INDIRECT INTERNATIONALIZATION OF SMALL VENTURES: A DEVELOPMENT AND TEST OF TWO THEORIES (SUMMARY)

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SUMMARY

INDIRECT INTERNATIONALIZATION OF SMALL VENTURES:
A DEVELOPMENT AND TEST OF TWO THEORIES

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Principal Topic

Despite liabilities of newness, small size and foreignness, an increasing number of SMEs pursue international markets for their goods/services. Extant internationalization research focuses on ventures’ direct (e.g. exporting) means to internationalization, however an emerging strand of research explores how firms pursue an indirect path to internationalization (e.g. Acs, Morck & Yeung, 1997; Peng & York, 2001, Acs & Terjesen, 2006) using local and foreign intermediaries to sell their goods/services across national borders.

This paper develops and tests two theoretical arguments for why firms choose an indirect path to internationalization. Institutional and resource dependency theory both assume organizational choice is constrained by multiple external pressures, and that organizations are concerned with building legitimacy and acceptance vis-à-vis external stakeholders (Oliver, 1991). According to institutional theory, organizations operate within a social framework of assumptions about what constitutes appropriate behavior (Oliver, 1997; Scott, 1995) within an “organization field” which typically moves towards common structures and processes (DiMaggio & Powell, 1983). Resource dependency theory is also concerned with the organization-environment relationship, but assumes the organization makes active choices to achieve objectives by reducing reliance or increasing influence over key environmental resources. Resource dependency could also be interpreted to explain how an entrepreneurial firm might seek indirect internationalization to reduce its exposure to an undesirable home market.

Method

We collected data on 871 Dutch SMEs direct and indirect internationalization modes and employ multinomial and binomial logistic regressions. Independent variables include TMT foreign experience, foreign presence of domestic competitors, customers and suppliers. Controls include firm age, number of employees and industry.

Results and Implications

Twenty-two percent of the sample engage export directly; 9% employ an indirect intermediary, most commonly abroad (81%), however 26% employ both a Dutch and a foreign intermediary. Our study contributes to existing research on entry mode decisions of SMEs by incorporating resource dependency and institutional theory arguments and by focusing on explaining SMEs’ indirect as well as direct export involvement. Compared to the direct mode, firms pursuing indirect modes are more likely to perceive favorable national finance market access and less likely to perceive favorable national production costs. We discuss implications for industrial development policymakers.

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