Imperial Journal of Interdisciplinary Research (IJIR)
Vol-3, Issue-4, 2017
ISSN: 2454-1362, http://www.onlinejournal.in

The role of imitation, foreign market experience, and host country network ties in SMEs foreign equity entry mode choice: An Institutional Perspective

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Abstract*: This study of foreign entry-mode choice, based mostly on the institutional perspective, emphasizes the importance of the influence of both institutional forces embedded in national environments and decision makers' cognitive constraints on the founding of new ventures. The primary goal of the present study is to provide a unifying theoretical framework to examine institutions' relationship to foreign entry mode choice of firms. We utilized institutional perspectives to analyze a sample of 353 foreign SMEs invested in Iran. Our results support the notion that institutional theory provides incremental explanatory power of foreign entry mode choice. In particular, we found that SMEs tend to consider both formal and informal institutions in their foreign market entry choice. Based on the results, the roles of host country network ties and mimetic behaviors are heightened and they become a proxy for informal institution. According to the results, however no significant support concerning the effects of cultural differences and international experience on the SMEs equity entry mode decisions were found-host country experience, host country network ties, imitation and host country regulative risk had a significant influence on the SMEs equity entry mode in Iran.*

Key words*: Institutional Theory; SMEs; Entry Mode choice; Host country Network ties; Imitation; SMEs local experience.*

1. Introduction

One of the most critical strategic decisions when firms seek to internationalize is the choice of a suitable mode for entering the host-country's market (Agarwal S. and Ramaswami S.N., 1992). Firms can decide between equity entry modes– which include joint ventures and the establishment of wholly owned subsidiaries– and non-equity entry modes, which include exporting and contractual agreements (Pan, Y and Tse,D., 2000). Equity investments require firms to engage in more information gathering and processing and require higher quality and more complex information than do non-equity investments. Information related to host-country markets, competitive conditions, legal and social norms, and cultural differences (Herrmann, P., and Datta, D.K., 2006) are highly important and serve as the foundation of firms' decision making. So good information gathering may decrease the perceived risk in the unknown environment (Pan, Y and Tse,D., 2000). In contrast, non-equity entry modes do not require as much information about the foreign market as such modes require.

Because all of the entry modes involve resource commitments (albeit at varying levels), firms' initial choices of a particular mode are difficult to change without considerable loss of time and money. Entry mode decision is therefore, a very important decision and the success of SMEs under globalization highly depends on the formulation and implementation of this strategy (Lu, 2002).

Three of SMEs' characteristics have direct relationships with their entry mode decision. First, SMEs are at a resource disadvantage compared to large MNEs. The second characteristic is that SMEs are highly sensitive to external challenge and that makes it difficult for them to find an entry mode that allows them to deal effectively with the risks in the host country (Schwens, C., Eiche, J. and Kabst, R. , 2011). Third, SMEs vary from other types of firms in terms of their ownership structure (Laufs, K., Schwens, Ch., 2014). Hence the strategic behavior of smaller companies needs to be investigated. By examining the entry mode behavior of SMEs, we can determine whether they follow similar patterns as their larger counterparts or whether or not the strategic decision processes that influence success for larger companies have validity for smaller firms.

Iran nuclear deal in 2016, agreement in Vienna, makes Iran a new focus of international investments by foreign companies, how to enter this market and what entry mode should be taken, tough remain inconclusive. Since no prior study that we are aware of has shown SMEs entry mode into Iran, this research is trying to fill the gap. The main objective of this article is to examine applicability of institutional theory and wishes to identify a number of factors that may help to better understand the choice between alternative modes of equity entry. In determining entry mode choice based on institutional context, factors which influence the investing choices between joint ventures and wholly owned are analyzed empirically.

This study starts with a review of the Foreign Entry Mode Choices and the literature on institutional theory. According to the institutional theory some general hypotheses are presented.

Foreign Entry Mode Background

International entry mode choice is considered as a critical strategic decision (Lu, 2002).The enterprise's choice of entry mode into a foreign market has received a good deal of attention from researchers. First, a firm that decides to enter a foreign market has to choose between non-equity (markets) modes, such as exporting and licensing, and equity-based entry (hierarchies) modes, with either full ownership, i.e., a wholly owned subsidiary (WOS), or shared ownership, i.e., a joint venture (JV). Each of these modes varies significantly in terms of resource commitment and risk, with equity-based entry modes involving the highest level of control.

A joint venture is the pooling of assets in a common and separate organization by two or more firms who share joint ownership and control over the use and fruits of these assets. Past studies suggest shared control mode is less risky than full control mode (Herrmann, P., and Datta, D.K., 2006). Firms bear a higher percentage of investment risks (e.g., political risks) and costs if they choose full control mode for their foreign investments (Musteen, M., Datta, D. K., & Herrmann, P., 2009) and with a higher percentage of equity stake, they have less flexibility to change their investment strategies (e.g., reduce their ownership or divest) when there are changes in their operating environments. The reduced flexibility resulted from a higher ownership may increase risks (Musteen, M., Datta, D. K., & Herrmann, P., 2009). Also firms with full ownership should rely more on themselves to make important decisions to protect their own interests, which may require them to have substantial local knowledge and strong capabilities to make such decisions and they need time to learn local knowledge and accumulate international experience, which may lead them to make mistakes in the learning process. While investing firms with partial ownership may rely on local partners to make the adequate decisions and thus can reduce the chances of making inappropriate decisions (Xie, 2014).

There were several reasons for studying joint venture vs. wholly owned modes of entry of firms entering Iran. First, because the majority of entries are made using either wholly owned or joint venture modes; few firms use licensing agreements (O.I.E.T.A.I. directory). Second, past studies have suggested that 'the role of transaction cost and institutional variables in predicting entry modes when a partnership has been opted for is not as clear as for the decision as to whether to set up a wholly owned subsidiary or joint venture (Brouthers, K. D., Brouthers, L. E., and Werner S., 2003). Examining wholly owned and joint venture modes of entry is consistent with studies (e.g., Agarwal S. and Ramaswami S.N., 1992; Shi, Y. Zh., Ho, P. Y., and Siu, W. S., 2001; Lu, 2002; Ekeledo, I. and Sivakumar, K., 2004; Cheng, 2008).

2. Theory and Hypotheses

Institutional Theory

Institutional theorists focused on the role of external institutions in affecting organizational decisions and behaviors. These institutions include regulatory structures, agencies, laws, courts, professions, interest groups and public opinion (Oliver, 1991). Recently, the definition of institutions has been extended to include other organizations within a firm's industry or peer group, as well as other business units within an organizational network (Davis, P. S., Desai, A. B., & Francis, J. D., 2000).

In general, institutional theory highlights the role of the institutional context for organizational decision-making. This context is usually analyzed from a technical, cognitive and sociological perspective (Lu, 2002). Some scholars like Scott, conceptualized institutional forces into three distinct groups: regulative, normative and cognitive. Regulative forces have their root in economics, while normative and cognitive forces are rooted in sociology (Brouthers, 2002). Organizations are assumed to face pressures to conform to this institutional context, and may thus take decisions that are not based solely on efficiency criteria as implied by transaction cost theory.

Firms violating these institutional structures face reduced legitimacy and eventual extinction (Davis, P. S., Desai, A. B., & Francis, J. D., 2000). Some scholars tend to agree, suggesting that meeting institutional mandates should result in a better fit with the environment and improved firm performance (Oliver, 1991). They maintain that firms will perform better if they pursue both institutional legitimacy and transaction cost efficiency (Roberts, P.W. & R. Greenwood , 1997).

1. Formal institutions

1.1 Regulative Risk

Institutions define the "rules of the game" and formal institutions refer to rules and laws that provide stability and order to a society, including government regulations and enforcement mechanisms (Child & Tsai, 2005). Government agencies may use legal forces to directly restrict the behavior of enterprises, or provide incentives and guidance to influence their behavior (Grewal & Dharwadkar, 2002). The government may even directly intervene in the entry mode decision of foreign investors by imposing ownership restrictions or financial constraints so as to increase or decrease the expected returns of a specific entry mode (Brouthers, 2002; Henisz, 2002). Empirical studies have shown that regulations do influence the entry mode selection of foreign enterprises (Chen, Y. R., Yang, C., Hsu, S. M., Wang, Y.D., 2009; Schwens, C., Kabst, R., 2009; Powell, S.K., Lim, E. , 2017). Gaining market legitimacy or establishing the right to do business in the new market requires a foreign firm to know, and to abide by, the regulations existing in the host country. The more complex these regulations are, the higher the attractiveness of having a local partner to manage them. Several studies have provided empirical support for foreign firms' preference for JVs in the case of a complex regulatory framework in the host country (e.g., Brouthers, 2002; Yiu & Makino, 2002; Puck et al., 2009). The local partners of a joint venture can provide Foreign Investors with local content and both market and non-market knowledge, which reduces Foreign Investors' exposure to environmental uncertainties. Where legal restrictions exist, firms tend to seek legitimacy, as well as efficiency, by utilizing less integrated modes of entry. All these suggest a low-control entry mode when operating in an uncertain institutional environment. We hence have the following hypothesis:.

Hypothesis 1: The higher the regulative risk of the host market, the lower SMEs will tend to prefer WOS over JV.

2. Informal institutions:

There are various types of informal institutions. In this paper, we will discuss the following: Host country Network ties, mimetic behavior, and cultural distance, which have been identified to be important in the literature (e.g. Grewal & Dharwadkar, 2002).

2.1 Host country Network ties

Network relations result from a firm's efforts to establish long-term relationships with other firms in order to sustain its competitive advantage (Chen, Y. R., Yang, C., Hsu, S. M., Wang, Y.D., 2009). Similar ethnic, geographic, ideological, professional, or historical origins, are the most common grounds for establishing network relations (Styles, C., & Ambler, T., 2003). Network ties are kind of informal institutions which will be routinized and stabilized if long-term transactions have been developed among firms (Chen, Y. R., Yang, C., Hsu, S. M., Wang, Y.D., 2009).

Networking also provide flexibility of resource allocation in an environment in which factor mobility was restrained and laws were subject to political manipulations (Schwens, C., Kabst, R., 2009). Through network linkages, firms may also achieve the goal of growth by mobilizing external resources without direct ownership, saving them substantial administrative costs of owning and managing resources. Access to networks provides learning opportunities about foreign markets without gaining own experiential knowledge (Kale, P., Singh, H., & Perlmutter, H., 2000). Scholars have demonstrated that companies with a lack of individual international experience may be able to rely on host country networks in order to overcome liabilities of foreignness (Schwens, C., Eiche, J. and Kabst, R. , 2011).

The importance of networks builds on two key benefits. First, network participation provides access to the knowledge and information that is required to safeguard against uncertainty in the foreign market. Second, networks offer mechanisms of collective sanctions to protect against adverse behaviors (Granovetter, 2005).

In emerging economics, laws are often confusing or conflicting and information flows may be impeded, and thus information obtained from the (guanxi) network is more reliable and more valuable. In a matured society, this kind of “particularistic” information is less valuable because people need only to assume that others are following the known rules (Chen, Y. R., Yang, C., Hsu, S. M., Wang, Y.D., 2009).

Maekelburger et al., (2015) demonstrate that internationalising SMEs are likely to choose higher initial and subsequent modes than companies with little or no host country networks (Maekelburger, B., Schwens, Ch., and Kabst, R., Mar 2015). We hence have the following hypothesis:

Hypothesis 2: The stronger the network ties in local market, SMEs will tend more to prefer WOS over JV when entering the market.

2.2 Mimetic behavior

As shown by previous researches (e.g., Fiol, C. M. and O’Connor, E. J., 2003; Lieberman, M. B. and Asaba, S. , 2006), imitation behavior is predicted by a number of theories such as institutional explanations of isomorphism as a highly rational behavior. Chen et al. (2009) considered mimetic behaviors as informal institutions variables that are rooted in sociologic as well as economic theories.

Separately, Lieberman and Asaba (2006) evidenced two major groups of motives for imitation, often acting simultaneously: (1) information-based theories, where firms follow others that are considered as holding superior information and (2) rivalry-based theories where firms imitate others in order to maintain current competitive equilibrium.

When entering a new institutional environment, foreign enterprises may seek guidance from their predecessors to cope with uncertainty. Foreign enterprises tend to adopt structures and processes similar to those of the organizations that have been successful, particularly if the successful organizations also share similar origins. Mimetic behaviors are mainly based on legitimacy as opposed to efficiency considerations (Grewal, R., Dharwadkar, R., 2002). Foreign investors may choose the same entry mode as its predecessors from the same industry or the same country (Yiu, D., & Makino, S. , 2002).

In an empirical study of Japanese investors in twelve developed countries, Lu (2002) found that new entrants tended to imitate the entry mode adopted by their successful predecessors. A successful organizational structure will be duplicated and institutionalized after being repeatedly adopted by its followers (Lu, 2002). Moati (2009) has mentioned that in a transitional economy like China, where commercial norms have not been established, the tendency to “follow the leader” is very strong as market participants are groping for a winning formula. He shows experience and imitation should be considered simultaneously as distinct learning mechanisms that could act as complements or substitutes when choosing the mode of entry. Through using isomorphism theoretical background, he shows that the choice of expansion mode is highly influenced by competitor moves. We expect the following relationship:

H3: Newly-entered SMEs will follow the entry mode choice of their successful predecessors.

2.3 Cultural distance

The host country determines the formal and informal (e.g., culture) institutional context with which a firm must deal in a foreign country. These conditions may affect SME foreign market entry mode choice (Schwens, C., Eiche, J. and Kabst, R. , 2011).

According to (Chen, Y. R., Yang, C., Hsu, S. M., Wang, Y.D., 2009), cultural distance can be defined as "the difference in values and beliefs shared between home and host countries". A high cultural distance will increase the uncertainty and thus the transaction costs. Cultural distance affects entry mode choice through a few channels. First, cultural distance generates additional costs related to information collection and communications, making internalization difficult. Second, cultural distance induces foreign enterprises to seek local support with the aim of facilitating product adaptation, risk sharing and mistake avoidance. Third, cultural distance hinders the transfer of firm-specific routines, making collaboration more attractive than hierarchy (Chen, Y. R., Yang, C., Hsu, S. M., Wang, Y.D., 2009).

However, it is important to note that the results regarding cultural distance are conflicting in the literature. The transaction cost theory suggests that greater cultural distance may generate additional costs associated with information collection and disrupt the communication processes. Due to unfamiliarity with the host country which may lead to high transaction costs, some scholars (e.g., Cheng, 2008; Lopez-Duarte, C., & Vidal-Suarez, M. M., 2010) argue that firms prefer to form JVs with local firms. High cultural distance may force the firm to look for local support in order to facilitate product adaptation, share risks and avoid mistakes. Cooperation with local partners would involve “double-layered” acculturation, which means that the company investing abroad would have to cope with the foreign culture of customers and a different corporate culture of a joint partner which may be complex (Lopez-Duarte, C., & Vidal-Suarez, M. M., 2010). As a result, the investors may prefer WOS. The majority of studies discovered a negative relation between cultural distance and the choice of WOS as mode of entering a foreign market (e.g., Schwens, C., Kabst, R., 2009; Efrat, K., Shoham, A. , 2013). A recent study by Quer et al. (2007) confirms the argument that greater cultural distance leads to lower-commitment entry strategies. When confronted with disparate sales philosophies, languages, customs and lifestyles, foreign investors will tend to choose a lower-control entry mode to avoid conflicts with local actors and to increase the flexibility of business arrangements, particularly if they consider the contingency of withdrawal from the area when the business fails (Quer, D., Claver, E., & Andreu, R. , 2007). We hence have the following hypothesis:

Hypothesis 4: The larger the cultural distance between the home and local markets, the lower SMEs will tend to prefer WOS over JV.

Foreign (International & Local) experience and Foreign Entry-Mode choice

International experience has been defined as the degree to which an SME and its management have been involved in cross-border business activities (Burgel, O., & Murray, G. C., 2000). Firms' international experience refers to its experience with managing operations outside its home country, without reference to specific host countries, while its host-country (local) experience refers to its experience with the target country of the focal investment.

A firm's level of multinational experience has been shown to influence entry choices. Firms without foreign market experience are likely to have greater problems in managing foreign operations. Lack of knowledge and experience is a source of internal uncertainty (Zhao, H., Luo, Y., & Taewon, S., 2004). Foreign experience can contribute to the development of new knowledge and capabilities and can further make a firm efficiently reduce the uncertainties and increase awareness of opportunities in different foreign markets. That is to say, when a firm's experiential knowledge of foreign markets increases step by step, it will further increase its resource commitments to the foreign markets, and vice versa (Johanson, J. & Vahlne, J. , 1977).

According to organizational learning scholars (e.g., Barkema H. G., J. Bell, & J. Pennings, 1996), MNEs with extensive international experience have been exposed to a large variety of foreign cultures, and will hence experience fewer cultural difficulties in a given host country than MNEs with little international experience. Similarly, MNEs with extensive host-country experience generally know better how local firms are organized and how they operate, and know more about the culture and communication style of local workers, than MNEs without such experience. MNEs with prior experience with a host country will therefore incur fewer additional costs in managing acquired subsidiaries in that country than MNEs without host-country experience. Both these experiences may reduce the additional management costs of acquisitions in culturally distant countries, because they act as mechanisms that lower cultural challenges (Slangen, A.H.L. & Hennart, J.F, 2008).

Cheng (2008), in his study on Taiwanese small and medium-sized manufacturing firms' indicated that internationalized experience significantly increase the probability that these firms will enter the international markets through WOS. That is to say, based on Uppsala process model perspectives, when the experiences of the sample firms in dealing with international operations are accumulated through cumulative and incremental learning, then the likelihood of international entry through WOS will increase. Nisar (2012) explained that small firms with previous experience tend to enter Norway via WOSs and not via JVs. The explanation behind this can be that, as companies expand their foreign operations, managers tend to develop the capability and the required experience needed to deal with different environments and thus become more able to undertake FDI on their own, in the form of WOSs. The results appear consistent with the view that managerial characteristics and skills may explain the choice of entry mode (Nisar, Sh., Boateng, A., Wu, J., Leung, M., 2012). Yiu and Makino (2002) also suggested that parent experience variable had a significant and negative impact on the choice of joint venture over wholly owned subsidiary. Their results suggest that parent firms are less likely to choose a joint venture over a wholly owned subsidiary when they have a longer operational experience in a host country prior to the establishment of the subsidiary.

As for SMEs, SMEs usually have less internationalized and host country experience than larger multinational enterprises (MNEs), but Shrader et al. (2000) prove that when SMEs have greater internationalized and localized experience, they will also prefer high ownership entry mode in foreign market. Hence, this study proposes the hypothesis as follows:

Hypothesis 5: The more the SME's internationalized experience in the foreign markets, the higher SMEs will tend to prefer high equity modes of entry.

Hypothesis 6: The more the SME's local experience in the host market, the higher SMEs will tend to prefer high equity modes of entry.

4. Research methods

4.1 Sample

In this study Primary and Secondary data were utilized .The questionnaire used in this study was originally composed in English. Before the actual questionnaire was mailed out, a small-scale pre-testing procedure was conducted among academics to help gauge content validity. The goals of the pre-test were to assess question clarity, to determine the required completion time and to examine the appropriateness of the subject matter for the population under study. Based on this feedback, final changes were made in the questionnaire. The carefully designed questionnaire was then evaluated by several international management scholars, and subsequently pre-tested on seven senior managers whose firms had recently established or acquired foreign subsidiaries. These pre-tests resulted in several changes in the wording of questions. All foreign SMEs were sent the English version of the questionnaire.

According to the O.I.E.T.A.I. directory and European Union SME Definition, we made a target population of 463 foreign SMEs from 7 different investment sectors (Industry, Construction, Service, Agriculture, Mining, Transport and communications, Water Electricity and Gas supply). The sample list of small and medium-sized Foreign-Invested firms with less than 250 regular employees involved in FDI in Iran is drawn from the Target population of 463 registered Foreign-Invested firms in Organization for Investment, Economic and Technical Assistance of Iran (O.I.E.T.A.I.), Ministry of Economic Affairs and Finance, Islamic Republic of Iran. Krejcie and Morgan (1970) paper explains that with the target population of less than 480 companies the minimum sample size should be 214 SMEs. With respect to a very low response rate in the similar studies in other countries and talking to SMEs club top managers; we decided to increase the sample size number close to 350 SMEs. We sent the questionnaire to top managers (either the president or a vice-president with the firm) of 353 foreign SMEs. We sent reminding Emails and made telephone reminders. As we addressed the questionnaire to the top management, the likelihood that the CEO was involved in the first internationalization decision making processes was high. We also took the opportunity of annual SMEs seminar that was hold by O.I.E.T.A.I SMEs club at the end of the 2016 year and with the help of O.I.E.T.A.I staff during the seminar we contacted directly with the top managers and this motivate them to fill in the questionnaire faster. This method in expanding questionnaire among top managers is highly suggested, since not only provide the opportunity to motivate CEOs for quickly response and boost response rate but also will be helpful to smooth the respondents' ambiguity and misunderstanding. Yielded responses from 353 firms, resulting in an unbelievable response rate of 288 firms out of the 353 firms, (81.5% response rate) that is more than 214 minimum sample size suggested with Krejcie and Morgan (1970).

4.2 Measures

Dependent variable

The dependent variable represents foreign entry mode, defined as a dummy variable and coded 0 for a wholly owned subsidiary and 1 for a joint venture. Entry mode type was determined by asking respondents to indicate what mode they used in their most recent international entry in Iran (Anderson and Gatignon 1986, Hennart 1998). They were given the choice of two mode types; Wholly-owned modes (95% or more ownership), and joint ventures (5% - 94% ownership).

Independent variables

The independent variables examined in this study stemmed from conceptualization of institutional theory and transaction cost theory and have been included in previous studies that examined large and SMEs firm entry mode behavior.

Regulative risk

In this study, we measured regulative risk based on four items. These items include legal restrictions (the extent to which there were legal restrictions on the choice of entry mode at the time SMEs entered Iran); perceived property rights protection in Iran (the extent to which there were protection of intellectual property rights, patent protection, and copyright piracy at the time you entered this country), and Legal complexity which was measured through asking two questions derived from Dedigama, (2009). "In general, information on laws and regulations affecting my firm was easy to obtain" and "In general, interpretations on laws and regulations affecting my firm were consistent and predictable".

Host-country network relations/tie

To measure host-country network ties, we used a two item scale. Items includes "Knowledge about and contact with business partners (such as key suppliers) in the foreign market was well established" and "A comprehensive network of business relationships with customers was already established in the foreign market" (l=low extent, 5=high extent) Schwens and Kabst (2009).

In addition to the two above item scale, we also used a perceptual measurement scale that asked executives to describe how close the links the top management team with six different parties were along a five-point scale (1-no relationship, 5=very close relationship). We used institutional network ties, consists of six parties that represent ties to different institutions (Key member in trade associations, University professors, scientist, engineers, Bankers and financial institution people, Individuals who sit on the board of directors of other key firms, Individuals who sit on government committees related to this industry, Key member in industry (Yiu et al., 2002)).

Imitation

We measured imitation using a three-item scale (Schwens & Kabst, 2009). Statements included at the time you entered this country, ‘‘Extent to which the firm acquired knowledge about the foreign market through imitating a host country firm’s structure’’, ‘‘extent to which the firm acquired knowledge about the foreign market through imitating firms perceived as best practices’’ and ‘‘extent to which the firm acquired knowledge about the Iran market through imitating dominating modes of penetration’’ (l=low extent, 5=high extent).

Cultural proximity

To measure the cultural proximity between home and host countries, we used Kogut and Singh's (1988) well-known construct of cultural distance. Through using Hofstede's indices, the composite index was formed based on the deviation along each of the four cultural dimensions (i.e., power distance, uncertainty avoidance, masculinity/femininity, and individualism) of each country from the Iran ranking. The deviations were corrected for differences in the variances of each dimension and then arithmetically averaged. Algebraically, we used the following index:

$$CD_j = \sum_{i=1}^{4} \{(I_{ij} - I_{iu})^2/V_i\}/4$$

Where Iij stands for the index for the ith cultural dimension and jth country, Vi is the variance of the index of the ith dimension, u indicates the Iran, and CDj is cultural difference of the jth country from the Iran. The validity of these dimensions has been empirically confirmed in many studies (e.g., Slangen and Hennart, 2008), indicating that they can reliably be used to classify countries according to their national cultures, and to determine the cultural distance between them.

SME's International experience

Luo (2002) suggest that both diversity and intensity of international experience influence learning and hence the choice of foreign entry mode. Based on this literature, we asked “the number of years that had passed since the firm’s initial involvement with any of the international operations” and measured the intensity of international experience through log of the number of year’s international experience and also in order to measure diversity of international experience two questions “the extent of parents company experience with shared modes and wholly owned modes in other countries” were asked (1, very poor experience to 5 very good experience). The responses to these three questions were standardized and summed to create a new variable: International experience.

SME's Host country (local) experience

We measured home country experience by “whether the firm had previously been active in the country entered (Iran)”, if yes, please tick all forms of involvement that applied. 1) by means of licensing agreements, 2) by means of one or more sales agents, 3) by means of one or more sales subsidiaries, 4) by means of one or more manufacturing or service subsidiaries, 5) other means (Slangen and Hennart, 2008). Specifically, the first four experience types were given the values of 1 through 4, respectively. Almost all experiences in the fifth category involved direct exports to the host country and were assigned a value of 2. Our measure of an SME's host-country experience is the sum of the values assigned to the different experience type.

Control variables

We included two control variables, as follow:

Sector of operation -Dummy

In addition, and in accordance with the literature, we control for different sector of operations (Yiu and Makino, 2002; Brouthers, 2002; Brouthers & Nakos, 2004, Slangen and Hennart, 2008) and asked each respondent to disclose the industry they were investing in. The paper captures the effect of these sectorial characteristics via dummy variables.

The sample includes “Industry, Construction, Service, Agriculture, Transport & Communications, Mining and Water, Electricity and Gas supply” firms. We control for 7 industry dummies including C1, Industry; C2, Construction; C3, Service; C4, Agriculture; C5, Transport & Communications; C6, Mining and C7, Water, Electricity and Gas supply. C1, Industry considered as the baseline.

Family businesses

Studying a sample of small and medium-sized international firms, we also decided to include family business as a dichotomous control variable. For SMEs, internationalization is an important strategic decision that is in turn often strongly influenced by family members (Basly, 2007). In family businesses strategic decisions such as the international venturing ambitions of a firm are to a large extent influenced by family members. ‘‘Is your company a family enterprise or is the majority of capital owned by one family or entrepreneur respectively’’ (dichotomous; family business coded 1, non-family business coded 0).

Analysis

The data for this research was quantitative. We obtained data from SoJump.com and converted it for use with SPSS 22.0. After checking Non-response bias and doing Common method variance analysis, reliability and validity tests were conducted before actual data analysis. Exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) were implemented in this research to examine the composite reliability. Next two tests were conducted, namely Kaiser-Meyer-Olkin (KMO) test and Bartlett's test for sphericity. Model fit indexes included X 2/df, RMR, RMSEA, GFI, AGFI, PGFI, TLI, CFI were tested to check the measurement model acceptability. All the above conditions were satisfied, and showed that all the fit indices were in the ideal range, which showed that the model has a good fitting degree.

Table 1 (Correlation analysis) presents the means, variance inflation factor values (VIF) and standard deviations of all variables in the model as well as their bivariate correlations. The correlation coefficients depicted in Table 1 showed no serious risk for multicollinearity between the dependent, control, and independent variables (Anderson et al., 1996). In consideration of the influences of independent and control variables on dependent variable (entry mode choice of SMEs), logistic regression analysis was conducted (table 2).

Table 1: Mean values, Standard Deviations (SD), Variance Inflation Factors (VIFs) and correlations

Variable	1	2	3	4	5	6	7	8	9
Mean	7.48	2.32	2.31	2.36	2.41	2.32	0.29	1.34	0.43
S.D.	1.43	0.81	0.7	1.41	0.84	0.76	0.46	0.44	0.5
VIF	1.49	1.64	1.33	1.21	1.54	1.58	1.21	1.17	
Regulative risk (RR-)	1								
Host-country networks (HCN+)	0.06	1							
Imitation (IM+)	0.1	0.32**	1						
Cultural distance (CD-)	-0.64*	0.11	-0.15	1					
International experience (IE+)	-0.11	0.47***	0.32*	-0.02	1				
Host country (local) experience (LE+)	0.13	0.29**	0.48***	-0.08	0.06	1			
Sector of operation-Dummy	0.11	0.07	0.06	0.1	0.1	0.01	1		
ownership structure (family/non-family)	-0.06	0.08	0.05	-0.04	0.12	-0.27**	0.24	1	
SME entry mode choice (WOS/JV)	-0.13*	0.27**	0.18*	-0.12	0.29	0.26**	0.14	-0.04	1
Note: *: p<0.05; **: p<0.01; ***: p<0.001 Dependent Variable: WOS=1 JV=0									

Table 2: Logistic regression

Explained variable	Model 1	Model 2
Direct Variables		
Regulative risk (RR-)		-0.183*
Host-country networks (HCN+)		0.333**
Imitation (IM+)		0.272**
Cultural distance (CD-)		-1.37
International experience (IE+)		0.082
Host country (local) experience (LE+)		0.421**
Control Variable		
Sector of operation-Dummy	0.207	0.129
ownership structure (family/non-family)	-0.36	-0.414
Statistics		
Model X^2	15.58	46.98**
R^2(Cox & Snell)	0.081	0.532
R^2(Nagelkerke)	0.117	0.583
DW	1.838	1.94
Chi-square	18.412	52.562
Significance	0.005	0
Note: *: P< 0.05, **: P< 0.01, ***: P< 0.001 N=288 Dependent Variable: WOS=1 JV=0		

test

4.3 Empirical results

In order to test our hypotheses, logistic regression was used, which is common in studies related to entry mode choice. The final model (table 2) is statistically significant (Model X^2 = 46.98, P<

0.001). After testing the direct effects of control variables (Model 1), the direct effects of independent variables on entry mode choice (Model 2) were examined. The hypothesis testing results are as follow.

With respect to control variables, Sector of operation and ownership structure (family/non-family) in model 1 (table2) were examined. Contrary to what was expected, we couldn't find any significant impact of both control variables on entry mode choice (WOS entry).

Respect to perceived regulative risk and its impact on choosing WOS (H1), our finding supports the arguments that SMEs in the environment characterized with high perceived regulative risk are less likely to choose fully control entry modes in comparison with JV. Perceived regulative risk has a negative significant impact (coefficient of -0.183 and significant at 0.05). Thus, H1 is supported by the results. This Finding is along with previous scholars findings (Agarwal S. and Ramaswami S.N., 1992 ; Brouthers, 2002; Chen et al., 2009; Schwens & Kabst, 2009; Powell, S.K., Lim, E. , 2017).

As shown in the results, SME's host country network ties has a significant impact (coefficient of 0.333 and significant at 0.01). Thus, H2 is strongly supported by the results. This Finding is along with previous scholars findings (Maekelburger et al., 2012; and Maekelburger et al., 2015).

Results show that newly-entered SMEs prefer having mimetic behavior from successful predecessors. Imitation of their successful predecessors has a significant impact (coefficient of 0.272 and significant at 0.01) on choosing entry mode. Thus, H3 is supported by the results. This finding is along with previous scholars findings (Yiu and Makino, 2002; Lu, 2002; Chen et al., 2009; Maekelburger et al., 2012; and Maekelburger et al., 2015).

Contrary to what was expected, we couldn't find any significant impact of Cultural distance on entry mode choice (WOS entry). Thus, H4 is rejected by the results. This result has been confirmed with other scholars (Cheng, 2008; Chen et al., 2009; Schwens & Kabst, 2009; Lopez, 2010; Maekelburger et al., 2012; Efrat & Shoham, 2013).

Respect to SME's international experience and its impact on choosing WOS, contrary to what was expected, variable was not predictors of entry mode choice and leading to the rejection of H5. This finding is along with previous scholars findings (Shrader, 2001; Shi, Y. Zh., Ho, P. Y., and Siu, W. S., 2001; Brouthers, 2002; Blomstermo, A., Sharma, D.D., Sallis, J. , 2006; Lopez-Duarte, C., & Vidal-Suarez, M. M., 2010).

As shown in the results, SME's Host country (local) experience has a significant impact (coefficient of 0.421 and significant at 0.01). Thus, H6 is strongly supported by the results. This Finding is along with previous scholars findings (Yiu and Makino, 2002; Lopez, 2010; Powell and Lim, 2017).

5. Discussion and Conclusion

The relationship between market specific knowledge, which is acquired mainly through effective operational experience, host country network ties and mimetic behaviors in a foreign market and the firm's entry mode decision, has been addressed by a number of authors (Shi et al.,2001; Yiu and Makino, 2002; Lopez, 2010; Maekelburger et al., 2015; Powell and Lim, 2017).

The significant positive coefficients of network ties and host country experience in the research regression analysis are consistent with SMEs preference in choosing WOS.

Research has shown that learning from networks is particularly relevant for SMEs (Schwens & Kabst, 2009). Access to networks provides learning opportunities about foreign markets without gaining own experiential knowledge (Kale, Singh, & Perlmutter, 2000). Exploiting knowledge from network partners helps an early internationalizer to overcome liabilities of foreignness. There has been a stream of research supporting the argument that inter-organizational learning in business relationships allows for acquiring even tacit knowledge from the different actors in the network (Andersson, Forsgren, & Pedersen, 2001).

Moati (2009) shows experience and imitation should be considered simultaneously as distinct learning mechanisms that could act as complements or substitutes when choosing the mode of entry. Through using isomorphism theoretical background, he shows that the choice of expansion mode is highly influenced by competitor moves. Lieberman and Asaba (2006) literature review on business imitation behavior evidenced two major groups of motives for imitation, often acting simultaneously: (1) information-based theories, where firms follow others that are considered as holding superior information and (2) rivalry-based theories where firms imitate others in order to maintain current competitive equilibrium. Through imitation, the market leaders produce a network-learning effect, resulting in the erection of barriers to new entrants. The network so established will also have an external benefit on the followers if they adopt the same business practices (Chen et al., 2009).Imitation in this research was measured through the extent to which the firm acquired knowledge about the foreign market through imitating firms perceived as having the best practices or having dominating modes of market entry. Our results confirm the existence of mimetic behavior in the SMEs entry mode choice and support the arguments considering mimetic behavior as a learning mechanism to acquire knowledge from dominant and successful market entry modes.

This study mentioned a number of factors that may be considered by SME managers, who make decisions related to entry mode decisions. Regarding to managerial implications, also different mechanisms to acquire market specific knowledge which is important in making an appropriate market entry mode has been discussed in details. This study, thus, contributes to theory development in the field of internationalization processes of firms and examines empirical motivation with a view of linking them to institutional explanations behind SMEs mode entry choice in Iran. The study, therefore, contributes to our understanding of the motives behind a firm's entry choice and the theories underpinning such decisions.

To sum up, host country experience (SMEs own experiential l knowledge), network ties in the host country and imitation of best practices are all different mechanism of acquiring market specific knowledge which helps SMEs to reduce uncertainties and complexities related to the host country and motivate SMEs to have entry modes with more equity commitment (like wholly owned entry mode).

Acknowledgements
We are grateful to Business School, University of International Business and Economics for facilitating this research project. Our special thank goes to the Organization for Investment, Economic and Technical Assistance of Iran (O.I.E.T.A.I.) that provided us access to its database and supported us all through the survey phase of the research in Iran. We are grateful to Mr. Vinod Kumar Chandola for reviewing and commenting this article.

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