ARTICLE IN PRESS

Industrial Marketing Management xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Industrial Marketing Management

journal homepage: www.elsevier.com/locate/indmarman

Institutional and resource configurations associated with different SME foreign market entry modes

Valerie Lindsay[a,*], Michel Rod[b], Nicholas Ashill[a]

[a] American University of Sharjah, P.O. Box 26666, Sharjah, UAE
[b] Sprott School of Business, Carleton University, 1125 Colonel By Drive, Ottawa, Canada

ARTICLE INFO

Keywords:
SME
Internationalization
Market entry mode
Resource
Institution
Configuration

ABSTRACT

This study explores the different configurations of internal and externally sourced resources utilized by SMEs, as well as host and home country institutional influences (hereafter abbreviated to 'internal and external resources', and 'host and home country institutions', respectively) across different foreign market entry modes in a B2B setting. Specifically, this research illustrates the different relative representations of internal vs external resources and host vs home institutions associated with different entry modes, including non-investment/contractual and early-stage investment modes. The different configurations resulting from our study are tentatively explained in the context of prevailing theoretical perspectives, namely, the resource-based view, institutional theory, and SME internationalization. Our research extends the existing literature on SME internationalization by identifying that different resource-institutional configurations are associated with different foreign market entry modes.

1. Introduction

The main theoretical foundations explaining foreign market entry have been well established and extensively studied over time, where the extant literature has focused primarily on higher investment modes of entry of multinational enterprises (MNEs), such as joint ventures (JVs) and wholly-owned subsidiaries, into developed markets. These foundations emphasize the antecedents to market entry choice and draw on transaction cost economics (TCE), the resource-based view of the firm (RBV), and institutional theory, as well as Dunning's eclectic framework of ownership, location and internalization (OLI) advantages (e.g. see Brouthers & Hennart, 2007; Brouthers, 2013). Institutional theoretical approaches (North, 1990), have mainly been used to examine external (usually host country) factors, while the RBV of the firm (Wernerfelt, 1984) has been applied to address internal (firm-specific) resources. Given this relatively substantial literature, it has been well established that (i) firms internalize resources as their investment mode into foreign markets increases (e.g. Buckley & Casson, 2009, 2011), and (ii) firms can better deal with institutional pressure as they gain international experience (e.g. Delios, 2011). Studies focusing on SMEs and their most commonly used entry modes (non-equity and low investment modes) are sparse compared to the large firm literature, although many of the same theoretical foundations have been applied across both contexts (Paul, Parthasarathy, & Gupta, 2017).

Much of this literature is concerned with B2B contexts, and is particularly focused on relationships and networks as drivers of the processes and decision-making involved in internationalization and market entry choices (Okoroafo, 1991). For example, exporters typically rely on relationships with intermediaries, such as distributors, to sell their products in a foreign market (Paul et al., 2017). Similarly, joint venture partners are usually business partners, and when SMEs sell direct to an end-user, it is most often to a business customer. This study is, therefore, relevant to journals such as *Industrial Marketing Management*, which has a rich history of published work on internationalization, some of which explicitly emphasizes the industrial/B2B marketing context. Because our study concerns SMEs and international marketing relationships, where the buyers are organizations and where buyer-seller relationships are a critical aspect of both resource acquisition and securing institutional support (e.g. Calantone, Di Benedetto, & Song, 2010), we feel that it is particularly relevant to an industrial marketing audience, which also has recognized expertise in international marketing.

The aim of this research is to extend existing theory as it relates to SME market entry mode by exploring the utilization of resources and exposure to institutions in a range of non-equity and lower investment modes. Specifically, using a qualitative approach, we examine the different configurations (combinations) of resources (external vs internal) and institutions (host vs home) that are evident in different SME market

* Corresponding author.
E-mail addresses: vlindsay@aus.edu (V. Lindsay), michel.rod@carleton.ca (M. Rod), nashill@aus.edu (N. Ashill).

http://dx.doi.org/10.1016/j.indmarman.2017.07.014
Received 28 April 2016; Received in revised form 24 July 2017; Accepted 25 July 2017
0019-8501/

entry modes. Given the established literature, our premise is that SMEs draw differently on external vs internal resources and are exposed differently to host country institutions and home country support with different types of entry mode.

Although there is considerable research on resources and institutions in market entry (e.g. Lu, Zhou, Bruton, & Li, 2010; Niu, Wang, & Dong, 2013), these have only rarely been examined in SMEs (an exception being Brouthers, 2013), and virtually no work has been published in regard to their interactive influences on SME foreign market entry mode (Laufs & Schwens, 2014). Debate continues on whether resource and institutional influences can be explained by existing theoretical perspectives relevant to larger MNEs (Paul et al., 2017; Svetličič, Jaklič, & Burger, 2007), since differences in SMEs have been noted (Brouthers & Hennart, 2007; Coviello & Munro, 1997). For example, it is now well-established that SMEs have different characteristics and drivers for internationalization and entry mode choice (Benito, Petersen, & Welch, 2009; Bradley, Meyer, & Gao, 2006; Brouthers & Nakos, 2004), as well as different needs for information, knowledge and expertise (Seringhaus, 1987) compared to large firms.

Since they lack resources and capabilities, including critical financial resources, internationalizing SMEs rely on accessing resources externally from the market, in order to augment their own. Typically, when resources are lacking, internationalizing SMEs engage in lower investment, non-equity-based modes of foreign market entry (Paul et al., 2017), or in hybrid, rather than hierarchical export channels (He, Brouthers, & Filatotchev, 2013). However, much of the research on SME entry mode focuses on international joint venture partners (Lu & Beamish, 2006) as providers of these resources, suggesting that SMEs should pursue a JV entry mode in order to gain resource access. Arguably, the resource issue is at least, if not more, pressing for SMEs pursuing non-investment modes, where they must rely largely on their intermediaries (Hamill, 1997), or network partners (Tang, 2011; Zhou, Wu, & Luo, 2007) in the host market for providing or facilitating resource access. Intermediaries, such as distributors, have often been viewed in the literature as opportunistic (Cavusgil, Deligonul, & Zhang, 2004), more than as a repository of resources or facilitators to resource access. In comparison with JVs, relatively little research has considered this resource-providing role of intermediaries. We, therefore, base our research on SMEs following a range of non-equity, or low investment modes of entry: direct exporting (no intermediaries, direct business-to-business - B2B), the use of intermediaries in a B2B relationship, a host country-based representative office, as well as the equity-based mode of JVs with B2B partners, in order to examine how SMEs configure the utilization of their own internal resources relative to externally-accessed resources.

Entry mode studies also report on the role of institutional factors, mostly regarding these as an antecedent to entry mode choice (Brouthers, 2002), or influencing export performance (He et al., 2013). In institutionally distant host countries, firms must deal with institutional factors with which they are unfamiliar. This is especially problematic for SMEs, which may not have the networks, knowledge, experience, or other resources to deal with them (Hilmersson & Jansson, 2012a, 2012b). SMEs also generally face liabilities of smallness (Maekelburger, Schwens, & Kabst, 2012), foreignness (Qian, Li, & Rugman, 2013; Zhou & Guillén, 2015) and outsiderness (Johanson & Vahlne, 2009), which reflect resource constraints and the need for legitimacy-building in a host market.

SMEs, therefore, face particularly challenging circumstances in institutionally distant host markets, both in terms of exposure to host country institutional pressures, and resource constraints. Home country institutions can often help an SME to overcome some of these pressures in the host market (Schwens, Eiche, & Kabst, 2011). For example, government assistance may provide resources (financial, advisory etc.) to internationalizing SMEs either at home or in the host country, or training (relating to aspects such as the regulatory environment or cultural factors). Understanding how an SME's exposure to host country institutional pressures and its use of institutional support from home country institutions interact will help to better define these respective institutional roles. Because internationalizing SMEs learn experientially, whether gradually (Johanson & Vahlne, 2009), or by accumulating experience in other ways before internationalizing (e.g. from the SME's earlier international experience, or by recruiting international talent (Crick & Spence, 2005), or from network partners (Coviello, 2006), they will be more, or less, well equipped to deal with institutional pressures on their own. This will also be reflected in the extent to which they draw on home country institutional support when facing institutional pressures in a host country.

Both the RBV and institutional theory offer theoretical perspectives that can be applied to SME entry in foreign markets. As already outlined, a number of studies have utilized these approaches (e.g. Lu et al., 2010), although, with very few exceptions (Brouthers, 2013; He et al., 2013), seldom together, despite calls for such research (Paul et al., 2017). Brouthers and Hennart (2007) note that entry mode research could definitely benefit from research that explores how resource-based, institutional, and transaction cost theoretical perspectives influence each other. Brouthers (2013) emphasizes the need to look at the interactive manner in which institutional factors influence resources (and transaction costs) in entry mode decisions, as well as the interaction between home and host country institutions, not only on the entry mode decision, but also on what happens after entry. Brouthers (2013) also suggests that more nuanced studies can help to elucidate the interactions between internal and external influences on mode choice. Addressing how SMEs optimize their access to, and use of, external vs. internal resources, and the extent to which they are influenced by home vs. host institutions in their adoption of different entry modes, presents intriguing questions. These are important to understand because these firms generally face challenges relating to both limited resources and institutional pressures at the same time, and the extent to which these are mutually influential is unclear.

Following recommendations from other studies, as noted earlier, we draw on the RBV and institutional theory to explore resources and institutions in the market entry modes of SMEs. In a departure from most of the existing literature, which focuses mainly on host country institutions, we consider the roles of both home country and host country institutions (Brouthers & Hennart, 2007). Home country institutions are especially important to SMEs internationalizing; for example, in terms of government assistance (Crick & Lindsay, 2015; Durmuşoğlu, Apfelthaler, Nayir, Alvarez, & Mughan, 2012) or in how relationships with home country industrial suppliers shape SME internationalization and growth processes (Tunisini & Bocconcelli, 2009). In parallel to examining home and host country institutional influences, we also investigate the use of internal vs external resources by SMEs internationalizing, thus aiming to explore how these four dimensions interact. In so doing, we respond, in part, to calls for not only more entry mode research in general (Hennart & Slangen, 2015), but also for the integration of different theoretical perspectives in SME market entry mode research (Lepine & Wilcox-King, 2010; Okhuysen & Bonardi, 2011). In particular, we respond to calls for more use of RBV and institutional theory in exporting research (He et al., 2013). Incorporating both perspectives allows for the consideration of internal and external factors (Paul et al., 2017), as well as the firm and its context (He et al., 2013). We focus, not on the SME's *choice* of entry mode, but rather on identifying the relative configurations of resources and institutional influences observed in different entry modes. Using a qualitative research approach, we explore these configurations and illustrate how the characteristics of a particular entry mode (i.e. availability of external resources and the level of institutional pressure) may help or hinder the SME's ability to address their resource deficiency and institutional exposure, and the extent to which these interact.

Our paper is organized as follows. First, we review the relevant literature. Since the constructs, resources, institutional influences, and entry mode have been reviewed extensively across the strategic