010). In this study the scales, such as innovation, cultural distance, cognitive orientation and risk perception had a Cronbach’s alpha value of greater than .60. Previous studies on IB and cognitive psychology reported similar levels of Cronbach’s alphas (Agarwal and Ramaswami, 1992; Sitkin and Weingart, 1995; Westerberg, et al., 1997).

However, the alpha values have some important limitations. Brace et al. (2006) pointed out that even in measures with high alpha values, individual items may be poorly correlated with others. Concerning reliability analysis, Field (2000: 668) referring to Kline (1999), indicated that when dealing with psychological constructs, values below .6 can realistically be expected because of the diversity of the constructs being measured (Table 6.5).

**Table 6.5 Reliability statistics (Cronbach’s alpha)**

Variables	1	2	3	4	5	6	7	8	9
<b>Firm size</b>	*								
<b>Innovation</b>		.74							
<b>Cultural Distance</b>			.73						
<b>Market Growth</b>				.72					
<b>Cognitive orientation</b>					.58				
<b>Tolerance to ambiguity</b>						.54			
<b>Proactivity</b>							.74		
<b>Cultural Cognition</b>								.61	
<b>Risk perception</b>									.58
*Firm size measured as number of employees along with sales achieved in last financial year									

Another limitation of Cronbach's alpha is that the more a variable is measured and the higher the number of scales, the higher will be the alpha value (Easterby-Smith, et al., 2008; Saunders, et al., 2007; Sekaran, 2003; Zikmund, 2000). Keeping in mind the complexity of IB and psychological measures, even measures with low alpha values, individual items with poor correlations, should not be deleted from the analysis (Acedo and Jones, 2007; Brace, et al., 2006), if they satisfy other criteria (validity and model fit). Items number 1 and 2 from tolerance to ambiguity and s number 1, 5, and 7 from cultural cognition were reverse coded, but this did not improve the model fit, which might be due to sample characteristics (Pallant, 2005; Tabachnick and Fidell, 2007). Therefore, it was decided to take the original items and not to delete any scale from any measure before the final analysis.

#### **6.7.2 Test for non-response bias**

Non-response bias is crucial and considerably influences the generalizability of the findings (Collis and Hussey, 2009). A mail survey is subject to non-response bias due to the large population who do not participate in the study and due to the unusable responses received during the follow-up process. Early respondents were those who responded to the questionnaire first time, when it was dispatched and during this period, the questionnaires collected through drop-off and e-mail responses were also those from early respondents. The respondents who returned the questionnaires after the first or second reminders were late respondents and who may have been similar to non-respondents. Basic profiles of early and late respondents are presented in Table 6.6.

**Table 6.6 Basic profiles of early and late respondents**

Categories	Frequency	Percent	Cumulative Percent
Early respondents	55	57.2	57.2
Late respondents	41	42.8	100.0
Total	96	100.0	



In order to assess the non-response bias, three basic profiles of respondents were used to apply suitable statistical procedure (Mann-Whitney test). These are the number of employees in the firm, total sales made in the last financial year, and the nature of the responding SMEs in the sample (Table 6.7). From the table, it is clear that there was no significant difference between early and late respondents.

**Table 6.7 Analysis of non-response bias**

	<b>Non- response bias</b>	<b>N</b>	<b>Mean Rank</b>	<b>Sum of Ranks</b>
Number of employees working with the firm	Late respondents	41	85.43	5724.00
	Early respondents	55	86.37	8982.00
	Total	96		
Total sales made in last financial year	Late respondents	41	85.34	5717.50
	Early respondents	55	86.43	8988.50
	Total	96		
Nature of business/ industry	Late respondents	41	88.83	5951.50
	Early respondents	55	84.18	8754.50
	Total	96		

A Mann-Whitney test was performed to investigate the non-response bias to compare the two sets of respondents. Following Armstrong and Overton (1977), no significant differences were found in early and late responding firms. Therefore, late respondents that could carry similar attributes to those of non-respondents did not contribute any non-response bias (Table 6.8).

**Table 6.8 Test Statistics**

	<b>The number of employee working with the firm</b>	<b>Total sales done in last financial year</b>	<b>The nature of business/industry</b>
Mann-Whitney U	3446.000	3439.500	3294.500
Wilcoxon W	5724.000	5717.500	8754.500
Z	-.130	-.148	-.616
Asymp. Sig. (2-tailed)	.897	.883	.538
a. Grouping Variable: non- response bias			

## 6.8 Pilot study-conference presentation/publications

PhD journey encourages contributing conference papers and publications. In this effort one conference paper titled : *Managing innovation in the UK and Pakistan Banking Sectors, Analysis of Flexibility and Employee Empowerment* was presented at the International Conference on Managing Creativity and Innovation; January 9-10, Institute of Management Technology Ghaziabad, India (Majeed and Reza, 2009).

In 2008, the researcher conducted a pilot study in Pakistan. This study explored the effect of cognitive dimensions on entry mode choices. After assessing the reliability and validity of the measures mentioned below (measures which were also used for the main study), the results were published at the 32<sup>nd</sup> International Conference of The Institute for Small Business and Entrepreneurship (ISBE) Liverpool (Majeed and Polyakov, 2009). Before this conference presentation, for the purposes of a conceptual publication, the author made an extensive literature review of human management practices and entry mode literature in international business regarding MNEs and SMEs. This literature review/conceptual contribution were published in the *Journal of European Industrial Training* (Majeed, 2009). The author acknowledges the Supervisor's hard work for motivating to present conference paper at the 38th international conference of the Academy of International Business (AIB), Edinburgh (2011). Such publications helped the author to find a gap in the literature of entry mode/post entry speed dynamics in EEs.

## **6.9 Summary**

This chapter has discussed methodological limitations in previous research, based on which, the research design was selected. The predominant choice of mix-methodology was made due to the unsatisfactory and inconclusive results given by the FDI process and international entry mode studies. The qualitative results were supported with quantitative results. It is argued that the FDI process can be explored through a phenomenological approach, but as this research focuses on selection stage of FDI decision making, this stage, due to the complexity of cognitive dimensions themselves and the complexity of managerial unstructured decisions, can only be explored through reliable and valid scales. Previous case studies in the FDI process or the MNE internationalisation process based on any one industry or sector are fragmented, have limited and impractical managerial implications, and cannot be generalised. This chapter also presents the limitations associated with data collection in EEs, validity and reliability statistics, and non-response bias. Every possible effort was made to ensure the respondents' anonymity, privacy and confidentiality. The stages of the research process described in this chapter and the final selection of mix methodology will add a unique dimension to existing literature. The next chapter presents the basic analysis of the responding firms.

## **Chapter 7**

### **Basic profiles of the responding firms**

#### **7.1 Introduction**

The basic objective of this thesis was to explore the entry mode choice process and post-entry speed dynamics of small firms from Pakistan. This chapter aims to provide a picture of the basic profiles of responding firms and their recent entry mode choice for international activities, and the demographics/background of the respondents. The analysis consists of the target country of international expansion of the responding firms, their industrial classification, the number of employees working with the firms, the firms' average total sales for the last financial year, the percentage of the firms' total sales achieved in foreign markets, and method of foreign entry. This chapter also presents the background of the respondents, which consists of position held in the firm, age, and experience in local and international markets, education level, and functional background.

#### **7.2 Background of responding SMEs**

##### **7.2.1 Industrial classification**

Table 7.1 presents a summary of the industrial classification of the responding firms for international expansion. Among 96 responding firms, forty five (46.9%) were in the textile sector, thirteen (13.5%) in the food sector, eight (8.3%) in the pharmaceutical/chemical sector, four (4.2%) in the sports sector, and twenty four (25%) in other sectors (services and engineering sector firms). There is no particular standard industrial classification of exporting SMEs in Pakistan; therefore, the sample represents a stratified selection from the lists obtained through different agencies (see Chapter 6 for more detail). Pakistan, being rich in cotton production, presents the highest number of textile sector firms investing in foreign countries.

**Table 7.1 Industrial classification of the sample SMEs**

Sector	N	Percent	Cumulative Percent
Textile	45	46.9	46.9
Food	13	13.5	60.4
Pharmaceuticals/chemicals	8	8.3	68.8
Gem and jew	2	2.1	70.8
sports	4	4.2	75
Others	24	25	100.0
Total	96	100	

Table 7.2 presents the responses received from different sectors. The sports sector presents the highest number of responses (18%); followed by the pharmaceutical sector (13%), and then the food sector (12%). Other industries include engineering goods, services, gems and jewellery, and leather products.

**Table 7.2 Industrial classification of the sample SMEs**

Sector	Total sample	N	Percent
Textiles	210	45	21
Food	101	13	12
Pharmaceuticals/chemicals	60	8	13
Gem and Jew	14	2	14
Sports	22	4	18
Others	93	24	25
Total	500	96	19

### 7.2.2 Number of employees

As the definition of SMEs remains inconclusive in the underdeveloped infrastructure of Pakistan, the definition of SMEs used in this study is based on the criteria of number of employees up to 250 and level of sales up to 250 million Pak Rupees per annum. These criteria are most commonly used in studies of small firms in other nations, such as the Netherlands (Masurel, et al., 2009), Slovenia (Ruzzier, et al., 2007), the UK (Pinho, 2007), Malaysia (Tambunan, 2009) and Spain (Arranz and De Arroyabe, 2009).

Table 7.3 presents the ranges of the numbers of employees in the sample SMEs. It is evident from the frequency table that the thirty six (37.5%) of the sample SMEs have fewer than 100 employees, thirty two (33.3%) have from 101-200 employees and twenty eight (29.2%) of the sample SMEs have 201-250 employees.

**Table 7.3 Number of employees working with responding firms**

Range	N	Percent	Cumulative Percent
Fewer than 100	36	37.5	37.5
101-200	32	33.3	70.8
201-250	28	29.2	100
Total	96	100.0	

### 7.2.3 Firm's average total sales for the last financial year

Table 7.4 provides a snapshot of the total sales of the firms in one financial year. Twelve (12.5%) of the sample SMEs had annual sales of less than one million Pak. Rupees, 13 (13.5%) had sales from 10-19.99 million and 37 (42.1%) had sales from 40 million and over.

**Table 7.4 Total sales in (Pak. Rupees) during the last financial year**

	frequency	percent	Valid percent	Commulative percent
Less than one million	12	12.5	12.5	12.5
1-9.99million	20	20.8	20.8	33.3
10-19.99million	13	13.5	13.5	46.9
20-20.99million	7	7.3	7.3	54.2
30-30.99million	7	7.3	7.3	61.5
40million and over	37	38.5	38.5	100.0
total	96	100.0	100.0	

N: Number of responding firms

#### **7.2.4 Ratio of firms' total sales achieved in foreign markets**

Table 7.5 is a summary of the ratio of foreign sales achieved by the sample SMEs. Seventeen (17.7%) achieved foreign sales of less than 10% during the financial year 2009, twenty (20.8%) achieved 10-25% of their sales from foreign operations, while the highest ratio of foreign sales (76-100%) was achieved by twenty-two (22.9%) firms.

**Table 7.5 Percentage of total sales in foreign market**

Range	N	Percent	Valid Percent	Cumulative Percent
Less than 10%	17	17.7	17.7	17.7
10-25%	20	20.8	20.8	38.5
26-49%	13	13.5	13.5	52.1
50%	6	6.2	6.2	58.3
51-75%	18	18.8	18.8	77.1
76-100%	22	22.9	22.9	100.0
Total	96	100	100.0	

N: Number of responding firms

### **7.3 Background of respondents**

#### **7.3.1 Age**

Table 7.6 shows the age range of respondents in the Pakistani SMEs. The majority of the sample was middle-aged, being between 30 and 49 years old. They represented approximately three-quarters of the total sample under study.

**Table 7.6 Respondents' age range**

Age range	N	Valid Percent	Cumulative Percent
Less than 30	20	20.8	20.8
30-39	44	45.8	66.7
40-49	20	20.8	87.5
50-59	9	9.4	96.9
60-65	3	3.1	100.0



Total	96	100.0	
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### 7.3.2 Educational level

Table 7.7 presents a summary of respondents' highest level of education completed. Small firms in Pakistan in the sample consisted of highly educated CEOs/export managers in the textile sector in the Punjab and Sindh regions; the majority of these respondents either had a college/university degree (43.8%) or had a postgraduate Master's degree (49%). The majority of the newly-established SMEs in Pakistan employed export managers with MBA degrees from foreign/local universities. However, the majority of CEOs in the Baluchistan region were found uneducated and/or have only college degrees.

**Table 7.7 Highest level of education completed.**

Degree	N	Valid Percent	Cumulative Percent
Junior college/technical education	3	3.1	3.1
College/university	42	43.8	46.9
Postgraduate/diploma/masters	49	51.0	97.9
Others(diploma)	2	2.1	100
total	96	100	

### 7.3.3 Functional background

Table 7.8 is a summary of the functional background of the CEOs/export managers of the small firms in Pakistan. The majority of the respondents were from sales and marketing background (63.5%) in the Punjab and Sindh regions, followed by finance and accounting (12.5%), production and engineering (11.5%), and human resource management (3.1%).

<b>Table 7.8 Rrespondents' Functional Background</b>			
<b>Discipline</b>	<b>N</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Finance and accounting	12	12.5	12.5
Production and engineering	11	11.5	24.0
Human resource management	3	3.1	27.1
Sales and marketing	61	63.5	90.6
Research and development	7	7.3	97.9
Others	2	2.1	100.0
Total	96	100.0	

#### 7.3.4 Position held by the respondents

Table 7.9 presents a summary of the respondents' position in the Pakistani SMEs. The majority of the respondents (71.9%) in this study were export managers. In a few cases, the production/finance managers also played the role of export managers. 28.1% of the owners of small firms supervised their international operations themselves, while the majority of the CEOs in the Baluchistan region not having international experience and education managed their international portfolio through qualified export/finance managers.

<b>Table 7.9 Respondents' positions</b>			
<b>Position/level</b>	<b>N</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Owner	27	28.1	28.1
Export Manager	69	71.9	100.0
Total	96	100.0	

### 7.3.5 Work experience in the home market

Table 7.10 shows the summary of respondents' work experience in the home market. The majority of the respondents (37.5 %) disclosed an average of 6-10 years of work experience in the home market. The longest work experience, of over 20 years, was reported by three respondents. Thirty-nine respondents (40.6%) reported 1-5 years of experience. The majority of these were either newly-appointed MBAs or newly-established SMEs starting their international operations immediately following inception.

<b>Table 7.10 Work experience in the home market</b>				
	Range	N	Percent	Cumulative Percent
Valid	1-5 years	39	40.6	40.6
	6-10 years	36	37.5	78.1
	11-15 years	15	15.6	93.8
	15-20 years	3	3.1	96.9
	Over 20 years	3	3.1	100.0
Total		96	100.0	

### 7.3.6 Work experience abroad

Table 7.11 presents a summary of the respondents experience in the international market. It is evident that the majority of the respondents (79.2%) of export managers or CEOs do not have any experience abroad. However, a considerable number of respondents (15.6%) reported having gained their international know-how through working abroad. Four respondents reported six to ten years of experience abroad.

**Table 7.11 Work experience abroad**

	Length of experience	N	Percent	Valid Percent	Cumulative Percent
Valid	No experience	76	79.2	79.2	79.2
	1-5 years	15	15.6	15.6	94.8
	6-10 years	4	4.2	4.2	99
	11-15 years	1	1	1	100.0
Total		96	100.0		

N: Number of responding firms

### 7.3.7 Language spoken

Table 7.12 is a summary of the languages spoken by the respondents in this study. The English language is the official medium of communication and instruction used in Pakistan. Therefore, the majority of SMEs (65%) in the Punjab and Sindh regions used English to expand their domestic and international operations. Besides Urdu, Arabic, Pashto and Chinese are other languages used by SMEs to expand their international operations to Asia, the Middle East and China.

**Table 7.12 Language spoken by the respondents**

	Language	N	Percent	Valid Percent	Cumulative Percent
	Urdu	4	4.2	4.2	4.2
	English	65	67.7	67.7	71.9
	Arabic	6	6.2	6.2	78.1
	Percian	18	18.8	18.8	96.9
	Chinese	2	1	1	97.9
	Others	1	2.1	2.1	100.0
	Total	96	96	100.0	

N: Number of responding firms

## 7.4 Summary

The purpose of this chapter was to provide an overview of the responding firms. The data in this chapter show that among 96 sample SMEs, fifty-six (58.33%) invested in advanced countries, consisting of eleven (11.5%) in America, forty-one (42.7%) in European countries, and four (4.2%) Japan. The developing regions was of four in the Middle East (4.2%) and thirty-six (37.5%) in other Asian countries (Afghanistan, Bangladesh, India, Sri Lanka, Nepal and Iran). Of 96 sample firms, forty-five (46.9%) were in the textile sector, thirteen (13.5%) in the food sector, eight (8.3%) in the pharmaceutical/chemicals sector, two (2.1%) in the sports sector, and twenty-four (25%) in other sectors (services and engineering sector firms).

The majority of the sample was middle-aged, being between 30 and 49 years old and the majority of the respondents had either completed a college/university degree (43.8%) or had a postgraduate Master's education (49%). The majority of the respondents (71.9%) in this study were export managers, followed by CEOs/owners and majority of them had a sales and marketing background.

The complexity of cognitive styles highlights a need for further research and the integration of the international entrepreneurship and dynamic capability view would be fruitful. The following chapter investigates the actual entry mode choice process and post-entry speed dynamics of Pakistani SMEs.

## Chapter 8

### Qualitative results and discussions

#### 8.1 Introduction

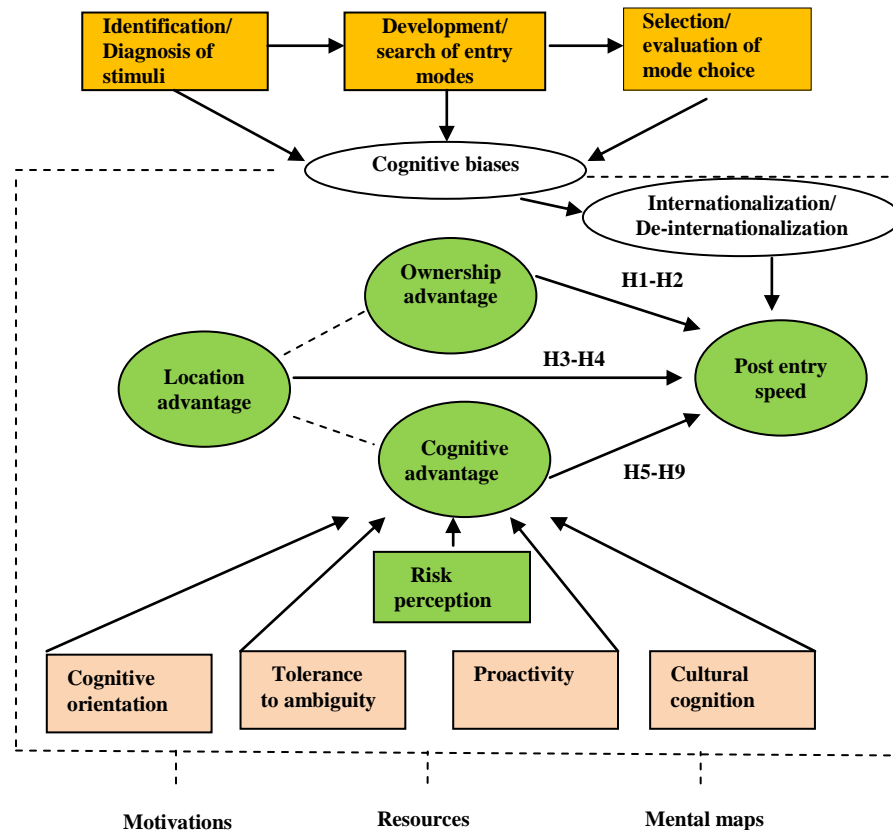
This chapter presents the qualitative data analysis. There are number of approaches for qualitative data analysis. Inductive and deductive approaches are two dominant paradigms in explaining small firms' international process. *Inductive* approach for data analysis requires line by line review of qualitative notes, for coding and simplifying categories based on constant comparison. *Deductive* approach or summary-aided approach for data analysis is more evaluative and describes the data analysis process by three steps, data display, data reduction and conclusion drawing. The qualitative data was analysed by triangulation of deduct-inductive approach. The rational for this decision is the facts that it is much more difficult to elaborate the true cognitive story of a Pakistani firm than, for example a European or USA firm. The contextual complexity draws more attention towards a holistic approach of data collection and analysis.

#### 8.2 Conceptual frame work: revisited

Theory building relies on a few general constructs that subsume a mountain of particulars (Miles and Huberman, 1994: 18; Saunders, et al., 2007). Categories and constructs also referred to as “themes” by Glaser and Strauss, (1967) are the labels we put on intellectual “bins” containing many discrete events, process and behaviours (Miles and Huberman, 1994). Cognitive biases/heuristics are the general themes— intellectual “bins” that emerge as a simplification tool in the three stages of foreign investment decision process. Although it appears that some kind of strategic decision making process exists in internationalized firms, organizational decision-making largely remains a ‘black box’ in the international business literature (Dimitratos, et al., 2011: 195). Consequently this research demonstrates how entry mode choice process or strategic decision making process can be improved in small firms from Pakistan. The selection of particular market and entry mode is the final outcome of foreign investment decision making process. The three stages are: identification, development and selection of a particular strategy for

improving internationalization. The role of cognitive biases, works in two bipolar directions, either it increases international sales by diversification or to de-internationalize the foreign activity. Qualitative analysis aims to explore the role of simplification in foreign investment decision making as a precursor of foreign investment (Figure 8.1).

**Figure 8.1 Analytical conceptual model: investment process**



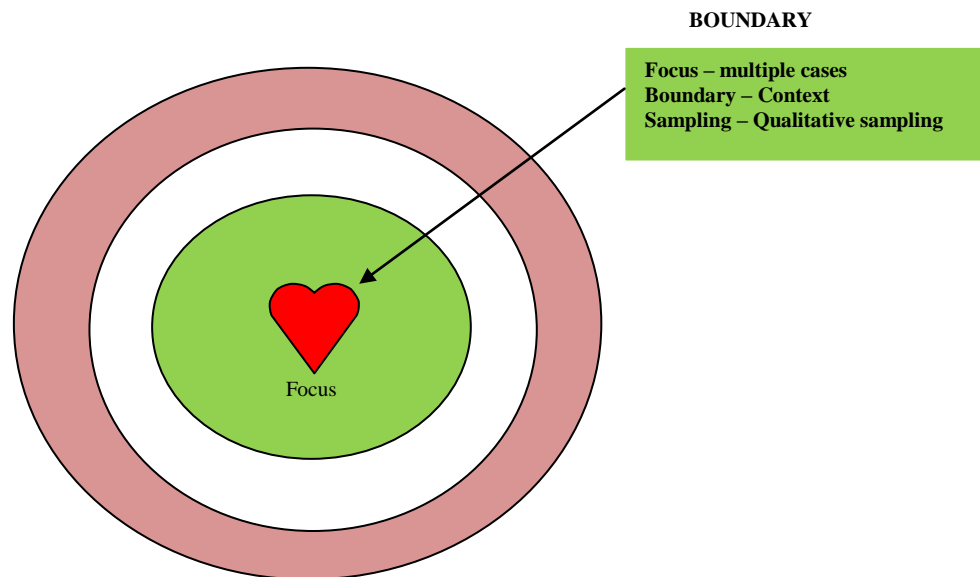
Source: adopted from (Acedo and Jones, 2007; Aharoni, 1966; Dunning and Lundan, 2008b; Kumar and Subramanian, 1997; Teece, et al., 1997).

### 8.2.1 Defining the case: bounding the territory

Qualitative researchers often struggle with the question of “what my case is” and “where my case leaves off ” (Miles and Huberman, 1994). Abstractly a *case* is defined as a phenomenon of some sort occurring in a bounded context. Sometimes the “phenomenon”

may be an *individual* in a defined context or a small group of respondents in a defined context or an organization in a defined context. This study aims to explore the foreign investment decision process of Small firms from Pakistan, therefore the case, in effect, the unit of analysis are the SMEs located in Pakistan. *Multiple cases* offer the researcher an even deeper understanding of processes and outcomes of cases (Eisenhardt, 1989; Miles and Huberman, 1994; Yin, 2012). Figure 8.2 shows this graphically: there is a focus, or “heart,” of the study—small firms in Pakistan and somewhat indeterminate *boundary* defines the edge of the case; social and physical settings (the context).

**Figure 8.2 The case as a unit of analysis**



Source: Adapted from (Miles and Huberman, 1994)

Miles and Huberman, (1994: 26-27) asserted that qualitative researchers usually work with small samples of people, nested in their context and studied in depth. There are two major decisions to be taken about the *qualitative sampling*. First; the qualitative samples tend to be *purposive*, rather than random (Eisenhardt, 1989; Yin, 2012). That tendency is partly because the initial definition of the universe is more limited. Samples in qualitative



studies are usually not wholly pre-specified, but can evolve once field work begins (Miles and Huberman, 1994). Initial choices of informants leads to similar and different ones; observing one class of event invites comparison with another; and understanding one key relationship in the setting reveals facets to be studied in others. This is conceptually driven sequential sampling (Eisenhardt, 1989; Miles and Huberman, 1994: 26-27).

Second; the qualitative sampling is often decidedly *theory-driven*, either “up front” or progressively, as in grounded theory mode. The case selection ranges from critical, confirming, disconfirming, extreme or deviant cases. The critical case is the instance that “proves” or exemplifies the main findings. Deviant cases are the highly unusual manifestation of the phenomenon of interest. Multiple-case study adds confidence to findings. This strengthens the precision, the validity and stability of the findings (Creswell, 2009; Miles and Huberman, 1994; Yin, 2012).

With multiple-case studies, does the issue of *generalizability* change? Essentially, no. we are generalizing from one case to the next on the basis of match to the underlying theory, not to the larger universe. The choice of the case is based on conceptual grounds, not on representative grounds (Eisenhardt, 1989; Miles and Huberman, 1994: 29). In the internationalization domain there is a tradition to select multiple cases to investigate the firm related, managers related or context related issues. In the foreign investment decision process, chief executives are directly or indirectly involved in the decision process (Mintzberg, et al., 1976). Interpretivist research is more generalizable in similar settings (Collis and Hussey, 2009), as a single case study, even coupled with *sophisticated* analysis, remains questionable and explains only the associated subjective patterns, while positivists create a logical sense in data, although the results are explained simple in percentage terms. Multiple cases provide more sophisticated roadmap for developing theories.

The small firm internationalisation process or FDI process can be explored through phenomenological approaches, single case study is unable to resolve issues of reliability and validity (Easterby-Smith, et al., 2008; Gill and Johnson, 2002; Reynolds, 2002).

Thus, it is problematic to explore FDI or the internationalisation process with survey instruments, as in such processes there are no specific variables to explain the intricacies involved in complex FDI or internationalisation processes. However, in location and post-entry studies, survey research can be sufficiently versatile to ‘...*suggest possible* reasons for particular relationships between variables and to produce models of these relationships’ (Saunders, et al., 2007: 105). Thus complexity of FDI process becomes more versatile to explore with multiple case study approaches and in-depth interviews.

### **8.3 Components of qualitative data analysis**

What is important about well-collected qualitative data (Miles and Huberman, 1994: 10)? Eisenhardt, (1989) suggested that the qualitative data relies heavily on well-defined focus, without a research focus, it is easy to become overwhelmed by the volume of the data. One major feature is that it is important to focus on naturally occurring, ordinary events in *natural setting*, so that we have a strong handle on what “real life” is like (Miles and Huberman, 1994). Qualitative data analysis consists of three concurrent flow of activities; data reduction, data display, and conclusion-drawing/verification. These flows of activity are illustrated in figure 8.3.

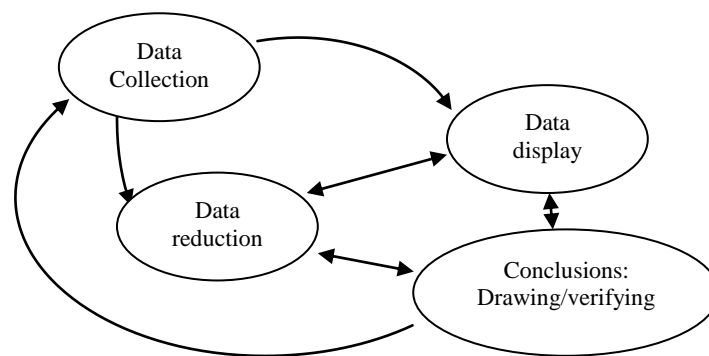
#### **8.3.1 Data reduction**

Once the qualitative data is collected, it appears in the form of written-up field notes or transcriptions (Bradley, Curry, and Devers, 2007; Miles and Huberman, 1994). Data reduction is the first part of analysis. Data reduction includes all activities of selecting, focusing, simplifying, abstracting, and transforming the data that appears in written-up field notes or transcriptions. The researcher’s decision—which data chunks to code and which to pull out, which pattern best summarize a number of chunks, which evolving story to tell—are *all analytical choices* (Miles and Huberman, 1994: 10).

A chronic problem of qualitative work is that it is done chiefly with words, not with numbers (Bradley, et al., 2007; Eisenhardt, 1989). Words are fatter than numbers and usually have multiple meanings. In the entire research process the researcher remains sceptical and don’t know what matters more, but at a critical stage, with multiple case

studies (Corbin and Strauss, 1990; Miles and Huberman, 1994; Strauss and Corbin, 1994), and using stringent coding schemes, becomes confident to resolve many issues. Codes are tags or labels for assigning units of meaning to “chunks” of varying size—words, phrases, sentences, or whole paragraphs, connected or unconnected to a specific settings. They can take a form of a straightforward category label or more complex one (e.g., a metaphor) (Miles and Huberman, 1994: 55-56).

**Figure 8.3 Components of data analysis: interactive modal**



Source: (Miles and Huberman, 1994).

### 8.3.2 Data display

The most frequent form of display for qualitative data has been *extended text* (Miles and Huberman, 1984, 1994; Strauss and Corbin, 1994). Using only extended text, a researcher may find it easy to jump to hasty, hasty partial, unfounded conclusion. Humans are not very powerful as processors of large amounts of information; our cognitive tendency is to reduce complex information into selective and simplified gestalts or easily understood configurations. Extended texts may overload humans' information-processing capabilities and pray on their tendencies to find simplifying patterns (Acedo and Florin, 2006; Miles and Huberman, 1994: 11; Simon, 1979). Beside these limitations qualitative data are attractive for many reasons: they are rich, full, earthy, holistic, "real";

their face validity seems unimpeachable; they preserve chronological flow where that is important, and suffer minimally from retrospective distortion (Miles, 1979: 590).

International business is a complex field of research, and any single theory or hypothesis has failed to explain this process (Collinson and Houlden, 2005; Lyons and Coyle, 2007). Better displays are a major avenue to valid qualitative analysis. All displays are designed to assemble and organize information in an immediately accessible, compact form, so that the analyst can see what is happening and either draw justified conclusions or move on to the next step analysis which the display suggest may be useful (Miles and Huberman, 1994: 11).

### **8.3.3 Conclusion-drawing and verification**

The third stream of analysis activity is conclusion drawing and verification (Miles and Huberman, 1984, 1994). International entrepreneurship research is characterized by static, cross-sectional studies, and lack comparative research within and across sectors (Coviello and Jones, 2004; McDougall and Oviatt, 2000: 486). This field needs a holistic frame of enquiry and from the start of the data collection; the researcher has to begin to decide what things mean—in data collection process, noting pattern, themes, casual flow and propositions. *Conclusion* may not appear until data collection is over, depending on the size of the corpus of field notes; the coding, storage and the storage method used (Bradley, et al., 2007; Miles and Huberman, 1994), but they often have been prefigured from the beginning, even when a researcher claims to have been proceeding “inductively”.

Miles and Huberman (1994: 11) pinpointed that conclusion are also *verified*. Verification may be as brief as a fleeting second thought crossing the analyst’s mind during writing, with a short excursion back to field notes, or it may be thorough and elaborate, with lengthy argument. The meaning emerging from the data have to be tested for their plausibility, their sturdiness, their “confirmability”—that is their *validity*. Three streams of a general domain called “analysis,”—data reduction, data display and conclusion drawing/verification—as interwoven before, during, and after data collection in parallel form. The three types of analysis activity and the activity of data collection, being an

interactive cyclic process makes four dynamic “nodes”. The coding of the data (*data reduction*), leads to new idea and what should go into a matrix (*data display*). As the matrix fills up, preliminary *conclusions* are drawn, but they lead to the decision, for example, to add another column to the matrix to *test/verify* the conclusion.

#### **8.4 Cognitive biases in foreign investment decision process**

There are number of approaches for qualitative data analysis. Eisenhardt, (1989) pinpoints that development of theory is a central activity in qualitative research. Eisenhardt, (1989) and Yin, (2012) described the design of case study research. In the case study pattern the researcher has to follow a number of steps from selection of cases to refining of data, enfolding literature to reaching closure. Glaser and Strauss (1967) advocated more *inductive* approach for data analysis. Data is reviewed line by line, the codes are assigned to data set and a conceptual categories, by constant comparison reflects “the grounded approach of data reduction and conclusion” about the narrative stories told by the participants (Glaser and Strauss, 1967; Strauss and Corbin, 1990). Miles and Huberman (1994: 57) advocated a more *deductive* approach—summary-aided approach for data analysis and conclusion drawing (Fig 8.4). This study adopts the triangulation of summary—aided, deducto-inductive approach for data analysis (Miles and Huberman, 1994; Strauss and Corbin, 1994; Yin, 2012). This approach advocates three types of codes for data analysis; (1) Initial codes are summarizing notation to the concepts drawn from the literature, narrated by the participants; (2) descriptive codes are theoretical interpretive codes, which attribute a class of phenomenon to the segment of text; (3) a third class of codes, pattern codes, is even more inferential and explanatory.

A coded segment of field notes illustrates an emergent leitmotiv or pattern that have discerned in local events and relationship. These codes can be called, for example, LM (leitmotiv), PATT (pattern), TH (theme), CL (causal link)—and should include a word indicating the inferred theme or pattern (see appendix E.4). Coding of text follow the process of developing *memo*, which is the conceptual write-up of the ideas and interlinked codes? They are theoretical and methodological in intent, and they tie

different pieces of data in different clusters. Miles and Huberman point that the researchers can also go well beyond codes and their relationship to any aspect of the study—personal, methodological, and substantive (p, 10-11).

The qualitative theorists have suggested three types of memo for the transcription of interviews (Charmaz, 2006; Cox and Orford, 2004; Strauss and Corbin, 1994): *Codes notes* are specifically related to all levels of codes and not their properties and dimensions; *theoretical notes* are the notes made to link what is produced from the data with the researchers thinking about the data which could be influenced by theory or personal experience; *operational notes* are instructions by the researcher by themselves, indicating areas to explore and expand.

By applying deduct-inductive approach, the process of analysis was started with search for initial codes. Box E. 4 is developed to explain how the foreign investment decision process of small businesses in Pakistan was analysed. The coding pattern reflects that there are various cognitive biases (meta-clusters) that affect the foreign investment decision making process resulting in inferior entry mode choice and subsequently lowering sales speed of small firms in Pakistan. For complete process of coding please see appendix E.4.

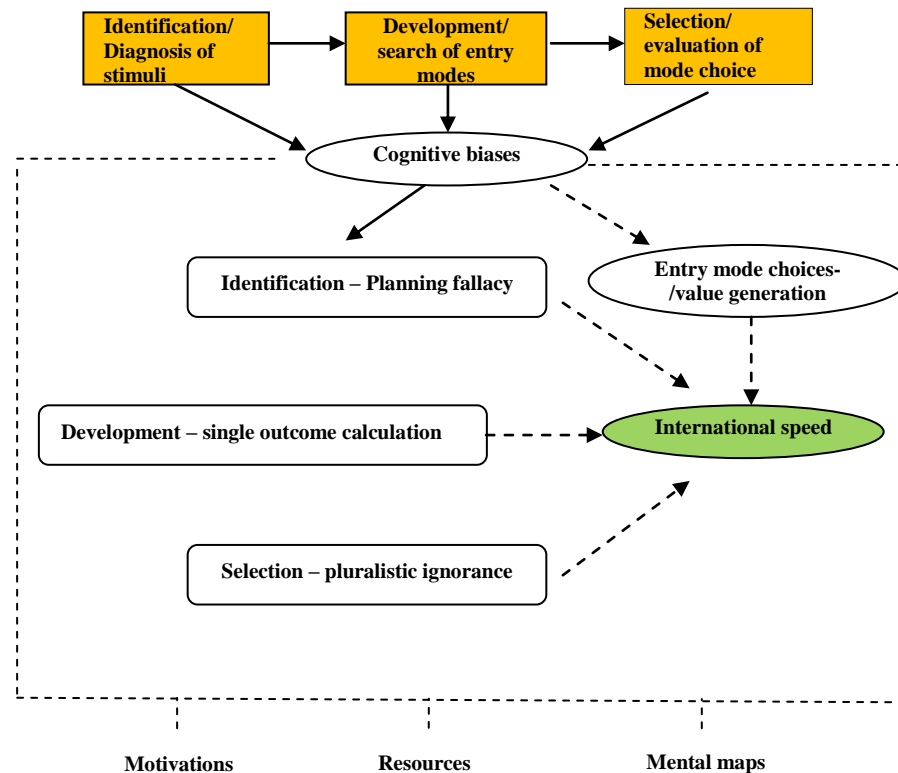
#### Box E.4

Step 1: Underline key terms in the text	Step 2: Key Phrases and codes in transcripts.
<p>Dear Zahid; I would like to extend my comparison with that of India. <u>I hope you know that, if any exporter exports from India, the government finances the exporter with 75% of his export investment within three days of valid export order.</u> This does not break the circle of funds. The exporter does not have to wait for final payment from country of export. This means that if the final payment is received, for example in next three months, the exporters do not find his money stuck in the export process. This loan is financed without any charges to the potential exporters.</p> <p><u>What happens in Pakistan, for example we serve and export order of 1000gms.</u> First of all we have to process the raw material into finished product. This takes almost one month to one and half month. Then we send this item to exporter and shipment takes place in next one month. The overall process takes place two to three months. We have to wait for the payment to receive from the international market and for this time period we cannot fund other transactions. <u>This is the reason that we are unable to compete with a strong competitor like India.</u> I think the government should finance to small and large investor at least for 30 days, so that our funds' circle is not broken. In this way we can compete with India</p>	<p>Process: Stereotype threat that India is a powerful competitor and Pakistani firms cannot compete with India.</p> <p>Firm is able to rely on export mode only.</p> <p>Effect: Lower exports leading to lower sales diversification (speed).</p>

The sub-model presents a frame work for qualitative analysis (Figure 8.4), sub-model proposes that either the cognitive biases can increase or decrease a firms' speed of development in international market. The choice of entry mode influences the direction

of this relationship either in negative or positive direction. Small and medium sized enterprises having the attribute of risk aversion, lack of knowledge and liability of smallness (lack of resources) (Freeman, et al., 2006; Zaheer, 1995) are more prone to serve international market by various modes and changing their preferences over time.

**Figure 8.4 Foreign investment decision process**



Source: (Acedo and Jones, 2007; Aharoni, 1966; Mintzberg, et al., 1976; Simon, et al., 2000).

Born global firms or INVs—also called global start-ups and early internationalizing firms have been defined in many ways and there is no consensus in the literature at this point to what makes a firm a born global (Dib, et al., 2010). There are three classifications of born global firms. *Speed*, *scope* and *extent* are three ways to define international new ventures or born global firm. Literature offers inconsistent conceptualization of what a born global is. Operationalization of the concept still lacks further development; there are many stricter and broader definitions (Dib, et al., 2010; Rialp, Rialp, and Knight, 2005). ***Speed***

is the time span between foundation and the beginning of international activity. Literature offers 2 to 15 years of time span for born global in defining the number of years after foundation when a firm started its international activity (Acedo and Jones, 2007; Dib, et al., 2010; Knight and Cavusgil, 1996). *Scope* refers to the diversification of international operation, firm serves one or more international market or the location of international markets (few markets, same continental region, and/or various regions of the world) (Chetty and Campbell-Hunt, 2004; Gabrielsson, 2005; Musteen, et al., 2010; Rasmussen, et al., 2010). *Extent* refers to the percentage of sales achieved in international market (varies from 25 to 75%) (Dib, et al., 2010; Gabrielsson and Manek Kirpalani, 2004; Knight and Cavusgil, 2004).

This study adopts a broader definition of born global as a firm that with early and accelerated diversified internationalization receives initial revenues from international operations within 10 years of the start of international activity. This definition will serve the purpose of both qualitative and quantitative analysis to see the casual link between managerial cognition, heuristics/ biases in process and dispositional preferences in speedy development of born global in Pakistan. Bearing in mind the complexity of foreign investment decision process and the hardships associated with small firms in Pakistan, the criteria of most US and European studies (3 to 5 years) does not suits to the contextual framework. The extended period of time justifies the reason of low performance of Pakistani firms as compared to other firms in South Asian region (India and China). Since the foreign investment decision process in Pakistan becomes more complex with increased complexity of contextual barriers, it is convincing to use triangulation of data collection and analysis to uncover the holistic story of corporate born global.



**Table 8.1 Basic profile of the interviewed firms**

FIRM	NATURE OF THE BUSINESS	YEAR ESTABLISHED	FIRST INTERNATIONAL ENTRY	SPEED IN YEARS	REGION	TARGET MARKET	CHOICE OF ENTRY MODE
FIRMS A	RICE EXPORTER	1980	1983	3	BALUCHISTAN	IRAN, IRAQ, TURKMENISTAN AND DUBAI	TECHNICAL JOINT VENTURE
FIRM B	RICE EXPORTER	1995	2000	5	BALUCHISTAN	UK, IRAN AND DUBAI	REPRESENTATIVE OFFICE
FIRM C	DRY FRUITS	1983	1985	2	BALUCHISTAN	IRAN, DUBAI AND INDIA	STRATEGIC ALLIANCES
FIRM D	JEM AND JEWELERS	1985	1995	6	BALUCHISTAN	DUBAI, IRAN AND AFGHANISTAN	TECHNICAL JOINT VENTURES
FIRM E	JEM AND JEWELERS	2005	2008	3	PUNJAB	PARIS, JORDAN, TURKEY, SINGAPORE	EXPORTS ONLY
FIRM F	TEXTILE	1999	2004	6	PUNJAB	UK, INDONESIA AND DUBAI	INDIRECT EXPORTS
FIRM G	TEXTILE	1998	2003	6	SINDH	MALAYSIA, GERMANY AND UK	EXPORTS ONLY
FIRM H	SPORTS	1975	1982	7	PUNJAB	USA, EUROPE, JAPAN, COLOMBIA, HOLLAND	EXPORTS ONLY
FIRM I	SPORTS	1989	1990	1	PUNJAB	EUROPE NORWAY BELGIUM FINLAND USA	EXPORTS ONLY
FIRM J	SPORTS	1950	2003	53	PUNJAB	EUROPE GERMANY, USA	EXPORTS ONLY

From the above table it is clear that the small firms from Baluchistan are more prone to expand their international operation (recognition of opportunity) to more psychologically close countries confirming the “psychic distance” concept introduced by “Uppsala model”. The recognition of export stimuli in Baluchistan region is *biased towards* more psychological close countries due to geographical and cultural similarities in Afghanistan and Iran.

It is surprising that the small firms from Sindh and Punjab regions do not confirm this concept. Small firms from Sindh regions confirm rapid development even in

“Psychologically distant” countries. This is attributed to higher innovation (ownership), market attractiveness (location) and proactive (cognitive) adoptability on the part of their international moves. The in interview findings reveals strong tendency towards export entry modes, however the firms from Baluchistan and Punjab regions are also involved in non-equity joint ventures.

#### **8.4.1 Identification phase**

The respondents from Sindh disclosed that the attitude of Government is biased towards large sector and government is a paper work agency for small resource starved firms. The small firms feel deprived of the necessary infrastructure and assistance from the government agencies (ownership biasness). *Planning fallacy* is a result of two sub-themes; temporal myopia and narrow decision frames. *Temporal Myopia*<sup>28</sup> is a cognitive biasness; in which decision maker is prone to ignore the long run procure in favour of short run outcomes. Entrepreneurs told that the government support programs are short run in time duration and suffering from contingency planning rather than a proactive exposure to export enhancement. Such tendencies is used to introduce and implement short run projects, which means *Narrow decision frames*<sup>29</sup> is induced in decision making and the firms are forced to subjective planning of their decision rather to consider objective obstacles, which includes but not limited to artificial competition in domestic markets, favouritism and limited access to financial resources for selected industry/groups and improvement in firms’ reputation/profitability of elite class.

- A lady entrepreneur from Punjab region and was very cooperative during interview process revealed that she has been operating since last ten years. Her main focus is hand

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<sup>28</sup>Tendency to ignore the long run (Levinthal and March, 1993a).

<sup>29</sup>Narrow decision frames occurs when the decision maker ignores or underestimates objective dimension of decision making, isolating the current problem with from other choices. Ignoring this dimension results in cognitive errors which declines firm’s performance (Arslan and Larimo, 2011; Kahneman and Lovallo, 1993; Keh, et al., 2002a)

printing and painting of material in various combinations of techniques such as “block print dresses”. Her production capacity is 200 dozen suits per month. She is sending her material to different countries of the world. She revealed that the government role in arranging export exhibition and foreign orientation programs for born-global firms laps long run focus (Temporal Myopia).

- She disclosed that she wanted to set some joint ventures and licensing arrangements with foreign partner but the political and economic situation of Pakistan is filled with uniqueness and uncertainties. Along with other contradictory conditions she endorsed that being a joint partner I have to follow certain deadlines for mutual benefits, which she thought is very difficult in such circumstances. The Pakistani small firms are also discriminated by the other nations due to cultural, geographical and technological grounds. There for I do not want to waste my time to formulate and dissolve any future joint venture without realistic benefits. She made a joint venture with a local partner and failed due to behavioural and financial contingencies; this created an inaction tendency towards future joint ventures and was a source of reduced diversification (slower speed) efforts in international market (*Planning Fallacy*). In response to interview question, you told that you have tried to make some joint ventures, please tell me what were the major difficulties whether these were related with the process or documentation of joint venture? The respondents replied:

We made a local joint venture with a lady in Karachi, she looked very dynamic and at the start of the process I was very optimistic about this joint venture. You know you can judge someone by dealing, by travelling or by doing business with someone. This joint venture unfortunately failed due to various reasons (Firm E, Jem and Jewellery, Punjab region).

This varies from individual to individual, and we understand such things in business. The moral of the people are usually different in business deals. It was both behavioural and financial problems in this joint venture. This was very shocking for me as I was unable to recover from this for a long time. It was a domestic partnership but definitely it would have contributed in my international adventures, but I give up any further intentional partnerships due to this bad experience and I decided not to work with such women in the future (Firm E, Jem and Jewellery, Punjab region).

#### 8.4.2 Development phase

The interview findings revealed that the firm's owners in Sindh and Punjab region were suffering from *single outcome calculations*<sup>30</sup>(*cognitive biasness*) in their choice of product, market and entry modes. Single outcome calculation is a result of two sub-themes; inference of impossibility and adjustment and anchoring. Such biasness is particularly confined to textile and sports sectors in Punjab and food exporters in Baluchistan. Unlimited power shutdown, terrorism and international financial crises are the most compelling factors for not evaluating all possible alternatives (particularly FDI mode). Due to such limitations small firms are forced to single outcome calculations in preferring exporting or licensing in their choice of international expansion. In depth interview revealed that the firms in Sindh and Punjab region were not reluctant to target psychologically distance markets like Germany and UK, but many ownership, location and cognitive limitations resulted in de-internationalization.

- A textile producer of finest quality dress material for Saris (a bridal dress) on the Benares looms established in 1998 and started international activity in 2000 to Germany, UK and USA. This infant born global has to stop selling in the US international market due to Pak Rupees devaluation and US dollars' appreciation. This is due to the fact that the raw material was Rs. 700 meter per kg, which is now Rs. 3000 meter per kg and is attributed to currency devaluation, poor infrastructure development in Pakistan and strong competition by Chinese products in advanced markets. The tendency of exporters in Punjab and Sindh region supports the hypothesis that they are prone to single outcome calculations by choosing advanced markets, because they prefer a proper channel of exports. While the firms from Baluchistan region are more prone to adopt shortcuts and stereotype indirect channel of exports to psychological and culturally close countries. This is evident from the interview responses by the two different firms from two different regions. A textile sector firm in response to an interview question, what is your future plan to explore new international markets, what is your idea about the culturally close countries? Replied:

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<sup>30</sup>Single outcome calculation is to prefer one alternative rather than evaluating all the possible alternatives. Such biasness comes into existence when the decision maker does not follow and overlook the rational decision making rules (Chao, 2011; Schwenk, 1984)

You know that the European market is quite stable in terms of their internal and external environment. We can manage export business with advanced nations by secured letter of credits and proper banking channels. We receive timely payment from advanced countries. We are able to manage the advanced export markets without any heavy investments. I think in the geographically close countries are not very much advanced and there is profound instability in these countries (Firm G, textile sector, Punjab region).

I would like to extend my comparison of two international markets. We feel that the psychic distance is less in Iran and Dubai due to cultural proximity. But the market of Iran is inferior as compared to Dubai due to several reasons. Dubai is more favourable as there is no tax on international products. Iran also likes our product due to culture and religion similarity and matching of ethics (Firm A, rice exporter, Baluchistan region).

- Sports dealer in Punjab region had developed their markets in Norway, Finland, Belgium, Germany and Saudi Arabia. The company H was established in 1989 and started international operation in 1990, the company is proactive born global but confined to single outcome calculation in search of any particular market and entry mode like exporting or co-operative arrangements with international player. The attitude toward international activity particularly towards FDI is weaker in advanced nations due to high technological intensity and the company is planning to set-up a manufacturing unit in Nigeria and Brazil due to infrastructure similarity to overcome single outcome calculation biasness.

We prefer to work more systematically in export process. If we want to extend a long term business in any country, definitely you have to follow a systematic process. I would prefer to go to Brazil. We have not built any relationship with India. We are importing some raw material from China (Firm H, sports dealer, Punjab region).

We have not done any partnership with any country. We tried to establish a joint company with an Asian investor in the Germany. This joint venture company was not successful. We were not successful in this endeavour, because, we were unable to build synergy and understanding with the venture capitalist. We received some orders for this product, but our capacity was limited so we were unable to market our product. There was gap between our production strategy and marketing efforts. (Firm I, sports dealer, Punjab region).

### 8.4.3 Selection phase

The investors in Pakistan, perceiving themselves as minority investors, prone to *Pluralistic ignorance* feel that the partner may use opportunities behaviour and can take advantage of the dependency relationship in the form of free-riding potential,

shirking/lethargy and dissemination of technology (Brouthers, 2002; Erramilli and Rao, 1993; Williamson, 1987). *Pluralistic ignorance* is a result of two sub-themes; profiling and stereotyping. Pluralistic ignorance is a social comparison error where an individual holds an opinion – e.g. the Pakistani SMEs want FDI in Iran, mistakenly believes that others (majority shareholders/investors) hold the opposite opinion (Halbesleben and Buckley, 2004: 126; Prentice and Miller, 2002; Shelton and Richeson, 2005).

Pluralistic ignorance is also referred as a psychological state characterized by the belief that one's self identity, stereotype behaviour, profiling and judgments (Pakistani investors) are different from those of others, even though one's group behaviour is identical (Prentice and Miller, 1993: 244). Collinson and Houlden (2005:433) in their study of UK SMEs found that ‘... mental maps of decision-makers do reflect their individual and group perceptions of opportunity and risk and subsequent geographical bias’. Two sub themes of pluralistic ignorance are *profiling*—a tendency to isolate a certain individual or group, *stereotyping*—a tendency to relate a particular characteristic to a particular group (Kahneman and Lovallo, 1993; Schwenk, 1984; Shelton and Richeson, 2005).

During the in depth interview process it was revealed that the firms from Baluchistan region are suffering from *locations biasness along with pluralistic ignorance*<sup>31</sup> in their internationalization decision. Interview findings are paradoxical as one of the rice exporters from Baluchistan disclosed that in Iran they cannot make FDIs due to restriction imposed by the Iran government. However they disclosed that they can make a minority or equal joint venture with local partner in Iran. There is 200 Tumn (Iranian currency) per kg tax in Iran. There is no legal bank facility and currency conversion is a problematic thing in Iran. Export is not based on legal documents/ letter of credits, which is a document issued by the importer guaranteed by the host government that, in case of default the exporter stake is not at risk. Therefore the exporters in Iran use illegal channel

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<sup>31</sup>Pluralistic ignorance is a belief of cultural and business groups in any nation, in which the group as a whole agrees to a norm but as an individual they tend to disagree with (Chao, 2011; Miller and McFarland, 1987)

to transfer money to Pakistan. Iran domestic consumers' preferred Indian rice over Pakistani rice therefore the Indian Rice industry is more flourishing in Iran Markets. Other exporter contradicts this view and told that Pakistani rice is higher in quality and it is like by average Iranian customer as compared to Indian rice. Due to this tendency, identity problems, holding an opinion mistakenly and believing that they are minority investors in the region (pluralistic ignorance) de-internationalized their activities (lower sales speed) and spent considerable time to invest in alternative markets such as Dubai and Afghanistan. A rice exporter disclosed that:

Well; I think India is a huge economy and they do not rely on or they are not confined to export their products to Iran. In my view they usually export to more advanced nations. I have seen some Sikh<sup>32</sup> from India exporting rice from India to Iran. India is dealing in diversified market; therefore they are enjoying good reputation in advanced nations. But as I told you that our Rice is large in size and better in taste therefore the Iranian market due to religious similarity, likes our rice more as compared to Indian Rice (Firm A, rice exporter, Balochistan region).

- A rice exporter from Baluchistan disclosed that the Pakistan as nation is discriminated in Iran and India. A general dominated trend is the gross root level of corruption and ethnic and religious terrorism involved in Pakistan. As a group norm the Iran and Indian importers wants to conduct business with us but as a nation they tend to discriminate us and we are losing lucrative markets due to this tendency (pluralistic ignorance).
- Exporter from Baluchistan disclosed that he put strenuous efforts to search and explore the location if precious stones in Baluchistan on his personal expenses. He sent many labours and technicians to hill areas of Baluchistan and found precious stones that encouraged the export activity. Due to pluralistic ignorance and anti-governmental conflicts and ethnic unrest he was forced to de-internationalize his international exports from many countries. As a result he shifted his entire business to Dubai. On the contrary an experienced lady entrepreneur from Punjab region disclosed that the government and export promotion agencies are very helpful to

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<sup>32</sup>Sikh is minority community in India. They do not enjoy the same privilege that is actually enjoyed by the Hindus in India. This factor is due to Racial and ethnic discrimination prevailing in Indian culture.

promote export activities. The nascent entrepreneurs stop exports or they tend to switch international markets very rapidly due to their personal inability in the business domain.

Iran border is very close from “Turbat” area of Baluchistan. There are many illegal traders in Iran without passport and valid visa doing business in Iran. I think due to this problem we as a legal traders face reputation problems. When we as legal traders are arrested in Iran in terms of investigations and enquiry of visa status, we try to get help from Pakistan counsel office in Iran. But unfortunately the Pakistani council have never bothered to help us in proper direction (Firm B, rice exporter, Baluchistan region)

I am very confident about the initiatives of government to introduce us in international market, they are very good at this and they honour us in this dealing. Sometimes they do some favouritism in sending delegations, but overall they are doing good job. I am a person that I do not care about any kind of such negative things; therefore I think that if your work is standard, then you are always successful. It is worthless that we should involve ourselves in this debate. I am a proactive lady and believe in hard work and successful outcome. We can create our name only through our work and efforts. We must not look into what we cannot get; we must always see what we can get from anything that relates with us. We must focus on our work, not other people attitudes (Firm E, Gem and Jewellers, Punjab region).

**Table 8.2 Meta-table of description of cases and its link with decision process**

<b>Case description</b>	<b>Foreign investment decision process</b>	<b>Cognitive biases in relations to thesis</b>
Case A, B and C are food exporters from Balochistan. They are exporting to psychological close countries confirming the Uppsala model principal. Their major countries of exports are Iran, Iraq, Turkmenistan and Dubai. All these three firms are using export, representative offices and technical joint ventures modes of investments.	<b>identification phase</b> process <ul style="list-style-type: none"> <li>• sub-theme—recognition</li> <li>• sub-theme—diagnosis</li> </ul>	<b>identification phase</b> <b>process—planning fallacy</b> <ul style="list-style-type: none"> <li>• sub-theme—temporal myopia</li> <li>• sub-theme—narrow decision frames</li> </ul> <b>outcome—gaps not perceived</b>
Case D and E are gem and jewellery exporter from Baluchistan and Punjab region. It is surprising that the firms in Baluchistan region are more prone to invest in emerging economies and they are more confident in exporting to culturally close countries. While the firms in Punjab region are exporting to Paris, Turkey and Singapore.	<b>development phase</b> process <ul style="list-style-type: none"> <li>• sub theme—search</li> <li>• sub-theme—design</li> </ul>	<b>development phase</b> <b>process—single outcome calculation</b> <ul style="list-style-type: none"> <li>• sub-theme—inference of impossibility</li> <li>• sub-theme—adjustment and anchoring</li> </ul> <b>outcome—restrict alternative to single one</b>
Case F and G are textile exporters from Punjab and Sindh region. They are active exporters of textile fabrics and readymade garments to advanced countries, like us, Germany and USA. They are heavily relying on export modes.	<b>evaluation phase</b> process <ul style="list-style-type: none"> <li>• sub theme—screening</li> <li>• subtheme—choice</li> </ul>	<b>evaluation phase</b> <b>process—pluralistic ignorance</b> <ul style="list-style-type: none"> <li>• sub theme—profiling</li> <li>• subtheme—stereotyping</li> </ul> <b>outcome—inaccurate assessment or risks</b>



Case H, I, and J are sports and sportswear exporter to advanced nations like Norway, Belgium, Finland and USA. They are heavily relying on export modes. Firm I disclosed that they tried to set up a remote office in us but due to financial and behavioural problems they were unable to do so.	<b>post-evaluation phase</b> process <ul style="list-style-type: none"> <li>• sub theme—screening</li> <li>• subtheme—evaluation</li> </ul>	<b>post-evaluation phase</b> <b>process—pluralistic ignorance</b> <ul style="list-style-type: none"> <li>• sub theme—profiling</li> <li>• subtheme—stereotyping</li> </ul> <b>outcome—rejection of strong alternatives</b>
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Table 8.2 presents the brief case stories/description of 10 interviewed firms. It is evident from the table that the respondents are prone to different heuristics and biases in each stage of decision making. The effects of each heuristics depend upon the nature of decision and the process carried out by the decision maker. The outcome of planning fallacy is the ignorance of evidence and misperception of true gap in decision making process. The effect of single outcome calculation is the restricting of alternatives to a single, narrow focused strategy (Schwenk, 1984; Trevelyan, 2008; Tversky and Kahneman, 1992). The results indicate that the choice to restrictive mode, market or narrow strategy results in lower diversification (sales speed) of small firms from Pakistan. This thesis contributes to identify and to evaluate the heuristics in foreign investment decision process of small firm from Pakistan. Such results have sound managerial and research implication for future researchers and practitioners in Pakistan.

## 8.5 Summery

This chapter presents the qualitative results. This study is unique in its nature in the sense that this study using triangulation of quantitative and qualitative modes of enquiry explored how a decision maker maximizes or satisfies his choices of entry modes for speedy development of their small businesses. *Inductive* approach for data analysis requires line by line review of qualitative notes, for coding and simplifying categories based on constant comparison. *Deductive* approach or summary-aided approach for data analysis is more evaluative and describes the data analysis process by three steps, data display, data reduction and conclusion drawing. This research uses deducto-inductive methods of enquiry. Three sets of main themes; i.e. the cognitive biases planning fallacy, single outcome calculations and pluralistic ignorance identified in this research are

unique in nature and so far such forecasting and prediction errors/heuristics have obtained no attention in the foreign investment decision process. The three biases identified in the qualitative finding either relates positively or negatively with the sales speed of small firms in Pakistan. Next chapter presents the quantitative results obtained from this study.

## **Chapter 9**

### **Quantitative results/hypotheses testing and decision model**

#### **9.1 Introduction**

Qualitative results were presented in previous chapter. Qualitative results were based on three stages of entry choice process of small firms. In the firsts initiation/recognition stage qualitative (interview) data of 10 firms were presented. First and second objective of this this was to identify entrepreneurial biases and cognitive dimensions and theories regarding international expansion by small firms from Pakistan. This was achieved by literature review and development of chapter three and four of this thesis. In the second stage the cognitive biases were identified by qualitative results, this achieves third objective of this study. In the third stage post-selection evaluation (hypothesis testing and decision model) or post entry speed results are presented, this serves to achieve final objective of this study. For the hypothesis testing purpose, post-entry speed dynamics (dependent variable, the sales ratio achieved within ten years of the start of international operations) was divided into three categories (see section 7.4.3). For the sake of simplicity and sound interpretations, post-entry speed having three dependent categories converted into two categories and was analysed through logistic regression. The analysis starts with model-building strategies and presents final decision framework.

#### **9.2 Hypotheses testing and decision model**

##### **9.2.1 Model-building strategies**

Keeping in mind the complexity associated with international business and psychological scales, the goal of any method is to select the “best” model within the scientific context of the problem (Hosmer and Lemeshow, 2000). Logistic regression analysis is usually an appropriate technique to assess the impact of relevant variables on the choice of entry mode. The level of significance and the Wald statistics are important to determine the degree of dependence on binomial variables. Following previous studies of entry mode choice (Herrmann and Datta, 2006; Jiang, 2001; Nakos and Brouthers, 2002), logistic

regression is particularly helpful when (1) the dependent variable is dichotomous in nature and (2) the variables in the equation are qualitative or quantitative. The pioneers of logistic regression using maximum likelihood estimation<sup>33</sup> (MLE) recommended following basic strategies for building best models (Agresti, 1996; Hair, et al., 2010; Hosmer and Lemeshow, 2000).

1. The basic aim of building a binary or multinomial model is to build a precise, complete and parsimonious model that meets the basic assumptions of logistic regression and is easily interpretable.
2. The appropriate selection of univariate statistics for identifying the individual role of each variable and decision about inclusion or non-inclusion of a particular variable in the final model should be made. The role of univariate statistics is particularly critical when selecting a stepwise method for the final model.
3. The number of parameters should keep to a minimum, if the important variable in theory-building is not to be lost; this leads to precise and more generalizable model.
4. The appropriate use of statistics for assessing the adequacy of the model both in terms of the individual variable in the model and from the point of view of the overall fit of the model. Variables that do not contribute to the model based on these criteria should be eliminated and a new model fit should be obtained.

In social science research the models are usually based on few selected variables. International business and psychological disciplines differ in that they are complex and rational, for minimisation of antecedents loses the generalizability of the studies (Collett, 2003; Kennedy, 1998). For nominal and ordinal categorical predictors, careful scrutiny of the contingency tables and Pearson chi-square test are best described strategies for

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<sup>33</sup> Ordinary least square (OLS) regression minimises the sum of the squared differences between the actual and predicted values. The likelihood represents the probability that the observed outcome can be predicted from the set of independent variables. In other words the logistics MLE is based on the argument of increasing the likelihood that an event will occur (Hair, et al., 2010; O'Connell, 2006).

individual variable scrutiny. In logistic regressions, the Pearson chi-square test is equivalent to the likelihood ratio chi-square test (Brace, et al., 2006; Hosmer and Lemeshow, 2000). The need for continuous model refinements reminds us that no model, unless estimated from an entire population, is the final and absolute model (Hair, et al., 2010: 206). Therefore, continuous trial and error methods lead to a parsimonious model. Successful modelling of a complex data set is part science, part statistical methods, part experience and common sense (Hosmer and Lemeshow, 2000: 91).

Logistic regression is a popular strategy that overcomes many of the assumptions of linearity, normality and homogeneity of variance for the criterion variables (Hair, et al., 2010; Hosmer and Lemeshow, 2000; Tabachnick and Fidell, 2007). It expresses the multiple linear regression equation in logarithmic terms and this overcomes the restrictive assumptions/problem of OLS method (Field, 2005). The aim of univariate analysis is to see the expected direction of predictors and to select appropriate statistics for final interpretation. Another aim of univariate analysis is to confirm that the data satisfies following screening criteria/major assumptions for initiating multivariate model. In addition, univariate analysis also helps to identify a covariate that fits the model well for step-wise methods (Hair, et al., 2010; Hosmer and Lemeshow, 2000; Menard, 2002). To achieve these objectives, the following measures were taken.

- Model specification should have two necessary components: first, the model should include theoretically relevant variables and; second no irrelevant variables should have been in the model. Before initiating a multivariate model, the frequency tables of all ownership, location and cognitive antecedents were closely examined for extreme cases and/or any influential observation in the data set. Outliers were examined closely through (standardised residuals) in univariate and multivariate analysis<sup>34</sup>.

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<sup>34</sup>All of the statistics relating to the residual have the common property that 95% of the cases in an average, normally distributed sample should have values within  $\pm(1.96)/2$ , and 99% of cases should have values that lie within  $\pm 2.58$ .

- Collinearity diagnostics should confirm that any one of the highly correlated covariates is excluded from the model. The correlation table (section 8.7) confirms that there is no collinearity between independents (high level of collinearity corresponding to an  $R^2 = .80$  or more may pose problems). Another way of detection of collinearity is to use tolerance and variance inflation matrix (VIF). A tolerance of less than .20 and VIF value of above 10 is cause of concern. There was no such evidence in this data set. However the majority of small firm's entry mode literature (see Table 3.1) is reporting the correlation matrix (see section 8.7). Therefore correlation matrix is reported for ready reference.
- In logistic regression, the rationale for univariate analysis for categorical or continuous variables is to check and control the undesirable effects of sparse data (a contingency table having many cells with small/zero counts). To compare the linear categorical model (scaling at the median) with the non-linear model, the contingency tables were analysed carefully for any sparse data (discussed below). The missing cases were examined in each variable there was no evidence of abnormal missing cases (more than 10% in individual cases) that could influence the logistic model. Cases with less than 5-10% of missing data were substituted for mean values, as in this case any substitution method provides consistent results (Hair, et al., 2010; Tabachnick and Fidell, 2007).
- Linearity in the logit is one of the necessary assumptions to deal with. One way to identify the linearity in the logit is : (1) is to run a multivariate logistic regression analysis and examine the residuals (Hair, et al., 2010; Tabachnick and Fidell, 2007); (2)O'Connell,(2006: 44) concluded that in adequate samples (more than 10:1 case-to- variable ratio), and robustness/sensitivity of the logistic regression, it is plausible to include non-linear terms as linear in logit for sound theory-based models (Hosmer and Lemeshow, 2000; Menard, 2002). According to Tabachnick and Fidell (2007: 80) and Hair et al. (2010: 72), in a sampling distribution based on large samples (100-200 or more cases) the underestimation of variance in case of abnormal skewness or kurtosis (farther from zero) and/or badly skewed

distribution are of less concern (p,105) and the matter of linearity and parsimonious model fit can be dealt with at the model-building stages by examining the outliers (Menard, 2002: 105; Tabachnick and Fidell, 2007). The influential cases/outliers (standardised residuals greater than 2) were deleted at multivariate level and the model fit summary confirms the linearity in the multivariate logit models (appendix B3); (3) Another solution to linearity in the logit suggested by Hosmer and Lemeshow (2000) is the possible scaling to create a dichotomous predictor at the median. This was also used at multivariate level to convert all covariates into categorical variable at the median<sup>35</sup>. However, the poor model fit at the median, higher likelihood ratio, lower chi-square and higher classification ratio (in final linear model) justifies non-linearity in continuous logistic model (appendix B3, C2).

As discussed previously, the purpose of univariate analysis is more critical in step-wise methods. Contrary to this, one of the limitations associated with univariate analysis is that it ignores the possibility that a collection of variables, each of which is weakly associated with the outcome or explains a low level of variance at univariate level, can become an important predictor of outcome when taken together. Another school of thought suggests that regardless of the result of univariate analysis, the model should start with all relevant variables when the sample size (minimum recommended case-to-variable ratio is 10 to 1) is adequate (Hosmer and Lemeshow, 2000; Menard, 2002). Therefore, after proper scrutiny, it is mandatory to start a logistic model including all the scientific relevant variables in theory testing models to gain maximum benefit of theoretical and practical interactions (Agresti, 1996; Hosmer and Lemeshow, 2000).

### **9.3 Hypothesis testing and decision model: post-entry speed**

Hosmer and Lemeshow (2000) concluded that the stepwise method can yield biologically implausible models and can select irrelevant and/or noise (over fitting) variables, which

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<sup>35</sup>Tabachnick and Fidell (2007: 127) asserted that a curvilinear relationship between the dependent variable and an independent variable is a perfectly good relationship. Failure of linearity of residuals in regression does not invalidate analysis so much as weaken it.

leads to a higher risk of making a type II error. Field (2005) asserted that the stepwise method has no value for theory testing and is more helpful in exploratory studies where there is no past research to tell us which variables to expect to be reliable predictors and if causality is not of interest and someone wants to find a model to fit the data (Agresti, 1996; Field, 2005). This research contributes to the role of entrepreneurial cognition in the Dunning framework, and is a theory-based research, therefore the enter method was used for final model fit analysis. Irrelevancy of the variables was assessed through removal of certain predictors based on correlation analysis (see section 8.7). Total score for each ownership, location and cognitive advantages were calculated before inclusion in the final model. Hair, et al. (2010: 179) and Menard (2002: 78) concluded that multicollinearity is a common problem in non-linear models, and although easy to detect, there is no really satisfactory solution to high collinearity. There is no evidence of high multicollinearity in the model (see section 8.7). O'Connell (2006: 44) concluded that in adequate samples (more than 10:1 ratio), robustness/sensitivity of the logistic regression, it is plausible to include non-linear terms as well as linear ones in logit for sound theory-based models (Hosmer and Lemeshow, 2000; Menard, 2002). Therefore after careful scrutiny of residuals/influential cases, all the ownership, location and cognitive antecedents were plausible for inclusion as linear covariates. A positive estimated coefficient implies that the variable increases the likelihood of choosing an outcome category.

### **9.3.1 Resource-based view and ownership advantage**

The definition of international rapidity varies significantly (see section 1.3.2) or there is an incomplete understanding of the notion of speed (Acedo and Jones, 2007; Dib, et al., 2010; Morgan-Thomas and Jones, 2009). Inconclusive notions of accelerated internationalisation include the characteristics of INVs/born global as starting foreign servicing in their formative stages or immediately after their inception (McDougall, et al., 2003; Oviatt and McDougall, 2005a), after widespread domestic market sales (Bell, et al., 2001) and INVs taking less than 3 years (Knight and Cavusgil, 2004), up to 5-6



years (Acedo and Jones, 2007; Dib, et al., 2010; Zahra, et al., 2000) and up to 15 years with 50% sales (Gabrielsson, et al., 2004) from the start of internationalisation.

For post-entry speed dynamics, the international sales achieved within ten years were converted into two categories. The hypotheses relating to post-entry speed dynamics suggested that higher ownership, location and cognitive dimensions increase the likelihood of firm to become a rapid international firm. Using the guidelines provided by Pampel (2000) and Hosmer and Lemeshow (2000), a positive coefficient represents increased odds of choosing a high value generation mode and vice versa.

Hypothesis 1 states that

***H1: The larger the firm's size, the greater will be the likelihood of a firm becoming a rapid international.***

The final analysis (Table 9.1) confirms that the coefficients related to the firm's size have positive beta co-efficient which is not significant, which suggest that the probability of a small or medium-sized firm becoming a rapid international was not positively related to the firm's size, thereby rejecting H1.

Hypothesis 2 states that

***H2: The higher the SME's ability to innovate/produce differentiated products the higher will be the probability to become rapid international.***

The coefficients related to innovation as ownership advantage were expected to be significant, which means that the probability of a firm being rapid international would be positively related to this variable. The beta coefficient is negative and non-significant. Thus, there is no significant relationship between the firm's innovative ability and being rapid; therefore H2 cannot be supported.

**Table 9.1 Multinomial Logistic Regression result (post-entry speed)**

	<i>Full model</i>				
<b>Factors</b>	<b>B</b>	<b>Wald</b>	<b>df</b>	<b>p-value</b>	<b>Exp(B)</b>
<b>Ownership advantage</b>					
H1 Firm size	.149	.123	1	.726	1.161
H2 Innovation	-.374	.877	1	.349	.688
<b>Location advantage</b>					
H3 Cultural distance	-.320	.968	1	.325	.726
H4 Market growth	1.756	12.477	1	.001*	5.787
<b>Cognitive advantage</b>					
H5 International orientation	.340	.968	1	.325	1.405
H6 Tolerance to ambiguity	.793	3.027	1	.082*	2.210
H7 Proactivity	-.767	1.603	1	.205	.464
H8 cultural cognition	.803	2.053	1	.152	.2.232
H9 Risk perception	-.067	.017	1	.895	.935
* p < 0.05; ** p < 0.01					

Reluctant and rapid firms N = 41/55

### 9.3.2 Resource based view and location advantage

Hypothesis 3 states that

***H3: The higher the cultural distance between the home and host country, the higher will be the propensity of speedy internationalisation in distant markets.***

The logistic regression results presented in Table 9.1 show that the coefficients related to cultural distance have a negative beta coefficient, which is not significant. Non-significant value suggests that the probability of the firm's being rapid is not related to cultural distance, thereby rejecting H3.

***H4: The higher the growth/sales potential of the international market, the higher will be the probability of accelerated internationalisation.***

The coefficient related to locational advantages, market growth/sales potential have positive beta coefficient and is significant. Significant value suggests that the probability of the firm's accelerated internationalisation is positively related to market growth potentials, thereby accepting H4.

### 9.3.3 Resource based view and the cognition advantage

Hypothesis 5 states that

***H5: SMEs having entrepreneurs with a high degree of cognitive orientation are more likely to become rapid internationals.***

The second important contribution of this study was to explore the relationship of entrepreneurial cognitive perception with accelerated internationalisation. Cognitive orientation has a positive beta co-efficient but is not significant in the expected direction. The positive beta coefficient means the increasing value of cognitive orientation is not likely to lead a firm towards accelerated internationalisation, thus rejecting H5.

Hypothesis 6 states that

***H6: Firms having managers with a high degree of tolerance for ambiguity are more likely to become rapid international.***

As expected, the positive beta coefficient on tolerance to ambiguity means that the likelihood of accelerated internationalisation is positively associated with a high tolerance for ambiguity. The coefficient is positive and is partially significant in the expected direction. Statistically there is a relationship between a firm's entrepreneur's tolerance for uncertain situations, and international rapidity. Therefore hypothesis 6 is partially supported. The statistician refers the partial/marginal significant variable when the relationship of the desired variable is significant in the hypothesized direction but the p value (sig value) remains between (.06-.09) and the Wald statistics is greater than 2, which is equal to t-statistics in regression analysis (Field, 2005; Hair, et al., 2010). Jiang, (2001: 222) in their study of pharmaceutical firms found that their hypothesis was marginally supported (p=.065) for parent firms decision task related factors for the choice of solve venture mode. Similar findings are supported by the mediation effects tested by (Simon, et al., 2000) and his colleagues. This study tested the role of cognitive biases and the mediation effect of risk perception in strategic choices.

Hypothesis 7 states that

***H7: Firms having entrepreneurial managers with a high proactive disposition will have rapid international development.***

The coefficient related to proactivity is negative and this variable is significant, but in the opposite direction. Negative significant value suggests that the international rapidity of small firms is negatively associated with proactive disposition of entrepreneurial managers, rejecting H7.

Hypothesis 8b states that

***H8: The higher the cultural cognition in entrepreneurial activities, the higher will be the likelihood of international rapidity.***

As expected, the positive sign of beta coefficients on cultural cognition means that the probability of a small firm having culturally competent managers in Pakistan is positively associated with international rapidity. However, the coefficient related to cultural-cognition is not significant. This means that the probability of a firm's being rapid is not associated with the entrepreneurial managers' ability to face unknown cultures abroad. Therefore, there is insufficient evidence to support H8.

Hypothesis 9 states that

***H9: The higher the risk perception associated with cross-border activity, the lower will be the probability for accelerated internationalisation.***

The coefficient of risk perception has a negative beta co-efficient in the expected direction but it is not significant. Thus there is a no significant relationship between a firm's international rapidity and the degree of international risk perception. Therefore, H9 is not supported.

#### **9.4 Assessing overall model fit**

As discussed in section 9.2, according to Tabachnick and Fidell (2007: 80) and Hair et al. (2010: 72), in a sampling distribution based on large samples (100-200 or more cases) the underestimation of variance in case of abnormal skewness or kurtosis<sup>36</sup> (farther from zero) and/or badly skewed distribution are of less concern and the matter of linearity and parsimonious model fit can be dealt with at the model-building stages by examining the outliers (Menard, 2002: 105; Tabachnick and Fidell, 2007).

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<sup>36</sup> The normal distribution have the skewness and kurtosis values = 0

It is recommended that for a best fit the non-significant correlated variables should be removed to obtain a better model (Hair, et al., 2010; Hosmer and Lemeshow, 2000). Table 8.8 presents the multicollinearity diagnostics for individual variables. The model having a minimum -2LL likelihood ratio in the saturated/full model<sup>37</sup> as compared to base model analogous to Error Sum of Squares in linear regression presents the best fit, provided other coefficients also justify the model fit (Agresti, 1996; Hair, et al., 2010; Menard, 2002).

**Table 9.2 Pearson correlation for all variables (Dependent: post-entry speed)**

Mean	1	2	3	4	5	6	7	8	9	10
Standard deviation	.42	67.61	3.76	3.28	3.62	3.72	3.55	4.04	3.31	3.70
Constant	.49	70.48	.67	.87	.61	.78	.69	.51	.56	.52
Firm size	1									
Innovation	.075	1								
Cultural distance	.055	.053	1							
Market growth	-.057	.054	.148	1						
International orientation	.395**	.061	.286**	.012	1					
Tolerance to ambiguity	.129	-.071	.319**	.042	.216**	1				
Proactivity	.259*	.114	.187	.115	.162	.081	1			
Cultural competence	.133	.137	.306**	.142	.336**	.294**	.504**	1		
Risk perception	.191	.163	.226*	.396*	.082	.011	.505*	.390*	1	
	.113	.069	.076	.171	.156	.116	.349*	.386*	.313**	1
*. Correlation is significant at the 0.05 level (2-tailed).										
**. Correlation is significant at the 0.01 level (2-tailed).										

The correlation analysis (Table 9.2) among *non-significant variables* in the final model reflects that there was a moderate weak correlation between risk perception and proactivity ( $r = .386$ ). There was a moderate weak correlation between cultural cognition and cultural distance ( $r = .396$ ). Various alternative models were analysed after

<sup>37</sup> Saturated model has as many parameters as there are values of the independent variables. Null model is a model containing only constant (Hosmer and Lemeshow, 2000; O'Connell, 2006).

excluding these variables to assess the contribution of final model in explaining the speed behaviour of small firms (Appendix D).

Table 9.3 presents the -2LL for the full model, including all the potential predictors. The change of -2LL between the full model and alternative models after removing the weakly correlated insignificant predictors are presented for each models. The full model fit is justified as having the lowest -2 Log Likelihood (-2LL), and the highest model chi-square ( $\chi^2$ ) and Pseudo  $R^2$  measures.

**Table 9.3 Summary of logistic regression: full and alternative model fit**

<i>Model</i>	<i>Model parameters</i>	<i>Variables removed</i>	<i>Significant contributors in all model alternatives</i>
Full model	-2LL =104.52 $\chi^2$ =26.51 Pseudo $R^2$ = .32	Full model	Market growth Tolernace to ambiguity
Model 1	-2LL =104.53 $\chi^2$ =26.49 Pseudo $R^2$ = .32	Risk perception	-----do-----
Model 2	-2LL =106.14 $\chi^2$ =24.88 Pseudo $R^2$ = .30	Proactivity	-----do-----
Model 3	-2LL =106.63 $\chi^2$ =24.39 Pseudo $R^2$ = .30	Cultural cognition	-----do-----
Model 4	-2LL =106.63 $\chi^2$ =24.39 Pseudo $R^2$ = .30	Both risk perception and proactivity	-----do-----

Field (2005) claimed that the main purposes of examining residuals in logistic regression were to isolate points for which the model fits poorly, and to isolate points that exert an undue influence on the model. To identify the outliers, four different tests were carried out. DFBeta, Cook's distance, leverage values and standardised residuals were obtained in the viewer window. For a good model DFBeta, Cook's distance should be less than 1. Standardised residuals (any cases above  $\pm 1.96$ -2.5 are cause for concern, and could represent an outlier). The output shows that there are few outliers in final output. After deleting two cases, paradoxically the model fit did not improved. Leverage value is the number of the predictors plus 1, divided by the sample size (Agresti, 1996; Field, 2005).

In final entry mode model it is .06. Values greater than 2-3 times this value are causes for concern. About half of the leverage values are a little high (appendix B1), but given that the other statistics are fine, this is no cause for concern.

The overall final model appears to be very good, as 76% of the observations were classified as correct, which is higher than the 25% over the proportional by chance accuracy of  $(0.573^2 + .427^2) = 63\%$  (Hair, et al., 2010). The model as a whole explained between 24.1%% (Cox and Snell R square) and 32.4% (Nagelkerke R square) of variance in speed status. The -2LL is 192.130 for final model and (omnibus chi-square = 26.51 with  $df = 9$ ) and was statically significant  $p < .05$  (appendix F1). The Hosmer and Lemeshow goodness-of fit test also indicates that the logistic model is a good fit  $p > .05$  ( $df=8$ ,  $p=.67$ ). Field (2005: 238) concluded that in an ideal world we would like to see a minimum -2LL (indicating that the unexplained data is minimal) and non-significant Hosmer and Lemeshow chi-square statistics (indicating that the model including the predictors is significantly better than without those predictors). The results are consistent with IB and other behavioural studies (Brouthers, et al., 2008; Dib, et al., 2010; Ellis, 2011; Musteen, et al., 2010; Pla-Barber and Escriba-Esteve, 2006). Based on the model estimates, a confirmation of good fit regarding the model is justified. How the previous entry choice of a particular firm influences the *speed outcome*? To answer this question a further model was obtained taking entry mode as independent variable. The model fit with improved Pseudo  $R^2$  from previous model justified that the small firm's choice of previous entry mode influences its early entry into the international market.

## 9.5 Summary

This chapter analysed the role of ownership, location and dynamic capabilities in achieving international speed dynamics after a particular choice of international mode in Pakistani SMEs. The international sales growth within ten years of the start of international operations is divided into three categories (reluctant, regular and rapid firms). Further these two categories were collapsed in two categories, regular and rapid international firms, for binary logistics.

It was found that the greater market potential as location advantage and higher tolerance to ambiguity as cognitive capabilities significantly contributed to the likelihood of Pakistani SMEs becoming rapid international firms. This study complements all the previous studies that do not incorporate entrepreneurial cognition in traditional FDI models. The new resource generation taxonomies introduced in this study are unique in their nature as no previous study empirically tested such model. Another important contribution of this study is to analyse the post-entry speed behaviour of small firms in a developing country such as Pakistan. The next chapter discusses the main results obtained through the binomial model.



## **Chapter 10**

### **Discussion of results**

#### **10.1 Introduction**

This chapter presents the discussion of results. The four major aims of this thesis were:

(1) To identify the entrepreneurial cognitive biases and cognitive dimensions faced by small firms expanding their international operations from Pakistan; (2) Keeping in view the complexity of the IB phenomenon, to determine appropriate theories that can be helpful to integrate and explain the small firms' international entry mode choice process; (3) To explore the role of cognitive biases and preferences as dynamic capabilities in the entry mode choice process and the international rapidity of small firms from emerging economies, when this is incorporated as a third factor in Dunning's OLI framework; (4) To develop an integrated model of economic theory and cognitive psychology in an effort to introduce a new IB theory for emerging economies (EE), i.e. OLC theory. Chapter 8 presented the main findings regarding entry mode choice process. The first section of this chapter discusses the main findings in Chapter 8 (entry mode choice process) and subsequent sections are devoted to discussing post-entry speed dynamics.

#### **10.2 Discussion of qualitative results**

Mintzberg, et al., (1976: 259) elaborated that during the entire decision process a plethora of value based emotions, politics and power play vital role to deteriorate the whole scenario. The process gets distorted by cognitive limitations, that is, by information overload, and by unintended and intended biases. How do decision makers cope with the cognitive strains of selection? The academicians and practitioners have suggested various proxy means of choice, such as imitation or 'maximizing' and 'satisficing' (Huang and Sternquist, 2007; Mintzberg, et al., 1976). Huang and Sternquist, (2007) proposed successful companies are more frequently imitated by others in international movements, and other things being equal, when perceived similarity existing between the current entry and prior entries is low, retailers will: (a) be less likely to expand into this country;

(b) favour late entry; (c) choose an entry mode that has been most frequently adopted by other retailers in the same environment.

### **10.2.1 Cognitive biases in foreign Entry decision Process**

Research on *individual decision* making, as described by Simon and his colleagues (Simon, 1956; Simon, 1979; Simon, et al., 2000), and endorsed by process theorists (Mintzberg, et al., 1976: 247; Schwenk, 1984; Schwenk, 1988), relies largely on eliciting the verbalization of decision makers' thought process as they try to solve complex, fabricated problems. The decision maker uses a number of problem solving shortcuts—"satisficing" instead of maximizing, not looking too far ahead, reducing a complex environment to a series of simplified conceptual "models."

In line with Baron and Ward, (2004: 554) arguments, to date, research on entrepreneurial cognition has examined a wide range of intriguing questions. Among the ones that have received the greatest attention are these:

- Are the cognitions of entrepreneurs different from those of other business professionals? In other words, do they think differently in various ways, both with respect the content of their thoughts (e.g., Baron, 2004; Mitchell, Smith, et al., 2002) and the processes they employ? (Baron, 2000; Schwenk, 1988).
- What role do cognitive biases and errors play in the thinking of entrepreneurs? (Alvarez and Busenitz, 2001; Busenitz and Barney, 1997; Simon and Houghton, 2002).
- What cognitive processes are involved in opportunity recognition? (Haynie, et al., 2010; Mitchell, et al., 2007)?

This study by exploring the entire foreign investment decision process also contributes to the current cognition literature. The decision maker is subject to the conflicting biases of unjustified optimism and unrealistic risk aversion (Kahneman and Lovallo, 1993). The findings of this study contradict with the cognitive literature in which the authors found strong support of their hypothesis that the biases decreases the entrepreneurs risk perception to start new ventures (Baron and Ward, 2004; Mitchell, et al., 2007; Simon and Houghton, 2002). The findings of this study are in consistent with those who found that the heuristics and biases are double edge sword. On the one hand they are the source of risk aversion or overly timid choices. On the other extreme in entrepreneurial decision

making, choices might be based on narrow decision frames, restricting sound alternatives (Acedo and Jones, 2007; Kahneman and Lovallo, 1993; McCarthy, 2003).

McCarthy (2003) in their study of small manufacturing, service and software Irish firms found that, when the entrepreneurs described their objectives, there was a touch of idealism in their accounts. The comments of stakeholders suggested that the entrepreneurs lacked *proper choices* and the profit goals of some entrepreneurs were unrealistic. Another entrepreneur realized that his plans at start-up were unrealistic stating that “there is no point in trying to be IBM when you are in the garage-style operation”. The literature on small firms fails to explore heuristic/biases in emergent decision making, and to explore whether the cognitive limitations, strategy crises or political contradictions are the source of small firms’ failure.

Global marketing literature posits that for large MNCs, the higher the market potential (Aharoni, et al., 2011; Jiang, et al., 2011), the higher the probability of achieving economies of scale and lowering the cost of production, leading to choice of investment modes (Dong, et al., 2008; Morschett, et al., 2010). There is contradictory evidence in the literature about the link of managerial perception, market sales potential and mode choices, as other scholarship found a negative links between managerial perception, market growth and investment choices (Hennart, 1991; Morschett, et al., 2010). In general, in order to exploit long-term presence in the host country, the literature favours equity modes of investment (Agarwal and Ramaswami, 1992; Nakos and Brouthers, 2002). Hill, Hwang, and Kim (1990: 127) proposed that ‘... an unfortunate fact of corporate life is that any particular entry decision is rarely an unmixed blessing’, and the choice of entry mode is the interaction of strategic, environmental (country/ industry-specific) and transaction-specific (managerial know-how) factors.

It is difficult to explain the results in this study, but they might be related to managerial perceptions in developing nations that even in high-growth markets, due to thin resource/ capital structure, it is profitable to exploit international markets through their own resource-generation potential. Another possible explanation is that the Pakistani SMEs do not trust partners’ capabilities to avoid high risks on their behalf. Small firms cannot

benefit from economies of scale in EEs; this leads to analytical strategy based on managerial cognition/competence to obtain maximum benefit from selected growing markets. In this way, they try to avoid any illusion associated with high growth/high potential markets.

The location advantage in the host country is also dependent on the social norms of the society (Brouthers, et al., 2008). Small firms from Pakistan usually expand their international horizons to both less advanced and more advanced countries such as India, Afghanistan, Iran, Sri Lanka, USA, UK, France and Germany. The advanced nations are more prone to consumerism and less developed nations are under severe pressure to be thrifty and save money. One explanation of the results in this study is that the Pakistani firms are unable to diversify their international operations to these countries as per their conditions of suitable social norms. Another explanation is that Pakistani firms, due to their preference for the nature and strength of the market, are not able to adapt to the dual challenge of differentiating the quality (for advanced nations) and/or lowering the price for price-seeking economies (less-developed nations).

### **10.3 Discussion of quantitative model, post entry speed dynamics**

Second and third major objective of this thesis was to analyse how the RBV (dynamic capabilities) helps to augment the value of entrepreneurial cognition in entry mode choice process and post-entry speed dynamics in small Pakistani SMEs when it is incorporated as a third factor in Dunning's OLI framework. Multinomial logistic regression (Table 10.7) was used to differentiate between reluctant, regular and rapid international firms. A binomial logistic post-entry speed model was obtained (by merging reluctant and regular categories) to support the post-entry model.

## **10.4 Dynamic capabilities and the ownership advantage**

### **10.4.1 Firm size**

Hypothesis 1 states that

***H1: The larger the firm, the greater will be the likelihood of its becoming a rapid international.***

The final analysis (Table 9.1) confirms that the coefficients related to the firm's size have a positive significant beta co-efficient which is not significant, suggesting that the probability of small and medium-sized firms becoming rapid internationals is not related to the firm's size, thereby rejecting H1.

A meta-analysis of accelerated internationalisation suggests that there is an abundance of literature incorporating IE, the Uppsala model and/or network theory in isolation to study the speed behaviour of firms (Rasmussen, et al., 2010; Weerawardena, et al., 2007; Zucchella, et al., 2007). Dunning (1995: 176; 2001) frequently asserted that no single theory can be expected to *satisfactorily encompass all kinds* of foreign-owned value-added activities simply because the motivations for, and expectations from, such cross-border transactions/production vary a great deal. The cross-fertilisation of the OLI model with the latest IE models is completely absent in IE literature.

The accelerated international expansion of small firms based on a number of variable dimensions including firm-specific (Abebe and Angriawan, 2011; Nielsen and Nielsen, 2011), location-specific (Abebe and Angriawan, 2011) and managerial-specific antecedents (Abebe and Angriawan, 2011; Hill, et al., 1990; Oviatt and McDougall, 2005a; Sharma and Erramilli, 2004). One of the limitations of speed literature is that there are insufficient contributions exploring the role of ownership, location and cognitive advantages in the post-entry speed of small firms from emerging and developed economies.

In this development, one stream of research suggested that firm size (as a proxy of resource structure) has a compelling effect on international strategy (Freeman, et al., 2006; Hutchinson, et al., 2006; Pansiri and Temtime, 2010). As a firm-specific advantage other scholars have stated that firm size does not affect export motivation or accelerated internationalisation (Masurel, et al., 2009; Pinho, 2007). One of the possible explanations for the current findings is that the small Pakistani firms, when entering in nearby weak developing nations such as Afghanistan and Iran feel that their size is large enough to

increase their sales speed through collaborative arrangements with other firms of smaller or similar structure.

Small firms in Pakistan may lack the necessary resources to transfer to host nations; on the other hand, medium-sized firms that are capable of transferring both ownership and location specific advantages perceive that their resources are *compatible* with neighbouring countries such as Afghanistan, Iran and India, even when there are certain factors such as cultural and religious differences, contributing to a lack of compatibility with nearby countries.

In addition, most small firms in highly-populated countries like Pakistan become medium-sized when entering with accelerated speed to less populated neighbouring countries with inferior infrastructure and of smaller size. Pakistani firms entering Middle East countries such as the UAE, Qatar and Oman feel more comfortable in transferring their advantage-generating potential to host countries. Therefore, their production and marketing operations are easily manageable due to lower psychic and geographic differences with such countries.

#### **10.4.2 Proprietary/ innovation**

High quality control is ensured in those entry modes where the resources are inimitable and non-substitutable, thus providing a high level of product differentiation. Hypothesis 2 posits that

***H2: The higher an SME's ability to innovate/produce differentiated products, the higher will be the probability of its becoming a rapid international.***

The results presented in Table 9.1 show that there is no significant relationship between a firm's innovative ability and the probability of its becoming a rapid international, therefore H2 cannot be supported.

For around seven or eight decades, the IB phenomenon has been under critical exploration and yet to date there has been no emergence of a unanimously acknowledged model of international business (Dunning and Lundan, 2008b; Mtigwe, 2006; Sullivan, 1994). This is because (1) International business is a complex and dynamic phenomenon

and cannot be explained without integrating conflicting forces (Mtigwe, 2006; Ramaswamy, Kroeck, and Renforth, 1996); and (2) conceptual frameworks are defective and the methodological approaches for exploring such phenomena are inappropriate (Coviello and Jones, 2004; Mtigwe, 2006; Sullivan, 1994).

International brand marketing literature has a history of around half a century. Two notable schools of thought appear dominant due to their longevity and robustness; these are adaptation and standardisation (Abebe and Angriawan, 2011; Rasiah, 2011; Reynolds, 2002; Vrontis and Kitchen, 2005). Supporters of standardisation suggest that the firms targeting the international market must see the world as homogenous, having consumers with similar wants, needs and preferences (Townsend, et al., 2008; Vrontis and Kitchen, 2005). On the other hand, proponents of adaptation suggest that customers are subject to change in different cultures/macro environments, and they are polycentric or regio-centric (Anchor and Kou ilová, 2008; Cayla and Eckhardt, 2007; Evans, et al., 2008).

In the innovation and internationalisation linkage, the literature gives paradoxical results. The findings of the current study are consistent with the research stream that found no support for their hypothesis for a positive relationship of product differentiation and accelerated internationalisation (Dib, et al., 2010; Evans, et al., 2008; Rasiah, 2011). The findings of the current study are consistent with those of Rasmussen et al. (2010), who found that since INVs/BGs are widespread in all manufacturing industries it seems to be not the product, but rather the mind-set and proactive decision of the founder(s) that is of decisive importance for a firm's international speed and scope.

Contrary to above findings, Vrontis and Kitchen, (2005) found that the firms under study were keen to exploit opportunities by using both adaptation and standardisation strategies. Similarly, Evans, et al. (2008) found that US retailers used standardisation but that their motives changed over time. The born-global phenomenon tends to be more reliant on R & D intensity for innovativeness, and in this vein of research, the authors found a positive association between innovation and choice of a rapid and accelerated

internationalisation (Dimitratos and Plakoyiannaki, 2003; Etemad, 2004; Gabrielsson, 2005).

In the EEs, due to macro-economic instability, higher product innovation may not overcome the liability of foreignness, smallness and newness (Bell, et al., 2012; Lu and Beamish, 2006; Zaheer, 1995). In addition, another possible explanation for the results in this study is that limited resources are utilised for product differentiation for niche markets, which makes it mandatory for neophytes/inexperienced firms to create a sustained long-term threat to the standardised segments of their competitors. At present, it may not be a straightforward task to cope with turbulent and competitive market forces, as limited capacity to benefit from economies of scale limits their ability to standardise products. However, in the long run such an effort may be fruitful for neophytes in becoming the first movers to serve the specific needs of their foreign customers for rapid entry.

The small Pakistani firms in this study appeared to use differentiation strategy to become first mover in advanced countries. It is believed that a higher propensity towards innovation leads to product differentiation (Vrontis and Kitchen, 2005), and on the basis of this innovativeness, the small firms regarded international competition as an opportunity rather than a threat, but speed and scope of entry in international markets may be slower. EEs are vulnerable to institutional and legal threats; therefore, relying on product innovation leads to more rapid entry into niche markets in search of a customised clientele.

## **10.5 Dynamic capabilities and the location advantage**

### **10.5.1 Cultural distance**

Hypothesis 3 proposes that

***H3: The higher the cultural distance between the home and host country the higher will be the propensity of speedy internationalisation in distant markets.***

The logistic regression results presented in Table 9.1 show that the coefficient related to cultural distance has a negative beta coefficient, which is not significant. Non-significant



value suggests that the probability of a firm's being rapid is not related to cultural distance; therefore, H3 is rejected.

Post-entry speed and performance of small firms arise from the quality of opportunities, their location and the creativity of modes of exploitation entrepreneurs may use (Zahra, et al., 2005: 131). In terms of the *transaction costs view*, the configuration, transformation and deployment of resources (Teece, et al., 1997; Zhan and Chen, 2010) depend upon the absorptive capacity of the partner (Prashantham and Young, 2011), as partners might face difficulties in codifying the knowledge (Figueira-de-Lemos, et al., 2011; Morschett, et al., 2010), and information asymmetry leads to higher monitoring costs (Buckley and Casson, 1996; Morschett, et al., 2010); therefore internalisation is beneficial for speedy development.

In terms of the *organisational capabilities perspective*, the strategic competence of the decision maker is embedded in organisational routines and home country environment (Morschett, et al., 2010; Sharma and Erramilli, 2004). Integration, learning and sunk costs increase where there is high cultural distance. Therefore, the company *coordinates with clients* and customers to reduce learning costs and to penetrate the market.

The findings of this study partially contradict Arronz and Arrobo (2009), who investigated the link between SMEs' proactive strategic positioning and their choice of alternative governance mechanism and found that the SMEs were keener to adopt co-operative arrangements to overcome the limitations of size, business culture difference and external threats for quick inter-county development. Similarly, Wikland and Shafared (2009) found that the more a firm was engaged in resource combination activities in international strategic alliances, the more they built up greater strength in international alliances, ultimately leading to speedy internationalisation. In contrast to earlier findings, in technology-intensive firms or born-global, a weak link was found between cultural distance and speedy internationalisation through ownership strategies (Chetty and Campbell-Hunt, 2004; Crick and Spence, 2005; Oviatt and McDougall, 1994; Rasmussen, et al., 2010).

A difference in normative values creates information asymmetry, results in high information cost and increases complexity in cross-border relationships (Anderson and Gatignon, 1986; Randøy and Dibrell, 2002; Yamin and Golesorkhi, 2010). The timing of entry to the host market depends upon a sound formulation of operational strategy and a normative link between firm-specific and host country factors (Brouthers, et al., 2009; Sharma and Erramilli, 2004). EEs are characterised by a lack of credible institutions, a disoriented infrastructure and environmental turbulence. Such forces hinder the growth of small firms from EEs entering DEs, and small actors fail to identify the complex relationship between firm-specific and location specific factors.

The results of this study can be explained by the fact that in the culturally distant markets, gaining first mover advantage is very time-consuming and costly. This is due to the fact that the local firms are integrated (Peng, Wang, and Jiang, 2008; Sharma and Erramilli, 2004) in their own cultural values and they do not provide information without it being to their own benefit. This forces small firms in Pakistan to gain sustained rapidity through alternative mechanisms in DEs. In EEs, the learning and exploitation are associated with higher opportunistic costs; therefore the higher cultural distance also increases psychic cost. This leads to focusing on niche markets with strong long-term growth potential and can be exploited either through internal or market channels for accelerated growth.

In addition, Pakistani SMEs prefer to exploit resource generation through a company-owned mechanism and this not only reduces the capability exploitation cost, but also minimises the risk associated with unfamiliar cultures in DEs. A negative perception of opportunistic behaviour on their part does not allow them to exploit such opportunities, leading them to remain satisfied with low commitments. This can be attributed to their location bias or their narrow focus on the institutional environment in host nations.

Another possible explanation of this result is that Pakistani firms are serving Middle East countries with a similar language and cultural heritage; therefore there is no fear of dissemination risk or higher control, and coordination is unnecessary in such countries. Either mode can create a high order value; therefore, the preference for a high value generation mode is not justified in countries with similar preferences.

### 10.5.1 Market growth/sales potential

Hypothesis 4b posits that

***H4b: The higher the growth/sales potential of the international market, the higher will be the probability of accelerated internationalisation.***

The coefficient related to locational advantages and market growth/sales potential has a positive beta coefficient and is significant. Significant value suggests that the probability of a firm's accelerated internationalisation is positively related to market growth potential, thereby supporting H4.

*Transaction cost mechanism* posits that market imperfection relates to the high cost of information gathering and processing, the enforcement of legal rights, and bargaining (Nakos and Brouthers, 2002; Randøy and Dibrell, 2002). Asset specificity coupled with ambiguity of transactions makes the relationship more complex. Two costs are related to foreign commitments (Brouthers and Hennart, 2007; Williamson, 1975). First, when the tacit nature of a resource is transferred, this results in loss of value of assets (transaction cost, asset specificity/internal uncertainty) and delayed entry. Second, to avoid opportunistic behaviour, the enforcement of contracts becomes time-consuming and costly (contractual cost/external uncertainty). Dunning (1995; 2001: 176) asserted that the variables necessary to explain import-substitution FDI are likely to differ from those that explain resource-oriented FDI, and both are different from those that explain rationalised or strategic-asset-seeking investment. Therefore, it is important to specify the context in which the relationship is being examined. For speedy entry into the international markets, the transaction cost framework encourages *vertical integration* but ignores the role of context in strategic investments.

According to the *dynamic capability view*, learning and exploitation of a *high growth market* is most feasible through cooperative arrangements (Boehe, 2011; Nielsen and Nielsen, 2011), as the delayed entry results in higher opportunity cost (Hennart and Park, 1994; Morschett, et al., 2010). Firms with older and well-codified (explicit) knowledge do not consider opportunism as a threat to their strategic moves; and are more inclined to use *cooperative modes* (licensing) of transaction for early development. In cooperation,

the learning and development in a dynamic environment becomes faster compared to vertical integration/acquisition (Hennart, 1991; Morschett, et al., 2010).

The significant results in this study are consistent with large firms' rationale for international development regarding market growth potential in foreign markets. The MNE literature (Bhaumik and Gelb, 2005; Dong, et al., 2008) supports the idea that resource abundance is the only compelling factor for economies of scale in high growth markets and leads to accelerated internationalisation.

The findings of this study are also partially consistent with those of location-specific studies. Lin and Chaney (2007) examined Taiwanese SMEs and found that the most important motivation for SMEs was the market-seeking strategy encapsulated in "to capture the local market". The SMEs were more inclined to increase their production capacity, which in turn led to capturing a large new customer base in the host market. The second important motivation mentioned in the above study was to secure long term efficiency-seeking strategy. The SMEs targeted a location where production and labour costs were low and which were close to main market networks. Similarly, Evans, Bridson, Byrom, and Medway (2008) reported that the allocation of low cost production resources is an important driver for efficiency-seeking and speedy expansion abroad through core competencies, such as global branding and proactive vision.

There are several possible explanations for these results. First, in a highly dynamic market, a cooperative mode (a high resource generation mode) minimises the opportunity costs associated with delayed entry (Hennart, 1991; Morschett, et al., 2010), but at the expense of transaction and contractual costs. Second, small Pakistani firms facing a lack of infrastructure and political and legal instability perceive high growth markets as being a sound source of learning/knowledge inputs for further development; therefore, they focus on low cost and high growth markets.

A possible explanation for this result is that in *high growth markets* the bargaining power of suppliers, clients and customers is high. In order to gain long-term efficiency/market presence and economies of scale, *vertical integration* is preferred. Opportunistic behaviour dominates cooperation; hence, companies use *FDIs* or tend to rely on

*exporting* for early development. It seems possible that these results are due to the fact that a small firm's accelerated entry into an international market is the function of resource commitments and *strategic objectives* to be achieved. Firms can enter multiple markets by *any mode*, and entry into markets with lower potential can be compensated for by entry into high potential markets. The strategic objective is to diversify operations for long-term presence in multiple countries.

## **10.6 Dynamic capabilities and the cognitive advantage**

### **10.6.1 Cognitive orientation**

Hypothesis 5 states that

***H5: SMEs having entrepreneurs with a high degree of cognitive orientation are more likely to become rapid internationals.***

Cognitive orientation has a positive beta co-efficient, but is not significant in the expected direction. The positive beta co-efficient means the increasing value of cognitive orientation is not likely to lead a firm towards accelerated internationalisation; therefore, H5 is rejected.

Saarenketo and Puumalainen (2004: 53) endorsed that internationally-oriented managers: (a) have low perception of psychic distance (Aharoni, et al., 2011); (b) stay abroad, have foreign language skills, are less risk-averse and less resistant to change (Nielsen and Nielsen, 2011); (c) hence have a positive attitude towards international development. As discussed before the researcher to date has tended to focus on international experience, education and age (in isolation) as proxies of entrepreneurial behaviour. However, there has been no controlled study which explores the link between cognitive orientation and strategic choices. This underscores the importance of small firms' strategic decisions in the development of the speed, scale and scope of its operations. 'International opportunity recognition is an iterative process, where the entrepreneur revises his (her) concept several times. Entrepreneurs' egos, preferences and hubris also influence these decisions' (Zahra, et al., 2005: 131).

It is difficult to explain the results in this study, as there are mixed evidence regarding diverse measures in related strategic disciplines. Dib et al. (2010) and Sommer (2010)

found no relationship between foreign language skills/education and intentions of entrepreneurs to actively participate in the accelerated race for new markets. Others found that there was a positive association between export experience and speed/scope of internationalisation of new ventures (Naudé and Rossouw, 2010; Rasmussen, et al., 2010; Sommer, 2010; Weerawardena, et al., 2007).

SME internationalisation is a dynamic concept, and there can be little doubt that a global mind-set is a prerequisite, but is a concept ‘... that interacts continuously with the environment’ need continuous exploratory (search for new markets, ideas) and exploitive (short run actionable behaviour) innovation (Brouthers, et al., 2009; Nummela, et al., 2004: 54; Prashantham, 2008). There are many possible explanations for the current findings in this study. In EEs, entrepreneurs with a local education but international experience have rigid beliefs and a conventional/orthodox decision making style. Their psychological contradictions often do not allow them to perceive opportunities as real and bona-fide. New opportunities need refined exploration, and without such an initiative, these experienced individuals are likely to remain satisfied with on-going operations and not be very proactive in exploiting such opportunities.

In addition, small firms in EEs are more focused on exploitive innovation and need confined information for immediate economic rents. They are not very receptive to long-term exploratory investigation due to human, financial and relational constraints. Customised knowledge/learning is time-consuming and costly. The learning capacity of CEOs in emerging markets is related to complex cultural and environmental obstacles and therefore they are unable to focus on a suitable match between exploratory and exploitive innovation.

#### **10.6.2 Tolerance to ambiguity**

Hypothesis 6 states that

***H6: Firms having managers with a high degree of tolerance for ambiguity are more likely to become rapid internationals.***

As expected, the positive beta coefficient for tolerance to ambiguity means that the likelihood of accelerated internationalisation is positively associated with high tolerance

to ambiguity. The coefficient is positive and is partially significant in the expected direction. Statistically, there is a relationship between a firm's entrepreneur's tolerance for uncertain situations and international rapidity. Therefore, H6 is partially supported.

Born-global are said to be successful through cognitive learning and learning by doing is a factor in their successful growth (Evald, et al., 2011; Prashantham and Young, 2011), as are lessons from the failures of rivals in the competitive market (Baron, 2004; Zahra, et al., 2005). Zahra et al. (2005) asserted that advocacy of the cognitive approach should not blind future IE researchers to its shortcomings. 'Cognition is not directly observable and therefore hard to measure. Such cognition is idiosyncratic and hard to generalize, especially when it comes to entrepreneurs who share many common attributes with the general population but still believe and act quite differently from the norm' (Zahra, et al., 2005: 138).

The role of the cognitive mind-set in the pace, speed and mode of internationalisation has been all but ignored in the literature. However, as discussed previously, the role of cognitive preferences has its roots in other related disciplines. The findings of this study are in line with the findings of Westerberg, Singh and Häckner (1997) and Nummela et al. (2004). Nummela et al. (2004) in their study of Finnish firms, found that global mind-set (proactivity, commitment and vision) is positively associated with market characteristics such as global competition and turbulence. Westerberg et al. (1997) found in their study of Swedish housing and joinery SMES that a higher perceived level of tolerance to ambiguity was positively associated with higher financial performance. Similarly, Acedo and Jones (2007) found that the higher the tolerance to ambiguity, the lower will be the likelihood of risk perception and ultimately, the more rapid will be the international growth. Such studies provide evidence that a tolerant global mind-set helps to assess the true dangers associated with a turbulent environment.

One of the main explanations for the findings of current study is that the small firms in Pakistan are facing a turbulent environment, a lack of credible institutions, and discordant information channels in the domestic environment. The turbulent environment provides very few signals/clues for opportunity identification. Tolerance to ambiguity makes it possible to analyse paradoxical situations. This ultimately increases their capacity to face

turbulent environments abroad and becomes the basis of their accelerated international development.

Two broad taxonomies of accelerated internationalisation are: first, the speed (time of entry) and second, the scope (diversification of activities) of international activity. A broader scope of international activity is usually confronted with intense competition and thus entails higher uncertainty. Once the opportunity is identified, the early follower benefits more than later movers. Firms in EEs with higher tolerance for ambiguity make strenuous efforts to synchronise the information channels and thus became early starters in cross-border activities.

In addition, internationalisation is subject to international risks; an increased tolerance for ambiguity increases the degree of confidence in anticipating situations and tentative decisions lead to gaining control over the international risks. This strategic choice results in a fruitful evaluation and implementation of international opportunities, and hence results in accelerated internationalisation.

### **10.6.3 Proactivity**

Hypothesis 7 states that

***H7: Firms having entrepreneurial managers with a higher proactive disposition will have more rapid international development.***

The coefficient related to proactivity is negative and this variable is not significant, but in the opposite direction. A negative non-significant value suggests that the international rapidity of small firms is negatively associated with the proactive disposition of entrepreneurial managers, rejecting H7.

Scholars in entrepreneurship research have been active in creating many valuable models (Boehe, 2011; Evald, et al., 2011; Figueira-de-Lemos, et al., 2011), and such models are no doubt useful in understanding entrepreneurs and their role in the entrepreneurial process. Aharoni et al. (2011) and Baron (2004: 229) pointed out that ‘... the researchers in the field of entrepreneurship have largely ignored the following basic questions: (1) What pattern of discernible stimuli are recognized by entrepreneurs as constituting opportunity ? (Prashantham and Young, 2011), In other words, what is an opportunity,



from a perceptual point of view? (Aharoni, et al., 2011), and (2) what cognitive processes play a role in this task? Answer to these questions may prove invaluable to the field of entrepreneurship in its efforts to address the question (Baron, 2004; Ellis, 2011; Zahra, et al., 2005): “Why do some persons but not the others identify opportunities?” The current study fills this gap by exploring the cognitive preferences of small firms from Pakistan.

These findings of the current study are contrary to those of Rasmussen et al. (2010) who found that since INVs/BGs are widespread in all manufacturing industries, it seems to be not the product, but rather the mind-set and proactive decision of the founder(s) that is of decisive importance for a firm’s international speed and scope. Freeman, Edwards and Schroder (2006) in their study of Australian SMEs, found that the SMEs and born-global firms proactively and rapidly achieved economies of scale in their operations by entering 10-20 key foreign markets within two years. The small saturated and isolated domestic market offered ‘neither scales economies nor higher-price opportunities’, and the managers in Australian SMEs proactively perceived that they gained a competitive edge on domestic rivals relying on small local markets providing minimal opportunities for ‘large-volume rollouts’. Further, this proactive step encouraged them to penetrate the diversified high-volume and high-turnover markets of the U.S., the UK and Malaysia, contributing to risk reduction and to overcoming the lack of knowledge through strategic alliances and networks. Terjesen and Hessels (2009) in their comparative study of Asian and non-Asian countries, found that the proactive non-Asian early-stage ventures were quicker to go abroad due to their flexible industry relations, quality vocational institutions and better training facilities.

Managers of small firms in EEs, being under severe pressure of bounded rationality, resource, and time constraints (Brouthers and Nakos, 2004; Kumar and Subramanian, 1997), have to consider a decisive link between cognition and bold decisions. Entrepreneurs in EEs are influenced by external locus of control (others, fate, or chance determine the outcome) rather than high internal locus of control (belief that outcomes are the function of one’s own behaviour/actions) (Baron and Ward, 2004; Baron, 2004;

Brigham, et al., 2007). This is the reason that their cognitive style of decision making restricts their speedy international development in turbulent environments.

Another possible explanation is that in EEs, small firms are weak in their absorptive capacity and information asymmetry results in poorly-understood opportunities. A proactive disposition may not take into account the pitfalls associated with rational choices. In this position, entrepreneurs fear that they might forgo acting on an economic stimulus or otherwise they may waste their time and effort on an opportunity that was not bona fide. Therefore this tendency results in a deadlock.

#### **10.6.4 Cultural-cognition**

Hypothesis 8 states that

***H8: The higher the cultural-cognition in entrepreneurial activities, the higher is the likelihood of international rapidity.***

The coefficient related to cultural-cognition is not significant, with a positive beta coefficient. This means that the probability of a firm's being rapid is not associated with entrepreneurial managers' ability to face unknown cultures abroad. Therefore, there is insufficient evidence to support H8.

Nadkarni and Barr (2008) agreed with Collinson and Houlden (2005) that human cognition, due to limited capacity and selective perception/attention (Dimitratos, et al., 2011; Nielsen and Nielsen, 2011), prevents rational decision making, contrary to the industry view that assumes 'the managers are rational in decision making'. They put forward the comments that industry velocity creates a selective attention focus (location bias) in mental maps so that a high velocity industry, having blurred market opportunity, unclear business horizons and sulfating/ambiguous competitors, negatively affects the strategic logic.

The findings of this study are in contrast to Sommer (2010), who found a positive association between knowledge of business culture in foreign markets and intentions to actively participate in the race for new markets. Other authors also contributed to cross-cultural comparisons of entrepreneurial characteristics. Tajeddini and Mueller (2009), in their study of techno-entrepreneurs (entrepreneurs from knowledge-intensive and high

technology sectors), found that compared to Swiss techno-entrepreneurs, the UK based techno-entrepreneurs were stronger in exploiting opportunities due to their higher propensity for risk, autonomy and higher locus of control. The findings also contradict Westerberg et al. (1997), who do not find full support for their hypothesis that high cognition will tend to be negatively associated with higher financial performance.

In a dynamic high velocity industry, the managers are subject to information overload and rely on selective attention that creates a dull/biased or subjective causal link between true market assessment and sound strategic choices (Collinson and Houlden, 2005; Nadkarni and Barr, 2008). Cultural cognition in high risk situations might not lessen the negative effects on strategy choices in a turbulent environment in order for entrepreneurs to be able to take a timely decision to exploit a greener opportunity.

The findings of this thesis also contribute to exploring whether cognition is an independent or a location-bound/context-specific attribute. This means that Pakistani born-global, having entrepreneurs with different cross-cultural competences, are not prone to invest in markets with alien cultures. Another explanation for this is that the born-global entrepreneurs perceive international environments as turbulent and therefore are not keen to invest through high resource generation modes for international rapidity.

#### **10.6.5 Risk-perception**

Hypothesis 9 states that

***H9: Risk-perception associated with cross border activity will be a source of a different perception about accelerated internationalization.***

The coefficient of risk perception has negative beta co-efficient which is not significant. Thus there is a no significant relationship between a firm's international rapidity and the degree of international risk perception. Therefore H9 cannot be supported.

Literature offers contradictory evidence for analysing the international risk factors. The born global are not influenced by environmental turbulence due to their high proactive risk-taking propensity (Chetty and Campbell-Hunt, 2004; Covin and Slevin, 1991; Nakos and Brouthers, 2002; Sommer, 2010). Conversely, other scholars found a negative association between international risk and intentions to qualify for immediate entry in

international markets (Acedo and Jones, 2007; Dib, et al., 2010; Simon, et al., 2000). Welch and Luostarinen (1988) posit that it is rare for firms to internationalise in their early foundation years. Such firms are slow in strategy imperatives and international risk factors contribute to their slower international growth (Morschett, et al., 2010).

Innovation-based models taking a born-global perspective assume that the small firms are faster to internationalise (Crick and Spence, 2005; Jones, 2001) and refer to these episodes of rapid internationalisation as “the gusher”: three- to four-year periods during which sales double and double again every year and the firm radically alters from having a domestic to an international focus (Chetty and Campbell-Hunt, 2004). Such born-global do not screen or ignore the international risk factors, and they perceive certain situation as not being risky (Dib, et al., 2010; Simon, et al., 2000; Sommer, 2010).

This can be explained by the fact that the Pakistani managers, based on their subjective risk perceptions, are unable to decide on a clear boundary/horizon of international political or social risk (Ahmad, 2010; Malik, 2008). They rely heavily on low resource generation modes so that in case of any unforeseen event they can switch to alternatives in high risk situations.

Due to a weak political/legal system and lack of credible institution (banks and insurance companies), small firms in Pakistan feel it is better to play safe rather to take high risks in a turbulent environment abroad. This might also be linked to the subjective perception of managers about the quality of information available about host markets.

In addition, it is very easy to switch modes to exploit alternative markets for first mover advantage, avoiding high sunk costs. In high risk markets, the choice of cooperative modes might result in resource loss rather than resource gain due to the opportunistic behaviour and moral hazards associated with EEs.

## **10.7 Summary**

This chapter discusses the main findings of this study. It is evident from IB literature and comprehensive discussion, that the complex phenomenon of international entrepreneurship cannot be explained by a single theoretical model. The application of RBV theory to cognitive style capabilities and their link with international risk perception in entry mode choice is relatively under-researched. This study sheds light on the aspects of IE development and cognitive style application offered by current literature, to develop a rigorous, simple and dynamic entry mode process and post-entry speed model. Current international business literature does not provide explanations for these developments, which are largely to be found in the changing market environment for INVs, and particularly in SMEs. This study mainly contributes to current literature by integrating two approaches and by adding cognitive measures for the choice of international market and entry mode selection. The second major contribution is the exploration of the post-entry speed dynamics in small firms from developing nations such as Pakistan. The next chapter presents the conclusions of this study.

# **Chapter 11**

## **Conclusion and implications**

### **11.1 Introduction**

This chapter aims at concluding the main findings. The chapter is organised as follows. The first section presents the introduction to the main research focus and summary of the main findings. The second section comprises the conclusion about the main findings of the thesis regarding qualitative results and hypothesis testing with relation to entry mode choice process and internationalisation speed. The third section makes recommendations for future research and presents managerial implications.

### **11.2 Summary of main findings**

Internationalisation models and theories range from FDI and neoclassical models to innovation-based models (Fletcher, 2011). The FDI decision making process, analogous to three strategic management phases, namely formulation, implementation and evaluation stages, is based on the developments of Aharoni (1966) and Mintzberg, Raisinighani, and Theoret's (1976) decision making models. This decision making process consists of three stages, the initial motivation to look abroad (recognition of stimuli), the investigation/stage and the decision to invest (selection/evaluation of choice).

SMEs' international motivation and capabilities in the extant literature centres around three categories (see section 3.8):

1. Firm's characteristics (e.g. size, product characteristics )
2. Marketing strategy-related variables (e.g. R and D )
3. Firm competencies (entrepreneurial competencies)

In all the three contexts, the role of entrepreneurial cognitive decision making is ignored by previous scholars. In particular, the role of dispositional entrepreneurial cognition is completely absent from small firms entry mode choice process (see section 4.2). International entrepreneurship (IE) research sheds light on decision maker's

demographic<sup>38</sup> or general traits in the internationalisation process. It is argued that entrepreneurial cognition is still in its infancy (Mitchell, et al., 2007; Sommer, 2010). Sommer (2010: 312) in his recent contribution concluded that ‘... pure resource-based approaches seems to be insufficient. They should be complemented by another very important one, which is focusing on psychological elements’. The entrepreneurial cognitive dimensions in EEs small firms entry mode choices hardly exist and no single theory is able to resolve this complex international business dilemma (Dunning, 1988b, 1988c; Herrmann and Datta, 2006; Mitchell, Busenitz, et al., 2002).

An evaluation of previous contributions suggests that a number of issues remain under-researched. On the one hand, from an academic and strategic point of view, these contributions have pointed out the new venture formation, internationalisation degree or firm performance (see section 1.3). There is no contribution to the most novel issues, e.g. the effect of cognitive aspects on the tools to capture foreign markets as a firm-specific advantage through appropriate mode of entry. Although cognition is useful in explaining IE opportunity identification and exploitation, its application in foreign servicing and post-entry speed dynamics has been almost totally ignored by contemporary scholars.

Recent studies on entry mode selection focus on the transaction cost framework on the selection of most elaborative modes of FDI in MNEs i.e. (JV or wholly-owned subsidiary, greenfield or acquisition (e.g. Brouthers and Nakos, 2004); Cheng, 2008; Cheng, 2006). On the other hand, from a practical standpoint, the entrepreneurial firms discussed in the past literature originate from more developed countries such as the USA, the UK, Germany or France. This study is unique in its application and takes the present literature beyond its previous limits, as it deals only with the effects of a complex cognitive mind-set explained by the integration of OLI and the resource-based view (dynamic capabilities) of firms and their link with the selection of *high or low resource generation modes* of foreign entry. This study originates from the choice of the entry

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<sup>38</sup>Aharoni et al. (2011: 138) pinpointed that it is strongly encouraged that researchers to eschew demographic variables in favour of variables (cognition) that are more difficult to measure (Aharoni, et al., 2011).

mode used by SMEs from developing nations in Asia (Pakistan) to more advanced countries.

Buckley and Chapman (1996: 244) proposed that the foundation of the researcher's initiative lies in '...developing a set of core concepts which are analytically rigorous and tractable, yet remain flexible'. Johanson and Vahlne (2003: 84), pioneers of the Uppsala Model suggested that: '...there is a need for new and network-based models of internationalisation. We think it might be worthwhile to reconcile and even integrate the two approaches'. In order to achieve the dual goals of combining multidisciplinary events Coviello and Jones, (2004:498) put forward the comment that. '...it is necessary to integrate core concepts from entrepreneurship and international business theory into a flexible yet tractable conceptual model'. Keeping in mind the recommendation of pioneers, this research integrates dynamic capability view (rarely used in entry mode literature) and Dunning's framework to explore the role of cognitive underpinnings in foreign servicing. This thesis aims to fulfil the following main objectives (section 4.2.2).

1. To identify the entrepreneurial biases and cognitive dimensions faced by small firms from Pakistan expanding their international operation.
2. Keeping in mind the complexity of the IB phenomenon, to determine appropriate theories that can be helpful in integrating and explaining the entrepreneurial cognition with small firms' international entry mode choice.
3. As a firm-specific advantage, how do entrepreneurial cognitions as *dynamic capabilities* (dynamic capabilities view) helps to influence the entry mode choice process and their international rapidity of small firms from emerging economies, when they are incorporated as a third factor in Dunning OLI framework?
4. Could the integration of international business entry choice with cognitive psychology be the basis of a new IB theory for emerging economies (EE) i.e. OLC theory?

The summary of the main findings revolves around two main dimensions (section 8.3). As a *first dimension*, this study explores the role of ownership, location/environmental



and cognitive factors in the entry mode *selection process* of small firms from Pakistan. At the same time, as a *second dimension*, this study, by incorporating cognitive factors as a third pillar of Dunning OLI framework, provides an opportunity to explore the bridging effect of RBV new extension (dynamic capability view) in *post-entry speed* dynamics of foreign servicing. This integration will give a new dimension to existing literature and has significant managerial implications regarding entry mode selection in SMEs.

### **11.3 Summary of qualitative results**

This section is based on the main findings of the research questions presented in the previous section. The qualitative results based on 10 telephonic and personal interview show that *planning fallacy* in identification phase, *single outcome calculations* in development phase and *pluralistic ignorance* in selection phase significantly effects the foreign entry choice process of small firms in Pakistan. These results show that the entry choice process also effects the rapidity of small firms. The small firms are prone to take risk averse decisions for diversification of their international moves.

Chapter 6 highlights the steps taken in data preparation for quantitative analysis and addresses the main issues of reliability and validity associated with the scales used for this study. Chapter 7 presents the basic profile of the responding firms. Chapter 8 and 9 answer the second and third research questions and present the main finding from this study.

### **11.4 Summary of the quantitative results**

#### **11.4.1 Hypothesis testing and the decision model**

Previous studies of entry mode choice (Brouthers and Nakos, 2004; Herrmann and Datta, 2006; Jiang, 2001) have mainly focused on quantitative approaches neglecting the role of whole dynamic complex process of entry mode choice. This study is unique in its nature that focuses on cognitive process of entry mode choice and post-entry speed. As the dependent variable was dichotomous in nature, logistic regression was used to explore the ownership, location and cognitive motivations for post-entry speed (Table 9.1).

### 11.4.2 Post entry speed dynamics

Chapter 9 aimed at differentiating the role of ownership, location and dynamic capabilities post-entry international speed dynamics after a particular choice of international mode in Pakistani SMEs. The international sales growth within ten years of the start of international operations is divided into three categories. *Reluctant international firms* are those who achieve international sales of less than 25% within the first ten years of initiating international activity. Those who achieved 11-49% are termed *regular international firms* and those who achieve more than 50% of international sales within ten years of initiation of international activity are referred as *rapid firms*. This thesis uses a threshold of sales speed from 25-50% in ten years since the start of international activity for accelerated internationalisation. Logistic regression supported by a bivariate model (three categories converted to two categories) was used to analyse the impact of the Dunning framework on a firm's being a rapid international or to differentiate a firm from reluctant (base category) to a rapid firm (sales speed of more than 50%).

The Dunning framework suggests that there are certain compelling capabilities for international growth and expansion, and that they are based on a firm's resources and internal capabilities. The results (Table 9.1) show that there is a significant difference in respondents' evaluation of the locations measures. The increase in location dimension (market growth) makes a firm more likely to become a rapid international within 10 years of the start of international activity; thereby supporting H4 (the binomial model supports this finding). The results presented in Table 9.1 shows that there is no significant difference between reluctant and rapid international firms; therefore hypothesis relating to ownership advantages for choosing high value generation modes in entry selection process for accelerated internationalisation could not be supported. Thus, this finding supports the analysis of Young et al. (1989) that the product differentiation and quality control remain loose in the cases of contract manufacturing and international subcontracting; therefore ownership advantages are relatively uncommon in emerging economies to explain post-entry speed dynamics. The non-significant results regarding

cultural distance and innovation in foreign markets suggest that the post-entry speed dynamic are stronger in small firms and differ from the large firm literature (Ahmed, et al., 2002; Bhaumik and Gelb, 2005), suggesting that resource abundance is the only compelling factor in accelerated internationalisation. The results of this study support the hypothesis that small firms targeting niche markets can also significantly contribute towards post-entry speed dynamics without collaboration.

One of the most important contributions of this thesis was to introduce and analyse the role of the decision maker's initiative in the form of cognitive orientation, proactivity, tolerance to ambiguity, and cultural-cognition and risk perception in relation to international post-entry speed. Among the entrepreneurial cognitive dimensions, tolerance to ambiguity is partially significant in the expected direction, thus supporting H6, but proactivity is significant in the opposite direction and thus H8, along with other entrepreneurial cognition dimensions, cannot be supported.

## **11.5 Contributions of this study**

### **11.5.1 First contribution**

SMEs in less developed countries (LDCs) facing adverse situation regarding financial constraints or home regulatory environment should use a unique lens for international growth due to their limited risk absorption capacity (Bhaumik and Gelb, 2005). In the emerging economies such as Iran, Pakistan and Burma, having weak institutional structure and certain narrow restrictions on the activities of non-governmental organisations, (NGOs) might act as an impediment to small firm development and growth ,ultimately effecting the economic health of the nation (Albaum, et al., 2002; Fayyaz, et al., 2008).

On the other hand, Yamakawa et al. (2008) point out that such discrimination might paradoxically become a push factor for proactive EEs to exploit cross-border opportunities in DEs (developed economies) due to their favourable institutional and regulatory push). Erdilek (2008), in his study of eight Turkish firms, found that the higher tax rate and financial barriers in Turkey perceived by SMEs are the significant

drivers for outward foreign direct investment. In the case of home regulatory constraints/discrimination, it will be worthwhile for SMEs to collaborate with dissimilar actors/foreign giants that have abundant resources or to explore the market through strategic alliances with partners having a similar resource structure.

Recently, Wright et al., (2005) and Yamakawa et al., (2008) complained that there was no research exploring the idiosyncrasies involved in small firms' internationalisation and their motivations from EE/LDC (emerging economies/less developed countries) to DE/MDC (developed economies/more developed countries, Cell 4 (Figure 11.1).

**Figure 11.1 Analysis of the internationalisation of firms based in EE**

		<i>Direction of internationalisation</i>	
		From DE/MDC → DE/EE/LDC	From EE/LDC → DE/MDC
<i>Firm size</i>	Large	Cell 1: <b>Research focus 1</b> (Johanson and Vahlne, 1977);(Volberda, et al., 2001);(Stienstra, et al., 2004);(Arranz and De Arroyabe, 2009)	Cell: 2 <b>Research focus 2</b> (Zou, et al., 2003);(Townsend, et al., 2008; Vrontis and Kitchen, 2005);(Townsend, et al., 2008);(Erdilek, 2008)
	Small	Cell:3 <b>Research focus 3</b> (Bell, 1995);(Crick and Spence, 2005);(Hessels and Kemna, 2008);(Osarenkhoe, 2009);(Fernhaber and McDougall-Covin, 2009); (Morgan-Thomas and Jones, 2009)	Cell: 4 <b>Research focus 4</b> <i>(No research)</i>

Source: Adapted from Yamakawa, et al., (2008)

As mentioned previously, the existing literature exploring the behaviour of MNEs from DE/MDC to DE or EE/LDC explains only the process of internationalisation based on firm-specific variables (Johanson and Vahlne, 1977; Pinho, 2007; Reid, 1981). Innovation- related models (McDougall and Oviatt, 2000) are widely applied to small firms, but the majority of them explain the internationalisation from developed to developed or developing economies. However, again the innovation-based models being

in their infancy have not so far been tested for small firms' entry choice from developing to developed economies (Figure 11.1, cell 3). These models also ignore the cognitive effects of uncontrollable environmental (locational determinants) motivations/constraints in firms' internationalisation (Collinson and Houlden, 2005).

Entry mode choice by small firms is a complex /dynamic phenomenon and goes beyond simple static process of internalisation described by the extant literature. Leonidou et al. (2007) and Wiedersheim-Paul et al., (1978) confirmed that export initiation plays an active role at any stage of the further international development, from pre-engagement to the more advanced and committed stages. The previous literature sheds light on parsimonious push and pull factors without any theoretical development involved in such stimulus (Bianchi, 2009; Cayla and Eckhardt, 2007; Mathews, 2006). Thus, in order to *fill this gap* it was vital to analyse the theoretical construct explaining the SME motivation and post-entry speed dynamics from *EE/LDC to DE\MDC (cell 4)*. Therefore this thesis examined the role of ownership, locations and cognitive dimensions in entry mode choice process and post-entry speed dynamics in small firms from Pakistan.

### **11.5.2 Second contribution**

Small firms' entry mode choice is contingent upon the analysis of a number of variable antecedents such as firm, industry, product and locations selected for international expansion (Bell, 1996; Kogut and Singh, 1988; Root, 1994). To date, there is no universally accepted model that can elucidate complex IB phenomena (Mtigwe, 2006). Contingency theory of entry mode choice states that decision task factors and decision makers perceptions are fundamental to estimating risk associated with cross-border operations (Kumar and Subramanian, 1997). Past research presents a circular discussion or non-systematic empirical verification of demographics/personal characteristics in improving firm performance. Of the internationalisation dimensions, the most controversial is the attitudinal (cognitive) dimension of human capital and research exploring the role of *entrepreneurial cognition* in firm entry mode choice is completely absent (Table 11.1).

**Table 11.1 Summary of contributions: Role of Human capital/demographics**

Focus	CEO/Individual/top management	Firm/market
Human factors and internationalisation	(Cavusgil, 1984); (Bloodgood, et al., 1996); (Manolova, et al., 2002); (Herrmann and Datta, 2002); (Halikias and Panayotopoulou, 2003);(Andersson, et al., 2004);(Volery, 2004); (Nummela, et al., 2004); (Ruzzier, et al., 2007); (Pinho, 2007); (Riley, et al., 2009);(Evald, et al., 2011)	(Hymer, 1960); (Dunning, 1988a); (Andersson, et al., 2004);
Cognition and SME entry choice	<b>No contribution so far (Research gap)</b>	(Johanson and Vahlne, 1977); (Johanson and Vahlne, 1990) (Acedo and Florin, 2006); (Acedo and Jones, 2007)

The cognitive approach has its roots in psychology and sociology (Zahra, et al., 2005). The psychologist assumes that entrepreneurs are affected by internal attributes such as tolerance to ambiguity and a proactive disposition. On the other hand, the sociologist assumes that the decisions of entrepreneur are a function of his track record and its link with the environment (Mitchell, et al., 2007; Zahra, et al., 2005). The past experience theory (counterfactual thinking) proposes a relationship with context and that the decision process is the interplay of behaviour and the social, normative and political context (Baron and Ward, 2004; Mitchell, et al., 2007). Entry mode is the function of product-specific, industry-specific and country-specific factors. Past research either contributes to exploring the environmental issues related to firm choices or explores the firm-specific variables ignoring the role of entrepreneurial mind-set in decision making (Ekeledo and Sivakumar, 2004; Stoian and Filippaios, 2008b). This study contributes to international entrepreneurship by exploring the knowledge structures of people through incorporating the cognitive orientation and their link with cultural capabilities by incorporating cultural cognition in small firms' entry mode and post-entry speed behaviour.

### **11.5.3 Third contribution**

Past research on strategic decision making in other areas of research concluded that managerial decision making is not completely rational; on the other hand entry mode research focuses exclusively on rational choices and transaction-specific measureable attributes (Anderson and Gatignon, 1986; Brouthers and Hennart, 2007). As the entry mode research focuses exclusively on transaction costs; therefore, it assumes that managers do not matter (Brouthers, et al., 2003; Brouthers and Hennart, 2007). On the other hand, contingency theory (Cybernetic Strategy) states that SME decisions are made by considering only a few critical alternatives at a time. 'The choice of a decision strategy is also contingent upon the characteristics of the decision maker and the characteristics of the decision task' (Kumar and Subramanian, 1997: 70). Upper echelon theory also suggests that the decisions are the function of managers attitude and top management team experience (Hambrick, 2007; Hambrick and Mason, 1984). The entry mode research ignores the fact that the managerial decision is not rational. Another important limitation of entry mode research is that '...entry mode research does not consider the manager or management team as decision maker (Brouthers and Hennart, 2007: 415).

Other aspects of strategic decision making are managers' risk propensity and risk tolerance and their direct or indirect link with strategic decision making (Sitkin and Weingart, 1995). In their literature review, Brouthers and Hennart (2007: 415) concluded that apart from a few exceptions on decision makers' past experience (Herrmann and Datta, 2006) and risk propensity from a cultural perspective (Brouthers and Brouthers, 2003), '...directly measuring manager-level or firm-level risk propensity and its impact on mode choice has not been considered'. The research on managerial cognition suggests that decisions are rationally bounded with environmental risk and the way the manager interpret this risk. The interpretation might be biased due to diversity in modes of action used to exploit entrepreneurial opportunity (Levinthal and March, 1993a; Zahra, et al., 2005). Past research explores the rational choices or attributes that fail to measure rationality adequately in strategic choices. Cognitive approaches helps entrepreneurs to make rational choices and to consider the impact of non-rational

elements on their decision making (Zahra, et al., 2005). In order to fill this gap, this research explores the role of managers' entrepreneurial cognitive capabilities by integrating the OLI and dynamic capability view. This contributes to the *cross-fertilisation* of the rational and non-rational choices in decision making.

#### **11.5.4 Fourth contribution**

The international business (IB) phenomenon has been under critical exploration for the past 90 years (Mtigwe, 2006), but the theories progressing in this stream are influenced by the efforts of their predecessors (Horaguchi and Toyne, 1990), and to date a unified IB or entry mode model has still not been discovered (Dunning and Lundan, 2008b; Mtigwe, 2006). The theory of foreign direct investment is deficient in that it explains only the production activities of MNCs based on equity and ownership. OLI theory is the interaction of Hymer's FDI theory and transaction cost framework and this theory fails to account for the role of the cognitive perception of decision makers (Itaki, 1990). Transaction cost theory itself is a complex framework (Zhao, 2005), as this framework combines elements of industrial organisation, organisational theory and contract law to weigh the trade-off in vertical integration (control) (Anderson and Gatignon, 1986). Another stream of research suggests that transaction cost theory ignores the revenue (*value enhancement*) potential of decision options (Brouthers, 2002; Brouthers, et al., 1999) and this theory does not consider the location-specific costs associated with institutional legitimacy; therefore the underperforming mode leads to extinction (Brouthers, 2002; Tse, et al., 1997; Zajac and Olsen, 1993)

To date, the literature has examined the effect of firm capabilities (ownership advantage) (Forlani, et al., 2008; Tatoglu, et al., 2003), the role of demand uncertainty/ frequency of transactions (internalisation advantage) (Brouthers and Nakos, 2004) and the role of institutions in the host country (location advantages) (Burpitt and Rondinelli, 2004; Karhunen, et al., 2008) in determining a firm's entry mode choice, ownership and control. 'What is the best entry mode for a given setting? Obviously, a large number of factors bear on the answer' (Anderson and Gatignon, 1986: 6). Small firm entry mode choice in a given context is an ambiguous and complex task (Hill, et al., 1990; Kumar,



2009), and cannot be elucidated with the help of any single static model. Small firm entry mode choice as a result of human, managerial and financial resource constraints is a peculiar phenomenon and the post-entry speed dynamics of ownership, location and cognitive advantages are not provided by any empirical or conceptual contribution. This study is unique in its nature as it provides the resource-based *value enhancement potential* of ownership and cognitive capabilities in small firm entry mode choices and post-entry speed dynamics from Pakistan.

#### **11.5.5 Fifth contribution**

Decisions on scale and scope of international operation are subject to multiple contradictory forces, and ‘entrepreneurs’ egos, preferences and hubris also influence these decisions’ (Zahra, et al., 2005: 131). The mind-set may be focused on exploiting locational opportunity, while at the same time it might be deeply embedded in the entrepreneur’s own needs or personality. In other cases, it might be over-embedded in social/cultural norms and/or be highly context specific. Differences in performance arise from the quality of opportunity, their location/context and the creativity of the modes of exploitation (Sharma and Erramilli, 2004; Zahra, et al., 2005). However, the research enriches our understanding in strategic choices; the majorities of them either control *the contextual variables or use case studies* in isolation (Autio, et al., 2000; Bell, 1995; Bloodgood, et al., 1996). Such studies fail to identify the true relationship of multiple contradictory forces in strategic choices.

Gatignon and Anderson, (1988) used transaction cost theory to investigate the effects of high proprietary contents (somewhat similar to ownership advantage) and high country risk (location advantage) on mode of entry. However, the most important limitation of this study was that it was based on secondary data and transaction cost theory itself is deficient and has limited application ability with respect to complex multidimensional choices of entry mode (Zhao, 2005). Another stream of research suggests that transaction cost theory ignores the revenue (*value enhancement*) potential of decision options (Brouthers, 2002; Brouthers, et al., 1999) and this theory does not consider the location-

specific costs associated with institutional legitimacy and so the underperforming mode leads to extinction (Brouthers, 2002; Tse, et al., 1997; Zajac and Olsen, 1993).

The other stream of research (Agarwal and Ramaswami, 1992) used the Dunning OLI framework to investigate the ownership and location advantages, but this study was based on the entry mode choice of 97 US leasing firms (service industry MNEs). OLI theory also fails to account for the role of cognitive perception of decision makers. Small firm entry mode choice due to human, managerial and financial resource constraints is a peculiar phenomenon and thesis not explained by any empirical or conceptual contribution. The mentioned studies lack in *triangulation* of data and measurement techniques. This study is unique, as it provides the value *enhancement potential* of ownership and cognitive capabilities in entry mode choice process by *mix methodology* approach. This triangulation contributes significantly to entry choice and post-entry speed literature.

#### **11.5.6 Sixth contribution**

Dib et al., (2010: 234), referring to Dominguihos and Simões (2004), stated that in their literature review of INVs and born global, they found that 55 studies were based on born global from various countries, claiming that “born global emerged in very different locations: they were identified in both small and large, highly developed and less advanced countries” (p.7). However, of the 55 studies reviewed, 45 looked at European/Scandinavian firms, 12 investigated US or Canadian firms, five were set in Australia or New Zealand, two in Israel, and one in India. ‘Moreover, the two studies from a transitional and an emerging economy (the Czech Republic and India) were based on case studies and cannot, therefore, provide an accurate estimate of the incidence of born global in these economies’ (Mominguihus & Simoes, 2004, cited in: Dib, et al., 2010: 234).

In the international speed literature there exists very strict to very loose criteria for speedy development. There is no consensus in the literature about the speed (time), scope (diversification) and/or the extent (ratio) that actually make a firm ‘born international’ (Dib, et al., 2010; Kiss and Danis, 2008; Musteen, et al., 2010). Oviatt and McDougall,

(1994: 49) define a born global/international new venture (INV) as ‘a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries’. Oviatt and McDougal (2005) identified four forces of speedy development (Table 11.3). Therefore, to some extent this study contributes to the *IE/born global phenomenon*, but mainly it explores the role of traditional models (integration of IE with the OLI model not tested in speed literature) in explaining the post-entry speed behaviour of small firms from Pakistan.

<b>Table 11.2 Categorising the typical forces of speedy developments</b>		
<b>Category</b>	<b>Typical forces for speedy development</b>	<b>Contributions</b>
<b>Enabling forces</b>	Information and communication technologies	(Autio, et al., 2000);(Dimitratos and Plakoyiannaki, 2003);(Knight and Cavusgil, 2004);(Dimitratos and Jones, 2005);(Gabrielsson, 2005);(Zhang, et al., 2009);(Rasmussen, et al., 2010);(Sommer, 2010);
<b>Motivating forces</b>	Domestic competitive /institutional forces	(Chetty and Campbell-Hunt, 2004);(Etemad, 2004);(Gabrielsson, 2005);(Dimitratos and Plakoyiannaki, 2003);(Zucchella, et al., 2007);(Thai and Chong, 2008);(Naudé and Rossouw, 2010);(Rasmussen, et al., 2010)
<b>Mediating forces</b>	Entrepreneurial demographics, experience/orientation	(Bloodgood, et al., 1996);(Etemad, 2004);(Gabrielsson, 2005);(Dimitratos and Jones, 2005);(Zucchella, et al., 2007);(Thai and Chong, 2008);(Naudé and Rossouw, 2010);(Dib, et al., 2010);(Sommer, 2010)
<b>Moderating forces</b>	Networks and learning	(Oviatt and McDougall, 1994);(Etemad, 2004);(Zucchella, et al., 2007);(Thai and Chong, 2008);(Zhang, et al., 2009);(Dib, et al., 2010);(Rasmussen, et al., 2010);(Musteen, et al., 2010)
<b>Cognitive forces</b>	<b>As an enabling force</b>	<b>No contribution</b>

### 11.5.7 Seventh contribution

The theory of entrepreneurial cognition builds upon the argument that the people are at the core of entrepreneurial success and ‘entrepreneurial cognitions are the knowledge structures that people use to make assessments, judgments or decisions involving opportunity evaluation, venture creation and growth’ (Mitchell, Busenitz, et al., 2002, p. 97). SME scholars such as Coviello and Jones (2004) and McDougall and Oviatt (2000) stressed the role of international entrepreneurship. They argued that the process of international involvement in small firms was driven by the decision maker, ignored by the OLI framework and that ‘International entrepreneurship is a combination of innovative, proactive, and risk seeking behaviour that crosses national borders and is intended to create value in organisations’ (McDougall and Oviatt, 2000: 903). As endorsed by Corbett and Hmieleski (2007, p. 105), a synthesis of entry mode and entrepreneurship literature suggests that conceptual or empirical literature is deficient in explaining the *cognitive-contextual misfit*. There is concern that ignoring the context in which the SME operate will result in an unresolved puzzle (Nadkarni and Barr, 2008). Cognitive processes allow entrepreneurs to analyse whether the opportunity visually recognised is to be exploited in a specific context (Keh, et al., 2002b; Kickul, et al., 2009). Is the opportunity identified really new and ‘*bona fide*’, is it realistic as well as practical, and last but not least, is it novel and unique? (Acedo and Jones, 2007; Baron, 2004).

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

### 11.5.8 Eighth contribution

Fleury, et al. (2008) surmise that the OLI framework carries four major limitations: (1) The OLI framework concentrates almost exclusively on MNE's FDI activities; (2) its static character does not play any role in explaining the information edge, learning and knowledge development effect on the firm or on the market (Andersson and Florén, 2008); (3) it is deficient in explaining co-operative arrangements in international strategies; (4) it ignores the role of the decision maker's ability to make a rational choice (Andersson and Florén, 2008; Itaki, 1991). Jansson and Sandberg, (2008) argue that the FDI theories do not allow investigation of the importance of network relationships in SME entry mode choice. Therefore the roles of the internationalisation process, dyads and triads, are also deficient in the Dunning FDI framework.

The new version of Dunning's (1995) OLI covered these shortcomings, but even its empirical verification remains limited and contradictory as far as SMEs are concerned, as the new version is still in its infancy (Sharma and Erramilli, 2004). The new OLI framework sheds light on the co-operative modes of MNEs. The empirical verification of entry choices by SMEs remains invalid as the *preferences of decision makers* is also ignored in new framework (Jones, 1996).

According to Itaki (1991), its neglect of the effect of the cost of acquiring assets/ ownership advantage and this limitation seriously undermines the explanatory power of the Dunning framework. The theory has the limitation of the '**inseparability of the ownership advantage from the location advantage**' (p: 448). The OLI is further analysed as a crucible of FDI and internalisation theories, having three overlapping pillars, and ignoring the international processes of small firms facing resource constraints (Itaki, 1991; Jones, 1996)

The value added activities of firms determines their cost hierarchies and the market cost of exchange, which control and influence this institutional behaviour '... yet the transaction cost can be used to explain these boundaries in a static framework, [and] we believe that in order to explain dynamic growth...reference to ...firm-specific capabilities

is necessary' (Dunning and Lundan, 2008b: 587). The institutional mechanism is a locational constraint and transaction cost theory fails to explore the effects of locational choices. Dunning confirmed that strategic-related variables have yet to be concluded in the Dunning OLI framework (Dunning, 1993a; Dunning and Lundan, 2008b). Therefore, entrepreneurial cognitive capabilities as a third pillar is incorporated in the OLI model to explain SMEs' outward building-block mechanism. This study specifically contributes by distinguishing *Dunning's three pillars as separate constructs* (a low correlation among the three pillars, see section 8.4) in explaining the preferences of decision makers from developing countries. The findings are precise and provide reasons to support the generalizability of the results beyond the specific context. First, location effects, such as cultural distance and cultural cognition, are included in the model. Second, the Pakistani firms in the study are observed to be diversifying their operations to developed countries with dissimilar characteristics. Third, a proper model fit indicates that the integration of theoretical constructs fully explains the behavioural mechanism and is not country-specific.

## 11.6 Limitations

Small firm international expansion in order to search for greener opportunities abroad in general, and entry mode choice in particular, is a complex strategic choice, and no single theory is able to elucidate this phenomenon completely (Dunning and Lundan, 2008b; Jiang, 2001; Polyakov, 2005). This study mainly contributes to cross-fertilising the dynamic capability view and Dunning's OLI theory to explain the role of cognitive orientation in entry mode choice and post-entry speed dynamics. Another contribution of this study is the integration of the Dunning framework with cognition (dynamic capabilities) and the exploration of new value-generation taxonomies of entry mode selection. The findings support the central role of ownership, location and cognitive advantages in the choice and selection of high value generation modes.

One major challenge faced by scholars in the IE field is the *sampling frame*, for a variety of reasons. Limited information on export directories exists in underdeveloped countries (Dib, et al., 2010; Musteen, et al., 2010). Furthermore, researchers found that the

availability of the sampling frame proved a crucial difficulty for conclusive results in 18 countries in a study of globalisation conducted under the supervision of the OECD (1997) in 11 participating countries (Covelo and Jones, 2004). Various privacy acts, government regulations for multinationals, list brokering and the short lifespan of SMEs that never appear on the sampling frame also play negative roles in reaching conclusive results, as various telephone directories are beyond the reach of parsimonious research (Coviello and Jones, 2004; Musteen, et al., 2010; Yli-Renko, Autio, and Tontti, 2002). The researcher was unable to obtain any sound directories of small firms in Tribal Areas and the *KhyberPakhtunkhwa* Provinces due to the dangers of terrorism in these areas. The data were therefore collected from three provinces (regional sample), which is another limitation of this study.

Musteen, Francis, and Datta (2010) and Dib, da Rocha, and da Silva (2010) reported that the response rate in developing and transitional economies remains low because firms are not used to answering questionnaires, there is no culture of *contributing to academic research* and they are highly reluctant to provide information on their earnings. This was an important limitation, as information on earnings is not available from any other source (Dib, et al., 2010; Musteen, et al., 2010). A similar situation was faced in Pakistan, where the export managers and CEOs in certain cities, such as those in the Faisalabad region were not highly educated (matriculation/year 10 certificates), unaware of research initiatives unable to understand how to return the completed questionnaire in the enclosed post-paid envelope. This resulted in measurement error and possible bias.

Another limitation of the study was the data pertaining to cognitive issues being collected within five to six months through a pre-designed questionnaire. The author, after qualifying Masters in Management Research (M.Res/M.Phil) degree from University of Glasgow (UK) enrolled in direct 2 years PhD program in UK. The scholarship was allowed only for two years. Remaining period of studies was completed in Pakistan (funding constraints. Lack of interest in research due to weak political, moral and normative pressures/conditions (instability/lack of credibility/ unlimited power shutdowns) in EEs have drastic effects on response rates and conclusive results. The

sample size is small and future studies should focus on cognitive issues with large samples. Any *generalisations* made from the study should be treated with due caution and care, as longitudinal studies in these issues can provide more fruitful results. Therefore, further development through longitudinal research is recommended.

As is evident from the IB literature and the previous discussion, the complex phenomenon of international entrepreneurship cannot be explained by a single comprehensive theoretical model. The application of RBV theory to cognitive style capabilities and their link with international risk perception in entry mode choice is relatively under-researched. Zahra et al. (2005) endorsed that the cognitive concepts are *difficult to measure*. A logical link between the IB theories and measurements provide an appropriate explanation of the research results. This study sheds light on the aspects of IE development and cognitive style application offered by current literature to develop a rigorous, simple and dynamic entry mode model. However, question could be raised, as to how *rigidly or accurately* the theoretical concepts have been measured (Evald, et al., 2011: 15).

Current international business literature does not provide complete explanations for international rapidity, which are largely to be found in the changing market environment for INVs and particularly in new knowledge-intensive SMEs. This study contributes to current literature by explaining the behaviour of small firm's internationalisation by adding dimensions of cultural-cognition and other cognitive index measures for the choice of international entry and post-entry speed. Majority of the complex cognitive attributes have limited power as casual indicators in this study. The results indicate that cognitive styles such as proactivity are important determinants for the choice of equity modes, while other measures such as tolerance to ambiguity and investment risk perceptions are insignificant in this relationship. Low Cronbach's alpha in this study raises the question as to what extent the research *implications* drawn are valid and testable in future.

Collinson and Houlden, (2005: 431), in their study of UK SMEs, found that the mental maps' '...selective identification of opportunity by decision makers, combined with their



risk preference is a primary motivation underlying the ‘where how and why’ of international expansion’ and that ‘firms with a ‘founder-dominated ownership structure’ are more likely to act on international opportunity, even having ‘...a risk taking bias’. They further pointed out that future research could usefully investigate ‘how accurate or optimal (or biased and sub-optimal) are the mental maps of key decision makers in comparisons with real world difference in market opportunity’ (Collinson and Houlden, 2005: 434). One limitation of this thesis is its heavy *reliance on quantitative data (although tri-angulation is used)*, and the quantitative data may be insufficient to explore in-depth true optimal and sub-optimal location and cognitive biases in decision making.

Another limitation of this thesis is the use of a pre-designed questionnaire and in its ignoring the role of *capital/financial barriers* in creating cognitive biases in entry choices and post-entry international rapidity. This guides the study of the link of capability exploitation in the presence of cognitive bias (hidden agendas) of decision makers in ownership-based, and non-ownership based, SMEs and knowledge-intensive entrepreneurial firms (Majeed, 2009). Upper echelon theory also suggests that cognitive bias has a compelling effect on managerial decision making. RBV can also fill this gap in the network or shared structures of entry choices. In future research in-delth phenomenological framework can explore accelerated internationalisation behaviour of small firms where opportunism leads to cognitive bias.

The transaction cost and OLI *measures are overlapping* in past empirical research. Investment risk and cultural distance is used as location factor in OLI (Nakos and Brouthers, 2002), simultaneously used as external uncertainty in transaction costs framework (Randøy and Dibrell, 2002). Similarly R&D intensity and tacit know-how is widely used constructs as *asset specificity* (Randøy and Dibrell, 2002) in transaction costs and as a proxy of product innovation used as an ownership advantage in OLI framework (Nakos and Brouthers, 2002). Number of international experience is also used as proxy of *internal uncertainty* in transaction costs (Cheng, 2006), simultaneously used as ownership advantage in OLI framework (Nakos and Brouthers, 2002). This complication limits the comparison of findings from different theoretical lenses. Desperate *measures*

raise a question of true link between cause and effect relationships. Future research should address this issue that how uniformity of measure can be adopted.

Evald et al. (2011: 15) recommended an urgent need for research to adopt a wholistic approach of enquiry between a firm's and individual characteristics when looking at export entry and expansion process. This study contributes to explore the role of cognition in entry mode choice process. This study also aimed at finding a link of performance as ownership advantage in post-entry speed behaviour. Post-entry speed is measured as utility/outcome of past entry mode choice process. 'Arguably, internationalization speed is, to some extent, a performance variable in itself' (Prashantham and Young, 2011: 275) and is still in its infancy. Prior research is deficient in providing any theoretical and practical *implications of* post-entry speed phenomenon as a measure of firm performance. This raises another question of adequacy of model without any true logic of performance and post-entry speed presented in this study.

In findings of this study links the entry mode choices to post-entry speed. Post-entry speed is conceptualized as the final utility/outcome of speed of sales development, and/or the speed of sales development as *performance, growth and survival indicator* (Prashantham and Young, 2011). There exists no unified agreement on conceptualization of accelerated internationalization. Post-entry speed concept is rather more complex and there is no empirical evidence to link cognitive preferences with post-entry speed. The finding of this study raises another question: is there in fact true relationship between first entry and post-entry utility for long run survival?

### **11.7 Research implications**

Managers of small firms facing bounded rationality, and resource and time constraints (Brouthers, 2002; Kumar and Subramanian, 1997) must consider a decisive link between cognition and bold decisions (Baron and Ward, 2004), based on a high internal locus of control (belief that outcomes are the function of one's own behaviour/actions) as opposed to a high external locus of control (others, fate, or chance determines the outcome). It is argued that cognitive biases such as overconfidence (failure to know one's limit in terms of knowledge) (Trevelyan, 2008), illusion of control (chance overcomes skills as a source

of success) and the law of small numbers (a firm conclusion on the basis of small numbers) (Simon, Houghton, and Aquino, 2000) are more likely to augment the external locus of control.

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

A decision tree having two tails stems from a cognition perspective known as counterfactual thinking and this refers to the tendency of an individual to relate past events to future plans and actions (Roase, 1997; Barons, 1998). One aspect of this decision tree might be the neglect of a past action due to the perception of negative outcomes, and its relationship with the regrets having remained in the entrepreneurial mind. Another aspect is that the action was taken but the results were not favourable. Counterfactual thinking might lead to both positive and negative future strategies. Entrepreneurs with positive counterfactual thinking will develop a future strategy and will avoid and will learn a lesson from the mistakes of the past (Baron, 2004). Future research might explore the issues relating to *post-performance of entry mode choice*, their outcomes and the future choice of entry mode based on the outcome of counterfactual thinking. This possibility of research is applicable to both MNEs and SMEs. A phenomenological framework can add a new dimension to cognitive psychology and entry mode literature.

The choice of entry mode is in fact the crucible of the interaction effect of complex multi-dimensional factors. Hill, Hwang, and Kim (1990: 125), in their conceptual contribution citing the *ceteris paribus* condition, proposed that the choice of entry mode is the function of strategic, environmental (country-/industry-specific) and transaction-specific (managerial know-how) factors. 'In reality the *ceteris paribus* condition does not apply'.

Future research in IB might explore *the long-term effectiveness* (in terms of market share, revenue or post performance satisfaction) of ownership, location and cognitive dimensions on entry mode choice. Further, RBV can also be used to explore the interaction effects of resources (as ownership advantage) and multidimensional entrepreneurial competencies (as cognitive advantage) in entry mode choice.

Previous economic-based theories of FDI, e.g. Hymer's (1960) FDI process framework cited by Aharoni (1966) and the Uppsala models explain the process of foreign involvement without shedding light on the *idiosyncrasies involved in entry mode* phenomena. Conceptual approaches to entry mode choice also present disjointed propositions that are not viable for empirical testing; thus, subsequent analysis justifies a parsimonious view (Mtigwe, 2006) '... an unfortunate fact of corporate life is that any particular entry decision is rarely an unmixed blessing' (Hill, et al., 1990: 127). The eclectic framework itself is seriously lacking in the ability to provide a true picture of the existence of the role of decision makers' perception in entry mode choice (Jones, 1996). The eclectic framework predominantly explains the MNE behaviour while ignoring the SME sector. It might be useful to apply the eclectic framework to analysing the post-performance perceptions of decision makers in SMEs.

Another important observation is that due to the complexities involved in IB research, the author fails to establish equivalence in sampling and data collection procedures. This issue undermines the data's reliability and validity. A few researchers, such as Pinho (2007) and Collinson and Houlden (2005), used *positivist-interpretivist* approaches. Pinho's (2007) analysis focused predominantly on quantitative analysis. Collinson and Houlden (2005) also used a *positivist-interpretivist* approach to analyse the mental maps used in selecting the geographical location in a firm's internationalisation. " ...if serious effort is not made in establishing equivalence in sampling, instrumentation, and data collection procedures, IE research will be undermined as a whole" (Coviello and Jones, 2004 : 501). Therefore, the research design that specifies the accurate path of investigation should be adopted for conclusive evidence. The method might be purposive or judgment sampling, provided the data's validity and reliability is assured (Bryman,

2004; Glaser and Strauss 1967). We suggest that there should be more triangulation in future research, to provide greater insight into the area, particularly the triangulation of questionnaires and convenience sampling or Repertory Grids will benefit the IB research.

To assess their reliability, validity and generalizability, as recommended by Majeed (2009), this study again observed that the multiple replication of case studies or exploratory studies were also lacking in the IB literature. *Cross-case analysis* will help to determine the actual trend in global competition and strength of their cognitive process, routines (capabilities) and practices for creating real value in the organisation. Multiple cross-case analysis and longitudinal studies also help to enhance the validity and generalizability of the studies (Canabal and White III, 2008; Majeed, 2009; Majeed and Reza, 2009).

Along with cross- case analysis, *cross-cultural comparative* research is also warranted, as cross-cultural comparative research provides in-depth analysis and the results become more rigorous. Although it is a small sample, a limited number of studies in Pakistan and limited access to SME managers and owners may be another limitation of the study, yet the rigorous procedure adopted for exploration will result in worthwhile cross-cultural comparison.

This literature review suggests that in the IB field, most papers emphasise and focus on empirical studies from developed nations. A gap in this area exists for the creation of new *research models and theories*, or for developing the existing sound models and theories presented by the most prominent scholars. These theories include the theory of power and politics, stakeholder theory, the theory of reasoned action and Guest and Conway's model of the psychological contract, which require adaptation to integrate decision makers' attitudes and behaviours in SME internationalisation and entry mode choice.

In the IB literature in general, and in that on small firms' entry mode in particular, several useful theories have not yet been tested. In entry mode literature, the theories that still need to be empirically substantiated include cybernetic strategy/the contingency theory of decision making (Jiang, Christodoulou, and Wei, 2001; Kumar and Subramanian, 1997), the theory of strategic renewal (Alexander and Korine, 2008; Prashantham, 2008),

bargaining power theory (Quer, Claver, and Andreu, 2007; Tatoglu, Glaister, and Erdal, 2003), and the theory of social capital (Floyd and Lane, 2000; Prashantham, 2008).

The entry mode literature review suggests that most papers use archival data/proxy variables for large firms' international involvement (Agarwal, 1994; Erramilli, Agarwal, and Kim, 1997; Stoian and Filippaios, 2008). Proxy variables are not valid or reliable, because they ignore the cognitive attitude and behaviour involved in perceiving entry mode performance. Therefore, the valuable recommendation of Herrmann and Datta (2006) should be kept in mind, which is that 'research that is able surmount the data collection challenges associated with the use of psychological constructs should provide interesting insights on the relationships between CEO cognition and strategic choices' (p.774).

## **11.8 Managerial implications**

One of the most important tasks involved in overcoming financial and human resource constraints is to develop ties and joint venture relationships with foreign partners (Giroud, 2007; Giroud and Scott-Kennel, 2009), even in culturally-distant markets. Therefore, SMEs in the Asian region are encouraged to exploit new opportunities through creating strong new, *long-term linkages* based on trust and empathy with international MNE actors.

Indeed, the RBV of firms addresses the issues relating with firm specific capabilities (in terms of assets and capabilities), and SMEs should strive to develop cognitive style capabilities in their employees. Similarly, the role of export-promotion agencies in Asian economies suggests that organising *foreign trade exhibitions* and training for venture managers and top management executives would be beneficial.

The contribution of the least-developed South East Asian nations in exploring FDI trends in MNEs, SMEs and INVs is very limited in the IB field. Managers and researchers from other South East Asian countries are encouraged to put their energy into joint efforts to develop knowledge workers in INVs and SMEs. As an initiative of *university-industry linkage*, there should be a network of SME managers and academicians to explore viable

cross-border greener opportunities. Countries of particular interest might include Pakistan, Indonesia, Nepal, Bhutan and other developing nations. Both conceptual and empirical studies and cross-border initiatives from academicians and entrepreneurs can contribute if colleagues from advanced nations are also involved in such networks and cross-cultural initiatives.

During the data collection process, one of the most important limitations of the study that was observed was a constant suspicion about the strategies of the top management, and there were holes in the participation impact net (lack of interest in research initiatives), particularly in underdeveloped countries (Majeed and Sajida, 2009). This was also confirmed by Ramsay (1993: 77), who stated that “how little strategic thinking goes into this area, even in sophisticated companies; ‘strategies’ and objectives are often only articulated, if at all, on a *post hoc* basis to the researchers”. A comprehensive attempt is needed to remove the frozen layer that surrounds the old traditional concept of “*rhetoric and reality*” and action research might be necessary and is recommended by authors in the strategic management context (Bryman, 2004; Ritchie, and Lewis, 2003). CEOs and export managers in SMEs are encouraged not to wait for/rely on government initiatives and to participate in action research in order to increase their internationalisation speed.

This study has more valuable implications for policy makers/managers in developing nations. From this research it is noted that the SMEs/INVs in developing nations rely heavily on export modes. Among 96 responding firms, majority used the export modes for entry into advanced markets of USA and Europe. This indicates that they perceive higher risk in advanced markets than in eastern regions. The export support programmes are challenged to provide the networking and collaborating opportunities with advanced foreign nations. In this context, the *foreign delegates* should be facilitated by the policy makers to input resource generation in the domestic market and arrangements of trade shows and international exhibitions in advanced countries are complementary to speedy development.

An important drawback is the dissatisfaction of advanced nations regarding the product quality and standards in certain manufacturing units in Pakistan. Entrepreneurs are

encouraged to improve and produce globally-differentiated products for niche markets. The policy makers should provide basic information and technological support to enhance the innovative capability of SMEs/INVs.

Small firms in EEs are discriminated against because policies are made for elites and feudal lords. This is particularly true in the *agricultural sector* in Pakistan. Special emphasis should be placed on the development of the agricultural sector in Pakistan, the steps including but not limited to, tax holidays, technological development, simplified loan provisions/micro-credit schemes and foreign training in the agricultural sector. The role of information and communication channels is not insignificant in small firms' international development. The manufacturing sector should be encouraged to adopt proper communication channels with suppliers and distributors for quick dispatch and delivery of items produced. The policy makers are encouraged to facilitate both sectors in obtaining low-cost and unbiased information and communication for corporate giants and small neophyte firms. In this effort, the role of public-private partnerships should not be neglected.

What type of education and training is helpful to create an entrepreneur remains a paradox in EEs. Pakistan is at present trying to build its *entrepreneurship education* policy by introducing MBAs (in entrepreneurship) and/or by the inclusion of such courses by the Higher Education Commission at every Masters Degree level. Such policies are an imitation of the policies adopted by the East Asian Tigers (NIC), but their applicability is questionable due to the trivial contribution by the small business sector to economic development. The policy makers are encouraged to devise a clear policy so that this dilemma will come to an end.

Last but not least, keeping in view the volatile situation of our country where the voice of logic, reason and rationality is becoming weaker and intolerance, bigotry and sectarian, ethnic and religious *discrimination* has become the order of the day, there is an urgent need to educate students/society about the virtues of tolerance, diversity, pluralism and



inclusive development<sup>39</sup> (Shikoh, 2011). This would bring forth a radical change in the normative and economic standards, as small firms would benefit from peace/tranquillity, and reduced uncertainty, which would result in viable strategic choices.

It is assumed and asserted in high-technology literature that high-technology firms are more prone to speedy international entry. However, in this research it is found that even the small firms in EEs can be *born global* and are in a position to start their international operations in their early stages. The ownership, location and cognitive dimensions are significant for born global international development. This research gives an opportunity to policy makers to explore why some firms are international while others cannot survive in EEs and are unable to contribute to economic development.

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<sup>39</sup> Personal communication, dated: 14-01-2011

## Appendices

### Appendix A

#### A.1 Research questionnaire

##### Foreign investment modes: Locational and cognitive insights in the Pakistani SMEs

Dear Participant:

Date:.....

I am writing to invite you participate in our research about export development and new international market exploration for small and medium sized Pakistani companies. One of the main objectives of the research is to investigate how small Pakistani firms behave in international markets, particularly given the constraints on their resources. A key focus will be **managers' attitudes in decision making processes about international market choices. We are particularly interested in linking this with modes of operating in foreign markets (e.g. exporting, foreign office, strategic alliances/licensing, joint ventures and sole ventures).**

We would like to invite you to complete the enclosed questionnaire. The questionnaire asks you a series of questions about your organisation in the following two areas:

- 1) Background information about your firm and its activities in international markets.
- 2) Information about yourself and your attitudes which might affect decision making about international activities – particularly in terms of choosing foreign investment entry mode.

We assure you that any information you provide will be treated **strictly confidentially** and will only be used in the context of this research. Specific information that you give will not be disclosed to third party in any circumstances. We will combine the results from all of the questionnaires to undertake analysis and it is intended that these be published in academic journals. We guarantee not to use any respondent's personal name or the name of the firm in any published results, nor will your firm be identifiable. You can opt not to provide your name or your firms in the questionnaire if you prefer, the name of the respondent or the firm's name and if you opt not to, you are not required to provide any personal or firm's name in the questionnaire.

Finally we would like to add a couple of sentences to introduce ourselves briefly. Dr. Evgeny Polyakov is a Senior Lecturer at the University of Huddersfield (UK) and is the author of number of academic publications/conference papers. He contributes to emerging market research group activities within the University of Huddersfield. Zahid Majeed is an Assistant Professor at the Baluchistan University of Information Technology, Engineering and Management Sciences Quetta ( Pakistan) and a PhD scholar at the University of Huddersfield UK. This study forms part of his PhD research project.

One of the benefits of completing this questionnaire is that you will be the first to receive, free of charge, a report of the research findings, which will allow you to benchmark your firm's international strategy with other firms. This will be available approximately within the next six months of entire data collection. This report will also serve as a gauge for your particular firm's future strategy for **screening and selection** of potential international markets.

The effectiveness of the research findings will depend upon the sufficient questionnaire responses, please fill in the questionnaire as soon as you can. A postage-paid envelope is enclosed for returning completed questionnaire.

**Thank you very much for your time and co-operation.**

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## International activity of Pakistani small companies questionnaire

### Section A

#### Company Background

This section asks you some basic background about your company. If you would prefer that your participation remains anonymous, you may choose not to complete this section. It would be very helpful for the research if this section is completed and we guarantee that your responses will never be identifiable.

1. Name of the firm (Optional).....

2. Please identify which markets your firm has invested in. For each region, please also specify which country you operate in.

☐ USA.....

☐ European country.....

☐ Japan.....

☐ 201-300.....

☐ Middle East country.....

☐ Others please specify.....

3. Which of the following best describes the industry that you operate in foreign markets?

☐ Textile

☐ Food

☐ Medicine

☐ Gem and Jewellers

☐ Sports

☐ Others(please specify).....

4. What is the number of employees working with your firm? Please provide number of employees..... or please provide range.

☐ Less than 100

☐ 101-200

☐ 201-300

☐ 300-400

☐ 401-500

☐ Over 500

#### Your company's international activities

We reiterate that the information provided will be used only for aggregate results and only for this PhD research project. Any information provided will never be disclosed to third party in any circumstances.

5. In which year was your company established (please mention year)? Year:.....

6. Does your company currently sell abroad? (e.g. through exporting, joint venture or sole venture). If your company does not sell abroad there is no need to complete this questionnaire, please return the questionnaire in the enclosed post-paid envelope.

☐ Yes

☐ No

7. In which year did your firm first start its international activity? (e.g. exporting, established joint venture or sole venture).

Year: .....

8. What are your firm's average total sales (Pak Rs.) for the last financial years? Please provide figure..... or please provide range.

☐ Less than 1 million

☐ 1-9.99 million

☐ 10-19.99 million

☐ 20-20.99 million

☐ 30-30.99 million

☐ 40 million and over

9. What percentage of your firm's total sales is achieved in foreign markets? Please provide figure in percentage (%).....or please provide range.

- ☐ Less than 10% ☐ 10-25% ☐ 26-49%  
☐ 50% ☐ 51-75% ☐ 76-100%

10. What is the ratio of foreign sales to total sales achieved within 10 years or less from the initiation of international activity? Please provide figure in percentage (%).....or please provide range.

- ☐ Less than 10% ☐ 10-25% ☐ 26-49%  
☐ 50% ☐ 51-75% ☐ 76-100%

11. What is the ratio of advertisement expenditure to total sales? Please provide figure in percentage (%).....or please provide range.

- ☐ Less than 10% ☐ 10-25% ☐ 26-49%  
☐ 50% ☐ 51-75% ☐ 76-100%

12. What is the ratio of research and development expenditure to total sales? Please provide figure in percentage (%).....or please provide range.

- ☐ Less than 10% ☐ 10-25% ☐ 26-49%  
☐ 50% ☐ 51-75% ☐ 76-100%

13. Which of the following best describes the *method of foreign entry* in your most recent international activity?

- ☐ Export only ☐ Foreign office ☐ Strategic alliance/licensing  
☐ Joint Venture ☐ Sole venture ☐ Others (please specify).....

14. Please indicate the size (Pak Rs.) of your firm's most recent investment in a foreign market. Please provide either the figure in Pak Rs..... or please provide the range.

- ☐ Less than 1 million ☐ 1-9.99 million ☐ 10-19.99 million  
☐ 20-20.99 million ☐ 30-30.99 million ☐ 40 million and over

15. Based on your experience, how effective is each of the following formats in terms of management in international markets? If your company has no experience please leave this question blank.

		Not at all effective		Moderately effective		Very effective
1.	Exports	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
2.	Representative office	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
3.	Strategic Alliance	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
4.	Joint venture	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
5.	Sole venture	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

**16.** Listed below are a number of factors about a country that might influence your choice of mode of entry. Please indicate the extent to which you think each of them has influenced your firm's choice of entry mode.

		No influence		Moderate influence		Strong influence
1.	Geographical distance	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
2.	Differences in business culture	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
3.	Differences in social structure	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
4.	Differences in languages	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
5.	Differences in the macroeconomic environment	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

**17.** If your firm used an investment mode in its most recent investment mode (e.g. joint venture, foreign office), what level of ownership (in terms of capital) did it take in its most recent foreign ventures? Please provide figure or range. (If your firm used export modes, please move directly to question 19).

- ☐ Less than 10%                      ☐ 10-25%                      ☐ 26-49%  
☐ 50%                                      ☐ 51-94%                      ☐ 95-100%

**18.** If your firm used a joint venture in its most recent investment, please indicate total value of investment (Pak Rs.) of the most recent joint ventures in foreign market? (If your firm did not use a joint venture, please go to question 20). Please provide figure or range.

- ☐ Less than 1 million                      ☐ 1-9.99 million                      ☐ 10-19.99 million  
☐ 20-20.99 million                      ☐ 30-30.99 million                      ☐ 40 million and over

## **Section B**

### **Respondent Information**

**19.** What is your current position/title in this firm? (optional).....

**20.** How long have you been working for this firm? (Number of Years) .....

**21.** Please specify the highest level of education you have completed.

- ☐ High school                      ☐ Junior college                      ☐ College/University  
☐ Posts graduate Master Degree                      ☐ Ph.D.                      ☐ Others (please specify).....

**22.** Which of the following best describes your own functional background? (Please tick one only)

- ☐ Finance and Accounting                      ☐ Production and Engineering                      ☐ Human Resource  
☐ Sales and Marketing                      ☐ Research and Development                      ☐ Others (please specify)

**23.** Please indicate your age in years?..... or please provide range.

- ☐ Under 30                      ☐ 30-39                      ☐ 40-49  
☐ 50-59                      ☐ 60-65                      ☐ 66 and above

Not at all                      To a moderate extent                      To a considerable extent

☐1                      ☐2                      ☐3                      ☐4                      ☐5

25. This part of the questionnaire asks you about your personal interest in foreign language and your international experience that helps in the growth of your particular business. Please name the foreign languages that you can write and speak fluently (apart from Urdu). Please rate how often you use them.

		Not used at all		Used moderately		Used extensively
1.	_____	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
2.	_____	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
3.	_____	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
4.	_____	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
5.	_____	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

Not at all                      To a moderate extent                      To a considerable extent

☐1                      ☐2                      ☐3                      ☐4                      ☐5

☐ If Yes, how many years? ..... ☐ No

### Other aspects of your industry and firm

<i>Regarding our industry and firm, I generally feel that.....</i>	Strongly Disagree	Disagree	Uncertain	Agree	Strongly agree
(a).I enjoy working in rapidly changing market conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b).Uncertainty around my firm reduces my ability to do my best	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(c).I often get worried when unforeseen events spoil my plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d).I like challenges that come from uncertain market conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e).Selling products in foreign markets entail a very high degree of risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f).Exports are risky ventures but is an important prospect for my firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g).International activity is a positive thing in my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h).My firm has a high probability of success in foreign markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i).Political and economic conditions are unstable in foreign markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(j).Risk of converting and repatriating of our income is high in foreign markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(k).Risk of expropriation of firms is high in foreign markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**29.** Below are a number of statements that might apply to your particular firm. Please indicate the extent to which you agree or disagree with the following statements.

Statements	Strongly Disagree	Disagree	Uncertain	Agree	Strongly agree
(a).The market potential of your business is high in foreign country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b).The growth potential of your business is high in foreign country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c).The attitude of government towards foreign firms in general is favourable in foreign country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d).The attitude of governments towards your particular business is favourable in foreign country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e).The general acceptability of your product is strong in the foreign market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f).My firm is innovative in its administrative processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g).My firm promotes innovation in cutting edge technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h).My firm tries to find new ways to improve customer service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i).My firm adapts its products to suit the needs of different markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(j).My firm encourages its staff to be innovative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(k).Our domestic market profit is high - we are not interested in exports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(l).Exporting is a better option for our firm to increase profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## **Section D**

Your attitudes towards international activity

**30.** Below are a number of statements that might apply to your specific attitude towards international activity. Please indicate the extent to which you agree or disagree with the following statements.

<i>In my work, I generally feel that</i>	Strongly Disagree	Disagree	Uncertain	Agree	Strongly agree
(a).I am regularly on the lookout for new ways to improve my life	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b).In any condition, I have been a powerful force for constructive change	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c).If I see something I don't like, I fix it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d).I always probe and try to identify best opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e).I always look for better ways of doing things	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f).If I believe in an idea, nothing prevents me from implementing it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g).I think about long term projects, rather than small daily projects	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h).I often end up with new solutions to everyday problems in unknown cultures abroad.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i).I always try to work out why cultural differences arise in different countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(j).I have to think carefully about routine tasks when I am in unfamiliar cultures abroad	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(k).I am content if a job gets done, I do not care about the how's and why's	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(l).I usually end up deliberating about issues even when they do not affect me personally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(m).I let things happen rather try to understand why they turned out that way	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## **Section E**

Competitive advantage and performance

**31.** This question deals with the way you think about your firm's competitive advantage and international performance. This section will also be helpful in compilation of final report that will serve as a gauge for your particular firm's future strategy for screening and selection of potential international markets. Please indicate the extent to which you agree or disagree with the following statements.

Statements	Strongly Disagree	Disagree	Uncertain	Agree	Strongly agree
It is difficult for our competitors to duplicate our strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Our services are unique and no other company can offer them	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It took years to build our reputation, nobody can copy it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We pre-empt our competitors by targeting high-potential markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Nobody can copy our corporate routines, procedures and culture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**32.** For the each question listed below please indicate how satisfied are you with the results of your business unit during the last three years relative to your competitors.

Statements	Very dissatisfied	Dissatisfied	Neutral	Satisfied	Very satisfied
Export sales volume	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales revenue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Export profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market share in the foreign country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## **Section F**

### **Concluding general questions**

**Thank you very much for your cooperation in completing this survey.** We welcome any changes/corrections in the address label on the front of the questionnaire, your name/company name or any other changes/improvements you feel appropriate. You may also use a separate sheet.

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Please provide your e-mail and telephonic contact details, which we can use in exceptional case or if any response is not clear.

E-mail..... Telephone Number.....

Please tick the box if you would like to receive the final report containing the summary of results ☐.

**Please return the questionnaire in the enclosed envelope. For further correspondence or if for any reason the prepaid envelope is misplaced, return the questionnaire to: ZahidMajeed Doctoral researcher H. No. 439, Street 2, Phase 2, A-one City Housing Society Brewery Road, Quetta Pakistan 87300.**

## A.2 Questionnaire first reminder letter

Dear participant:

Date:.....

Reference is made to the questionnaire sent you about three weeks before, requesting your participation **in a PhD research project** about the international behaviour of small Pakistani firms. This survey focuses on export managers' attitudes to international activities and particularly focuses on the ways small companies choose to operate in foreign markets (e.g. exporting, foreign offices, joint ventures and sole ventures).

We realize your commitment towards the growth of your business and this commitment definitely makes your schedule busy in effective decision making for the better performance. However we again request your participation. As stated in our first request, one of the benefits of completing this questionnaire is that you will be one of the first to receive, free of charge, a report of the findings, which will allow you to benchmark your firm's intentional strategy with other firms. This will be available approximately within the next six months of entire data collection. This report will also serve as a gauge for your particular firm's future strategy for **screening and selection** of potential international markets.

As mentioned in our first questionnaire, we reiterate that any information you provide will be treated **strictly confidentially** and will only be used in the context of this research. Specific information that you give will not be disclosed to third party in any circumstances. We will combine the results from all of the questionnaires to undertake analysis and it is intended that these be published in academic journals. We guarantee not to use any respondent's personal name or the name of the firm in any published results, nor will your firm be identifiable. You can opt not to provide your name or your firm's in the questionnaire if you prefer. , the name of the respondent or the firm's name and if you opt you are not required to provide any personal or firm's name in the questionnaire.

Finally, we appreciate your contribution towards the success of this PhD project. We look forward to receiving completed questionnaire. In the event of having misplaced the postage-paid envelope. Please use the corresponding author's postal address given.

**ZahidMajeed Doctoral researcher H. No. 439, Street 2, Phase 2, A-one City Housing Society Brewery Road, Quetta Pakistan 87300.**

If due to any postal error; you have not received the questionnaire, please call the corresponding author on his local/mobile contact in Pakistan given below or send a short e-mail. The corresponding author will be obliged to send you a postal/electronic copy of the questionnaire.

Thank you very much for your time and co-operation.

EvgenyPolyakov B.Sc., M.A., PhD.  
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Queensgate Huddersfield HD1 3DH (UK)  
E-Mail: zahid\_buitms@yahoo.com  
Phone: 081-2853705 Cell 0333-7802710

### A.3 Questionnaire second reminder letter

**Dear Participant:**

Date:.....

Reference is made to the questionnaire and a courtesy reminder sent you about three weeks before, requesting your participation in a PhD research project. The research is about export managers' attitudes to international activities and their relation to ways of operating in foreign markets (e.g. exporting, joint ventures, sole ventures). We realize your commitment towards the growth of your business and this commitment definitely makes your schedule busy in effective decision making for the better performance. However we again request your participation, as the effectiveness of the research findings will depend upon the sufficient questionnaire responses.

As mentioned in our first questionnaire, we reiterate that any information you provide will be treated **strictly confidentially** and will only be used in the context of this research. Specific information that you give will not be disclosed to third party in any circumstances. We will combine the results from all of the questionnaires to undertake analysis and it is intended that these be published in academic journals. We guarantee not to use any respondent's personal name or the name of the firm in any published results, nor will your firm be identifiable. You can opt not to provide your name or your firm's in the questionnaire if you prefer. , the name of the respondent or the firm's name and if you opt you are not required to provide any personal or firm's name in the questionnaire.

If in any case you would prefer to respond the full questionnaire, please spare few moments to provide some basic information about your firm. This information will be helpful in testing whether companies that do not respond are significantly different those which do. In the event of having misplaced the postage-paid envelope, please use the corresponding author's postal address given below or just e-mail the basic profile of your firm to Mr.ZahidMajeed (Corresponding author).

**ZahidMajeed Doctoral researcher H. No. 439, Street 2, Phase 2, A-one City Housing Society Brewery Road, Quetta Pakistan 87300.**

What is the number of employees working with your firm? Please provide number of employees..... or please provide range.

- ☐ Less than 100                      ☐ 101-200                      ☐ 201-300  
☐ 300-400                      ☐ 401-500                      ☐ Over 500

What are your firm's average total sales (Pak Rs.) for the last financial years? Please provide figure..... or please provide range.

- ☐ Less than 1 million                      ☐ 1-9.99 million                      ☐ 10-19.99 million  
☐ 20-20.99 million                      ☐ 30-30.99 million                      ☐ 40 million and over

What major types of products does your venture(s) produce or export in local/foreign market?

- ☐ Textile                      ☐ food                      ☐ Medicine  
☐ Gem and Jewellers                      ☐ Sports                      ☐ Others (please specify)

Yours sincerely.

**EvgenyPolyakov B.Sc., M.A., PhD.**  
**Senior lecturer in Business Strategy**  
**Business School**  
**University of Huddersfield**  
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**E-Mail: zahid\_buitms@yahoo.com**  
**Phone: 081-2853705 Cell 0333-7802710**

## Appendix B

### B.1 Assessing overall model fit/ residuals for entry mode model

<i>Zresd</i>	<i>Leverage values</i>	<i>DFBeta for constant</i>	<i>Cooks distance</i>
3.21633	0.3036	1.2727	0.6965
2.4722	0.2996	1.1114	0.6675
1.9935	0.2989	0.9235	0.6097
1.4570	0.2705	0.7898	0.5096
1.4340	0.2622	0.7505	0.4503
1.4020	0.2226	0.5194	0.3921
1.3603	0.2056	0.4157	0.3711
1.3492	0.1945	0.4042	0.3544
1.2426	0.1815	0.3931	0.3519
1.2249	0.1783	0.3904	0.2987

### B.2 Case wise list of cases with studentized residuals greater than 2

CasewiseList <sup>b</sup>						
Case	Selected Status <sup>a</sup>	Observed	Predicted	Predicted Group	Temporary Variable	
		speed rapid with more than 50			Resid	ZResid
50	S	1**	.141	0	.859	2.472
53	S	1**	.088	0	.912	3.216
71	S	0**	.919	1	-.919	-3.358

a. S = Selected, U = Unselected cases, and \*\* = Misclassified cases.

b. Cases with studentized residuals greater than 2.000 are listed.

## Appendix C

### C.1 post-entry speed model fit before deletion of outliers

### Classification Table<sup>a,b</sup>

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 0	speed rapid with more than 50	0	55	0	100.0
		1	41	0	.0
Overall Percentage					57.3

a. Constant is included in the model.

b. The cut value is .500

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	104.521 <sup>a</sup>	.241	.324

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

### Omnibus Tests of Model Coefficients

	Chi-square	df	Sig.
Step 1 Step	26.514	9	.002
Block	26.514	9	.002
Model	26.514	9	.002

**Classification Table<sup>a</sup>**

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 1	speed rapid with more than 0	44	11	80.0	
	50	12	29	70.7	
	Overall Percentage			76.0	

a. The cut value is .500

## C.2 Post-entry speed model after deleting two outliers

**Omnibus Tests of Model Coefficients**

		Chi-square	df	Sig.
Step 1	Step	24.353	9	.004
	Block	24.353	9	.004
	Model	24.353	9	.004

**Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	103.268 <sup>a</sup>	.230	.309

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

**Classification Table<sup>a</sup>**

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 1	speed rapid with more than 0		41	11	78.8
	50	1	12	29	70.7
Overall Percentage					75.3

a. The cut value is .500

### C.3 Post-entry speed model after downgrading covariates to categorical predictors

**Omnibus Tests of Model Coefficients**

		Chi-square	df	Sig.
Step 1	Step	20.704	9	.014
	Block	20.704	9	.014
	Model	20.704	9	.014

**Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	90.571 <sup>a</sup>	.223	.300

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

**Classification Table<sup>a</sup>**

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 1	speed rapid with more than 50	0	37	11	77.1
		1	13	21	61.8
Overall Percentage					70.7

a. The cut value is .500

## Appendix D

### D.1 Post-entry speed model after removing cultural cognition from the final reported model

Classification Table<sup>a,b</sup>

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 0	speed rapid with more than 0		55	0	100.0
	50	1	41	0	.0
Overall Percentage					57.3

a. Constant is included in the model.

b. The cut value is .500

Omnibus Tests of Model Coefficients

	Chi-square	df	Sig.
Step 1 Step	24.399	8	.002
Block	24.399	8	.002
Model	24.399	8	.002

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	106.637 <sup>a</sup>	.224	.301

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.



**Classification Table<sup>a</sup>**

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 1	speed rapid with more than 0		44	11	80.0
	50	1	14	27	65.9
	Overall Percentage				74.0

a. The cut value is .500

## D.2 Post-entry speed model after removing both risk perception and proactivity from the final reported model

**Classification Table<sup>a,b</sup>**

Observed			Predicted		
			speed rapid with more than 50		Percentage Correct
			0	1	
Step 0	speed rapid with more than 0		55	0	100.0
	50	1	41	0	.0
Overall Percentage					57.3

a. Constant is included in the model.

b. The cut value is .500

**Omnibus Tests of Model Coefficients**

		Chi-square	df	Sig.
Step 1	Step	24.399	7	.001
	Block	24.399	7	.001
	Model	24.399	7	.001

### Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	106.637 <sup>a</sup>	.224	.301

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

### Classification Table<sup>a</sup>

Observed			Predicted		Percentage Correct
			speed rapid with more than 50		
			0	1	
Step 1	speed rapid with more than 0		44	11	80.0
	50	1	14	27	65.9
Overall Percentage					74.0

a. The cut value is .500

## Appendix E

### E.1 Interview guide

*Interview guide* serves the purpose to keep record of the anecdotal responses, where the data is of complex in nature and there is a strong chance that participants' are reticent (Eisenhardt, 1989; Saunders, et al., 2007). Ten interviews were conducted from the CEOs' of the SMEs operating in Pakistan. Cases were selected from the four exporting industries, i.e. Food, Textile, Sports and Gem and Jewellery industry. Each interview lasted between half hour to and one hour. All interviews were voluntary, with assurance of anonymity, privacy and confidentiality to the respondents being given (Bryman and Bell, 2007; Miles, 1979; Miles and Huberman, 1994).

Every possible effort was made to Establishing effective relationship and proper rapport (Creswell, 2009; Kinnear and Taylor, 2003; Miles and Huberman, 1994). During the company visit the telephone number and e-mail of the CEO and/or company representative were obtained and any ambiguity or missing information was completed during the subsequent telephonic follow up. Interview were discussed and validated by in-depth interviews by second visit of the company or by telephonic follow-up. It was extremely important to make field notes as the interview progressed, and to keep record of the systematic process, where the respondent was agreed the interviews were audio-recorded.

The respondents in Baluchistan and Punjab regions were more expressive, but the respondents from Sindh (particularly from Karachi) region were conservative to research initiatives. In such cases comments were added to ensure respondents cooperation, such as "there is no right or wrong answers", the "purpose of this interview is to collect information for research purpose" if the respondent needed any explanation of the word or phrase, the definition of the concept was not offered; rather, the responsibility of the answer/definition was returned to the respondent. This was done by: "just whatever it means to you – anything you would call..." (Kinnear and Taylor, 2003; Miles and Huberman, 1994) Interview guide helped the researcher in three steps, *open questions*, *probe questions* and *close questions* (Saunders, et al., 2007).

## Open questions

Open questions encourage the interviewer and interviewee to introduce themselves with each other, to reflect upon the research agenda and to proceed further in the interview process. Developmental answers in the interview process helps both parties to build confidence and to advance in logical manner towards subsequent probe questions. Open Interview questions being exploratory in nature starts with and include all ‘what’, ‘how’ and ‘why’ nature of enquiry (Easterby-Smith, et al., 2008; Saunders, et al., 2007).

*feeling towards and acceptance of the new global logic*—In this introductory session the participants were encouraged to say what was the source of motivation to accept international competition, what is their emotional reaction?, acceptance of the new logic and issues associated with this emotional reaction to global competition. Research has frequently examined managerial behaviour (Bloodgood, et al., 1996; Collinson and Houlden, 2005), and psychological attributes in new venture formations (Baron, 2004; Corbett and Hmieleski, 2007; Mitchell, et al., 2007). A few exception have explored the degree of internationalization in cross border perspective (Acedo and Jones, 2007; Butler, et al., 2010), but organizational founders’ heuristics and cognitive biases have not been examined from this perspective. In the identification phase of internationalization domain, many research questions offer interesting insights from small firms’ international behaviour. What is the source of basic stimulus? Were stimuli frequent and/or intense? How to prepare internal organization for export venturing? How to respond the international enquiries and orders? How to arrange export documentation and shipping? Were specific constraints and objectives established early (Cavusgil, 2006; Kinnear and Taylor, 2003; Mintzberg, et al., 1976)?

*Hot spots*—Although the phenomenon of *entrepreneurship* provides research questions for many different scholarly fields, organization scholars are fundamentally concerned with three sets of research questions about entrepreneurship’ (Shane and Venkataraman, 2000: 218). These three sets are: (1) why, when, and how opportunities for the creation of goods and services come into existence; (2) why, when, and how some people and not others discover and exploit these opportunities; and (3) why, when, and how different *modes of action* are used to exploit entrepreneurial opportunities.

Entrepreneurship as a dynamic and innovative phenomenon in Pakistan carries considerable challenges and threats. To uncover the holistic entrepreneurship story, the respondents were asked to identify the tentative impediments to international activity of small firms from Pakistan. Basic exploration of the nature of impedimenta made it possible to see logically whether the heuristics and

biases pertained to CEO internal locus of control<sup>40</sup> or the impediments are of contextual nature (external locus of control). Where there is an evidence of success of the firm the CEOs' attributed the success related with their personality, but in case of small weak firms, it was fascinating to explore the biases in their decision making. The biases serve to De-internationalization or in case of over optimism serves to push sales speed in double digits. The criterion for success used was that the business survived in international market for three years and achieved the sales speed of 25 to 50% in three years after the initiation of international activity. Weaker firms are those having less than 25% of sales revenue in three years. The respondents were asked, how they made it possible to cope all those internal and contextual impediments (in case of successful firms), and why others are not in the proper position to face international competition? This story breaking segment of the interview disclosed many stories. The stories that have never been explored in any other research initiative in Pakistan.

### **Probe Questions**

Formally defined, decision making is the process of resolving a problem or choosing among alternative opportunities (Gill and Johnson, 2002; Zikmund, 2000). The probes were handled in many various ways: as an aid to flesh out the questions relating to context, behaviour and the process, as prompt for items the informant may have overlooked, or sub questions derived from previous research (Miles and Huberman, 1994; Saunders, et al., 2007). Probe questions were those that presented the climax part of the entrepreneurship story of the small firms in Pakistan. The simplification process in the probe might lead to certain biases, and it was deemed appropriate to overcome all these by the guide lines provided by the qualitative theorists (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). In the initial phases of enquiry, it was felt that the cognition is a process that is linear, and can be explored with the standard procedure of enquiry. But as the research advanced to more stringent stages, the researcher felt that, this process is iterative in nature and needs proper guided style of enquiry. For this purpose the interview guide was developed and the questions were practiced, in a way that resembled that of an actor reading lines in a play or motion picture (Kinnear and Taylor, 2003; Miles and Huberman, 1994).

The question was read naturally and conversationally, however where necessary the abbreviated version of question were used to probe the complexity of cognitive style of the respondents (Box E.1).

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<sup>40</sup>(Latin word means place/location) of control—attribution to effort/ability, The belief of an individual that he himself rather than external events is in control of his destiny (Busenitz and Lau, 1996; Entrialgo, et al., 2000).

**Box E.1 : Commonly used probes**

Interviewer's probe	Standard abbreviation
Repeat questions	RQ
Anything else?	AE or Else?
Any other reason?	AO?
How do you mean?	How mean?
Could you tell me more about your thinking on that?	Tell more?
Would you tell me what you have in mind?	What in mind?
What do you mean?	What mean?
Why do you feel that way?	Why?
Which would be closer to the way you feel?	Which closer?

Source: (Kinnear and Taylor, 2003).

In the design of the interview, the question sequence was established to ensure that questions early in the sequence – the open questions first, followed by probe questions and the probe questions were followed by the close questions. The sequence was established to ensure that questions early in the sequence will not bias the answers to questions later in the sequence (Bryman and Bell, 2007; Kinnear and Taylor, 2003). It was necessary to address the time dimension of internationalization, asking how the internationalization effected the firm in the beginning of the process and in later stages (Miles and Huberman, 1994; Saunders, et al., 2007). The opening questions, in the foreign investment decision process deals with those related with identification and development phases of the internationalization process, while to explore the effects in later stages, the probe questions followed the process of progressive revision (Kinnear and Taylor, 2003; Miles and Huberman, 1994).

The questions were designed to be understood by all respondents in the entire industry. At times the researcher repeated those question in which the respondents misunderstood or misinterpreted what is asked, who were reluctant to give a complete answer, or who get side tracked onto another topic during the interview process. The quality of data collection was ensured to overcome these problems through the use of following *natural probing techniques* suggested by qualitative theorists (Kinnear and Taylor, 2003: 510; Miles and Huberman, 1994).

*Repeating the questions and respondents reply.* The questions were repeated in order to stimulate the respondents to make further comments if they hear their thought repeated. This was done while the comments was written as interview notes and were recorded where the respondent was agreed to do so. In such cases comments were added to reassure the respondents such as “there is no right or wrong answers”, the “purpose of this interview is to collect information for research purpose” If the respondent needed any explanation of the word or phrase, the definition of the concept was not offered; rather, the responsibility of the answer/definition was returned to the respondent. This was done by: “just whatever it means to you – anything you would call...”.

*Asking for further clarification.* Every possible effort was made to develop and practice an affective probing technique during the entire research process. It was felt that in some cases the respondents' answer has failed to meet the objectives of the specific question. Clarification was sought by asking different questions such as; I'm not quite sure I know what you mean by that, could you tell me a little more? In this stage the appropriate probing technique was to address the small firms' development of alternatives for international expansion. The selection of alternative market and entry mode is a complex process, therefore the research question addressed in this phase relates with the small firms intention to select or reject a particular market and mode based on logical reasons.

The research questions that pertain to decision making in general and entry mode choice process in particular are those that seeks to *search* and *design* the alternatives. Where did management seek solutions? Were many alternative solutions proposed or did management "satisfice" by taking and testing alternatives one at a time? To what extent was each step or subroutine programmed. The question specific to international marketing: How to assess sales opportunities in specific marketing? What differentiates a market form other markets? What is the best entry mode? How to select overseas distributors for available entry mode alternatives? How to adopt product for foreign customers? How joint venture and alliances helps to increase sales speed (Cavusgil, 2006; Kinnear and Taylor, 2003; Mintzberg, et al., 1976: 248)?

### **Close questions**

Close questions are those that directly relates with the tentative constructs identified during the open and probe questions. The aim of this thesis was to explore the cognitive biases in foreign investment decision/entry mode selection process. In order to explore the strength of and nature of cognitive biases, every possible effort was made to improve validity and reliability of the interview data; by revising conceptual literature in all stages, modifying the interview process from one field trip to the next, building rapport with the respondents (Creswell, 2009; Miles and Huberman, 1994).

In this phase, the respondents were asked to describe how the cognitive biases and heuristics helped them to increase their sales ratio/extent (the percentage of revenue achieved in international market) or otherwise (decrease in revenue or de-internationalization) in the international market. This exploration became a source of identifying the speed, scope and extent of small firms' international activities. The respondents were encouraged to project the future situation of the firm in next three years and expected revenue expected from international sales. In some cases the researcher found that the respondents were reluctant to disclose the financial data. In such cases the scope (the diversification of small firms in various international market during the last three years) and speed (the number of years that a firm took to expand in international market since inception) was taken as an objective of the research.

Mintzberg, et al., (1976: 259) presented a series of situation to choose final alternative; the decision can be made by judgment, bargaining and analysis. In judgment the decision maker makes a choice by using his past experience, his own mind (perceptual considerations) and situational complexities. Bargaining

principal, used by group of decision makers with conflicting goal system, invites more time and cognitive pressures in decision making. In analysis the process of evaluation is carried out by technocrats, followed by judgment. In this phase the firms try to develop and select an alternative that provides survival, sustained growth and long term opportunities. The research questions remains unanswered in final market and entry mode selection process are: How to prioritize and select final international market? How to choose from available entry alternatives? How to prepare and implement marketing plans? How to monitor performance of foreign subsidiaries and distributors? How to maintain a desirable sales speed in the international market?

In search of optimal alternatives, the decision maker redesign initial consideration of utility of outcome with respect to time and resource limitations (Jones, 2001; Jones and Coviello, 2005), cognitive limitation/heuristics /biases (Duhaime and Schwenk, 1985; Kahneman, 2003) and strategic limitation. Behaviour decision theory pinpointed that the managers use simplification as “heuristics” to redesign the complexity in entire process. Time and cognitive pressure create a cognitive bias, *planning fallacy* that emerges as a limitation to decision situation, when the decision maker concludes that the ‘...experience is often a poor teacher, being typically quite meager relative to the complex and challenging nature of the world in which learning is taking place’ (Levinthal and March, 1993b: 96). They end to treat the current situation different, thus isolating it from the past experience (Kahneman and Lovallo, 1993).

*Single outcome calculation* is a managerial biasness in which the decision maker, instead considering all the alternatives the decision makers due to cognitive limitations favours one alternative to others and tries to convince others for this choice (Chao, 2011; Schwenk, 1984). At the start of international activity exporting is preferred, latter a joint venture and strategic alliances once is considered to create further value in the process. Choice of exporting, joint venture and strategic alliances is based on the firms’ intention to commit resources for further expansion. Joint venture and strategic alliances create synergy and value in culturally similar and psychic distance in culturally distant markets.

The investors in Pakistan, perceiving themselves as minority investors in international markets, prone to *Pluralistic ignorance* feel that the partner may use opportunistic behaviour and can take advantage of the dependency relationship in the form of free-riding potential, shirking/lethargy and dissemination of technology (Brouthers, 2002; Erramilli and Rao, 1993; Williamson, 1987). *Pluralistic ignorance* is a social comparison error where an individual holds an opinion – e.g. the Pakistani SMEs want FDI in Iran, mistakenly believes that others (majority shareholders) hold the opposite opinion (Halbesleben and Buckley, 2004: 126). Pluralistic ignorance is also referred as a psychological state characterized by the belief that one's private attitudes and judgments (Pakistani as being a minority investors in international market) are different from those of others, even though one's public behaviour is identical (Prentice and Miller, 1993: 244).



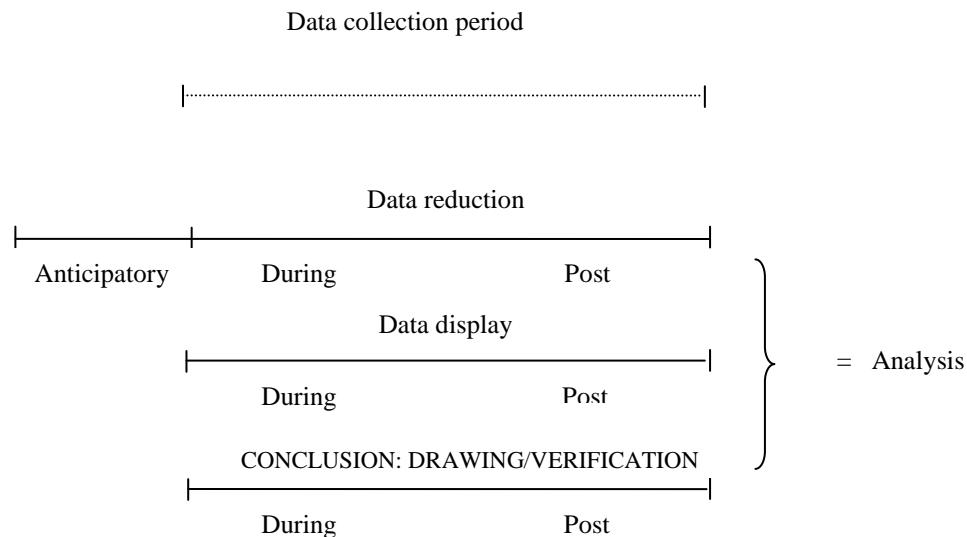
## E.2 Contact summary form

Contact type: Firm A	Site: Baluchistan region
Visit: first	Contact date: 13-04-2010
Phone Number: confidential	Interview: Zahid Majeed
	Follow-up interview: 22-08-2013
<p>1. <u>The main issue or themes that struck in the first and second contact</u>  The state of internal organization for exporting.  The managers vision to become first mover in international competition.  Decision making process was based on simplification or systematic principals.  Address the time dimension during and after the international decision.</p>	
<p>2. <u>Summary of the information obtained (or failed to obtain) on each of the target question</u></p>	
<p><u>Questions</u></p> <p>Difficulties in international trade</p> <p>Role of partner in international partner in international development.</p> <p>Role of government in export development</p> <p>The complexity of decision making process in international business and the difficulty associated with cognitive biases needs some more clarity in terms of definition and actual findings.</p>	<p><u>Information</u></p> <p>Respondent is not sure that how he can deal with impediments to international trade. The problems are related with government and target markets.</p> <p>What measures can be taken to stop barter system of transaction with Iran.</p> <p>The source of conflict was that the delegation nominated by the Chamber of Commerce was unaware of the actual problems that exporters were facing with the exporting psychologically close countries. How this situation can be improved.</p> <p>While searching for new market the decision maker is influenced more by contextual impediments, mostly the cognitive biases are related with both internal and external locus of control.</p>
<p>3. <u>Anything else that struck as silent, interesting or important in the contact?</u></p> <p>The complexity of the decision process needs some more clarity at the each stage of international development.  There is no literature relating with biases that are contextual in nature.  The decision maker is treating the decision for future potential markets as unique. Planning fallacy needs some more clarity.</p>	
<p>4. <u>The target question in the next planned visit.</u></p> <p>How do exporters can increase their relationship with new customers in international markets?  How do decision maker improves the strategic decision making process for further export development?  What are the sources of information channels available, and how to minimize the cost of obtaining international information?</p> <p>CONCERN: This research is unique to explore the process of strategic decision making. The complexity of international business warrants future in-depth, research on utility/outcome of the decision making process. Future longitudinal research will be more helpful for small exporting firms.</p> <p>Source: (Miles and Huberman, 1994)</p>	

### E.3 Components of data analysis

There are number of approaches for qualitative data analysis. Eisenhardt, (1989) pinpoints that development of theory is a central activity in qualitative research. Eisenhardt, (1989) and Yin, (2012) described the design of case study research. In the case study pattern the researcher has to follow a number of steps from selection of cases to refining of data, enfolding literature to reaching closure. Glaser and Strauss (1967) advocated more *inductive* approach for data analysis. Data is reviewed line by line, the codes are assigned to data set and a conceptual categories, by constant comparison reflects “the grounded approach of data reduction and conclusion” about the narrative stories told by the participants (Glaser and Strauss, 1967; Strauss and Corbin, 1990). Miles and Huberman (1994: 57) advocated a more *deductive* approach—summary-aided approach for data analysis and conclusion drawing (Fig 8.4 in thesis and Figure E.1).

**Figure E. 1 Components of data analysis: flow model**



Source: (Miles and Huberman, 1994)

Case analysis summary form (Figure E.2) is a document that helps the researchers to organize the events or contacts. It helps to organize main themes, impressions and summary statements. It also helps to create interpretation and explanations, disagreements about what is going on in the case. Finally it is a way to develop final coding patterns and memo scheme of the data.

**Figure E.2 Case analysis form**

Case analysis meeting form/short description of interview memo Recorder: Zahid Majeed	Date first visited: 13-10-2010 Date of second visit: 28-08-2013 Case C
1. MAIN THEME, IMPRESSION SUMMARY STATEMENTS  About what is going in the case. Comments about the general state of the decision process and implementation.	
2. EXPLANATION, SPECULATIONS, HYPOTHESIS about what is going on in the case	
2. ALTERNATIVE EXPLANATIONS, SPECULATIONS, DISAGREEMENTS about what is going on in the case.	
3. NEXT STEP FOR DATA COLLECTION; FOLLOW-UP QUESTIONS; open questions, probe question and close questions; general direction of theoretical saturation.	
4. Implications of REVISION; UPDATING OF CODING SCHEME.	

Source: Adapted from Miles and Huberman (1994)

Mile and Huberman note that coding can become tedious if we treat our self as a sort of machine scanning the page methodically picking out small segments of data and assigning categorical labels to them. One way of retaining mindfulness in coding is the marginal remark. Case analysis meeting form helps to organize large bulk of data. Once the researcher felt that theoretical saturation is achieved further coding was deemed unnecessary. And thus final conclusions were drawn (Figure E.3).

**Figure E.3 Marginal remarks and coding scheme of the interview data.**

Marginal Remarks: Illustrations

IC-NORM-DUR CL-PATT	Jim looked past me for a minute and asked Dawn, the aide, to go out and check the kids in the hall. I asked what that was about and he explained that "we don't release them until the bell," and that some students had already stepped outside in the hall even though the bell for the next period had not yet rung.	Control Concerns.
CL-PATT	... Largely the group free-associated from topic to topic. Certain themes recurred from time to time, including Mary's tendency to reassure the other two that the community relations work would be easy for them to carry out, and her steady advice not to give "professional" tasks to the aides. There was a good deal of advice-seeking from Mary. Finally, there did not seem to be any very specific planning or decision making about particular procedures or how things would occur in detail.	Reassurance. Conflict over aide role "Organic Coping"
CL-PATT	... (I think it was along through here that Mary said for the first of several times that "I'll still be available," implying that she wasn't really going to go away, this wasn't irrevocable, she would still be accessible.)	Reassurance Theme
CL-PATT	... John mentioned that there would be more girls than boys and suggested "should we go through the first day?" as if to launch discussion of how the program would start up. But this did not get a very direct response.	Organic Coping Theme

Source: Miles and Huberman (1994)

#### **E.4 Sequential analysis of interview data**

Miles and Huberman, (1994) referring to Chesler, (1987), using inductive coding and a grounded approach to the derivation of theory, pointed that the Chesler, (1987) studied the dangers of self help groups as perceived by 63 professionals (physicians, social workers, psychologists). Their interview had three straight forward questions, such as “what do professionals mean when they talk about the dangers of the self-help groups?” This analytic trail is followed to interpret and code the transcribed data. The trial is similar in nature to the three stages of deductive analysis of interviews, data reduction, data analysis (coding and preparation of memos) and conclusion drawing. Steps are as follows.

Step 1. Underline the key terms in the terms in the text.

Step 2. Restate key phrases, Box E.3 shows how this worked. The idea is to remain as descriptive and literal as possible. Note, however, that Chesler often resorts to paraphrase.

Step 3. Reduce the phrases and create clusters. Chesler reports that this step was done several times, as different clustering patterns were tried. As one coder completed the clustering process, another coder redid it independently. The two then were compared. Completion of this step resulted in 40 apparently distinct clusters---too many to analyze, writes Chesler. Here are two:

**Control will be taken away—this is main theme/ pattern and is identified as planning fallacy in the foreign investment decision process.**

Proprietary control—this is initial codes and is identified as temporal myopia in foreign investment decision process.

Concerned with retaining control

Fear loss of control

**Create misunderstanding/misinformation**

Generate misinformation

Repeat misinformation

Misinformation circulating

Misinformation can be exchanged

Won't understand what's happening

Chesler has far more fragmentary, decontextualized data, but he can move it around readily. The cluster names are, in effect, codes.

Step 4: reduction of clusters, and attaching labels. This is the process of pattern coding. As clusters are reduced in number and are combined to form “meta-clusters,” comparisons are made “at the boundaries of each cluster.” The decisions involve both implicit and explicit comparisons and thereby move to higher levels

of inference. Here are a few of the meta-clusters showing “dangers’ of self-help groups, with the incidence of each shown in parentheses:

## EARLY STEPS IN ANALYSIS

### Box E.3.

#### Marginal Notes as Coding Aid (Chesler, 1987)

Step 1: Underline key terms in the text	Step 2: restate Key Phrases
<p>Social worker, Gp. 3: The professionals are afraid people will be <u>repeating misinformation</u>, that people will <u>compare one diagnosis to another</u> and come back and say, “Why aren’t we getting XXXX?” There is a fear that they will <u>get people who are obsessed with the diseases</u>, and <u>not coping well</u>, and totally <u>fixated in getting the secondary gains</u> from the disease.</p> <p>Frankly, I’ve seen that happen in a few individual cases.</p> <p>Social worker, Gp. 7: professionals are afraid that a group could <u>get out of hand</u>, <u>take power</u> or just <u>be harmful</u> in some way..</p>	<p>repeat misinformation Compare diagnosis</p> <p>obsession with disease</p> <p>Fixation on secondary gains</p> <p>get out of hand take power be harmful</p>

Source: adapted from Miles and Huberman, (1994)

Step 5. Generalizations about the phrases in each cluster. These correspond to the “propositions” examined earlier. Analytically, they are the plausible next step once a clustering procedure and, “patterning “exercise have identified and qualified a set of core things. A few examples from the meta-cluster “parents learn/know too much”.

Professionals have fears from the sharing/comparing of information.

Doctors are worried that parents will get too educated. Professional are afraid that parents will compare notes, compare protocols and learn of experiments.

Step 6. Generating mini theories: memo writing that poses explanations. Chesler (1987) notes that as these pattern codes and propositions are created and refined, and then contrasted with one another, the researcher is “well into the process of generating theory that explains their meaning. “Here is a fragment of a memo clearly bridging from one cluster to a more conceptual explanation for it:

Why is too much information a danger? I was prepared to hear professionals state that parent misinformation or lack of information was a danger, but why too much information? What is involved here? I remember an article I read many years ago, in which Rieff wrote about knowledge being the bases of professional practice... so perhaps the danger to professionals is that as parents get informed , the professional no longer have that edge in expertise and thus status and control. (Chesler, 1987, p. 17)

Step 7. Integrating theories in an exploratory framework: Here the Chesler turns towards the literature on professionals' ideologies and roles. He uses it as an orienting framework, applying it to the original clusters, the pattern codes, the propositions, and the memos. The central theme becomes the "image of control exercised by professionals and their perception that autonomous parent self-help activity (and groups) threatens professional control. "Beyond that is the intention to exercise a monopoly over the health care knowledge base, delivery of service, and value claims.

Box E. 4 is developed to explain how the foreign investment decision process of small businesses in Pakistan was analyzed. The coding pattern reflects that there are various cognitive biases (meta-clusters) that affect the foreign investment decision making process resulting in inferior entry mode choice and subsequently lowering sales speed of small firms in Pakistan.

#### Box E.4

Step 1: Underline key terms in the text	Step 2: Key Phrases and codes in transcripts.
<p>Dear Zahid; I would like to extend my comparison with that of India. <u>I hope you know that, if any exporter exports from India, the government finances the exporter with 75% of his export investment within three days of valid export order.</u> This does not breaks the circle of funds. The exporter does not have to wait for final payment from country of export. This means that if the final payment is received, for example in next three months, the exporters do not find his money stuck in the export process. This loan is financed without any charges to the potential exporters.</p> <p><u>What happens in Pakistan, for example we serve and export order of 1000gms.</u> First of all we have to process the raw material into finished product. This takes almost one month to one and half month. Then we send this item to exporter and shipment takes place in next one month. The overall process takes place two to three months. We have to wait for the payment to receive from the international market and for this time period we cannot fund other transactions. <u>This is the reason that we are unable to compete with a strong competitor like India.</u> I think the government should finance to small and large investor at least for 30 days, so that our funds' circle is not broken. In this way we can compete with India</p>	<p>Process: Stereotype threat that India is a powerful competitor and Pakistani firms cannot compete with India.</p> <p>Firm is able to rely on export mode only.</p> <p>Effect: Lower exports leading to lower sales diversification (speed).</p>

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