Liabilities of Origin and Emerging Economy SME
Internationalization

by
Shobhana Palat Madhavan
B.Engg, PGDM, M.P.S

Submitted in fulfilment of the requirements for the degree of
Doctor of Philosophy

Deakin University
8 June 2019
I am the author of the thesis entitled

Liabilities of Origin and Emerging Economy SME Internationalization

submitted for the degree of Doctor of Philosophy

This thesis may be made available for consultation, loan and limited copying in accordance with the Copyright Act 1968.

'I certify that I am the student named below and that the information provided in the form is correct'

Full Name: Shobhana Palat Madhavan

Signed: [Signature Redacted by Library]

Date: 8 June 2019
DEAKIN UNIVERSITY
CANDIDATE DECLARATION

I certify the following about the thesis entitled

**Liabilities of Origin and Emerging Economy SME Internationalization** submitted

for the degree of **Doctor of Philosophy**

a. I am the creator of all or part of the whole work(s) (including content and
   layout) and that where reference is made to the work of others, due
   acknowledgment is given.

b. The work(s) are not in any way a violation or infringement of any copyright,
   trademark, patent, or other rights whatsoever of any person.

c. That if the work(s) have been commissioned, sponsored or supported by any
   organisation, I have fulfilled all of the obligations required by such contract or
   agreement.

d. That any material in the thesis which has been accepted for a degree or diploma
   by any university or institution is identified in the text.

e. All research integrity requirements have been complied with.

'I certify that I am the student named below and that the information provided in
the form is correct'

**Full Name:** Shobhana Palat Madhavan

**Signed:**

**Date:** 8 June 2019
PUBLICATIONS

Published Work


Conference Presentation

ACKNOWLEDGEMENTS

This PhD journey has been a journey of learning, a journey of growth and a journey that could not have been completed without the generosity and help of many. It truly took a village to complete writing this dissertation.

I begin by thanking my wonderful team of supervisors at Deakin University — Jane Menzies and Ambika Zutshi. Jane, you are an epitome of wisdom and calm. I consider myself blessed to have you as my principal supervisor. You pushed me to keep doing better work, while always being gentle in your feedback. Ambika, you helped me during a very challenging period. I can never thank you enough for getting my PhD back on track. Your dedication and professionalism are truly inspiring. Jane and Ambika, you gave me complete intellectual freedom but continually challenged me with your “So what?” and “What’s new?” questions. Your commitment to getting this PhD completed is truly humbling. I would also like to thank Rajiv Prasad, my local supervisor at Amrita University. Rajiv, your unquestioning faith in my capabilities and your support at critical junctures gave me a lot of strength.

Many faculty members at Deakin University provided support to help finish this PhD. Andrew Noblet, Amanda Pyman, Keith Abbott, Alexander Newman and Doren Chadee were incredibly generous with their time and intellectual inputs. Thank you. The admin team at Deakin School of Business including Julie Asquith, Vilia Dukas, and Gloria Stevenson were just wonderful. Elizabeth Fitzgerald, a pillar of strength and a repository of knowledge on HDR procedures, helped me right from the beginning to the end of my PhD.
My PhD cohort group in the EA room at Deakin provided joy and cheer even during stressful periods. Maral Mayeh, Katie Rowe, Dinithi Pallegadara, and Sarah Steen could be counted on for sharing wise counsel, good food, and laughter. Thank you all. Cecilia Liddle, you provided me a home in Australia. You are a role model of what a woman can achieve. You are an academic, a wonderful mother, a philanthropist, a sportswoman, a musician, a potter, and not to mention, a fantastic baker!

In India, there are a few friends without whom I could not have coped with the stresses and strains of the PhD. Ramya Neelamegham, you provided me emotional, intellectual and spiritual support from the beginning to the end of my PhD journey. I could not have managed without you. Kezevino Aram, you conferred a PhD on me long before any university did, and I am blessed to have you in my life. Through your own example, I have learned that it is possible to combine a brilliant intellect, a generous heart, and a life lived in service. Shweta, my young friend, your dedication to research motivates me. Satyan and Vaisakh, I have counted on you for your prayers many times during the PhD because I believe with your pure hearts you have a direct line to the Universe. Dr. S.Krishnamoorthy, former Registrar, Amrita University, thank you for your faith in my capabilities and your unending support through all these years at the University.

The essence of this PhD lies in the insights I gained from the entrepreneurs. I thank Vijay Ramakrishnan, Kezevino, Subhash and Archana, Deepak S. Kumar, Sreenath Shekhar and M. Preethi for helping me out with the interviews. While I cannot name the SME experts and 22 entrepreneurs, I am extremely grateful to all
of them for opening up to me and sharing their experiences. Before I began this PhD, I had no idea that running an SME in India was such a challenge. My admiration for Indian entrepreneurs has multiplied many times after the interviews. Thank you all for trying to make a positive difference to India.

My family has been anxiously waiting for Shobhana’s PhD to finish. Every phone call with my mother and my sister Padmini over the past five years has ended with the phrase “but you must finish your PhD”. With that kind of caring, I did not dare to give up! My mother has already asked for her own copy of the dissertation. I thank all my siblings, Sudha, Padmini, Achuthan, and their spouses, Anand, Ganesh and Usha. My beloved nieces and nephews — Tejas, Revathi and Anisha are all aspiring PhDs and Mukund is already on his way to completing his PhD at Columbia University. My late father, who has guided MTech and PhD students, would have been proud of this work, as entrepreneurship and innovation were close to his heart. Our gentle aunt Kanta Maussi, who finished her PhD over 40 years ago at Vanderbilt University, has been a light in our lives. My husband Deepak’s mother, Mummy, passed away during the time I was working on my PhD. Her spirit of graciousness and goodness continues to inspire me in my everyday life.

I have undoubtedly been blessed with the best spouse in the whole wide world, Deepak. He has been patient, caring and has been there for me every day of this PhD journey. He kept finding me resources on research methods. Even today as I write these acknowledgments, he asked me to read an article describing different perspectives in research methodology! I would never have solved the puzzle of what sometimes seemed like a very elusive concept — the liabilities of origin —
without his help. Deepak holds a PhD from UC Berkeley but never told me that I should be conducting this research in a certain way. Instead, he has always encouraged me to take ownership of my PhD and find my own path. Deepak, your loving presence in my life is pure grace.

Deepak’s and my life have been blessed with the presence of the Divine Mother in many forms. Amma, Choti Maa, and Rama Mata have guided and helped me in ways that are inexpressible in words. This PhD journey has truly been a sadhana, or a spiritual journey. It has been a sadhana blessed with the loving and divine presence of all these Mothers. I offer this PhD dissertation at their feet.
ABSTRACT

The purpose of this dissertation is to understand the phenomenon of liabilities of origin (LOR) in the context of emerging economy (EE) small and medium enterprise (SME) internationalization. LOR refers to the additional disadvantages faced by an internationalizing firm attributable to home country institutional voids. The scholarly interest in the phenomenon of LOR has grown over the last decade because of the increasing participation of EE firms in global business, despite pervasive home country institutional voids. However, prior research is marked by diverse views on LOR and its constituent dimensions. Furthermore, there has been surprisingly little attention on how the perceptions of EE entrepreneurs of institutional voids could shape LOR, indicating a critical research gap. In addition, comparative internationalization research on the relative disadvantages of advanced economy (AE) and EE SMEs is sparse, signaling another research gap. Finally, firm-level strategic responses to LOR have been elaborated in prior studies, but the role of personal factors in overcoming LOR has not been examined.

To address these issues, this dissertation includes a systematic literature review, a qualitative study and a quantitative study. The systematic literature review resulted in the development of a novel conceptual framework that specified the relationships between home country institutional voids, the multiple levels of LOR (host country, firm and individual), and internationalization. The research design adopted is a multimethod concurrent triangulation design that includes a qualitative study and a quantitative study. The qualitative study of 22 EE entrepreneurs and three SME experts was based in India. This study used an
interpretive constructivist research approach that resulted in five major findings. First, the interviews revealed that the experience of LOR was subjective and varied across entrepreneurs. Second, institutional voids were found to result in LOR at three levels — host country, firm-level and individual level. Third, the burden of regulatory compliance, pervasive corruption and lack of professionalism were the institutional voids perceived as most likely to result in LOR. Fourth, institutional voids impacted the mindset of EE entrepreneurs and subsequent internationalization by reducing their mental bandwidth, limiting their growth ambitions, and evoking negative emotions. Finally, self-efficacy was found to be a coping mechanism to deal with institutional voids.

The quantitative study using secondary data for 23 EEs and 39 AEs found that EE entrepreneurs face higher costs of internationalization compared to their AE counterparts. Further, EE entrepreneurs are likely to have a lower propensity to export and lower intensity of export than AE entrepreneurs. Among the three institutional voids tested, only poor regulatory quality was found to have a significant negative impact on EE SME internationalization. Self-efficacy was found to help EE entrepreneurs overcome the negative impact of the burden of regulatory compliance on internationalization.

Taken together, this dissertation suggests that home country institutional voids result in additional disadvantages — in other words, LOR — for internationalizing EE entrepreneurs as compared to AE entrepreneurs. The dissertation contributes to SME internationalization literature by elaborating on how formal and informal home country institutional voids shape decision-making in internationalization. Furthermore, it augments the international entrepreneurship literature by showing
how institutional voids impact entrepreneurial mindset. This dissertation also contributes to the entrepreneurial psychology literature by employing the concepts of mental bandwidth, growth mindset, and emotions in the context of institutional voids and SME internationalization. The dissertation highlights the important role of training EE entrepreneurs to develop self-efficacy to help overcome LOR thereby contributing to practice. Self-efficacy has already been identified as one of the most relevant personality dimensions that positively impact business creation and performance in the entrepreneurship literature. This dissertation reinforces its importance in the context of institutional voids and EE SME internationalization.

Keywords

# TABLE OF CONTENTS

PUBLICATIONS.................................................................................................................. i
ACKNOWLEDGEMENTS.................................................................................................. ii
ABSTRACT ......................................................................................................................... vi
TABLE OF CONTENTS..................................................................................................... ix
LIST OF TABLES............................................................................................................... xiv
LIST OF FIGURES.............................................................................................................. xv
LIST OF ACRONYMS......................................................................................................... xvi

1. Chapter One: Introduction......................................................................................... 1
   1.1 Chapter Overview.................................................................................................... 1
   1.2 Background and Motivation.................................................................................. 1
   1.3 Research Questions ............................................................................................ 8
   1.4 Research Design ............................................................................................... 10
   1.5 Theoretical Perspectives .................................................................................. 12
   1.6 Overview of Dissertation: Three Essays ...................................................... 14
   1.7 Scope and Context of Study .............................................................................. 15
   1.8 Contributions ................................................................................................... 18
   1.9 Organization of Dissertation ........................................................................... 22
   1.10 Chapter Summary ............................................................................................ 24

2. Chapter Two - ESSAY ONE: Systematic Literature Review ......................... 26
   2.1 Introduction ........................................................................................................ 26
   2.2 Background and Motivation ............................................................................ 26
   2.3 Difference between LOR and related IB concepts ...................................... 28
   2.4 Literature review methodology .................................................................. 32
   2.5 Definitions and dimensions of LOR concept ............................................ 42
   2.6 Review of methods used in LOR studies .................................................. 44
   2.7 Theoretical perspectives used to understand LOR .................................. 45
      2.7.1 Institutional theory ................................................................. 45
      2.7.2 Country-of-origin effect ............................................................ 47
2.7.3 Other Theoretical Perspectives .......................................................... 48

2.8 Thematic review ......................................................................................... 48

2.8.1 Institutional quality in home country: Institutional voids ...................... 48

2.8.2 Lack of legitimacy in host country ......................................................... 49

2.8.3 Strategic responses to overcome liabilities of origin ......................... 50

2.8.4 Country-of-origin effect: Stereotypes and negative country image .... 50

2.8.5 Organizational Attractiveness ............................................................... 51

2.8.6 Managerial mindset .............................................................................. 52

2.9 Liabilities of origin: Integrated conceptual framework, research gaps and future research agenda ................................................................. 52

2.9.1 Mindset LOR ......................................................................................... 54

2.9.2 Firm Capability LOR ............................................................................ 55

2.9.3 External Legitimacy LOR ...................................................................... 56

2.10 Future Research Agenda ......................................................................... 57

2.10.1 Institutional voids—Opportunities or impediments? Role of managerial mindset .................................................................................... 57

2.10.2 Comparing liabilities of origin faced by SMEs and MNEs ............... 58

2.10.3 Measurement of liabilities of origin ..................................................... 59

2.10.4 Assessing the effectiveness of strategic responses and host- and home-country variation .................................................................... 60

2.10.5 The dynamic nature of LOR and organizational learning ............ 61

2.11 Limitations ............................................................................................... 62

2.12 Conclusion ............................................................................................... 63

3. Chapter Three - ESSAY TWO: Qualitative Study of EE Entrepreneurs 65

3.1 Introduction .............................................................................................. 65

3.2 Background and Motivation ..................................................................... 65

3.3 Research Context ....................................................................................... 68

3.4 Research Methodology ............................................................................. 72

3.4.1 Data Collection ...................................................................................... 73

3.4.2 Data Analysis ......................................................................................... 82

3.5 Research Question One: Perception of Institutional Voids ............... 84

3.5.1 Burden of Compliance ........................................................................... 84
3.5.2 Lack of Control of Corruption ................................................................. 89
3.5.3 Lack of Government Support ................................................................. 95
3.5.4 Lack of a Professional Culture .............................................................. 98
3.5.5 Lack of Respect for Entrepreneurs and Social Value Orientation ....100
3.6 Research Qn. Two: Mechanism of LOR – Reducing Firm Capability. 101
3.6.1 Burden of Compliance LOR ................................................................. 101
3.6.2 Lack of Control of Corruption LOR .................................................... 102
3.6.3 Lack of Government Support LOR ....................................................... 105
3.7 Research Qn. Two: Mechanism of LOR- Legitimacy Disadvantage ...107
3.8 Research Qn. Two: Mechanism of LOR - Impact on Entrepreneurial Mindset ................................................................. 111
3.8.1 Impact of Institutional Voids on Mental Bandwidth ......................... 111
3.8.2 Impact of Institutional Voids on Growth Mindset ......................... 119
3.8.3 Impact on Entrepreneurial Emotions .............................................. 126
3.8.4 Self-Efficacy to deal with Institutional Voids ..................................... 131
3.9 Mindset LOR - Novel Constructs .......................................................... 134
3.10 Mindset LOR: Conceptual Framework and Propositions .............. 141
3.10.1 Negative Emotions LOR ................................................................. 143
3.10.2 Lack of Growth Mindset LOR .......................................................... 145
3.10.2 Mental Bandwidth LOR ................................................................. 146
3.11 Institutional Voids and LOR – Overall Findings ............................... 148
3.12 Limitations and Future Research ......................................................... 152
3.13 Conclusion ......................................................................................... 155

4.1 Chapter Overview .............................................................................. 157
4.2 Introduction ...................................................................................... 157
4.3 Research Questions .......................................................................... 161
4.4 Selection of EEs and AEs for Study .................................................. 165
4.5 Description of Data Sources .............................................................. 168
4.6 Part I: Home Country Institutional Quality and Costs of Internationalization ............................................................................. 176
LIST OF TABLES

Table 1-1 Structure of Dissertation Mapped to Research Objectives ............... 7
Table 1-2 Research Questions for Empirical Components of Dissertation .......... 9
Table 2-1 Differences Between the Concepts of COO, LOF, CDBA and LOR .... 29
Table 2-2 Definitions of LOR, Research Focus and Approach of LOR Studies .. 35
Table 3.1 Sample SMEs - Sector, Size, and Degree of Internationalization .... 77
Table 3.2 Institutional Voids and Mindset – Illustrative Quotes ............... 135
Table 4-1: List of Emerging and Advanced Economies ......................... 166
Table 4-2: Two Sample t-test for Six Worldwide Governance Indicators ........ 172
Table 4-3: Pairwise Correlations between Costs of International Business and Institutional Quality ................................................................. 179
Table 4-4: Two-sample t-test with Equal Variances - Export Documents ........ 181
Table 4-5: Two-sample t-test with Equal Variances – Documentation Costs .... 181
Table 4-6: Two-sample t-test with Equal Variances - Export and Import Time 182
Table 4-7: Comparing AE & EE entrepreneurs’ Intention to Export Year 2014 184
Table 4-8: Plan to Export Low Intensity 25<=50% .................................. 185
Table 4-9: Plan to Export Medium Intensity 50<=75% ............................... 186
Table 4-10: Plan to Export High Intensity >75% ..................................... 186
Table 4-11: Number of Respondents per Country GEM 2014 ..................... 200
Table 4-12: Data Description and Sources .............................................. 201
Table 4-13: Descriptive Statistics .......................................................... 209
Table 4-14: Pairwise correlations Emerging Economy Entrepreneurs .......... 210
Table 4-15 Pairwise correlations Advanced Economy Entrepreneurs .......... 211
Table 4-16: Results of the Regression Analysis ........................................ 213
Table 4-17: Overview of Regression Results .......................................... 216
Table 4-18: Overview of Results: Control Variables ................................. 217
LIST OF FIGURES

Figure 1.1: Overview of Research Design .........................................................11
Figure 2.1: An Integrated Conceptual Framework for Liabilities of Origin ........53
Figure 3.1: Entrepreneurial Mindset LOR: A Conceptual Framework ..........143
Figure 4.1 Empirical Model and Proposed Hypotheses .............................199
Figure 5.1: An Enhanced Conceptual Framework of LOR for EE SMEs .......242
Figure 5.2: Summary of Theoretical Contributions ....................................249
**LIST OF ACRONYMS**

<table>
<thead>
<tr>
<th>Abbr.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AE</td>
<td>Advanced Economy</td>
</tr>
<tr>
<td>AEs</td>
<td>Advanced Economies</td>
</tr>
<tr>
<td>CDBA</td>
<td>Cost of Doing Business Abroad</td>
</tr>
<tr>
<td>COO</td>
<td>Country-of-Origin Effect</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>EE</td>
<td>Emerging Economy</td>
</tr>
<tr>
<td>EEs</td>
<td>Emerging Economies</td>
</tr>
<tr>
<td>ESE</td>
<td>Entrepreneurial Self-Efficacy</td>
</tr>
<tr>
<td>GEM</td>
<td>Global Entrepreneurship Monitor</td>
</tr>
<tr>
<td>IB</td>
<td>International Business</td>
</tr>
<tr>
<td>IE</td>
<td>International Entrepreneurship</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LOR</td>
<td>Liabilities of Origin</td>
</tr>
<tr>
<td>LOF</td>
<td>Liability of Foreignness</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WGI</td>
<td>World Governance Indicators</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
1. Chapter One: Introduction

1.1 Chapter Overview

This chapter begins by presenting the background and motivation for the dissertation in Section 1.2. The research questions are outlined in Section 1.3. The research design is described in Section 1.4 and theoretical perspectives presented in Section 1.5. An overview of the dissertation is provided in Section 1.6 followed by its scope and context in Section 1.7. This is followed by highlighting the anticipated contributions in Section 1.8. Finally, the organization of the dissertation is outlined in Section 1.9 followed by a chapter summary in Section 1.10.

1.2 Background and Motivation

This dissertation seeks to explore the phenomenon of liabilities of origin in the context of internationalizing emerging economy (EE) small and medium enterprises (SMEs). The liabilities of origin — henceforth termed LOR\(^1\) — refer to the disadvantages faced by internationalizing EE firms as a consequence of the institutional voids in their country of origin (Marano, Tashman, & Kostova, 2017; Pant & Ramachandran, 2012). Institutional voids refer to the lacunae created by the absence or malfunctioning of institutions that support market activity (Khanna & Palepu, 1997). The overarching research question that this dissertation seeks to

\(^1\) Johanson and Vahlne (2009) used the term liability of outsidership with the potential acronym of LOO (the authors did not use the acronym) to denote liabilities faced by firms as a result of their exclusion from host country networks. Following Ramachandran and Pant (2010), this study uses the acronym LOR.
address is: *How do home country institutional voids result in liabilities of origin for emerging economy SMEs?*

The increasing participation of EE firms in global business despite these institutional voids has drawn the attention of scholars to their internationalization motivations, trajectories and performance (Aulakh & Kotabe, 2008; Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Tung, 2018). While firms from advanced economies (AEs) may need to deal with institutional voids, it is the degree and pervasiveness of these voids in EEs (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Khanna & Palepu, 2010) that could result in LOR for EE firms.

The phenomenon of LOR is relatively unexplored in the international business (IB) literature, with 18 published articles as of June 2018 in peer-reviewed journals or edited books compared to the extensively researched concept of liability of foreignness (LOF) (for a review of LOF literature, see Denk, Kaufmann, & Roesch, 2012). LOF and LOR are complementary as they both deal with the additional costs faced by internationalizing firms. However, these two concepts are distinct in that the principal focus of LOF is on the host country experience and the costs of being foreign in a particular host country, while the principal focus of LOR is on the disadvantages attributable to home country institutional voids.

The home country environment of EE firms is marked by institutional voids such as poor law enforcement, excessive government interference, political instability, lack of control of corruption, infrastructure bottlenecks, and weak capital markets (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Hoskisson, Eden, Lau, &
Wright, 2000; Khanna & Palepu, 2010). These institutional voids have been shown to lead to additional costs for internationalizing EE firms by creating legitimacy disadvantages in the host country (Fiaschi, Giuliani, & Nieri, 2017; Marano et al., 2017; Pant & Ramachandran, 2012) and increasing transaction costs at the firm-level (Hoskisson et al., 2013; Meyer & Peng, 2016). Further, the fact that their firm originates in an EE may negatively impact the mindset of EE managers (Bartlett & Ghoshal, 2000; Pant and Ramachandran, 2012; Ramachandran and Pant, 2010).

Bartlett and Ghoshal (2000) first used the term ‘liabilities of origin’ to refer to the marginal mindsets of managers from peripheral and EE multinational enterprises (EE MNEs). They observed that EE managers failed in their global ventures if they either perceived that their firms were not good enough to succeed in foreign markets, or were overconfident because they were ignorant of the pitfalls of internationalization, but Bartlett and Ghoshal (2000) did not explicitly link LOR to institutional voids. After this initial attention to the mindset of EE managers, subsequent empirical studies on LOR shifted their focus to the legitimacy disadvantage or the challenges faced by EE firms in gaining social acceptance among host country stakeholders because of home country institutional voids (Fiaschi et al., 2017; Kolk & Curran, 2015; Marano et al., 2017; Pant & Ramachandran, 2012). Other studies broadened the concept of LOR to include capability-based disadvantages (Madhok & Keyhani, 2012; Ramachandran & Pant, 2010). LOR, therefore, has been identified at three levels — individual (mindset), firm (capabilities), and country (legitimacy) in different studies. In addition to diverse views on the levels of LOR, there has so far not been any elucidation of the relationship between institutional voids and the three levels of
LOR. The first objective of this study is to synthesize the diverse views of LOR and integrate the multiple levels into one framework in order to bring clarity to the concept of LOR (see Essay One).

The LOR literature has mainly focused on large EE MNEs not on: (a) EE SME MNEs or (b) EE SMEs that are not MNEs (e.g. Fiaschi et al., 2017; Marano et al., 2017; Pant & Ramachandran, 2012). There have been a few LOR studies involving SMEs that have advanced knowledge in the field by offering insights on the legitimacy challenges faced by EE SMEs and the strategic responses undertaken by these firms to overcome these challenges (e.g. Bangara, Freeman, & Schroder, 2012; Castellano & Ivanova, 2017). Although a wide range of studies have shown that SME internationalization decision-making is driven by the owner-manager and that owner-manager mindset influences this decision-making (Freeman & Cavusgil, 2007; García-Cabrera, García-Soto, & Durán-Herrera, 2016; Manolova, Brush, Edelman, & Greene, 2002; Reid, 1981; Zahra, Korri, & Yu, 2005), attention paid to the managerial mindset in LOR studies has been limited (Bartlett & Ghoshal, 2000; Ramachandran and Pant, 2010).

While LOR studies have not paid much attention to managerial mindset, there have been studies in entrepreneurship relating to owner-manager perceptions of SME barriers in emerging and transition economies (e.g. Aidis, 2005; Hashi, 2001; Krasniqi, 2007; Santhosh & Subrahmanya, 2016) although the term LOR has not been explicitly used. However, these studies have been criticized for listing and ranking barriers rather than providing an understanding of how the barriers may influence entrepreneurial behavior and the meaning attributed to those barriers (Doern, 2013). Organizational theory posits that the way in which a
manager labels an issue—either as an ‘opportunity’ or as a ‘threat’—affects subsequent decisions (Daft & Weick, 1984; Dutton & Jackson, 1987). A particular institutional void may, therefore, be labelled as either an opportunity or as a threat (or neither) by an EE manager. For example, it has been suggested that institutional voids provide an opportunity for EE managers to develop innovative business models that help them succeed in international markets (Cuervo-Cazurra et al., 2018; Guillén & García-Canal, 2009). There is also evidence that institutional voids can be a push factor to internationalize, as EE firms seek to escape from their constraining domestic institutional environments (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Cuervo-Cazurra & Ramamurti, 2017; Luo & Tung, 2007). The literature, therefore, presents varied views on whether institutional voids result in LOR and hold back firms from internationalization or whether they provide opportunities for internationalization. Exploring whether and why EE SME owner-managers perceive a particular home country institutional void as a liability or an opportunity (or neither) could, therefore, contribute to a better understanding of LOR. The second objective of the study is to explore the perceptions of home country institutional voids among EE SME owner-managers and understand how and why a particular home country institutional void could result in LOR (see Essay Two).

Just as the liability of foreignness (LOF) is a relative concept that captures the costs faced by foreign firms in a particular host country that local firms would not incur (Zaheer, 1995), LOR is also a relative concept since it refers to the additional costs faced by internationalizing firms from countries with pervasive institutional voids as compared to firms from countries with better institutional quality. Institutional quality has been termed as the distinguishing factor
between AEs and EEs. However, there have been no comparative empirical studies between internationalizing EE and AE firms that have focused on institutional voids. Empirical studies have measured the impact of home country institutions on internationalization (He & Lin, 2012; LiPuma, Newbert, & Doh, 2013; Wu & Chen, 2014) but these studies have not focused on comparing the costs of internationalization of AE and EE firms. Studies have also been undertaken on the barriers faced by SMEs in EEs and in transition economies (without using the term LOR) (e.g. Aidis, 2005; Das & Pradhan, 2010; Das & Das, 2014; Doern, 2009; Hashi, 2001; Puffer & McCarthy, 2001) but these studies have not focused on the relative disadvantages faced by internationalizing EE SMEs compared to AE SMEs. The third objective of the study is to examine whether home country institutional voids result in EE SMEs facing additional costs of internationalization compared to AE SMEs (see Essay Three, Part I).

The role of the personal attributes of SME owner-managers in influencing internationalization has been explored extensively in the literature (Alon, Yeheskel, Lerner, & Zhang, 2013; Manolova et al., 2002; Pawęta & Zbierowski, 2015; Sommer, 2010; Wright, Westhead, & Ucbasaran, 2007). The perceptions of institutional voids and the ensuing experience of LOR may be unique to each EE SME owner-manager, depending on personal factors. While not focusing on internationalization specifically, the entrepreneurship psychology literature has identified self-efficacy as one of the best predictors of business performance compared to other key personal variables such as the need for achievement, locus of control, and risk-taking propensity (Baum & Locke, 2004; Drnovšek, Wincent, & Cardon, 2010; Frese & Gielnik, 2014). Self-efficacy, or the belief in one’s ability to attain a certain level of achievement in a given task, is one of the
elements in Bandura’s social cognitive theory, that emphasizes the role of human agency in the interaction between the environment and action (Bandura, 1989). Self-efficacy has been identified as a key factor that could help entrepreneurs in challenging environments to deal with the institutional barriers facing them (Luthans & Ibrayeva, 2006; Luthans, Stajkovic, & Ibrayeva, 2000). The fourth objective of the study is therefore to explore whether personal factors such as self-efficacy can enable EE entrepreneurs to overcome home country institutional voids with regard to internationalization (see Essay Three, Part II).

Table 1.1 lists each of these objectives, the research approach and corresponding chapter in the dissertation.

### Table 1-1 Structure of Dissertation Mapped to Research Objectives

<table>
<thead>
<tr>
<th>Research Objectives</th>
<th>Research Approach</th>
<th>Chapter (Essay)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 To synthesize the diverse views of LOR and integrate the multiple levels of LOR into one framework.</td>
<td>Systematic Literature Review</td>
<td>Chapter Two (Essay One)</td>
</tr>
<tr>
<td>2 To explore the perceptions of home country institutional voids among EE SME owner-managers and understand how and why a particular home country institutional void could result in LOR.</td>
<td>Qualitative Study</td>
<td>Chapter Three (Essay Two)</td>
</tr>
</tbody>
</table>
The four broad objectives of the dissertation are mapped to the chapters of the dissertation and the corresponding essays, as shown in Table 1.1. The research questions for the dissertation linked to these objectives are specified in the next section.

1.3 Research Questions

Based on the above discussion, the overarching research question for this dissertation is as follows: How do home country institutional voids result in liabilities of origin for emerging economy SMEs? The systematic literature review (Essay One) lays out a conceptual framework that provides a context for the empirical studies in Essays Two and Three. The specific research questions for the quantitative and qualitative studies are specified in Table 1.2, as shown below.
<table>
<thead>
<tr>
<th>Research Questions</th>
<th>Essay</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research Question One</strong>: How do emerging economy SME owner-managers perceive home country institutional voids with regard to internationalization?</td>
<td>Essay Two</td>
</tr>
<tr>
<td><strong>Research Question Two</strong>: How and why does a particular home country institutional void become a liability of origin for an emerging economy SME?</td>
<td>Essay Two</td>
</tr>
<tr>
<td><strong>Research Question Three</strong>: How do home country institutional voids impact internationalization of emerging economy SMEs compared to advanced economy SMEs? The sub-questions are:</td>
<td>Essay Three</td>
</tr>
<tr>
<td><strong>Research Question 3a</strong>: How does the quality of home country institutions in advanced economies and emerging economies impact costs of internationalization?</td>
<td></td>
</tr>
<tr>
<td><strong>Research Question 3b</strong>: How does the internationalization behavior of emerging economy entrepreneurs compare with that of advanced economy entrepreneurs?</td>
<td></td>
</tr>
<tr>
<td><strong>Research Question Four</strong>: To what extent do personal factors such as self-efficacy help emerging economy entrepreneurs overcome home country institutional voids with regard to internationalization?</td>
<td>Essay Three</td>
</tr>
</tbody>
</table>

The four research questions and the corresponding essays contribute to answering the overarching question on EE SMEs, LOR and institutional voids (as shown in Table 1.2). The next section describes the research design for the dissertation.
1.4 Research Design

This study adopts a multimethod research design, or a design with qualitative and quantitative components that are relatively complete in themselves but are used together to address the research problem (Morse, 2003). This research design was adopted in order to provide insights into the concept of LOR using different perspectives and methodological triangulation. Triangulation, or the combination of methodologies in the study of the same phenomenon (Johnson & Onwuegbuzie, 2004) helps to provide a rich and more meaningful understanding of LOR by demonstrating convergence across qualitative and quantitative methods. The qualitative study provides an in-depth understanding of detailed contextual processes and sensitive issues (Miles & Huberman, 1994) relating to entrepreneurial perceptions, internationalization and LOR. The quantitative study helps to measure the degree to which institutional voids impact EE SME internationalization and examines to what extent self-efficacy can help overcome these institutional voids.

Using multiple methods to understand LOR, therefore provides both: (1) a subjective interpretive understanding of LOR through EE entrepreneurs’ perceptions of home country institutional voids; and (2) an objective understanding of LOR by analyzing secondary data on institutional quality and international entrepreneurship across multiple EEs and AEs. The specific design adopted is a concurrent triangulation multimethod design (Creswell, 2009). In a concurrent study, the qualitative and quantitative studies are conducted concurrently and the results are converged to provide a comprehensive analysis of the research problem (Tashakkori & Creswell, 2007). In terms of specific
methods, the qualitative study uses in-depth interviews while the quantitative study uses t-tests and regression analysis. This study adopts a pragmatic philosophical stance. It has been argued that the pragmatist epistemological stance is most suited to studies using both qualitative and quantitative approaches (Johnson, Onwuegbuzie, & Turner, 2007). A researcher with a pragmatic stance uses a combination of methods that help to best address the research questions. Pragmatists are not committed to any one system of philosophy and reality and are ready to draw from different streams (Creswell, 2009).

A visual representation of the sequence of research is given in Figure 1.1

![Concurrent Triangulation Multimethod Research Design](image)

**Figure 1.1: Overview of Research Design**

*Source: Adapted from Creswell (2009)*
As shown in Figure 1.1, the qualitative and quantitative studies are complementary but independent. The qualitative study involves collection of primary data from one EE. The quantitative study uses secondary data from publicly available databases for 23 EEs and 39 AEs. Findings from both qualitative and quantitative studies are integrated in the overall findings of the dissertation. The theoretical perspectives used in the dissertation are described in the next section.

1.5 Theoretical Perspectives

The overarching theory for both the qualitative and quantitative studies is institutional theory (North, 1991; Scott, 1995). Institutional theory used within IB has two major approaches — the organizational approach and the economic approach (Bruton, Ahlstrom, & Li, 2010). The central concept of the organizational approach is legitimacy or the need for organizations to conform to their environment in order to gain social acceptance (Scott, 2014; Scott, 1995). The economic approach focuses on institutional quality and suggests that human behavior is shaped by the constraints, incentives and resources provided by formal and informal institutions (North, 1991). Formal institutions include the constitution, laws and property rights, while informal institutions include customs, codes of conduct, taboos and sanctions (North, 1991). Institutional theory helps to understand which rules, norms, and beliefs enable and constrain entrepreneurship in general (Baumol, 1990; Bruton et al., 2010) and in the case of the current study — international entrepreneurship.

The quantitative study tests theory by comparing the impact of institutional quality on international entrepreneurship in both EEs and AEs. In addition to
institutional theory, the quantitative study draws on social cognitive theory (Bandura, 1977). The basic premise of socio-cognitive theory is that behavior can be understood as a continuous interaction between individual cognition, environment characteristics and the behavior itself (Bandura, 2001). A key human capability according to social cognitive theory is self-efficacy, or the person judgment of one’s ability to undertake a particular task successfully or deal with a prospective situation (Bandura, 1989). The critical role of self-efficacy in entrepreneurship has been highlighted in the entrepreneurial psychology literature, which identifies self-efficacy as one of the most important personal factors influencing entrepreneurial success (Drnovšek et al., 2010; Frese & Gielnik, 2014; Shane, Locke, & Collins, 2003). In the quantitative study, the extent to which self-efficacy can help entrepreneurs overcome institutional voids and internationalize, is investigated.

In addition to institutional theory, the qualitative study draws on the entrepreneurial cognition perspective. Entrepreneurial cognition has been defined as the “knowledge structures that people use to make assessments, judgments or decisions involving opportunity evaluations and venture creation and growth” (Baron & Ward, 2004). Adopting an entrepreneurial cognition perspective helps us comprehend how entrepreneurs think, and helps us understand reasons for their behavior (Baron, 2004; Mitchell et al., 2007). The qualitative study describes theoretical patterns of mindset LOR that emerged from the data analysis. This study extends Bartlett and Ghoshal’s (2000) concept of LOR as psychological barriers, and proposes novel constructs relating to mindset LOR. This section extends theory by proposing relationships between entrepreneurial perceptions of institutional voids, mindset LOR and internationalization.
1.6 Overview of Dissertation: Three Essays

This dissertation has three essays: (1) a systematic literature review; (2) a qualitative study; and (3) a quantitative study (see Table 1.1). An overview of each essay will now be provided.

Essay One is a systematic literature review of LOR studies. This essay sets apart the concept of LOR from related concepts in IB, namely, the liability of foreignness (LOF), country-of-origin effect (COO), and costs of doing business abroad (CDBA). The major themes in LOR studies to date are identified and the diverse views of LOR are integrated with theoretical insights from institutional theory to develop a multi-level conceptual framework. Future avenues of research are suggested.

Essay Two is a qualitative study that explores the perceptions of EE SME owner-managers with regard to home country institutional voids and internationalization. The qualitative study employs in-depth interviews of 22 EE SME owner-managers and three SME experts. An analysis of the interview text is conducted to identify major themes and to understand how and why a particular home country institutional void results in LOR for an EE SME. A novel conceptual framework on the impact of home country institutional voids on entrepreneurial mindset is developed based on the themes that emerged from the study.

Essay Three is a quantitative study. This study employs secondary data to examine to what extent EE SMEs face additional costs of internationalization compared to AE SMEs. This essay compares the differences in institutional quality between AEs and EEs and the relationship between the costs of internationalization and institutional quality for AEs and EEs using data from the
World Bank. Data from the Global Entrepreneurship Monitor (GEM) Project, a large-scale, on-going multi-country survey on entrepreneurial intentions are used to estimate whether there is a significant difference between AE entrepreneurs and EE entrepreneurs in their propensity to export and their export intensity. Using data from both the World Bank and GEM, a mixed-effect ordered logistic regression model is used to test whether entrepreneurial self-efficacy moderates the negative impact of home country institutional voids on SME internationalization.

1.7 Scope and Context of Study

The systematic literature review (see Essay One) focuses on all peer-reviewed journal articles or high-quality book chapters on LOR published up to June 2018. The qualitative study focuses on small and medium enterprises (SMEs). In this study, the World Bank (International Finance Corporation, 2012) definition is used to classify SMEs as stand-alone enterprises with the number of employees ranging between 10 and 300 employees. The qualitative study focuses on SMEs from India (see Essay Two). India has been recognized as a key EE since it undertook widespread economic reforms in 1991 and began to experience high economic growth rates (Hoskisson et al., 2013; Peng, Wang, & Jiang, 2008; Pradhan, 2011). The Government of India categorizes small businesses into three types: micro, small and medium and terms them MSMEs. There are around 63.4 million MSMEs in India (Ministry of MSME, 2018a). Of these 63.4 million MSMEs, around 90 percent are microenterprises, 9.5 percent are small enterprises, and only very few (0.5 percent) are medium sized enterprises (Ministry of MSME, 2018a). MSMEs in India are distributed fairly evenly across
industries with around 31 percent of the total number of MSMEs in the manufacturing sector, 33 percent in the services sector, and 36 percent in the trading sectors (Ministry of MSME, 2018a). Of the total number of MSMEs, male ownership stands at 79.6 percent and female ownership at 20.4 percent. If only small and medium enterprises are considered, then male ownership goes up to 95 percent, suggesting that women make a very small proportion (5 percent) of owners of small and medium enterprises (Ministry of MSME, 2018a).

Studying SMEs in India is important because of the increased pressure on Indian SMEs to internationalize since India’s economic liberalization (Das & Joseph, 2014; Das & Das, 2014; Singh, Garg, & Deshmukh, 2009). Furthermore, SMEs are likely to experience LOR because of the pervasiveness of institutional voids in India. India is ranked 100th out of 189 countries in the 2018 World Bank’s Ease of Doing Business ranking (World Bank, 2017c). This low rank indicates the prevalence and pervasiveness of institutional voids and the difficulty of doing business in India. Despite economic growth, Indian businesses have to deal with a weak national industrial policy, underdeveloped infrastructure and widespread poverty (Kostova & Hult, 2016).

SMEs in India are, therefore, likely to experience LOR because of the pervasiveness of institutional voids, providing a rich context for the qualitative study. SMEs selected for the study either: (a) have formerly been engaged in internationalization; (b) are currently engaged in internationalization; or (c) are looking for opportunities for internationalization. A purposeful sampling strategy was followed so that SMEs of different sizes, different degrees of internationalization and from diverse sectors are selected. In addition to
interviews with SME owner-managers, expert interviews in the SME sector were conducted to gain further insights into EE SME barriers.

The diversity of institutional contexts in EE has been recognized as a key challenge in EE research (Hoskisson et al., 2000; Peng, Wang, & Jiang, 2008). Researchers are cognizant of the tension between generalizability of findings versus paying attention to the idiosyncratic nature of EE institutions (Hoskisson et al., 2013; Kostova & Hult, 2016; Meyer & Peng, 2016). For example, the Chinese environment is very different from the Indian or even the Russian environment, therefore it is difficult to generalize the findings from one EE to another.

Cognizant of these limitations, Essay Three uses secondary data for the quantitative study from multiple EEs and AEs.

The quantitative study (see Essay Three) incorporates data on both EEs and AEs from three sources: (a) the World Bank’s Worldwide Governance Indicators (WGI); (b) the World Bank’s Ease of Doing Business Index, and (c) the Global Entrepreneurship Monitor (GEM). The WGI were developed by Kaufmann and his colleagues at the World Bank (Kaufmann, Kraay, & Zoido-Lobatón, 1999) and comprise six indicators of institutional quality. The six governance indicators are: (a) Regulatory Quality; (b) Rule of Law; (c) Control of Corruption; (d) Government Effectiveness; (e) Political Stability and Absence of Violence/Terrorism; and (f) Voice and Accountability. WGI have been used widely in IB research (e.g., Cuervo-Cazurra & Genc, 2008; Globerman & Shapiro, 2003; He & Cui, 2012; Marano et al., 2017). The World Bank Ease of Doing Business indicators capture the impact of a particular country’s regulatory environment on local firms across 11 areas including starting a business, getting
permits, and costs of trading — higher ranks are indicative of greater ease of
doing business (World Bank, 2018).

GEM is a multinational multi-year study initiated in 1998 and has created a
harmonized data set on entrepreneurship (Reynolds, Hunt, Servais, Lopez-Garcia,
& Chin, 2005). Around 2000 randomly selected individuals per country are
surveyed each year on entrepreneurial intentions in the GEM Adult Population
Survey (APS). Academic research using GEM data has been extensive and
articles using GEM data have been published in leading academic journals (Auto,
Pathak, & Wennberg, 2013; Bergmann, Mueller, & Schrettle, 2014; Muralidharan
& Pathak, 2017; Schmutzler, Andonova, & Diaz-Serrano, 2018). The latest data
set publicly available is for the year 2014 and is used for this study.

1.8 Contributions

The dissertation makes contributions to theory, practice and policy, as overviewed
in this section and further elaborated on in Chapter Five. Leading IB scholars
have highlighted the need to understand the unique risks and opportunities in
doing business in EEs and the importance of contextualized research (Kostova &
Hult, 2016; Peterson, 2016; Stahl, Tung, Kostova, & Zellmer-Bruhn, 2016). By
focusing on the disadvantages faced by internationalizing firms attributable to the
home country institutional context, this dissertation contributes to the literature on
institutional voids in IB (Doh et al., 2017). Essay One demonstrates how LOR is
conceptually distinct from three related constructs in international business,
namely, LOF, country of origin effect, and cost of doing business abroad. It
makes this distinction by organizing the components of these four concepts along
home and host country dimensions in a novel framework. The insufficient
attention paid to ‘people’ in the institutional voids literature has been highlighted
by some scholars (Mair & Marti, 2009). By focusing on how EE entrepreneurs
perceive home country institutional voids with regard to internationalization,
Essay Two highlights the importance of the interaction of home country
institutional voids, the individual entrepreneur and subsequent internationalization
behavior. This is in contrast to prior empirical studies on LOR that have mainly
focused on the legitimacy disadvantages of EE firms in host countries (Agnihotri
& Bhattacharya, 2016; Fiaschi et al., 2017; Marano et al., 2017; Pant &
Ramachandran, 2012; Yu & Liu, 2016). Essay Three contributes to the
international entrepreneurship literature by using a comparative approach
employing secondary data to test whether internationalizing EE SMEs face
additional costs or LOR as compared to AE SMEs.

The specific theoretical contributions of this dissertation are as follows. This
dissertation contributes to theory-building by specifying the mechanisms through
which home country institutional voids result in LOR at three levels — country,
firm, and the individual manager — and develops an integrated conceptual
framework (See Figure 3.1). This framework latter links home country
institutional voids, levels of LOR, and firm internationalization.

Essay Two contributes to theory-building in the entrepreneurial cognition
literature by proposing three novel concepts of mindset LOR —mental bandwidth
LOR, lack of growth mindset LOR and negative emotions LOR. Essay Two also
extends existing theory by drawing on theories from behavioral science that have
hitherto not been employed in the LOR and SME internationalization literature.
Insights from the theoretical perspective of the psychology of scarcity
(Mullainathan & Shafir, 2013) are used to explain why certain institutional voids may tax the mental bandwidth of EE entrepreneurs leaving little time for internationalization. The growth mindset (Dweck, 2008) is used to explain how institutional voids may lead to a fixed mindset among EE entrepreneurs because the motivation to learn, persevere and grow is negatively impacted by institutional voids. Finally, the role of institutional voids in creating negative emotions such as frustration and helplessness among EE entrepreneurs is explored. While prior studies have explored emotions such as shame (Doern & Goss, 2014), passion (Cardon, Foo, Shepherd, & Wiklund, 2012) and optimism (Hmieleski & Baron, 2016), little or no attention has been paid to the frustration (Spector, 1978), or helplessness (Maier & Seligman, 1976) in the context of EE entrepreneurs, institutional voids and internationalization.

Essay Three tests existing theory by demonstrating that EE SMEs face a significantly lower institutional quality than AE SMEs, and that this lower quality is correlated with higher costs of exporting and importing leading to LOR. Furthermore, the lower propensity to export among EE entrepreneurs compared to AE entrepreneurs suggests that EE entrepreneurs may hold back from internationalization because of higher institutional barriers. The results of the estimation of the mixed effects ordered logistic regression model suggest that quality of regulatory institutions has a significant impact on EE and AE SME internationalization. Testing the role of self-efficacy — the principal derivative in Bandura’s social cognitive theory (Bandura, 1989) — in overcoming institutional voids in EEs through an empirical test makes a significant contribution to the international entrepreneurship (IE) literature. This importance has been suggested by scholars but not tested (Kiss, Danis, & Cavusgil, 2012).
This dissertation makes some contributions to practice. In his notion of enactment, Weick (1988) suggests that individuals contribute to the creation of their environment. If entrepreneurs can be made aware of how perceptions of institutional voids could result in the mental bandwidth LOR or growth mindset LOR, EE entrepreneurs can better appreciate how perceptions of institutions may shape their thought processes and hold them back from achieving their potential. On the positive side, this dissertation highlights the importance of entrepreneurial self-efficacy (Bandura, 1989) in overcoming environmental obstacles in hostile environments (Luthans & Ibrayeva, 2006; Luthans et al., 2000). Since self-efficacy can be developed through training (Bandura, 1989; Stajkovic & Luthans, 2003) proactive measures to develop self-efficacy would be useful for EE entrepreneurs. Finally, by detailing the challenges faced by EE entrepreneurs arising from the burden of regulatory compliance and pervasive corruption, nascent entrepreneurs can be better prepared to deal with their home country institutional voids.

Policy makers from leading international organizations such as the World Bank, OECD, European Commission and the World Trade Organization (WTO, 2016) have highlighted the importance of understanding and removing barriers to SME internationalization (WTO, 2016). By describing how institutional voids may result in LOR and deter EE SMEs from entering global markets, this dissertation can contribute to policies for facilitating EE SME internationalization. This contribution can include initiatives at three levels. At the country level, policy makers can appreciate how nation branding initiatives could help mitigate external legitimacy LOR (Maheswaran, Yi Chen, & He, 2013). Streamlining policies dealing with SME regulations could help decrease corruption and foster
internationalization. The importance of supporting entrepreneurial networks and training programs to help EE entrepreneurs overcome LOR is another input that could be of use to policy makers.

Taken together, Essays One, Two and Three make several contributions to the SME internationalization literature. First, this dissertation shows how institutional voids shape both AE and EE SME internationalization. Second, the importance of networks at home to overcome home country institutional voids that hold back EE SMEs from internationalization is highlighted; prior literature has focused on the importance of home and host country networks for opportunities, knowledge and building legitimacy (e.g. Bangara, Freeman, & Schroder, 2012; Pant & Ramachandran, 2012). Third, the dissertation contributes to the comparative international entrepreneurship (IE) literature (Kiss et al., 2012) by identifying some factors that differentiate AE SME internationalization from EE SME internationalization. Finally, by recognizing that institutional voids can have a negative impact on entrepreneurial emotions and cognition which in turn reduce the motivation to internationalize, this dissertation underscores the importance of paying attention to psychological effects of institutional voids on SME internationalization.

1.9 Organization of Dissertation

This dissertation has three essays and is organized into five chapters. Chapter One begins by presenting the background and motivation for the dissertation. The research questions and research approach are described. This is
followed by a discussion of the scope and context of the dissertation. The contributions for the dissertation are then presented.

Chapter Two presents a systematic literature review of LOR (Essay One). The differences and similarities between LOR, LOF, COO and the costs of doing business abroad (CDBA) are analyzed to provide a justification for LOR being a conceptually and empirically distinct construct. The chapter then presents the methodology for the review and the justification for selecting the LOR papers. A definition of LOR is proposed for the dissertation by synthesizing the diverse definitions in prior studies. The theoretical perspectives used to understand LOR are discussed. The four major themes in the LOR papers, namely, institutional voids, country of origin effect, external legitimacy LOR, and strategic responses to overcome external legitimacy LOR are identified and described. In addition, two minor themes of organizational attractiveness and managerial mindset are discussed. A conceptual multi-level framework for LOR is then developed.

Chapter Three describes a qualitative study of EE SME entrepreneurs (Essay Two). The data collected from 22 EE SME owner-managers and three SME experts are presented and analyzed using both illustrative quotes and summary tables. The major themes relating to internationalization, institutional voids, and entrepreneurial mindset are discussed along with the several sub-themes that emerged from the interviews. Emergent patterns and interpretations of findings are presented. A conceptual framework demonstrating the relationship between institutional voids, three types of entrepreneurial mindset LOR, and internationalization is developed. Testable propositions are put forth.
Chapter Four presents a quantitative study (Essay Three) using secondary data from the World Bank WGI, the Ease of Doing Business index, and GEM. Essay Three has two parts. Part I of Essay Three uses descriptive analysis to compare the costs of internationalization and propensity to export between AE entrepreneurs and EE entrepreneurs. Relationships between institutional quality, costs of internationalization and export behavior are discussed. Part II of Essay Three presents six hypotheses on the relationship between institutional voids, self-efficacy and SME internationalization. These hypotheses are tested using a mixed-effect ordered logistic regression model. The results of this model and overall conclusions are discussed.

Chapter Five presents the conclusions including the main findings and recommendations. The findings of the systematic literature review, qualitative and quantitative phases are integrated. The limitations of the three essays are stated in the context of the findings and analysis. Contributions to theory, practice and policy are discussed. This is followed by recommendations for policy and practice. A future research agenda is presented. This chapter ends the dissertation.

1.10 Chapter Summary

This chapter began by presenting the background of the study explaining the phenomenon of LOR in the context of the increasing globalization of EE firms, followed by discussion of the study objectives. An overview of the dissertation structure linking the research objectives to chapters was outlined next. The scope and the context for the study were then described. Subsequently, the contributions to IB, LOR, SME internationalization, institutional voids, and entrepreneurial
cognition literature were put forth. Finally, the structure of the dissertation was outlined.
2. Chapter Two - ESSAY ONE: Systematic Literature Review

2.1 Introduction

This chapter begins by presenting the background and motivation for this systematic literature review in Section 2.2. Section 2.3 presents a framework that helps to distinguish the concept of liabilities of origin (LOR) from related concepts in international business (IB). The methodology for the literature review is presented in Section 2.4 followed by the dimensions and definitions of LOR in extant literature in Section 2.5. Section 2.6 reviews the methods that have been used in LOR papers while Section 2.7 discusses the key theoretical perspectives used. The major themes identified in LOR studies are delineated in Section 2.8. Based on these themes, an integrated conceptual framework for LOR is developed in Section 2.8 with suggestions for future avenues of research.

2.2 Background and Motivation

Scholars have examined how EE firms internationalize despite the liabilities they face as compared to advanced economy (AE) firms (Peng, 2012; Luo & Zhang, 2016; Cuervo-Cazurra & Ramamurti, 2017). Outward foreign direct investment from EEs grew from just 5% of the global total in 1990 to over 26% in 2017 (UNCTAD, 2018). Forecasts suggest that by 2025, almost half the world’s largest companies will be headquartered in EEs (McKinsey Global Institute, 2013). This increase in global presence has been despite the institutional voids in their home countries.

Institutional voids refer to situations in which institutional arrangements that support market functioning and development are absent, weak or ineffective
Although AEs may also have institutional voids, the pervasiveness of these voids in EEs makes LOR particularly relevant to EE firms. LOR has been found to influence internationalization of EE firms at multiple levels. At the individual level, the psychological barriers that EE firm managers face have been shown to influence the internationalization success of firms (Bartlett & Ghoshal, 2000). At the firm level, institutional voids could result in capability disadvantages for EE firms because of poor quality infrastructure, human resources and financial institutions (Madhok & Keyhani, 2012; Ramachandran & Pant, 2010). At the host-country level, LOR could result in legitimacy disadvantages with host-country consumers not favoring EE firm products, host-country governments withholding approvals and potential funders refraining from making investments (Marano et al., 2017).

Research on the concept of liabilities of origin (LOR) is limited. The literature on emerging economies (EEs) has called for a deeper understanding of EE firm liabilities (Kiss et al., 2012; Luo & Zhang, 2016). The purpose of this essay is to clarify the concept of LOR through a synthesis of extant literature and insights drawn from institutional theory. The literature has adopted diverse approaches to the conceptualization of LOR with the majority of articles focusing only on the host-country experience of EE firms (e.g., Fiaschi et al., 2017; Marano et al., 2017). Hence, this essay adopts a systematic approach to bring together the disparate literature (Webster & Watson, 2002).

The limited scholarship on LOR is in contrast to that on the related concepts of liability of foreignness (LOF), which had a dedicated issue in *Journal of International Management* (Vol. 8, No. 3, 2002), and the country-of-origin
(COO) effect, which has been extensively researched in international marketing for over five decades (for reviews of the COO effect concept, see Dinnie, 2004; Pharr, 2005). LOR is distinct from LOF and COO effect as laid out in the next section.

2.3 Difference between LOR and related IB concepts

Zaheer (1995) first used the term liability of foreignness (LOF) to describe all the additional costs incurred by a firm operating in a foreign market that a local firm would not incur. Zaheer’s (1995) work on LOF was inspired by Hymer’s (1976) study on the international operations of national firms that examined the costs of doing business abroad (CDBA). Diverse views exist on the relationship between CDBA and LOF. Zaheer (2002) made a distinction between LOF and CDBA and argued that Hymer’s (1976) concept of CDBA is specified by market-driven costs, while LOF focuses on relational and institutional costs. Eden and Miller (2004), rather than differentiating LOF from CDBA on the basis of type of costs, contended that LOF is a subset of CDBA and that institutional distance is the main driver behind LOF. According to Eden and Miller (2004), CDBA includes LOF plus the costs of exporting. In contrast, Luo and Mezias (2002) made no distinction between LOF and CDBA.

Another concept related to LOR is the COO effect. In international marketing, the COO effect refers to the influence of a product’s country of origin on consumer perceptions and product evaluation (Verlegh and Steenkamp, 1999). The scope of most COO studies is limited to consumers and their evaluations of products and services, while the LOR literature focuses on the evaluation of the firm by a wide range of host- and home-country stakeholders, including customers, alliance
partners, host-country governments, suppliers and EE managers. The COO effect has also been investigated in the human resource management (HRM) literature, but this literature examines country of origin influence on subsidiary practices rather than disadvantages (Ferner, 1997; Noorderhaven & Harzing, 2003; Pudelko & Harzing, 2007).

COO effect, LOF, CDBA and LOR are all closely related concepts; nevertheless, the literature has not clearly articulated the similarities and differences between these concepts. Analyzing the experience of a focal firm in its host and home countries (see Table 2.1) helps to distinguish these concepts.

**Table 2-1. Differences between the Concepts of COO effect, LOF, CDBA and LOR**

<table>
<thead>
<tr>
<th>Concept</th>
<th>Home-country dimensions</th>
<th>Host-country dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COO effect</strong></td>
<td>Consumer perceptions of goods and services (Verlegh &amp; Steenkamp, 1999).</td>
<td>Consumer perceptions of goods and services of originating from a particular country in international marketing (Verlegh &amp; Steenkamp 1999). Impact of country of origin on MNE subsidiary HRM practices (Ferner, 1997)</td>
</tr>
<tr>
<td><strong>LOF</strong></td>
<td>Government restrictions (Zaheer, 1995)</td>
<td>Costs relating to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) Unfamiliarity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Managing operations at a distance- multinationality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(c) Lack of legitimacy</td>
</tr>
<tr>
<td><strong>CDBA</strong></td>
<td>(a) Government restrictions (Hymer, 1976)</td>
<td>LOF [(a) unfamiliarity;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) multinationality:</td>
</tr>
<tr>
<td>LOR</td>
<td>(a) Government regulatory hurdles (Ramachandran &amp; Pant, 2010)</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Quality of soft and hard infrastructure resulting in capability disadvantage (Madhok &amp; Keyhani, 2012)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Mindset of managers (Bartlett &amp; Ghoshal, 2000; Ramachandran &amp; Pant, 2010)</td>
<td></td>
</tr>
</tbody>
</table>

Legitimacy disadvantages that may be accentuated by unfavourable perceptions among host-country stakeholders of institutional voids in home country (Pant & Ramachandran, 2012; Marano et al. 2017)

Note: COO: Country of Origin; LOF: Liability of Foreignness; CDBA: Cost of Doing Business Abroad; LOR: Liability of Origin

As shown in Table 2.1, in international marketing, the COO effect refers to home- and host-country consumer perceptions of goods and services from a particular country while studies on LOF, CDBA and LOR focus on internationalizing firms.

In HRM, COO effect focuses on the degree of standardization or localization of HRM practices in MNE subsidiaries (Noorderhaven & Harzing, 2003; Pudelko & Harzing, 2007) and not on perceptions or costs unlike the COO effect in marketing.

The home country is given a higher degree of importance in LOR than in LOF.

While home country effects result in LOR (Ramachandran & Pant, 2010), some scholars have even suggested that LOF should not include home country effects (Mezias, 2002; Ramachandran & Pant, 2010). For example, Mezias (2002, pp. 30-31).
recommended that while measuring LOF, ‘spurious findings’ stemming from home country effects need to be excluded.

Zaheer (2002) points out focus on the characteristics of specific home country in the early LOF studies was minimal as it was taken for granted that the internationalizing firm was from an AE. In more recent years, there has been an increasing interest in EEs and the origin of countries as shown in Appendix I that presents a chronological review of some key LOF articles. However, these LOF studies do not focus on the home country specifically but on the distance between home and host country in terms of culture (Elango, 2009), geography (Nachum, 2010) or institutions (Zhou & Guillen, 2015). Further, LOR is the only concept that considers the mindset of home country managers (Bartlett & Ghoshal, 2000; Ramachandran & Pant, 2010). Finally, unlike the other four concepts, LOR also includes firm-level capability disadvantages incurred in the home country attributable to institutional voids such as infrastructure bottlenecks and a lack of high-quality human resources (Madhok & Keyhani, 2012; Ramachandran & Pant, 2010).

Institutional voids, therefore, could be termed as the main driver of LOR. This is unlike LOF which is driven by the institutional distance between home and host countries (Eden & Miller, 2004; Zaheer, 2002). In sum, LOR is a distinct concept from LOF, COO effect and CDBA because of the singular focus on disadvantages attributable to home country institutional voids.
2.4 Literature review methodology

This essay follows a systematic review process by defining and describing key concepts and methods and developing a framework to guide future research (Baumeister & Leary, 1997; Webster & Watson, 2002). The essay includes only those articles whose key focus is the specific phenomenon of LOR in relation to internationalization outcomes and not home-country effects in general. Further, it excludes the literature that only mentions or describes LOR.

The LOR concept was introduced in the IB literature in the year 2000 (Bartlett & Ghoshal, 2000). Hence, for this essay, searches for the January 2000 to June 2018 were undertaken on the Web of Science, EBSCO Host, Google Scholar and Scopus. The search terms included ‘liability of origin’, ‘liabilities of origin’, ‘liability of emergingness’ and ‘liability of country of origin’. Articles were then selected based on relevance. For example, the search on Web of Science (as of 20 June 2018) yielded 19 articles for ‘liabilities of origin’ and four on ‘liabilities of emergingness’. Some articles did not focus on liabilities of origin/emergingness and were excluded from this essay. Four articles were in Korean language journals and could not be evaluated for this review. The remaining 13 focusing on LOR have been included in this review.

To increase the rigor of the search process, searches using the key words were conducted in the on-line versions of leading IB journals selected from the Association of Business Schools and Australian Business Deans Council rankings. This is because articles published in top-tier journals are a signal of high quality and impactful research (Podsakoff et al., 2005). Many of the search results in leading IB journals, such as Journal of International Business Studies (JIBS),
Journal of World Business, International Business Review and Management International Review, were not relevant to this essay. For example, the search in the highest-ranking IB journal, JIBS, yielded seven articles (as of 20 June 2018), of which four were editorials/perspective articles and one was an index abstract. Only one study, namely, Marano et al. (2017), focused on LOR. To ensure further that no major article was missed, the lists of references from the LOR articles were also scanned.

The recommended practice in literature reviews is to include only peer-reviewed articles since they represent validated knowledge. However, three exceptions are made in this review essay. One exception is Bartlett and Ghoshal (2000) because they first used the term ‘liabilities of origin’ in a non-peer-reviewed publication, Harvard Business Review (HBR). Despite the absence of peer reviews, HBR is recognized as a leading management publication with high citations in scholarly policy documents (Harzing & Van Der Wal, 2008). The other two exceptions are articles in edited books: Ramachandran and Pant (2010) are the first to elaborate the concept of LOR, and Madhavan and Gupta (2017) test the influence of LOR on EE multinational enterprise (MNE) acquisition completion. Although these two articles were published in edited books, they have been included in this review given their relevance and the limited literature on LOR.

After searching the online databases and top-ranked IB journals, 18 articles (16 empirical and two conceptual) were selected for this review (see Table 2.2). All the included journal articles (except for the two book chapters) are from journals recognized for quality in a recent meta-ranking for IB journals (Tüselmann et al., 2016). Of the 18 articles, 13 use the term LOR, two use the term ‘liability of
emergingness’ (LOE), two refer to ‘LOF with COO effect’ and one uses both LOR and LOE. The search results (see Table 2.2) show that most publications on LOR are post 2012, which reflects an increasing interest in home-country effects and institutional voids in the IB literature (Cuervo-Cazurra & Ramamurti, 2017; Doh et al., 2017).
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Year/Publication/Type of study</th>
<th>Definition/s of liabilities of origin</th>
<th>Dimensions/Factors associated with LOR</th>
<th>Research focus</th>
<th>Research approach / Theoretical Underpinnings</th>
<th>Countries</th>
</tr>
</thead>
</table>
| 1 Bartlett and Ghoshal (2000) | Empirical                     | Psychological factors that hold back emerging multinationals from peripheral economies from successfully going global | (a) Lack of confidence among EE managers in their ability to succeed in global markets  
(b) Overconfidence and blindness to pitfalls of going global | What are the characteristics of successful internationalizing peripheral economy firms compared with unsuccessful firms? | Descriptive cases  
12 MNEs from peripheral economies. Cross-sectional | Home countries:  
Brazil, India, Philippines, South Korea, Taiwan and Australia  
Host countries: Not specified |
| 2 Ramachandran and Pant (2010) | Conceptual                    | Capability and legitimacy-based disadvantages borne with respect to a specific host country by MNEs owing to their national origin LOR relates to discrimination against firms ‘by host country consumers and governments because of where they are | (a) Lack of legitimacy in host country  
(b) Poor organizational routines because of global inexperience  
(c) Lack of self-belief among EE managers  
(d) Weak institutional intermediaries— | Objective of the study is to develop the concept of LOR, distinguish it from LOF and show how national origin can shape disadvantage while internationalizing. | N.A. (Conceptual)  
Institutional Theory  
Country of origin effect/ Consumer animosity |
<table>
<thead>
<tr>
<th>Study</th>
<th>The additional disadvantages borne by EE MNEs in their host country as a consequence of their home-country institutional environment</th>
<th>How did Indian software MNEs gain cultural-cognitive legitimacy in the USA?</th>
<th>Institutional Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Pant and Ramachandran (2012)</td>
<td>Empirical</td>
<td>(a) Legitimacy challenges created by negative country image and negative product country image (b) Cognitive maladjustment of EE MNE managers to developed economy business environment</td>
<td>Single industry case study with five embedded cases. Longitudinal (2006–2011)</td>
</tr>
<tr>
<td>4 Bangara et al. (2012)</td>
<td>Empirical</td>
<td>(a) Lack of legitimacy (b) Negative image and stereotypes of poor quality and poor governance</td>
<td>How did Indian SMEs gain legitimacy and engage in accelerated internationalization?</td>
</tr>
<tr>
<td>5 Madhok and Keyhani (2012)</td>
<td>Conceptual</td>
<td>Liability of emergingness (LOE) is defined as the additional disadvantages that EE MNEs tend to suffer over developed economy MNEs by virtue of being from an EE</td>
<td>Cross-border acquisitions are an act of institutional entrepreneurship and help EE MNEs overcome their LOE</td>
</tr>
<tr>
<td></td>
<td>Author(s) (Year)</td>
<td>Methodology</td>
<td>Research Question(s)</td>
</tr>
<tr>
<td>---</td>
<td>----------------</td>
<td>-------------</td>
<td>----------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(a) Negative perceptions in host countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(b) Lack of international experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(c) Weak domestic institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Will American and European job applicants find Chinese and Indian MNEs less attractive than US or European MNEs?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(a) Perceived shortcomings in firm practices</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>What is the strategic orientation in Korean MNEs in terms of subsidiary HRM practices?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Kolk and Curran (2015)</td>
<td>Empirical</td>
<td>Definition used from Ramachandran and Pant (2010: 243), that is, LOR relates to discrimination against firms ‘by host-country consumers and governments because of where they are from (i.e., their specific country of origin)’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Not specified; reference to negative stereotypes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>How did Chinese solar panel firms successfully reduce their LOR and counter ideology-based attacks in the European Union?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(a) Negative country image</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(b) Overconfidence of Russian managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>What are the key sources of LOF and the COO effects on internationalization</td>
</tr>
<tr>
<td>No.</td>
<td>Author(s) (Year)</td>
<td>Research Question</td>
<td>Methodology</td>
</tr>
<tr>
<td>-----</td>
<td>------------------</td>
<td>-------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>10</td>
<td>Held and Bader (2016)</td>
<td>Risk of stereotypes and discrimination because of country of origin</td>
<td>Empirical</td>
</tr>
</tbody>
</table>
| 11  | Yu and Liu (2016) | Not defined specifically | Empirical | (a) Stereotypes of low competence | How does COO lead to social resistance to Chinese firms in a particular host country? | Single Case Study, Longitudinal (Jan 2011–April 2012) | Stereotype Content Model | Home country: China  
Host country: New Zealand |
| 12  | Agnihotri and Bhattacharya (2016) | (a) Adverse effects faced by a firm in international markets because the firm belongs to an emerging market  
Host countries: Multiple; not specified |
<table>
<thead>
<tr>
<th>13</th>
<th>Marano et al. (2017)</th>
<th>Empirical</th>
<th>(a) Disadvantages faced in host countries because of poor institutional conditions in home countries</th>
<th>Not specified</th>
<th>What is the link between LOR and CSR reporting?</th>
<th>157 EE MNEs</th>
<th>Home countries: Multiple; not specified</th>
<th>Host countries: Not specified</th>
<th>Institutional Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Fiaschi et al. (2017)</td>
<td>Empirical</td>
<td>Credibility and legitimacy deficits of EE firms among host-country stakeholders because of poor institutional quality in home country</td>
<td>Perception among host countries that EE MNEs could engage in irresponsible business conduct, such as environmental damage and violation of human rights</td>
<td>Do EE MNEs avoid irresponsible activities in countries with high degree of freedom of speech and press as a legitimation strategy to overcome LOR?</td>
<td>44 firms</td>
<td>Home countries: Mexico (15 firms) and Brazil (29 firms)</td>
<td>Host countries: Multiple; not specified</td>
<td>Institutional Theory</td>
</tr>
<tr>
<td>15</td>
<td>Amankwah-Amoah and Debrah (2017)</td>
<td></td>
<td>Liabilities that stem from the geographical location or origin of the firm</td>
<td>(a) Negative stereotypes about corruption, violence, incompetence and noncompliance of How does LOR manifest and influence firm operations?</td>
<td>Case studies. Eight African airline companies. Cross-sectional</td>
<td></td>
<td>Home countries: Not revealed, but</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Empirical</td>
<td>Institutional Theory</td>
<td>Located in Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------</td>
<td>---------------------</td>
<td>------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 Madhavan and Gupta (2017)</td>
<td>Empirical</td>
<td>Host countries: Focus on liability within the continent of Africa; countries not specified</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edited Book (Palgrave-MacMillan)</td>
<td>Liabilities that arise from the national origin of a firm</td>
<td>Status Theory. Institutional Theory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 Castellano and Ivanova (2017)</td>
<td>Empirical</td>
<td>Home country: Bulgaria</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The discount that evaluating audiences place on a particular organization in comparison to similar organizations for not matching evaluator expectations</td>
<td>Host countries: Not specified Discusses LOR experienced domestically</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
18  Alkire and Meschi (2018)

*Empirical*

Used Term LOF. Unfavorable perceptions of firms because of Country of Origin

Stereotypes and negative national images

Is the employee’s decision to stay on with a firm after acquisition dependent on whether the firm is from China or India or from a Western economy?

Survey. 252 French, German, and American managers. Cross-sectional.

Theory not specified. COO bias and LOF discussed.

Comparing attractiveness of Chinese and Indian acquirers vs. Western advanced economies

Note: COO: Country of Origin; CSR: Corporate Social Responsibility; EE: Emerging Economy; IT: Information Technology; LOE: Liability of Emergingness; LOF: Liability of Foreignness; LOR: Liabilities of Origin; MNE: Multinational Enterprise; SMEs: Small and Medium Enterprises;
2.5 Definitions and dimensions of LOR concept

Diverse conceptualizations of LOR and its dimensions have been proposed (see Table 2.2). Of the 18 articles, 14 formally defined LOR (e.g., Pant & Ramachandran, 2012), unlike the remaining (e.g., Yu & Liu, 2016). Some articles presented multiple definitions of LOR (e.g., Agnihotri & Bhattacharya, 2016; Marano et al., 2017). Of the 14 articles that formally defined LOR/LOE, six defined LOR as a disadvantage faced by MNEs (e.g., Pant & Ramachandran, 2012), while the others referred to firms in general. Seven of the 14 definitions used the term EE.

Among the 18 LOR articles, 16 were empirical; 13 of these 16 empirical articles were focused on what can be termed as the external legitimacy disadvantage or LOR experienced in host countries. One article focused on legitimacy issues faced both in home and host countries (Amankwah-Amoah & Debrah, 2017), while another focused on both capability and legitimacy disadvantages (Madhavan & Gupta, 2017). Even while Pant and Ramachandran (2012) and Castellano and Ivanova (2017) mention the mindset dimension, they do not examine it in their study. Bartlett and Ghoshal (2000) focus on the mindset dimension of LOR and Panibratov (2015) mentions a mindset of overconfidence observed among Russian IT managers.

Out of the 18 LOR articles reviewed, four articles focused exclusively on the Human Resource Management dimension of LOR. Of these, three articles found that EE MNEs are perceived as less attractive potential employers compared to AE MNEs because of LOR in terms of lack of legitimacy and poor reputation (Alkire, 2014; Held & Bader, 2016; Meschi, 2018). The fourth article examined
South Korean MNE HRM practices in foreign subsidiaries and found that a hybrid of global best practices and local practices was adopted to counter the COO effect (Chung, Sparrow, & Bozkurt, 2014).

The source of LOR is explicitly stated in some articles while only implied in others. Five articles identify a single source of LOR, namely, poor institutional quality in the home country (e.g., Fiaschi et al., 2017). Four articles identify multiple sources, including home-country institutions, negative country image/stereotypes and global inexperience, as sources of LOR (e.g., Alkire, 2014; Panibratov, 2015). In general, the poor quality of home-country institutions is identified either explicitly or implicitly as the source of LOR.

The definitions in Table 2.2 reiterate the following observations:

a) LOR is associated with weak institutional conditions or institutional voids in the home country.

b) Even though LOR is not necessarily restricted to EE firms, since even developed countries can have institutional voids, all the home countries in the studies are EEs. This is probably because of the pervasiveness of institutional voids in an EE.

c) LOR is not necessarily restricted to MNEs but applies to all internationalizing firms.

d) LOR is experienced at the external country level (host and home countries) and internal (firm and individual) level.

Based on this synthesis, the following LOR definition is proposed:
Liabilities of origin are the disadvantages faced by internationalizing firms attributable to home country institutional voids.

2.6 Review of methods used in LOR studies

Scholars have mainly relied on the case study method. As mentioned earlier, out of the 18 LOR articles included in this review, 16 were empirical and two were conceptual; nine out of the 16 empirical articles adopted the case study approach (see Table 2.2). Four articles used secondary data. Three articles used the survey method to compare the organizational attractiveness of EE and AE firms as potential employers. Among the nine articles using case studies (see Table 2.2), only six, namely, Ramachandran and Pant (2010), Bangara et al. (2012), Chung, Sparrow and Bozkurt (2014), Kolk and Curran (2015), Yu and Liu (2016) and Amankwa-Amoah and Debrah (2017) employed systematic analytical methods as suggested by scholars such as Eisenhardt (1989) and Yin (2014).

The four articles using secondary data, namely, Agnihotri and Bhattacharya (2016), Fiaschi, et al. (2017), Marano et al. (2017) and Madhavan and Gupta (2017), employ regression analysis. Among the articles, only two attempted to measure LOR: Marano et al. (2017) used the World Bank Governance Indicators (WGIs; see Kaufmann et al., 2009) as a proxy for LOR, and Madhavan and Gupta (2017) used multiple measures for LOR for the two dimensions they identified, namely, credibility LOR, comprising status and legitimacy, and capability LOR, comprising global experience. Status was measured using the Human Development Indicators of the United Nations Development Programme and WGIs as proxies. Legitimacy was measured using dummy variables based on the criteria, whether the MNE belonged to: (a) the information technology (IT) sector
or (b) the public-sector. Capability LOR was measured using the number of successful cross-border acquisitions and host countries.

In terms of geographic focus, home countries include China (two articles), India (four), Russia (one), South Korea (one) and Bulgaria (one). One LOR article on Africa did not specify the names of the home countries. Two articles using secondary data had multiple home countries, while the third article had two home countries, Brazil and Mexico. Out of the four HRM articles, three had a mix of countries since they compared firms from EEs and AEs as potential employers. The EEs were specified (China, India and Russia) in these articles but Alkire (2014) and Alkire and Meschi (2018) stated that the AEs were from the European Union and USA without specifying the names of the countries in Europe.

2.7 Theoretical perspectives used to understand LOR

Since LOR is a relatively novel concept, theoretical development in existing literature is relatively sparse. Institutional theory has been most frequently employed to explain LOR as discussed in Section 2.7.1. In addition, several articles draw on the COO effect from international marketing described in Section 2.7.2. Some articles mentioned other theories as discussed in Section 2.7.3.

2.7.1 Institutional theory

Institutional theory as used in IB research draws from two major approaches. The first is the organizational approach with its central concept of legitimacy that stresses the need for organizations to conform to their environment in order to gain social acceptance (Scott, 1995, 2014). Legitimacy is defined as a social judgment of an organization as acceptable, desirable and appropriate (Suchman,
Scott (1995) classified legitimacy into three types: (a) regulatory, which is gained from conformance to rules, regulations and standards; (b) normative, which is obtained from conformance to norms and values in a society; and (c) cognitive, which arises from the comprehensibility and taken-for-grantedness of an organizational form. Scott’s (1995) framework of legitimacy pillars has been the major institutional framework in LOR studies (e.g., Pant & Ramachandran, 2012; Castellano & Ivanova, 2017). In fact, legitimacy challenges in host countries has been the focus of all empirical LOR studies reviewed in this essay with the exception of the descriptive study by Bartlett and Ghoshal (2000).

Suchman (1995), in his seminal article on legitimacy, suggests numerous legitimation strategies for organizations, including advertising, gaining certifications and selecting a favorable environment. Since legitimacy is political and has a symbolic element (Meyer & Rowan, 1977), strategic communication and signaling through activities such as Corporate Social Responsibility (CSR) can be important. For example, four LOR articles (e.g., Agnihotri & Bhattacharya, 2016; Fiaschi et al. 2017; Marano et al. 2017; Yu & Liu, 2016) examine how EE firms engage in CSR to gain external legitimacy.

The second institutional perspective used in IB is the economic approach that focuses on institutional quality and suggests that human behavior is shaped by the constraints, incentives and resources provided by formal and informal institutions (North, 1991). Formal institutions include the constitution, laws and property rights, while informal institutions include customs, codes of conduct, taboos and sanctions (North, 1991). Institutional quality is central to the economic approach and has been measured in LOR studies (Madhavan & Gupta, 2017; Marano et al.,

2.7.2 Country-of-origin effect

The COO effect has been investigated for over five decades in international marketing (e.g., Schooler, 1965). Diverse conceptualizations of COO using different theoretical frameworks have been proposed, including the halo effect, stereotype theory, elaboration-likelihood model and signaling theory (Bloemer et al., 2009). A negative country image and associated stereotypes have been identified as a cause of LOR in all the articles except two (i.e., Castellano & Ivanova, 2017; Fiaschi et al., 2017). Stereotypes are defined as the ‘beliefs about the characteristics, attributes and behaviors of certain groups’ (Hilton & Hippel, 1996: 240). Country image is defined as the mental representation of the people, products, culture and symbols of a country (Verlegh & Steenkamp, 1999).

The concepts of stereotypes and country image have cognitive, affective and normative aspects (Chattalas et al., 2008; Roth & Diamantopoulos, 2009). These three aspects help us understand the LOR drivers. The cognitive aspect is a cue for quality related to the level of economic and technological development, while the affective dimension relates to the emotions associated with a country (Roth & Diamantopoulos, 2009). The normative aspect refers to the influence of the social group to which a stakeholder belongs (Roth & Diamantopoulos, 2009). The cognitive, affective and normative processes could be interrelated (Verlegh & Steenkamp, 1999; Chattalas et al., 2008) shaping the overall perception of the EE firm.
2.7.3 Other Theoretical Perspectives

Alkire (2014) while not going into details of the different theories highlighted the applicability of Social Identity Theory, Theory of Reasoned Action, Person-Organization Fit to explain the choice of employees, choosing Western MNEs over EE MNEs as potential employers. Similarly, Held and Bader (2016) used Signaling and Image Theory to explain the higher attractiveness of US firms as compared to Chinese and Russian firms for potential employees. Chung, Sparrow and Bozkurt (2014) used the Global Integration versus Local Responsiveness framework to explain the adoption of global best practices in HRM by South Korean firms in their overseas subsidiaries. Kolk and Curran (2015) used Ideology Theory to explain the discrimination faced by Chinese solar cell manufacturers in the EU.

2.8 Thematic review

The thematic analysis revealed four prominent themes and two minor themes as elaborated in this section.

2.8.1 Institutional quality in home country: Institutional voids

Twelve articles out of the 18 reviewed have explicitly attributed LOR to poor quality of home-country institutions. The institutional voids mentioned include poor governance, political instability, weak suppliers, input scarcities, underdeveloped banking systems and weak regulatory systems (Ramachandran & Pant, 2010; Fiaschi et al., 2017). Corruption, lack of property rights protection and the poor quality of infrastructure are other examples of institutional voids listed (Marano et al., 2017). The focus of empirical studies in LOR has been on
how home country institutional voids result in legitimacy disadvantages in the host country.

2.8.2 Lack of legitimacy in host country

The lack of legitimacy is a major theme in LOR articles. Pant and Ramachandran (2012) argue that the greatest challenge to EE MNEs in advanced economies (AEs) is gaining cognitive legitimacy because of the negative stereotypes associated with EEs. An organization could be said to have gained cognitive legitimacy when no questions are raised from stakeholders about its style of functioning (Suchman, 1995; Scott, 1995). Cognitive legitimacy is considered the most challenging type of legitimacy to gain, since it operates at the level of preconscious processes (Scott, 1995).

Amankwah-Amoah and Debrah (2017) highlight how lack of legitimacy may arise because a firm originates in a particular region (in their case, Africa), leading to what the authors term ‘liability of Africanness’. They found that African airline companies lacked legitimacy even at home, and African consumers did not prefer to fly these airlines. Further, even reputable African airline companies faced a ‘contagion’ loss of legitimacy or spillover effects when other African airlines companies were noncompliant with international regulations. Fiaschi et al. (2017) found that EE firms gain normative legitimacy through CSR to overcome their poor reputation of engaging in unfair trade practices, exploiting labor and not controlling pollution.

Kolk and Curran (2015) and Yu and Liu (2016) emphasize the symbolic element of legitimacy and the importance of communicating a positive image of caring about the wellbeing of host-country stakeholders. This view is in line with that of
organizational theorists who have emphasized that gaining legitimacy is not merely about conformance with regulations, norms and values but also involves impression management (Meyer & Rowan, 1977; Suchman, 1995). The specific ways by which firms gain legitimacy in host countries are discussed in the next section.

2.8.3 Strategic responses to overcome liabilities of origin

Describing strategies to overcome LOR has been an underlying theme in several (12 of 16) empirical LOR articles. For example, Pant and Ramachandran (2012) analyze the legitimating strategies of five leading Indian software service firms operating in the United States. These strategies included gaining favorable media coverage, being listed on the host-country stock exchange, obtaining international certifications and forming industry associations. Engaging in strategic alliances with AE firms was a strategic response used by African airline companies (Amankwah-Amoah & Debrah, 2017). CSR has been identified as a legitimating strategy in four articles (Agnihotri & Bhattacharya, 2016; Yu & Liu, 2016; Fiaschi et al., 2017; Marano et al., 2017). Chinese firms in Europe used strategic communication and lobbying in order to promote a positive image (Kolk & Curran, 2015).

2.8.4 Country-of-origin effect: Stereotypes and negative country image

As discussed in Section 2.7.2, the cognitive, affective and normative aspects of the COO affect can be used to explain LOR. The LOR articles have not explicitly discussed these aspects of COO. Nonetheless, these aspects can be useful to understand how LOR arises. As a cognitive cue, COO is used for evaluating quality (Verlegh & Steenkamp, 1999). For example, perceptions of poor
regulatory regime, corruption and underdeveloped infrastructure may lead to stereotypes of low quality and low competence resulting in LOR (Madhok & Keyhani, 2012; Amankwah-Amoah & Debrah, 2017; Marano et al., 2017). As an affective cue, COO emphasises the symbolic and emotional elements of the country image that link positive or negative associations with a particular nation (Nebenzahl et al., 1997). EE firms may evoke negative emotions because of historical or political reasons. For example, Chinese firms were found to evoke negative emotions in Europe and New Zealand because of the association with a communist regime resulting in LOR (Kolk & Curran, 2015; Yu & Liu, 2016). As a normative cue, consumers may evaluate business norms related to a particular country (Verlegh & Steenkamp, 1999). For example, stakeholders may question the willingness of firms from a particular region to comply with international rules and regulations, such as safety standards (Amankwah-Amoah & Debrah, 2017), resulting in LOR.

2.8.5 Organizational Attractiveness

Of the four HRM articles, three had a singular focus on one dimension of LOR — namely organizational attractiveness as compared to firms from Western economies (Alkire, 2014; Held & Bader, 2016; Meschi, 2018). EE MNEs were found to suffer from LOR since they were found to be less attractive by potential employees as compared to AE MNEs. As compared to AE MNEs, EE MNEs suffered from a reputation deficit, and from a negative country image. For example, Held and Bader (2016) found that EE MNEs suffer from what they term as a ‘poor corporate character image.’
2.8.6 Managerial mindset

Even though managerial mindset is not a common theme across LOR articles, the importance of mindset in internationalization decision making has been highlighted in IB literature (Aharoni et al., 2011; Freeman & Cavusgil, 2007). Among the LOR articles, Bartlett and Ghoshal (2000) found that EE firms that were unsuccessful in their efforts to globalize their operations were led by managers experiencing two types of psychological barriers: one, the liability of under-confidence and the other, overconfidence when ignorant of the pitfalls of going global. This mindset of overconfidence was also observed among Russian IT firm managers, who overestimated their capability to succeed in European markets because of their prior success in the Commonwealth of Independent States (Panibratov, 2015). Pant and Ramachadran (2012) mention that EE managers may not be able to function well in AE environments because of cognitive maladjustment, however they do not examine this cognitive aspect further in their study.

2.9 Liabilities of origin: Integrated conceptual framework, research gaps and future research agenda

Figure 2.1 presents the conceptual framework resulting from the six LOR themes discussed in Section 2.8. Some of the interrelationships between the parameters (shown in solid lines) have been explored in the extant literature, while some relevant parameters and relationships that emerge from the literature are yet to be investigated empirically (shown in dotted lines) and represent the research gaps that are addressed by the current study.
Figure 2.1: Integrated Conceptual Framework for LOR and Research Gaps

Note: Dotted lines represent research gaps: EE: Emerging Economy; LOR: Liabilities of Origin;

The integrated conceptual framework (See Figure 2.1) helps to understand the multi-level nature of LOR. Different dimensions of LOR — organizational, host-country, and cognitive — have been suggested in a prior conceptual study (Ramachandran & Pant, 2010) but the relationship between institutional voids and these three levels was been specified. Ramachandran and Pant (2010) described the following dimensions of LOR (a) underdeveloped institutional intermediaries in the home country; (b) adverse institutional attribution in the host country; and (c) cognitive maladjustment of EE managers in the organization. However, Ramachandran and Pant (2010) did not develop a conceptual framework relating these three dimensions to institutional voids. In the current study, the three levels
of LOR are labelled as: (a) external legitimacy LOR; (b) firm capability LOR; and (c) mindset LOR. These specific labels have not been used before. This conceptual framework developed in the current study (see Figure 2.1) helps to (a) identify the research gaps for this study; (b) suggest testable propositions; and (c) identify areas of future research as discussed below.

2.9.1 Mindset LOR

At the individual level, the critical role of perceptions of institutions or the environment in influencing internationalization decision-making has been highlighted by international entrepreneurship (IE) and IB scholars (Aharoni, Tihanyi, & Connelly, 2011; Zahra et al., 2005). This relationship has not yet been investigated specifically for institutional voids. The first research gap addressed by this study relates to EE manager perceptions of institutional voids with regard to internationalization (See Figure 2.1). Bartlett and Ghoshal (2000) highlighted the mindset barriers faced by EE managers going global but did not examine the antecedents of these barriers or relate them to institutional voids. The second research gap addressed by the current study relates to the impact of perceptions of institutional voids on managerial mindset and the resulting mindset LOR (See Figure 2.1). The related proposition is as follows:

**Propositions 1a:** The more adverse the perceptions of the EE manager of home country institutions, the higher the mindset LOR.

The concept of managerial self-belief or self-efficacy (Bandura, 1997) has been shown to influence perceptions of entrepreneurial opportunities (Boyd & Vozikis, 1994; Chen et al., 1998). Individuals with high self-efficacy believe in their ability to overcome obstacles and persist in the face of adversity (Bandura, 1977),
a characteristic that could help them in entrepreneurial ventures in the challenging EE environment (Luthans et al., 2000). Among many personal factors, high self-efficacy has been found to help managers overcome institutional voids in EEs (Luthans et al., 2000; Kiss et al., 2012). The impact of personal factors such as self-efficacy that has been widely recognized as critical to successful entrepreneurship (Baum & Locke, 2004; Drnovšek et al. 2010; Frese & Gielnik, 2014; Luthans & Ibrayeva, 2006) but the role of self-efficacy in overcoming institutional voids has not been examined in the LOR literature. This is the third research gap addressed in the current study (See Figure 2.1). The related proposition is as follows:

**Proposition 1b:** Self-efficacy can help overcome the negative impact of adverse perceptions of home country institutions on mindset.

### 2.9.2 Firm Capability LOR

At the firm level, institutional voids such as excessive bureaucracy, corruption, poor law enforcement and inadequate property rights, could lead to higher transaction costs for the firm reducing its global competitiveness and resulting in LOR as suggested by prior studies (e.g. Madhok & Keyhani, 2012; Ramachandran & Pant, 2010). The impact of home country institutions on internationalization has been examined in prior literature (He & Lin, 2012; LiPuma, Newbert, & Doh, 2013; Wu & Chen, 2014). However, *the relative costs of internationalization* of AE and EE firms have not yet been compared to determine whether EE firms face additional costs resulting in firm capability LOR. This is the fourth research gap is addressed by the current study.
Propositions on costs of internationalization and firm capability LOR are put forth as follows:

**Proposition 2a:** The higher the prevalence of institutional voids in an EE, the higher the costs of internationalization.

**Proposition 2b:** The higher the costs of internationalization, the higher the firm capability LOR.

### 2.9.3 External Legitimacy LOR

At the country level, LOR studies have shown that firms can suffer from an external legitimacy LOR if host-country stakeholders have negative perceptions of home-country institutions impacting their internationalization performance (e.g. Marano et al., 2017; Pant & Ramachandran, 2012; Yu & Liu, 2016). Some studies suggest that lower the quality of institutions in a particular EE, the more adverse these perceptions are likely to be (Madhavan & Gupta, 2017; Marano et al., 2017). A firm can undertake effective strategic responses in order to mitigate its external legitimacy LOR as described in multiple LOR studies (See Section 2.8.2). This leads to the following set of propositions on external legitimacy LOR:

**Propositions 3a:** The higher the degree of adverse perceptions among host-country stakeholders of EE home country institutions, the higher the external legitimacy LOR.

**Proposition 3b:** The higher the external legitimacy LOR, the lower the internationalization performance.
Proposition 3c: Strategic responses of firms have a moderating influence on the negative relationship between external legitimacy LOR and internationalization performance. The more effective the strategic responses, the less negative the influence of external legitimacy LOR on international performance.

Prior empirical studies on LOR have focused on external legitimacy LOR and have addressed the relationships suggested in these propositions (e.g. Marano et al. 2017; Pant & Ramachandran, 2012), but scant attention has been paid to firm capability LOR and mindset LOR. The focus of the current study is, therefore, on the research gaps identified relating to mindset LOR and firm capability LOR.

2.10 Future Research Agenda

The integrated conceptual framework developed based on the literature review and the related propositions (See Figure 2.1) helps to identify future research directions for LOR as detailed in this section.

2.10.1 Institutional voids—Opportunities or impediments? Role of managerial mindset

An unsolved puzzle in IB is why institutional voids impede internationalization in some cases, while accelerating it in others. There are studies proposing that firms internationalize to escape institutional voids (Witt & Lewin, 2007; Boisot & Meyer, 2008) and scholars have even suggested that institutional voids can help build resilience and capabilities among EE firms (Kotabe & Kothari, 2016; Cuervo-Cazurra & Ramamurti, 2017).

However, the reasons that certain EE firms choose to view institutional voids as an opportunity for internationalization whereas others view these as impediments
are unclear. Understanding the role of the perceptions of EE managers may help in finding an answer to this puzzle. Dutton and Jackson (1987) suggest that individuals respond differently to similar environmental events, depending on whether they label the situation as an opportunity or a threat. An opportunity is a situation in which gain is likely and the manager has some degree of control, while a threat is a situation with a potential of incurring loss over which one has little control (Dutton & Jackson, 1987). The interpretation of the environment by managers and their framing of environment pressures as a threat or opportunity have been shown to be salient in executive decision-making (George et al., 2006).

The importance of interpretation of situations as opportunities and threats based on individual cognition rather than a mechanical optimization process based on economic valuation has also been supported in the entrepreneurship literature — entrepreneurs who exploit opportunities have been found to be higher in optimism and to frame information more positively (Shane & Venkatraman, 2000; Baron et al., 2016). Why do some managers frame institutional voids more positively than other managers? Future research could examine what factors are the antecedents of EE manager perceptions of institutional voids.

2.10.2 Comparing liabilities of origin faced by SMEs and MNEs

Small and medium-sized enterprises (SMEs) have been found to be more vulnerable to institutional barriers than large firms (Wright et al., 2007; WTO, 2016). Therefore, EE SMEs are likely to face additional LOR compared with large EE MNEs. Exploring this issue can result in a useful contribution to policy given that governments recognise SME internationalization as critical for economic growth. SMEs also form the majority of firms in most EEs (WTO,
For example, over 99% of the total enterprises in China are reported to be SMEs, accounting for around 68% of total imports and exports (Arroio & Scerri, 2014). Studying SMEs offers an opportunity to examine the role of the EE manager in overcoming institutional voids, since in SMEs, internationalization decision-making has been found to be driven by the owner-manager (Freeman & Cavusgil, 2007; García-Cabrera et al., 2016; Manolova et al., 2002; Reid, 1981; Zahra et al., 2005).

2.10.3 Measurement of liabilities of origin

The lack of a validated measure for LOR places limits on empirical research. Measuring LOR is not without its challenges, given that it operates at multiple levels. For one, legitimacy is an abstract, unobservable concept and is therefore difficult to measure (Suchman, 1995; Zimmerman & Zeit, 2002). Second, it may be difficult to disaggregate LOR from LOF. Third, it is not possible to disaggregate firm advantages and disadvantages in most performance measures (Mezias, 2002). Finally, since LOR is a relative measure, researchers would have to compare the internationalization of an internationalizing EE firm with that of an AE firm to estimate whether EE firms face additional costs. The quantitative studies on LOR so far have focused on either CSR (Agnihotri & Bhattacharya, 2016; Fiaschi et al., 2017; Marano et al., 2017) or on cross-border acquisition completion (Madhavan & Gupta, 2017). Comparing the internationalization costs of EE and AE firms to examine whether EE firms face LOR is a potential area of research.

Thus far, LOR has been measured using proxies, including WGIIs (Marano et al., 2017) and a combination of WGIIs and Human Development Indicators
WGIs include the dimensions of regulatory quality, legal systems, freedom of speech, political stability, government effectiveness and control of corruption (Kaufmann et al., 2009). However, WGIs do not include institutions such as religion, political systems and culture. Religion and political systems could play a role in shaping affective responses (Maheswaran et al., 2013) as in the case of LOR. Affective responses have been found to play a more influential role than cognitive responses in the overall attitude to a country and its products (Roth & Diamantopoulos, 2009). In other words, even if host-country stakeholders associate a particular EE firm with high quality products, an aversion to the major religion practiced in the EE or to the political system could result in an overall negative attitude. For example, the communist regime in China has been identified as a source of negative stereotypes in some LOR studies (Kolk & Curran, 2015; Yu & Liu, 2016). Investigating the impact of informal institutions in creating LOR could contribute to IB research.

2.10.4 Assessing the effectiveness of strategic responses and host- and home-country variation

Firms can engage in various legitimating strategies, such as conformance to institutions, selection of favourable locations and innovation (Suchman, 1995; Zimmerman & Zeitz, 2002). For example, by gaining international certifications (Bangara at al. 2012) or registering on AE country stock exchanges (Pant & Ramachandran, 2012), EE firms signal their conformance to global standards. EE firms may simultaneously engage in a variety of strategic responses. Given that strategic responses are likely to be resource-intensive in terms of time, finance and human resources, a fruitful area of research would be to compare the
effectiveness of different strategic responses. A question that remains unanswered is whether the different strategic responses undertaken by firms can complement or substitute each other.

A future area of research is to study how the characteristics of the home and host countries influence LOR and strategic responses. The influence of the same strategy on different combinations of host and home countries could be examined. For example, for a particular EE firm, the effectiveness of the same strategic response in two different host countries could be assessed. Since the focus of several LOR studies (Kolk & Curran, 2015; Yu & Liu, 2016) has been on how EE firms overcome LOR in AEs, a question that needs to be answered is whether EE firms face LOR in other EEs, how they cope and whether their strategic responses differ from those undertaken in AEs.

2.10.5 The dynamic nature of LOR and organizational learning

LOF and COO have been found to be dynamic, suggesting that LOR is also likely to be dynamic. In their study on LOF, Zaheer and Mosakowski (1997) found that it took around 16 years for foreign firms to overcome LOR. Japan suffered from a negative COO effect after World War II but managed to transform its image in a few decades (Nagashima, 1970). The dynamic nature of LOR has yet to be investigated empirically.

At the internal level, the lack of global experience has been identified as contributing to LOR (Bartlett & Ghoshal, 2000; Bangara et al., 2012). This finding suggests that an increase in global experience is likely to help an EE firm overcome LOR. However, whether experience helps reduce LOR over time or not depends on the extent of organisational learning. Organisational learning has been
defined as the development of knowledge based on past firm behaviour and application of these insights and associations to future actions (Fiol & Lyles, 1985). The ability of a firm to learn has been shown to depend on its absorptive capacity or its ability to value, assimilate and utilise knowledge (Cohen & Levinthal, 1990). Whether an EE firm is able to overcome LOR through global experience will depend therefore on both its interest in learning and its capacity to learn. The relationship between organisational learning and LOR offers another area of future research.

2.11 Limitations

The articles for this literature review were selected systematically using different combinations of search terms as described in Section 2.4. The search was done on articles from January 2000 to June 2018. Despite the structured approach, it is possible that an article that described a phenomenon similar to LOR but did not use the terms such as ‘liability’ or ‘disadvantage’ or ‘origin’ or ‘emergingness’ may have been missed. Since this is the first systematic literature review on LOR, this essay could not benefit from the inputs of earlier reviews.

Another possible limitation is that the scope of this review was limited to disadvantages linked to origin with a focus on institutional voids. Finally, the conceptual framework was based on the articles reviewed and specifies only three kinds of LOR — external legitimacy LOR, firm capability LOR, and mindset LOR. It is possible that there may be some other types of LOR that have not been described in extant literature. Future research on LOR could explore and specify further types of LOR.
2.12 Conclusion

This chapter presented a systematic literature review of LOR. Using a novel framework of home- and host-country experiences, the differences and similarities between LOR and related concepts in the IB literature, including CDBA, LOF and COO were delineated. The extant literature on LOR provided the basis for the development and discussion of the main themes and conceptual framework. A comprehensive definition of LOR was proposed based on an analysis of the diverse definitions in the literature and a multilevel conceptual framework developed. Testable propositions on the relationships between institutional voids are suggested and areas of future research identified. This conceptual framework (Figure 2.1) helps to illustrate how LOR could operate at the country, firm and individual level as well as how all these three levels could influence the firm internationalization.

The research gaps addressed by the current study are highlighted in the conceptual framework (See Figure 2.1). The first research gap relates to exploring the perceptions of institutional voids by EE managers with regard to internationalization and exploring which institutional voids are perceived as resulting in LOR. Understanding the mechanism of mindset LOR is the second research gap identified. The third research gap relates to exploring the role of self-efficacy in overcoming institutional voids. The first and second research gaps are addressed by the qualitative study in Chapter Three. The third research gap is also addressed using multiple methods — the qualitative study in Chapter Three quantitative study in Chapter Four address this gap. The fourth research gap
relates to comparing the costs of internationalization of EE and AE firms to determine whether EE firms face firm capability LOR. The fourth research gap is addressed in the quantitative study in Chapter Four.
3. Chapter Three - ESSAY TWO: Qualitative Study of EE Entrepreneurs

3.1 Introduction

The chapter describes a qualitative study on the liabilities of origin (LOR) on emerging economy (EE) small and medium enterprise (SME) internationalization. Section 3.2 presents the background and motivation for the study. This is followed by a description of the research context in 3.3. Section 3.4 presents the research methodology including the sampling strategy, data collection, and data analysis process. Section 3.5 presents the findings relating to the first research question on how EE SME owner-managers perceive institutional voids. Sections 3.6 to 3.8 present the findings related to the second research question on how and why institutional voids result in LOR. The discussion and propositions relating to the novel themes that emerged from the study are presented in Section 3.9. Section 3.10 presents a summary of the findings on institutional voids and LOR. The limitations of this study and areas of future research are described in Section 3.11 followed by the conclusions in Section 3.12.

3.2 Background and Motivation

This study explores the influence of liabilities of origin (LOR) on Emerging Economy (EE) Small and Medium Enterprise (SME) internationalization. LOR refers to the disadvantages faced by internationalizing firms attributable to the institutional voids in their home country environment (Marano et al., 2017; Pant & Ramachandran, 2012). Institutional voids are weak, absent or ineffective institutions that support market development and activity (Khanna & Palepu,
EE firms could face a wide range of institutional voids in their home countries. Examples of institutional voids include lack of control of corruption, political instability, regulatory burden, infrastructure bottlenecks, inadequate protection of property rights, lack of freedom of speech, government interference, illiquid equity markets, human rights violations, criminalization of business, and imbalanced labor market regulations (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Kaufmann, Kraay, & Zoido-Lobatón, 2009; Khanna & Palepu, 2010; Mair, Marti, & Ventresca, 2012).

While the role of owner-managers’ perceptions of the institutional environment in influencing SME internationalization has been examined in several studies (Acedo & Florin, 2006; García-Cabrera, García-Soto, & Durán-Herrera, 2016; Manolova, Brush, Edelman, & Greene, 2002), the studies have not focused specifically on institutional voids. Institutional voids are a recognized distinguishing feature of the business environment in EEs compared to advanced economies (AEs) (Khanna & Palepu, 2010; Kostova & Hult, 2016; Meyer & Peng, 2016). Given the wide variety of institutional voids in EE (Doh et al., 2017; Kaufmann et al., 2009) it is not known which of these institutional voids could potentially create a liability for an EE entrepreneur/SME owner-manager. Home country institutional quality has been shown to impact internationalization of firms (He & Lin, 2012; Ngo, Janssen, Leonidou, & Christodoulides, 2016; Wu & Chen, 2014), but these studies have either used secondary data for measuring institutional quality or have predetermined measures. The current study, in contrast, does not focus a priori on any specific institutional voids, but seeks to understand the institutional voids that are identified as critical by each
entrepreneur that emerge from the in-depth qualitative interviews. A review of the international entrepreneurship (IE) literature highlighted that there has been surprisingly little attention in the literature to liabilities faced by EE firms (Kiss et al., 2012). Furthermore, the international business (IB) literature on institutional voids has mainly focused on firm-level responses to institutional voids and little attention has been paid to how people respond to institutional voids (Doh et al., 2017; Mair et al., 2012). While there are several studies of SME barriers especially in relationship to entrepreneurial growth and performance (Aidis, 2005; Das & Pradhan, 2010; Doern, 2009; Hashi, 2001), the interaction of SME owner-manager perceptions of institutional voids and internationalization is yet to be explored.

This study is based on the premise that studying EE SME owner-manager perceptions of these institutional voids could offer important insights into which of these institutional voids could potentially result in LOR. This is the first research gap that this study addresses. The first research question this qualitative study seeks to address is, therefore:

*How do EE SME owner-managers perceive institutional voids with regard to internationalization?*

Using a survey to rank a ‘laundry list’ of barriers for entrepreneurs has been a common research approach in the SME barrier literature (e.g., Aidis, 2005; Hashi, 2001; Krasniqi, 2007). This type of research on SME barriers has been critiqued because of its emphasis on listing and ranking barriers rather than seeking to understand how and why a particular factor limits growth or development (Doern, 2013). In these prior studies, the list of institutional barriers is predetermined and
a survey is used to determine which barrier is considered more critical (Aidis, 2005; Hashi, 2001; Krasniqi, 2007). Furthermore, the quantitative methodology used in these studies does not provide insights on how and why these institutional factors result in barriers. Responding to this critique, some studies have adopted an exploratory and interpretive approach employing in-depth interviews (Doern, 2013; Doern & Goss, 2014). However, these studies studied entrepreneurship in general and not internationalization. LOR is a concept specific to internationalization. In prior LOR studies, the different mechanisms by which an institutional void may result in LOR has not been explored (e.g. Fiaschi et al, 2017; Marano et al. 2017) representing a research gap. The current study uses in-depth probing to understand how and why a particular institutional void could impede internationalization for a given SME and result in mindset LOR, firm capability LOR or external legitimacy LOR as discussed in Chapter Two (See Figure 2.1). Accordingly, the second research question this study addresses is:

*How and why does a particular institutional void result in a liability of origin for an EE SME?*

The perceptions of institutional voids and the mechanism of LOR has not yet been studied in any EE or AE context. This qualitative study focuses on one EE (i.e., India) as discussed in detail in Section 3.3. Future research can replicate this study can be in other EEs.

### 3.3 Research Context

India was selected as the context for the qualitative study for several reasons. India has been recognized as a key EE ever since it liberalized its economy in
1991 (Chittoor, Sarkar, Ray, & Aulakh, 2009; Hoskisson et al., 2013). The software sector in India has benefited from this liberalization and Indian software firms are now leading players internationally (Dossani & Kenney, 2009; Pant & Ramachandran, 2012). However, despite these initiatives, India remains a challenging country for doing business. India is ranked 81 out of 180 countries in the annual Corruption Perceptions Index brought out by Transparency International, a global organization set up to combat corruption (Transparency International, 2017). This can be compared to New Zealand and Denmark that are ranked 1 and 2, respectively, where entrepreneurs face a corruption-free environment. India is ranked 100 out of 190 economies in 2017 in the World Bank Group’s Ease of Doing Business Ranking (World Bank, 2018). A ranking of 100 suggests that it is still challenging to do business in India compared to advanced economies. Furthermore, one of the eleven criteria used to measure this Ease of Doing Business is ‘Trading across Borders’ that captures the costs, time and complexity of documentation for importing and exporting. India is ranked 146 among 190 economies on the criterion ‘Trading across Borders’, suggesting that internationalization is challenging for Indian firms compared to firms in advanced economies (World Bank, 2018). In addition, a pragmatic reason for selection of India is that the researcher was located in India and had access to Indian firms.

The Government of India used the term Small-Scale Industry until 2006 when the Micro, Small, and Medium Enterprises (MSME) Act was promulgated (Ministry of MSME, 2018a). Enterprises are classified as micro, small or medium based on investment in plant and machinery, with different criteria for service and
manufacturing firms. The percentage of large enterprises in India is less than one percent and India has approximately 63.4 million micro, small, and medium enterprises (Ministry of MSME, 2018a). Of these 63.4 million MSMEs, four percent are classified as small enterprises and one percent as medium. Around 95 percent of MSMEs are proprietary; partnerships and other forms account for less than five percent of all MSMEs (Ministry of MSME, 2018a). This study will focus on small and medium enterprises and not micro-enterprises because 95.5 percent of micro-enterprises have less than six employees (Ministry of MSME, 2018a) and are less unlikely to engage in internationalization than small and medium enterprises (WTO, 2016). In this study, SMEs are selected based on the World Bank criteria – a non-subsidiary independent firm having less than 300 employees (International Finance Corporation, 2012).

It has been pointed out that the figures for small enterprises in India provided by the Government of India are inflated and appear to be inaccurate with different agencies of the government providing different numbers (Das & Pradhan, 2010). The major product groups for Indian SME exports that account for over 90 of total value of exports include ready made garments, engineering goods, electronic equipment, chemicals and allied products, basic chemicals, pharmaceuticals and cosmetics, processed foods, finished leather and leather products and plastic products (Ministry of MSME, 2018a).

---

² According to the Government of India classification, microenterprises have an annual turnover of less than 50 million Indian Rupees (INR) (1 million INR = 14,577 USD as of 1 August, 2018); small enterprises between 50 million INR and 750 million INR; and medium enterprises between 750 million INR and 2500 million INR (MSME, 2018b).
There is pressure on SMEs in India to internationalize both because of the opportunity to enter global markets and because of the threat created removal of protective policies (Das & Pradhan, 2010; Singh, Garg, & Deshmukh, 2009). While 821 products were reserved for this sector in 1998, by 2001 all reservations were removed (Das & Das, 2014). The major product groups for SME exports include ready made garments, engineering goods, electronic equipment, chemicals and allied products, basic chemicals, pharmaceuticals and cosmetics, processed foods, finished leather and leather products and plastic products account for over 90 of total value of exports. Information Technology (IT) and Information Technology Enabled Services (ITES) services are also important export sectors.

SMEs in India have been shown to face many barriers to internationalization (Das & Pradhan, 2010; Das & Das, 2014; Santhosh & Subrahmanya, 2016). Studying Indian SMEs is also important because large enterprises in India number less than one per cent of total enterprises (Ministry of MSME, 2018a). SME internationalization has also been recognized as a priority area by international organizations for economic development (OECD, 2016; World Trade Organization, 2016). Finally, SMEs offer the opportunity to study how owner-manager perceptions of institutional voids and resulting LOR influence internationalization, since a wide range of studies have demonstrated that the internationalization of SMEs is driven by the owner-manager (Autio, 2005; Etemad & Wright, 2003; Manolova et al., 2002; Reid, 1981).
3.4 Research Methodology

Qualitative research has been found to be appropriate for exploring and understanding the meanings individuals ascribe to a social problem (Creswell, 2009, 2012), such as the current study which explores the understanding of institutional voids by EE SME owner-managers. The systematic literature review on LOR in Essay One revealed that LOR does not as yet have an agreed upon theoretical framework. A qualitative approach is, therefore, suitable for this study because rather than using a single theoretical lens that may restrict understanding, rich descriptions can be generated to provide theoretical insights as to how institutional voids may result in LOR influencing EE SME internationalization. Furthermore, the concept of LOR is in its nascent stage and while the systematic literature review has shown that the institutional theory has been widely used to understand LOR, theories from psychology such as socio-cognitive theory (Bandura, 2001; Stajkovic & Luthans, 2003) or additional theoretical perspectives that emerge grounded in the data could help in gaining a better understanding of LOR. Using a qualitative approach could, therefore, help to contribute to theory building in IB through an iteration of “rich data and conceptual insights” (Doz, 2011, p. 584).

In the current study, the assumption is that while institutional voids are characteristic of the environment of EE, it is the personal experience and subjective interpretation of institutional voids by SME owner-managers that can offer meaningful insights on when and why they are considered as liabilities, assets, or neutral in relation to the EE SME internationalization. The constructivist approach adopted in this study assumes that what we perceive as
the ‘real world’ is an active social construction rather than an independent objective experience—a result of our social interaction and the lens of subjective-cultural beliefs we use.

While the overall research philosophy for this study is pragmatic (Creswell, 2009), and is inclusive of different ontological stances, the ontological stance for this qualitative study is interpretivism. This reflects the belief that the reality of institutional voids and LOR, as experienced by the SME owner-manager, is multiple and relative, changing from manager-to-manager and from experience-to-experience. This contrasts with the objectivist ontological approach where the researcher assumes that social phenomena have an objective, absolute and unconditional existence that is independent of social actors (Bryman & Bell, 2015). In the constructivist approach, in contrast, a subjective understanding is relied upon for the making of meaning of LOR.

3.4.1 Data Collection

Data collection comprised the five interrelated steps that included: (a) selecting a suitable sampling strategy and identifying participants and sites; (b) deciding on the type of information to be collected and designing interview protocols for collecting and recording information; (c) gaining ethics approval; (d) seeking permissions and gaining access to SME owner-managers; and (e) engaging in actual data collection with attention to ethical issues.

3.4.1.1 Sampling Strategy

A purposeful sampling strategy was adopted where each SME was selected in order to help explicate the concept of LOR and maximize learning. Following the
suggestion of Miles and Huberman (1994) the choice of participants was driven by consideration of the relevance to the conceptual questions on LOR. The sample of SMEs was, therefore, selected to get representation across size, sector and degree of internationalization. In terms of size, efforts were made to select firms that belonged to all three categories of micro, small, and medium. In terms of sector, SMEs from manufacturing, services, and trading sectors were selected. Finally, efforts were made to select SMEs with varying degrees of internationalization. The snowball method (Bryman & Bell, 2015) was also employed, where participants were asked to recommend other entrepreneurs. Specifically, the following criteria were used for selecting SMEs for the study:

1) The SME should be formally registered. If the enterprise is registered in India, it should be classified as an SME by the Government of India. Some EE SMEs are registered in advanced economies in order to gain legitimacy (Bangara et al., 2012; Pant & Ramachandran, 2012). If the enterprise is registered outside India, it should be owned by an Indian national, and the number of employees should be less than 300, following the International Finance Corporation (2012) /World Bank Enterprise Standards (Micro-enterprise <10; Small >10<50; Medium >50<300) (Berisha & Pula, 2015).

2) The SME must be currently engaged, seeking to engage or should have been engaged in some form of outward internationalization. The forms of outward internationalization in this study include the following: (a) direct exports; (b) export through an intermediary; (c)
licensing; (d) contracting; (e) strategic alliance; (f) joint venture; and (g) foreign direct investment.

3) Participants must partly or wholly own and manage the enterprise.

4) The SME must be physically accessible to the researcher since the in-depth interviews were conducted face-to-face.

Selection of SMEs was done by contacting associations that are engaged in support of entrepreneurs and through professional contacts through the business school where the researcher is employed. Indian firms operate in a highly bureaucratic and weak legal environment where transparency is not the norm (Khanna & Palepu, 2010). Since entrepreneurs cannot rely on the institutional environment to protect their property rights they may not be open to sharing information and may not be open to be interviewed by strangers (Doern, 2013; Welter & Smallbone, 2011). In the Indian context, making cold calls with requests for interviews may, therefore, have a low probability of success as has been suggested in similar studies (Saini & Budhwar, 2008). Approaching firms through well-placed professionals or business networks could be more effective, as has been shown in other EEs such as China (Peng & Luo., 2000).

3.4.1.2 Number of SMEs

Prior studies using a qualitative approach to study SME internationalization have had a range of sample sizes, such as four (Bangara, Freeman, & Schroder, 2012; Chetty & Holm, 2000), or twelve (Crick & Spence, 2005; Freeman & Cavusgil, 2007), or even 58 (Ciravegna, Lopez, Kundu, & Rica, 2014). Eisenhardt (1989) recommends the approach of theoretical sampling where cases are chosen to help replicate or extend emergent theory. Theoretical saturation refers to a situation
where the researcher collects data until reaching a point where no new information is obtained from further data (Eisenhardt, 1989). She suggests that four to ten cases are adequate for this purpose (Eisenhardt, 1989). In the current study, the number of SMEs selected was not fixed *a priori* but was done keeping the objective of the study in mind. Given that institutional voids could be experienced differently across types of SMEs, variation in sector, size, and degree of internationalization was considered necessary to understand the phenomenon of LOR.

Theoretical saturation was reached within each industry sector when further interviews revealed no new insights and information (Eisendhardt, 1989; Yin, 2014). In the services sector, theoretical saturation was reached with nine entrepreneurs, while in the manufacturing sector, 10 entrepreneurs were found sufficient. In the case of the trading sector, the entrepreneurs working in the trading sector offered very little variation in their responses, and three participants were found sufficient in this sector. The total number of entrepreneurs was 22 and the number of SMEs were fairly evenly distributed across manufacturing and service sectors, as shown in Table 3.1.
Table 3.1: Sample SMEs/ Entrepreneurs (Entrprs) - Sector, Size, and Degree of Internationalization

<table>
<thead>
<tr>
<th>Sector</th>
<th>Manufacturing</th>
<th>Service</th>
<th>Traders</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degree of Internationalization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 per cent exports</td>
<td>Entrpr T</td>
<td>Entrpr F</td>
<td>Entrpr U</td>
<td>Entrpr K</td>
</tr>
<tr>
<td>High degree &gt;40 &lt;100 per cent</td>
<td>Entrpr D, J, K</td>
<td>Entrpr Q</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Moderate degree &gt;10–40 per cent</td>
<td>Entrprs E, H</td>
<td>Entrprs I, M</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Low degree &lt;10 per cent</td>
<td>Entrpr B</td>
<td>Entrpr P</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Nascent Exporters</td>
<td>Entrpr S</td>
<td>Entrpr N</td>
<td>Entrprs C, L</td>
<td>4</td>
</tr>
<tr>
<td>Former Exporters</td>
<td>Entrpr O</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>
A break-down of the types of SMEs, along with their degree of internationalization, is presented in Table 3.1. Given that these owner-managers discovered, evaluated and pursued opportunities to create goods and services, they can also be termed as entrepreneurs (Shane & Venkataraman, 2000). The SME owner-managers are henceforth referred to as entrepreneurs in this study, following similar studies (Doern & Goss, 2009, 2014; Freeman & Cavusgil, 2007). To protect the anonymity of the participants, pseudonyms have been used for the entrepreneurs.

Under the Government of India suggested classification (MSME, 2018b), 13 of the participating firms could be categorized as microenterprises, six firms as small enterprises, and three firms as medium. As shown in Table 3.1, the number of enterprises across manufacturing and services is evenly distributed. Of the 22 SMEs, ten are in the manufacturing sector and nine in services. Three SMEs were traders and exported agricultural products. In terms of degree of internationalization, there was a spread across different degrees of internationalization. Seven enterprises had 100 per cent exports, four had a high degree of internationalization, four a moderate degree, and two enterprises a low degree of internationalization. Four participants were nascent exporters while one was a former exporter whose 100 per cent export garment factory had shut down because of bankruptcy.

The CEO/owner-manager of each SME was interviewed for the study. Demographic details of these CEOs including age, education, international exposure, are given in Appendix II. Of the 22 entrepreneurs, 20 were founders of the enterprises. Of the two participants who were not founders, one (Entrepreneur
O) was the son of the founder and modernized the factory after taking it over from his father. The second non-founder, Entrepreneur M, took over as the CEO of a loss-making enterprise that was on the verge of being shut down. He invested in the company and turned it around with technological innovation.

Appendix II gives details of the 22 SMEs including their year of founding, the type of industry, host countries, year of first internationalization, industry and size.

In addition to the interviews of SME owner-managers, interviews with three SME experts were conducted over the period February 2018 to June 2018 to understand the perspective of barriers from the point of view of public officials and SME consultants. The details of the experts are as follows:

1. Expert 1, Former manager, Small Industries Development Bank of India
2. Expert 2, Branch Manager, Industrial Development Bank of India (IDBI)
3. Expert 3, Senior Manager, Industrial Development Bank of India

All these experts worked in large public sector industrial banking institutions with branches across India that support small industries in India. For example, IDBI had over 1800 branches all over India in 2018.

3.4.1.3 Design of Interview Protocol and Ethics Approval

Semi-structured interviews were used to collect data in this study as they provide a method of inquiry combining the advantages of structured interviews, in terms of being systematic and having the flexibility of open-ended interviews (Fontana & Frey, 1994). Semi-structured interviews have been used in prior studies on
SME internationalization (Bangara et al., 2012; Crick & Spence, 2005; Freeman & Cavusgil, 2007).

An interview protocol was used so that similar wording was used across the different participants in order to increase the reliability of the process. The use of an instrument also helps in replicability and comparison of cases and can help to build theories and develop explanations (Miles & Huberman, 1994).

The interview protocol was designed using an inductive approach. While designing the interview protocol, several factors were kept in mind. There were no suggestions on the types of institutional voids that could create barriers for internationalization. Instead, questions were asked about the business environment in India. There were no direct questions posed on LOR. However, at the end of the interview a question was asked whether in the participants’ opinion EE firms face LOR. Similarly, no direct questions were asked on the mindset of entrepreneurs to avoid leading questions. Following Yin (2014), “why” questions were framed as “how” questions because “why” questions may create a sense of defensiveness on the part of the informant. The interviews were comprehensive and covered: (a) the history of the SME including motivations for founding the SME; (b) reasons for internationalization and first internationalization experience; (c) the challenges faced during internationalization and dealing with these challenges; (d) views on the business environment in India with regard to internationalization; and (e) views on the perceptions of Indian firms among overseas stakeholders. The interview schedule is shown in Appendix III.

This project was carried out according to the National Statement on Ethical Conduct in Human Research (2007) produced by the National Health and Medical
Research Council of Australia that ensures the interests of people who agree to participate in human research studies. Ethics Approval was received from the Faculty Human Ethics Advisory Group (HEAG) on 15 January 2018. The Ethics Approval letter and the Plain Language Statement from Deakin University are provided in Appendix IV.

In-depth interviews of the 22 entrepreneurs were conducted over the period February 2018 to June 2018. Even though interviewing only one participant per firm may lead to biases (Bryman & Bell, 2015), with respect to these SMEs, the participant was the founder (with two exceptions), and had in-depth knowledge of the company, was the major-decision maker and drove the internationalization strategy. The interviews were around 60 minutes in duration. The entrepreneurs were promised complete anonymity so that they would open up to the researcher. Probing techniques were used to elicit entrepreneurs’ experience with the institutional voids they mentioned.

To add to the richness of the experience, wherever possible, the researcher visited the offices and factories of the SMEs. In the case of manufacturing enterprises, the researcher had the opportunity to observe the production unit and the product line for exports. In the case of service enterprises, the organizational setting was observed. The three trading enterprises did not have separate office space as they were very small. They either shared office space or worked from home. Not all SMEs had websites. Four manufacturing SMEs, two trading SMEs and one service SME did not have a website.
### 3.4.2 Data Analysis

In the current study, the qualitative data analysis software N*Vivo was used to manage and analyze the data. Management of the large amounts of text generated by 22 interviews of entrepreneurs and three interviews of experts was facilitated using this software. The data analysis using N*Vivo involved the following steps: (a) organizing the data; (b) data reduction or selecting, coding and summarizing with the aim of identifying themes and patterns; and, finally, (c) interpretation of these themes and data with regard to the research questions (Sinkovics, Penz, & Ghauri, 2008). In the first step, the textual material from the in-depth interviews, written observations, and other company information was uploaded into N*Vivo. The data were organized according to SME characteristics.

Following the process recommended in Sinkovics et al. (2008), the *a priori* categorization was based on theory and prior literature. These *a priori* codes were derived from themes that emerged from the LOR literature review (See Essay One). The codes were classified into the following five categories:

(a) Internal liabilities of origin related to mindset and firm factors.

(b) Institutional barriers relating to formal institutional voids.

(c) External liabilities of origin related to home country legitimacy.

(d) Strategic responses to LOR.

(e) Other miscellaneous factors.

These five categories had a total of 20 sub-themes. This *a priori* categorization was used as a guiding framework for the first round of coding. The list of *a priori* codes is presented in Appendix V.
At first the entire text of all the interviews was read through and coded without limiting the coding to the prior categorization. Based on the similarities and differences across interviews, some new categories were identified. These categories were further evaluated and then classified into themes. The identification of themes was, therefore, an iterative and interpretive process (Saldaña, 2016). A *a posteriori* categorization was based on integrating the prior themes with the new themes that emerged after data collection. While the major themes that emerged from this study were aligned with the *a priori* themes identified based on the literature review, some new themes emerged. These included themes relating to domestic market challenges, importance of internationalization, culture, emotions, and social orientation. A total of eight main themes and 46 sub-themes emerged during analysis of the interview texts, helping to illustrate the challenges and complexity of the experience of being an internationalizing SME in a country with pervasive institutional voids. The list of *a posteriori* codes is presented in Appendix V.

Following the identification of themes, cross-case comparisons (Yin, 2014) across the three sectors of SMEs—manufacturing, services and trading—helped to identify whether LOR is experienced differently across sectors. While these differences between sectors cannot be generalized statistically, they still offer valuable insights. Analyzing the text also helped to build explanations (Yin, 2014) for the mechanism of LOR, or how and why a particular institutional void becomes a liability for an entrepreneur. A conceptual framework was developed integrating the new themes that emerged during the interviews.
The trustworthiness (Lincoln & Guba, 1985) of the study was ensured in the following ways: to increase validity, following Yin (2014), a chain of evidence with cross-case tables and illustrative quotes is included. In addition, for each of the three new themes that emerged from the data, following Doern and Goss (2013), a vignette illustrates the mechanism of mindset LOR. Wherever possible, alternative explanations are also provided in order to increase internal validity (Yin, 2014). Contrasting data that confirm and challenge the existence of LOR are also provided.

The themes that emerged from the interviews are organized according to Research Questions One and Two and detailed in the following sections.

3.5 **Research Question One: Perception of Institutional Voids**

*RQ1: How do EE SME owner-managers perceive institutional voids with regard to internationalization?*

The burden of regulatory compliance, lack of control of corruption, lack of government support and poor quality of public infrastructure were the most important formal institutional voids perceived as creating barriers to internationalization. The lack of professional culture and lack of societal respect for entrepreneurs were informal institutional voids perceived as creating barriers to internationalization. The legitimacy disadvantage in host countries attributable to institutional voids was another perceived barrier to internationalization.

3.5.1 **Burden of Compliance**

Burdensome regulatory procedures can stifle the growth of business (Hoskisson et al., 2000; Meyer & Peng, 2016). SMEs are particularly vulnerable to regulatory
barriers due to their small size and lack of resources (Aidis, 2005; World Trade Organization, 2016). The magnitude of compliance, procedural complexity, delays in approvals, and lack of clarity on procedures were identified as regulatory barriers to growth and internationalization by the participants in this study. This was captured in a statement by Entrepreneur T, who set up a born-global manufacturing firm in India after working with high-tech companies in the USA for 12 years. He compared the bureaucratic systems in India with some other countries:

[India has] absolutely the worst system. I have exposure to the IT sector in USA, in China and a little bit of Australia and some in Europe. Our system is the worst.

Entrepreneur T expressed his frustration with the Indian regulatory system that hampered the internationalization of his enterprise because of the burdensome, complex and non-transparent procedures. Entrepreneur E, who was also the chairperson of his city’s chapter of a nationwide business association, felt that the time spent on the large number of ‘touch points’ or points of interaction with the government leaves Indian manufacturers little time for international marketing activities such as building business networks overseas. Manufacturing SMEs have to deal with a number of public officials such as factory inspectors who evaluate workplace health and safety, pollution inspectors who check emissions and effluents, and customs and excise inspectors for the movement of goods across borders.

Unlike the manufacturing sector, participants from the software sector did not have to deal with certain departments such as factory inspectors, the pollution
control board, and excise officials. Although their burden of compliance was lower than manufacturing procedural complexity still created problems.

Entrepreneurs D, L, R and U in the software sector spoke about their inability to understand Indian government compliance requirements. Entrepreneur D, a brilliant young software engineer, had won multiple awards during his career in a large Indian software multinational. He was also the recipient of the gold medal in his MBA program at an Indian university. Despite the calibre of his intellect, he complained that neither he nor his clients could understand the compliance procedures in India.

Entrepreneur D noted:

*If we export software by being in a Technology Park it is very easy. But when you are not in a Technology Park … there are too many procedures … It took me a long time to figure out a way how would I actually submit my bills. Nobody is very clear … Our auditors, they didn't have a clue. Neither do the [overseas] clients that we work with understand the [complex] compliance processes in India.*

The Software Technology Parks of India (STPI) is an autonomous society run by the Government of India that has created special zones with infrastructure comprising high-quality telecommunication networks, security systems, statutory offices, and stable electricity supply in order to promote software exports. Software companies located inside technology parks get support from service points that guide them in meeting statutory requirements.
Compliance was also found to be burdensome due to the perceived lack of coordination between different government departments. For example, Entrepreneur H, a manufacturer of tools, complained that despite having a digital import-export code and a digital signature he still had to submit separate documents to different government departments which resulted in higher costs and delays. Entrepreneur T had a similar complaint—he was fined for not submitting forms to the Customs Department when, in fact, he had submitted them. He said:

*The point is all the forms are with them already. They are with the Customs department or the Banking department or the Excise department but these departments are not coordinated.*

Bank approvals for working capital funds could take around 4-6 months for SMEs in India, slowing down their growth or even jeopardizing their survival. Expert 2, the manager of a public sector bank, noted:

*Indian banks are, like, not very friendly. Some of the guidelines which the banks still follow are actually out of date ... Many enterprises that started two years back or one year back, all those people, they are unable to survive. They have shut down [because of lack of capital].*

Expert 2 in the banking sector shared his experiences of how the outdated and unfriendly procedures had created major problems for some of his clients who ran SMEs.

While delays in tax and other refunds from the government can compound working capital problems, delays in loan approvals and government permits could
also stifle innovation. Entrepreneur N said he had experience of some of his innovations becoming obsolete because of delays in approval by the government when he applied for funds for building prototypes. A prior study has found that poor regulatory quality and corruption have been found to have a negative impact on innovation (Anokhin & Schulze, 2009).

In addition to delays in bureaucratic permits, delays in transportation can be experienced when goods are held up for inspection at interstate borders and ports. These delays could lead to major losses or even cancellation of orders by overseas customers, or the exporter may have to resort to airfreighting the goods.

Entrepreneur O shared his experience of how he lost money on a garment order because of delays in approvals and clearance for shipping at the shipping port. He was compelled to airfreight the garments at a very high cost, as he described:

In case of delays they [the customers] ask you to air freight the goods. By sea, it might cost you 20 cents for shipping freight. But if you are air freighting it, it'll cost you five times that. This wipes out the entire [profit] margin. You'll end up losing money.

The cost of airfreight can be so high that the exporter could face a net loss on an export order. However, if the exporter does not deliver on time, he or she could face the risk of losing valuable overseas customers and/or even harming their reputation.

These experiences described by the participants illustrate how SME capability and resources can be negatively impacted by burdensome regulations.
3.5.2 Lack of Control of Corruption

Corruption, or ‘the abuse of public or private office for personal gain’ (OECD, 2008 p.21), was the second most prevalent theme in the discussion on barriers to internationalization in the Indian business environment. Corruption can be categorized as an informal institution (Tonoyan, Strohmeyer, Habib, & Perlitz, 2010) since it is not promulgated by the state. However, the lack of control of corruption is related to governance (Kaufmann et al., 2009) and can be considered a formal institution. Thirteen of 22 interviewees and one expert spoke extensively about how corruption negatively impacted the global competitiveness of Indian SMEs, and their growth, and had a negative impact on entrepreneurial motivation. Corruption can lead to various costs including bribes, extortion, and bureaucratic delay (Doh et al., 2003), as discussed in this section.

Entrepreneurs in India must deal with corruption at many levels to survive. The participants reported that even if an SME complied with all rules and regulations, bribes still needed to be paid to public officials to avoid harassment. Entrepreneur T, an exporter of engineering goods, used the metaphor of a “toll gate” to describe corruption:

> It’s [corruption] a toll gate … it has become so prevalent that it has become a way of life. There is no other way. You have to pay and go.
>
> There is no other alternate route to not paying the toll.

Although Entrepreneur T was an engineer not an economist, his use of the term “toll gate” is in line with a theoretical perspective in economics in public choice theory called the *tollbooth* view (Djankov, Porta, Lopez-De-Silanes, & Shleifer, 2002; Shleifer & Vishny, 1993). The tollbooth view proposes that regulations are
enacted to benefit bureaucrats and politicians, and bribes are collected in exchange for release from regulation or granting permits (Shleifer & Vishny, 1993). There are different types of tollbooth systems. While entrepreneurs would benefit most if there were no tollbooth, if there is a one-time collection at one tollbooth on the highway, entrepreneurs can know what to expect (Djankov et al., 2002). However, in the case of countries like India, distortions are frequent. Just as each town through which a road passes may construct its own tollbooth, or alternative routes are blocked by toll collectors to force traffic onto the toll road, officials in different departments such as tax, customs, excise, public utilities, factory inspectors, labor etc. demand bribes from Indian SMEs. There is no coordination between the departments leading to a high degree of arbitrariness and uncertainty and resulting in a heavy toll, literally and figuratively, on Indian entrepreneurs.

Expert 2, a high-ranking official in a public sector bank that specializes in lending to the SME sector, admitted that corruption was rampant among public officials despite several laws such as the Prevention of Corruption Act, 1988, and the Indian Penal Code 1860. He said:

_There is a lot of collusion among the (government) authorities. Those who give money, they'll [the public officials] give [permits] immediately. Here [in India] it is a part of the process. We [Indians] don't even bat an eyelid. They [the entrepreneurs] have to bring an envelope ... Others [entrepreneurs who do not pay bribes], like, they are waiting for three months, four months [to get their permits]._
Cash bribes in India are often paid in an ‘envelope’. The word ‘envelope’ is used as a euphemism for a bribe in some parts of India. Entrepreneurs who are unwilling or unable to pay a bribe may have to wait three or four months for an electricity connection.

Corruption is not limited to getting government permits and exemptions from following the regulations. Even export subsidies can be subject to corruption, as shared by Entrepreneur S, a manufacturer in the engineering sector who said that public officials “take their cut of 10% or so” of the subsidy from the exporter.

Even the income tax system is not immune to corruption, despite the fact that taxes are paid online. Entrepreneur Q had returned to India from the USA to set up a software company. Since export income was tax deductible during that period under the Software Technology Parks of India (STPI) Scheme, he filed his returns accordingly. However, the export income that he claimed as tax deductible was disallowed. Entrepreneur Q described the situation he faced in the Income Tax Office:

And he [the Income Tax Officer] said, "Now I am disallowing". I thought he was/he had not understood. So, I went there, very sincerely with all the data and then he heard me for a few minutes. And then he stopped me and he said, "Just realize, if I say, okay, this will go [forward for exemption], if I say, no, it will not go." That's all.

Entrepreneur Q understood that he needed to pay a bribe to the Income Tax Officer if he wanted his export income to be considered tax-deductible. He shared that he was shaken by this incident of coercion and would never ever forget the helplessness and frustration he felt during that conversation.
Corruption not only increases financial costs but also stems the growth of SMEs, as explained by Entrepreneurs E, M, Q and U. This is especially likely to be true when the entrepreneur is trying to be ethical, as expressed by Entrepreneur E:

*When you're very honest, corruption would definitely slow you down a lot.*

*And then there are people who are, you know, they can flow with corruption, if they flow with corruption, their speeds are probably as fast as or faster than, you know, Western countries. Yes, when you are really honest, then it becomes really difficult.*

Entrepreneur E suggested that EE entrepreneurs who are willing to accept corruption may not face delays in their projects, unlike EE entrepreneurs who are honest.

Another variety of corruption was found among business owners. This occurs when businessmen try to cut corners by not complying with labor laws and avoid paying statutory savings contributions to the Provident Fund (PF)—the Government of India mandated superannuation scheme—or to the mandatory national health insurance termed Employee State Insurance (ESI) for categories of employees earning below a specified annual income. As Entrepreneur M stated:

*You could say that industries also are not Holy Cows. I know a lot of people who don't pay PF, ESI, or even minimum wages.*

Entrepreneur O also shared his experience of exporters he had worked with who had violated labor laws.

While bribery has been linked to release from bureaucratic regulations (Collins, Uhlenbruck, & Rodriguez, 2009; Tonoyan et al., 2010; Uhlenbruck et al., 2006),
none of the participants shared that they had paid bribes for this reason. This may have been either because they did not seek release from regulations or because of the secrecy that surrounds an illegal activity.

Corruption could also include extortion by petty criminals. For example, Entrepreneur L had to install an electronic access system in his office to protect himself from extortionists. This was after he experienced several demands for money by different groups of men in the guise of fundraising for the celebration of religious festivals. This kind of experience is unlikely to occur in an advanced economy with better rule of law.

Corruption was not just experienced by the entrepreneurs at the hands of public officials but also with customers. For example, Entrepreneur L, who had created products for business simulations, described his experience with educational institutions in one of the largest cities in India, where he and his colleague found that even deans of prominent colleges could engage in corruption:

*We went to the Dean and we sat down. He said, "Okay, if that's the case, right now, you know, I'll ask the students to pay Rs.2000. Of this, Rs.1000 we will take, Rs.1000 we will give to you".*

The Dean offered to engage the services of Entrepreneur L for his MBA program if half the fees paid by MBA students for the business simulation certification program was offered to him as a bribe. A similar experience is unlikely to occur in an advanced economy.

While corruption and regulatory compliance create internationalization barriers for SMEs, however, they also create opportunities for other individuals who set
up consultancy services to help Indian firms deal with corruption. Five of 22 of the entrepreneurs specifically mentioned the use of consultants to help deal with bribery. For example, Entrepreneur Q shared how consultants would tell him the amount of money to be paid as a bribe per department:

The consultants tell you, for this Department for every return you have to pay Rs.5000, otherwise it will not get processed. With this return you have to pay Rs.2000, whatever we were filing at different places, we would pay whatever the consultant told us has to be paid.

Entrepreneur R in the software sector shared that, despite being cash-strapped, he had to hire a consultant to ensure that his SME paid the right amount of bribe to stay out of trouble with the government. The three entrepreneurs engaged in trading of agricultural products did not complain of corruption because they chose not to have any touch points or direct points of interaction with the government. Instead, they hired consultants who paid the necessary bribes to get export permits and other documents for shipping their goods.

Sometimes internationalization can play a role in reducing corruption and improving working conditions. For example, in the high-end garment export sector, because of consumer activism, leading brands from advanced economies demand a high degree of environmental compliance and fair treatment of workers. These customers send inspection teams to Indian factories periodically. As a result of this requirement, Entrepreneur I had installed a solar power system and a zero effluent wastewater treatment plant in his factory. Entrepreneur O also expressed pride at the global standards of worker health and safety he maintained in his factory.
Overall, the entrepreneurs in this study, especially those in the manufacturing sector, appeared vulnerable to opportunistic behavior by public officials and, therefore, perceived the ‘lack of control of corruption’ as a barrier to internationalization. However, the entrepreneurs engaged in trading and some of the entrepreneurs in the software sector did not complain of pervasive corruption. Instead, they were positive about the support they received from the government. The next section talks about the lack of government support.

### 3.5.3 Lack of Government Support

Software exporters have been actively supported by the Indian Government through several initiatives including setting up Software Technology Parks with supportive infrastructure and favourable tax laws. Entrepreneurs J, K, R and U, whose offices were located in software technology parks, appreciated the support they received from the Government of India. Similarly, Entrepreneurs A, G and W, who exported agricultural goods, spoke about the support they received from the Agricultural and Processed Foods Products Exports Development Authority (APEDA) supported by the Ministry of Commerce and Industry, Government of India.

Despite these and other initiatives by the Indian Government to help SMEs, including the setting up of a Micro Small and Medium Enterprise (MSME) Ministry in 2007, 13 of 22 entrepreneurs still perceived a lack of government support. Entrepreneur B in manufacturing spoke up strongly about this issue:
How many scientists, how many, you know, ministers have come and visited MSME companies, like us? Micro Small and Medium Enterprises are completely neglected.

This neglect, she felt, was particularly acute in the manufacturing sector:

The kind of preference that software industries are given, manufacturing is not.

Entrepreneur M shared the same view:

Manufacturing has been ignored, totally by everybody. Other than lip service, absolutely nothing is there.

Although the Government of India has been promoting schemes such as “Make in India” for the manufacturing sector, the manufacturing SMEs in this study did not feel a sense of support. For example, delays in receiving refunds for the duty drawback scheme created bottlenecks for the SMEs. Under the duty drawback scheme, exporters get back the tax paid on imported materials when the goods made with these materials are exported again. These delays in refunds resulted in shortages of working capital as some of the SMEs were working to a tight budget. Entrepreneur B complained that even though her factory was non-polluting she was still harassed by the public officials during inspections. The lack of government support in terms of public infrastructure was also perceived most acutely by manufacturers, as discussed in the next section.

3.5.3.1 Poor Quality of Public Infrastructure

Six entrepreneurs spoke about the problems they faced during the implementation of the new Goods and Services Tax (GST) introduced in July 2017 by the
Government of India. All SMEs had to get an online GST registration number before filing their tax returns. Frequent crashes of the Government of India GST server during the first few months led to challenging situations for five entrepreneurs. For example, Entrepreneur H spent 25 days trying to get his registration number, leading to a neglect of his export business because of the connectivity with the government servers.

Some entrepreneurs used their own resources to overcome infrastructure hurdles. For example, Entrepreneur H who ran a small tool manufacturing unit with 12 employees, paid for the road leading up to his factory—a road that should have been built by the government. He described his situation as follows:

*I spent money for even the road. Even the gravel/the soil. There were no streetlights. Each of us, with difficulty, put up even the power lines. We [neighbors] shared all the expenses among ourselves. Government support is insufficient.*

Entrepreneur H built the road even though his micro-enterprise was cash strapped. Expert 2, a banking official, described how power crises in 2015 and 2016 in the state of Tamil Nadu led to the shutdown of several small manufacturing SMEs who were engaged in exports.

*When I was there in 2015, 2016, till 2016, they had eight hours [per day] power shut down. That was affecting the manufacturing industries. So, the owners had to shut [the factories] down.*

Several small export units could not operate because of the eight-hour power cuts and were forced to shut down. Despite the problems faced because of poor quality
infrastructure, infrastructure problems were viewed as controllable as they could be overcome through private investments, unlike corruption and compliance which were perceived as uncontrollable problems. Entrepreneur T noted:

\[
\text{I can buy infrastructure—that basically reduces my margin. That's it. I make less money because of bad infrastructure. But that is Okay. But, time. I value time more than money. Taking away time and robbing time [because of compliance and corruption] is inexcusable.}
\]

While earlier studies have found that large business groups in EEs build their own infrastructure to overcome institutional voids (Khanna & Palepu, 2010), this study reveals that even resource-strapped SMEs are compelled to invest in infrastructure in order to survive and to internationalize.

The burden of compliance, lack of control of corruption, insufficient government support and poor-quality public infrastructure are related to formal institutions related to the government. In addition to these formal institutional barriers, the participants identified some barriers relating to informal institutions, including lack of professionalism and lack of respect for entrepreneurs in society, as discussed in the next section.

3.5.4 Lack of a Professional Culture

A new theme that emerged from the interviews was the lack of a professional culture. The lack of commitment to delivery deadlines and the lack of attention to quality were the principal factors creating the perception among 11 of the 22 entrepreneurs that Indians lacked a ‘professional’ culture. Professionalism was used by the participants to refer to quality, reliability and commitment. For
example, Entrepreneur F said professionalism denoted an attitude and commitment to quality and reliability. This included ‘looking after employees, shipping on time, taking orders according to capacity, and building a customer base’.

Entrepreneur P, in the logistics industry, added

‘The attitude of worker is much better in other countries. There is a dedication to work. There is a commitment. That is lacking in this country (India)’

Entrepreneur J used the term ‘professional’ five times when responding to a question on the comparative disadvantage of Indian firms. He described how Europeans and the UK were committed to ‘quality and deliverables’ unlike most Indian firms. Another participant, Entrepreneur F, a garment exporter, noted:

*Indians, we are not professional. It’s the attitude, you know, of “I can do it tomorrow.” We don’t look for perfection.*

Entrepreneur Q described how he took the decision to become a 100 per cent export company “operating like a company in the USA right from Day One” and dealing with only professional customers.

The lack of ‘professional culture’ was considered both a barrier to and motivating factor for internationalization. It was considered a barrier to internationalization as it contributed to a negative image of Indian business owners among foreign customers. On the other hand, it was a motivating factor for some entrepreneurs who wanted to escape this informal institutional void.

‘Lack of professionalism’ could be categorized as an informal institution since informal institutions refer to the values, codes of conduct, ideologies and norms in
In her widely cited paper, Oliver (1991) identifies the strategic responses to institutional pressures including acquiescence, compromise, avoidance (including escape), defiance, and manipulation. Avoidance by escaping from home country institutions through internationalization has been identified as a motivation for EE firm internationalization (Witt & Lewin, 2014). Chinese firms have been found to engage in ‘institutional arbitrage’ by escaping from formal institutional voids such as those related to property rights, provincial taxes, and discriminatory tolls in order to exploit favorable institutions abroad (Boisot & Meyer, 2008).

**3.5.5 Lack of Respect for Entrepreneurs and Social Value Orientation**

Two other themes that emerged from the interviews —while not directly linked to LOR— could have implications for SME internationalization. The first was the perceived lack of societal respect for entrepreneurs. Six of 22 participants perceived that they did not get societal respect because they had chosen to be entrepreneurs. This lack of respect manifested itself in different ways such as in the marriage marketplace. A young entrepreneur could be considered as less eligible than someone employed in a company. This was experienced firsthand by Entrepreneur C, who had been having problems finding a bride. He noted:

‘Entrepreneurs not only have to struggle against bureaucratic hurdles and corruption, but against negative perceptions among society.’

Lack of social respect could have a positive or negative impact on EE SME internationalization. On the one hand, entrepreneurs may feel demotivated and may not take the effort to internationalize because of lack of respect. On the other hand, this lack of respect may act as a push factor. Entrepreneurs may seek more
supportive environments. For example, Muralidharan and Pathak (2017) used GEM data for 39 countries and found that low social desirability had a positive impact on SME internationalization.

Another major theme was the social value orientation of the entrepreneurs. A majority (18 of 22) entrepreneurs expressed a desire to conduct ethical business and 12 of these entrepreneurs explicitly stated that their objective as to make a positive difference to society by actions such as creating a workplace that mentored young college graduates, employing women, promoting organic products, and engaging in innovation for import substitution.

3.6 Research Qn Two: Mechanism of LOR – Reducing Firm Capability

How and why does a particular institutional void result in a liability of origin for an EE SME?

Sections 3.5.1 to 3.5.4 highlighted how the burden of compliance, the lack of control of corruption, the lack of government support, and lack of professional culture were perceived as institutional voids that created barriers to internationalization. This section discusses how these institutional voids could result in firm-capability LOR.

3.6.1 Burden of Compliance LOR

The burden of compliance was found to take up the time, finances, and energy of the participants, as discussed in Section 3.5.1. Entrepreneurs in the manufacturing sector described how dealing with regulatory compliance left them little or no time for international marketing activities. These activities including reaching out to potential clients, visiting trade fairs, upgrading their websites and engaging in
promotional activities and customer relationship management. Since international marketing is crucial for successful internationalization, this lack of time could hold back Indian manufacturing firms from internationalization resulting in LOR. This concern has been highlighted in a Deloitte report on the cost of compliance in Indian industry (Deloitte & CII, 2013). This report lists 70 rules and regulations and the 100 types of documents required to be filed annually for Indian manufacturing units, in addition to multiple inspections by public officials through the year (Deloitte & CII, 2013). These inspections could be related to different government departments such as pollution, worker safety and health, labor laws, excise and taxation.

Another barrier created by poor regulatory quality was access to financial capital. Although SMEs across the world suffer from resource problems (World Trade Organization, 2016; Wright et al., 2007), the long delays for government approvals or loan approvals and lack of transparency in EEs exacerbate these problems, leading to LOR. Even if lack of capital is a problem faced by SMEs in advanced economies, it is the lack of transparency in granting loans and the complexity of processes that result in LOR.

### 3.6.2 Lack of Control of Corruption LOR

Section 3.5.2 describes the experiences of participants in this study in dealing with pervasive corruption in India. The lack of control of corruption not only negatively impacted domestic operations but also has a detrimental impact on internationalization, resulting in LOR. For example, since export subsidies and exemptions are subject to opportunistic behavior by public officials, the entrepreneur’s incentive to engage in exports may be negatively impacted.
Entrepreneur S shared that he delayed his internationalization plans partly because he knew he would have to pay part of his export income to public officials as a bribe.

Corruption makes Indian firms less globally competitive by increasing the cost of doing business, resulting in LOR. Entrepreneur M expressed this succinctly:

*The cost of corruption happening at different places adds to the cost of doing business in India. Which means when you are exporting something you are exporting this cost [the cost of corruption]. So, when you compete against a product or a service from a country where corruption is non-existent or minimal, it is difficult to compete. Who will pay the cost of corruption?*

Indian entrepreneurs suffer from a competitive disadvantage, or LOR, as they are compelled to pay bribes at several points during the business cycle, from getting permits to transporting materials. These bribes add to their cost of doing international business resulting in LOR.

Corruption can lead to delays in receiving permits to set up an enterprise. This can lead to a loss of potential business because, unless an SME is formally registered, the entrepreneur cannot contact potential international customers, resulting in LOR. Entrepreneur U, in the software sector, admitted that he had to pay a few bribes to speed up the process of getting permits and setting up his SME. Another type of LOR results when entrepreneurs are subject to extortion requests by local criminals or the mafia. The lack of legal recourse and poor law enforcement in EEs leaves entrepreneurs in India no choice but to succumb to extortion, creating
a LOR. Similar extortion has been observed in transition economies (Luthans et al., 2000; Welter & Smallbone, 2011).

As discussed in Section 3.5.1 and Section 3.5.2, some entrepreneurs had to use consultancy services to help them deal with regulatory hurdles and corruption. The expense of these consultancy services for navigating bureaucratic hurdles increases the SME’s costs of internationalization, further reducing their global competitiveness and resulting in LOR. It has been found that firms may not always benefit from regulations, and public officials may engage in opportunistic behavior and seek rents from regulations (Djankov et al., 2002). While the entrepreneurs in this study faced barriers because of the regulatory burden, the same regulatory burden created opportunities for other entrepreneurs to earn rents through consultancy services. Similar consultancy services have been observed in transition economies in Central and Eastern Europe, where entrepreneurs face a high degree of corruption and regulatory hurdles (Welter & Smallbone, 2011).

Corruption does not appear to impact all industry sectors or enterprises equally. Six of 22 entrepreneurs (three in the software sector and three who were engaged in trading of agricultural products such as rice and fruits) did not think corruption resulted in LOR. The three software entrepreneurs cited the following reasons for protection from corruption: (a) all their transactions were on-line; (b) they were small in size; and (c) the Government of India has many policies that supported the software sector. The size of the enterprise could play a role in attracting bribes in the software sectors, according to these entrepreneurs. A similar phenomenon has been observed in transition economies where large firms are more prone to
attract the attention of corrupt officials (Doern & Goss, 2009; Welter & Smallbone, 2011).

In addition to the high financial costs of corruption, the arbitrariness of corruption in India increased the uncertainty faced by entrepreneurs. Arbitrary corruption describes a situation when different government departments and agencies function as independent monopolies each trying to maximize their benefits (Shleifer & Vishny, 2002; Uhlenbruck et al., 2006). This contrasts with advanced economies where the disincentives for corruption are much clearer and where law enforcement is reliable (Doh et al., 2003). A study found that Indian corporate leaders accept that they have to pay bribes to stay in business (Collins et al., 2009). In other words, entrepreneurs “do not bat an eyelid” when asked for bribes, as Expert 2 observed.

What is of concern is that corruption appears to have become a normative institution as the participants all agreed that corruption was a norm of doing business in India. Even worse, corruption appears to be “taken for granted”—a feature of the deep-seated cultural-cognitive institution. Informal institutions provide rationales for entrepreneurs to justify their participation in corrupt activities (Tonoyan et al., 2010), or even in destructive entrepreneurship (Baumol, 1990). Lack of control of corruption is, therefore, a key source of LOR for EE SMEs whose home country environment is marked by high corruption.

### 3.6.3 Lack of Government Support LOR

The perceived lack of government support is a common theme in studies on SMEs across the world (Aidis, 2005; Hashi, 2001; Wright et al., 2007). What the current study reveals is there may be distinct differences in perceptions across
industry sectors. Participants in the manufacturing sector felt the lack of
government support most acutely, while software entrepreneurs located outside
software technology parks mentioned this issue. However, exporters of
agricultural products and software SMEs inside technology parks did not
complain about this barrier. The lack of government support was most likely to
result in LOR for manufacturing firms. However, the poor quality of public
infrastructure resulting in unreliable and inadequate power supply, and poor
transportation and telecommunication facilities in smaller towns, could create
additional internationalization costs for both manufacturing and service SMEs,
resulting in LOR.

In his classic treatise on productive and unproductive entrepreneurship, the
economist Baumol (1990) describes how institutions shape the type of
entrepreneurship—productive, unproductive or even destructive—that emerge in
different environments. Even if formal institutions are promulgated by the state
with the objective of reducing uncertainty and providing stability by reducing
transaction costs (North, 1991), in practice, regulatory hurdles, could constrain
the growth of EE SMEs and their internationalization. Entrepreneurs who engage
in productive entrepreneurship in EEs with poor regulatory quality, corruption,
and lack of government support may face barriers that affect their growth and
internationalization, resulting in LOR. Similar experiences have been observed in
transition economies where productive entrepreneurship has been found to be
challenged by burdensome regulations and corruption (Aidis, Estrin, &
Mickiewicz, 2008; Manolova, Eunni, & Gyoshev, 2008; Welter & Smallbone,
2011). However, these prior studies in transition economies have focused on
entrepreneurship and have not examined the impact of burdensome regulations on internationalization, unlike the current study.

3.7 Research Qn. Two: Mechanism of LOR- Legitimacy Disadvantage

Institutional voids can have a negative impact on EE firm legitimacy in host countries, as described in prior studies on LOR (Fiaschi et al., 2017; Marano et al., 2017). In fact, as highlighted in Essay Two in the systematic literature review, the majority of prior studies on LOR have focused solely on legitimacy disadvantages in host countries (e.g., Bangara et al., 2012; Fiaschi et al., 2017; Marano et al., 2017; Pant & Ramachandran, 2012). In contrast to these studies, the perceived legitimacy disadvantage in host countries was not perceived as a major barrier by the participants in this study. It should be noted that the interviews in this study could not capture the actual legitimacy disadvantage faced by EE SMEs but could only capture the participants’ perceptions of these legitimacy disadvantages. This type of perception has been termed as the ‘construed external image’ in the organizational identity literature, and refers to the insider’s view of how outsiders perceive them (Dutton, Dukerich, & Harquail, 1994). In the current study, the construed external image refers to the participants’ assessment of the image of Indian firms among international customers. A few (seven of 22) entrepreneurs expressed their views on the negative image of Indian firms, of which three entrepreneurs shared specific experiences of discrimination. For example, Entrepreneur T, in the manufacturing sector, recalled his experience of calling up a potential customer in the USA, and being subject to a racist response. Entrepreneur T said that perceptions of India as ‘a country of snake charmers’ was still prevalent among his rural US customers. Entrepreneur K in
the software sector shared his experience of being discriminated against in global bids in the Middle East. Conversely, Entrepreneur B felt that India had a positive image among its neighbors. She noted:

*If you look at Singapore, Malaysia, Philippines, Vietnam and all that, they kind of treat India with respect. I don't think anybody treats India unfairly.*

A perception shared across all entrepreneurs was that India’s software industry has played a critical role in creating a positive image of Indian business in international markets. This perception was not just limited to entrepreneurs in the software sector but also entrepreneurs in the manufacturing sector. Although Indian software firms have been gaining prominence in the software export sector since the early 1990s, Indian software firms played a major role in staving off the Y2K problem, and established a global reputation in the information technology sector (Dossani & Kenney, 2009; Pant & Ramachandran, 2012). For example, Entrepreneur M, in the manufacturing sector, noted how perceptions of Indian firms changed:

*I would say there was a marked difference after 1999 or 2000, when India became an IT super power. This definitely made a change in the perception (of Indian firms).*

The positive perception of the Indian software industry is likely to result in less LOR for software firms. Four entrepreneurs expressed their opinion that manufacturing firms were more likely to face a liability of origin than software firms. Entrepreneur E noted:
In software and, you know, like, if you are going to do an artificial intelligence start-up, liability of origin will be very low. In fact, we will be really competitive … if you are doing the bricks and mortar businesses … the physical infrastructure and non-availability [of skilled workforce] is a big issue. The compliance issues are very high.

In addition to the variation of external legitimacy LOR across industry sectors, perceptions of Indian firms could vary depending on the host country. Three entrepreneurs felt that US firms had a more positive image of Indian firms than the European firms. Opinions on the image of India in international markets varied from individual to individual, as these two opposing views demonstrate:

So Brand India, I am not very sure if it has, you know, any value. Even in India and outside India (Entrepreneur L).

There's enough positivity and this entire perception of the Make in India [Government of India campaign], things are helping (Entrepreneur S).

Among the 22 entrepreneurs, seven felt that India had a negative country image, two perceived that India had a positive country image, while the other 13 felt that India’s country image did not present any issues for their business.

With regard to the choice of host countries, it was found that the majority of the entrepreneurs in this study preferred markets in Europe and USA because of higher profitability and perceived greater professionalism. Only two of the 22 SMEs had customers in South or Southeast Asia. Three high-tech manufacturing, three garment and six software SMEs chose to restrict their client base to USA, Western Europe, and Australia. In other words, EE entrepreneurs were attracted to
internationalize to host countries with better institutions, as has been observed in EE literature (Boisot & Meyer, 2008; Yamakawa, Peng, & Deeds, 2008). The helpful role of networks, including business and export associations, in providing guidance for internationalization and dealing with barriers was mentioned by 14 of the 22 entrepreneurs. This importance of networks and associations in building trust has been highlighted in the SME internationalization literature (Coviello, 2006; Freeman, Edwards, & Schroder, 2006). In this study, two of the entrepreneurs had registered offices in the USA, and a third was planning to do so, as found in a prior study (Bangara, Freeman, & Schroder, 2012). Entrepreneur T, in the engineering manufacturing industry, had a registered address in the USA. He said:

_I have my lawyer there. I have my CPA there. I have my address there. We don't need a physical presence. The reason for us to be in US is to avoid that particular stigma of being a third-world company. For them [the customers] I give the comfort of being an American Company… if I do a mistake, you can sue me in the US Courts._

Overcoming the ‘stigma of being a third-world company’ led Entrepreneur T, to register his SME in the USA. Similarly, Entrepreneur J in the software industry hid his Indian identity on his website during the first few years of operations. This strategy of disguise has been highlighted in recent literature on home country effects on internationalization (Cuervo-Cazurra et al., 2018). Another method of gaining legitimacy was by obtaining international certifications, as mentioned by seven entrepreneurs. International certifications have been found to help exporters from developing and transition countries overcome institutional voids by
decreasing transaction costs and improving productivity (Goedhuys & Sleuwaegen, 2015).

Overall, an important finding was that the legitimacy of Indian firms in a particular host country did not appear to be a criterion for internationalization used by the entrepreneurs in this study. Instead, they preferred host markets in advanced economies, regardless of any legitimacy disadvantage they could potentially face in those markets.

3.8 Research Qn. Two: Mechanism of LOR - Impact on Entrepreneurial Mindset

There has been little attention paid to EE managerial mindset in prior empirical studies on LOR except for the seminal study on LOR by Bartlett and Ghoshal (2000). Although there were no questions asked directly in the interviews relating to the mindsets or psychology of the entrepreneurs, the variety of ways in which institutional voids could influence the mindsets of EE entrepreneurs emerged as a category of new themes from the interviews. These themes are discussed in this section.

3.8.1 Impact of Institutional Voids on Mental Bandwidth

The burden of compliance and corruption did not just result in LOR at the firm level, as discussed in Sections 3.6.1 and 3.6.2, but also impacted entrepreneurial mindset. One of the new themes that emerged during the interviews was ‘mental bandwidth’. The term mental bandwidth has been used in relatively recent theorizing about psychological scarcity (Mullainathan & Shafir, 2013). Bandwidth can be defined as an individual’s cognitive capacity and ability to pay
attention and make good decisions (Mullainathan & Shafir, 2013). Corruption and compliance were found to take up mental bandwidth leaving entrepreneurs less bandwidth to devote to internationalization. While three entrepreneurs used the term ‘bandwidth’, some others used terms such as ‘mindspace’, ‘time and effort’, and ‘energy’ to refer to a similar phenomenon. For example, Entrepreneur S, a nascent exporter, said he needed to “de-clutter his mind” and “create space” when he explained why he had no time for innovation or internationalization.

It was not just the number of regulations, but their complexity and the uncertainty involved in their implementation that was found to occupy mental bandwidth. For example, Entrepreneur E, who had studied and worked in Germany for five years, stated that even if Germany was bureaucratic complying with German regulations it ‘did not consume the mindscape of managers’, unlike in India. As discussed earlier, Indian manufacturers need to comply with around 70 regulations (Deloitte & CII, 2013) and each point of interaction with public officials makes them vulnerable to corruption. Dealing with compliance and the associated corruption appeared to leave insufficient mental bandwidth for leadership, international marketing or innovation. Entrepreneurs B, E, S and T shared how they did not have the time for international marketing or visiting existing overseas customers because of the time spent dealing with compliance and corruption. Entrepreneur B expressed her frustration because ‘time and effort’ were her only resources and these resources were expended in fighting battles against corruption instead of marketing. She also remarked that she felt “trapped by a system” that consumed her time and mental space. Entrepreneur L said that without his family support he
would be unable to survive because of the time that regulatory compliance demanded. Entrepreneur L noted:

For example, if my father's help was not there, 40% of daily work would only go in administrative tasks. So, it would be extremely difficult as a start-up to survive.

Another participant, Entrepreneur Q, chose to hire consultants to deal with compliance and avoid fighting the system. He shared that since his mental bandwidth was finite, he ‘could either serve his customers or fight the system’.

It is noteworthy that some of the entrepreneurs recognized that their bandwidth was taxed and took a toll on their capacity to internationalize. For example, Entrepreneur T expressed his frustration at his lack of mental bandwidth for growing his business and getting more customers:

I value time more than money. Around 100, 150 man-hours a week, just goes in regulatory requirements. Taking away the time and robbing time is inexcusable. When I am trying to bring revenue to the Government, it's inexcusable. I want to go and get more business, but right now I don't have that bandwidth.

These entrepreneurs found that their mental bandwidth was occupied just by dealing with compliance and corruption, leaving no time for international marketing. Not finding the time to engage in international marketing could have a negative impact on internationalization, creating a LOR.

Research in a variety of contexts has found that resource scarcity captures the mind and changes the way people allocate attention (Mullainathan & Shafir,
2013). Psychological scarcity, or the feeling of having less, has been found to result in greater focus on the problems where scarcity is most salient whether time, money or relationships (Mullainathan & Shafir, 2013). For example, thoughts about cost and money among the poor have been found to change mental associations and occupy mindspace thus reducing their cognitive capacity for other tasks (Shah, Zhao, Mullainathan, & Shafir, 2018). In the current study, the burden of regulatory compliance was found to occupy the mental bandwidth of the entrepreneurs leaving them little time to pursue internationalization.

Another consequence of psychological scarcity observed in the current study was a fixation on prices and costs rather than opportunities for growth. Participant E noted that when hard pressed for time, entrepreneurs may not make good decisions on pricing:

> I think the Indian mindset, we are not able to understand what exactly the cultural differences and expectations of, you know, a foreign economy, a Western economy in particular … We are thinking the only thing that might be interesting for them is cost.

Entrepreneur T shared a similar view. He had returned from the USA after working there for twelve years. He said that a major liability Indians face is that their mindset is fixated on costs, while international customers look for price, quality and reliability. Entrepreneur T noted:

> They [international customers] are not concerned about prices as such … Price is definitely on top of the list … but quality, reliability [are as important] … They want a reliable supplier for quality products at the
right price, not the lowest price. People who want the lowest price go to China. Full stop.

This fixation on price also corresponds with findings drawn from the insights from the psychology of scarcity that suggests that people’s minds fixate on whatever is scarce (Mullainathan & Shafir, 2013). For example, hungry people are more likely to fixate on food, and thoughts about money and costs occupy the mental lives of the poor (Shah et al., 2018). The poor are more likely to see an economic dimension to everyday decisions than the affluent (Shah et al., 2018). In an economy like India, where SMEs are cash-strapped and so are their customers or suppliers (who are often other SMEs), price and costs could assume greater significance than in advanced economies. The psychology of scarcity could, therefore, explain why EE entrepreneurs and their suppliers pay so much attention to price and cost.

The neglect of internationalization because of the impact of institutional voids on mental bandwidth is a novel dimension of LOR that has emerged from this study. This helps to understand how inadequate mental bandwidth because of compliance and corruption could shape entrepreneurial choices and behavior. In order to more clearly illustrate the impact of institutional voids on mental bandwidth, a mini-case or vignette on one of the participants is presented next.

3.8.1.1 VIGNETTE: Robotics Inc.: Impact of LOR on Mental Bandwidth

Varun started a Robotics Unit in India on his return from Germany. He went to Germany in order to pursue his Masters degree in Robotics. After completing his degree, he worked in a high-technology firm in Germany for five years. On his return to India, he started to look after his family business. However, he had a
strong desire to start something new based on cutting-edge technology. He was very keen on serving international markets because he could sense the high growth potential of robotics. His venture began very well and he succeeded in achieving a high degree of internationalization rapidly because of his reputation and international contacts. During the first few years, 80 percent of his sales were from the USA and Germany.

However, this positive state of affairs did not last long. He found that he could not cope with the sheer volume of regulatory compliance as his firm grew. Neither was he able to hire good personnel to help him because SMEs were not considered attractive employers for competent and highly-qualified job seekers in India. He just could not find the time for marketing or for innovation. He shared his frustration:

*We spend ... as a business leader you are spending more than 50 per cent of your time trying to be compliant to the Government. That is, you know, way, way too much. You should be spending/focusing your energy on, you know, either developing your product [or] working on a developed product or marketing. As a leader it feels like you are spending a lot of time on non-value-added activity.*

Varun found that the time spent on compliance left him no mental bandwidth for international marketing. He just could not cope with the regulatory hurdles in India, or maintain the mental bandwidth to sustain that level of internationalization. His international sales starting dropping.

When the interview was conducted, the degree of internationalization of Robotics Inc. had dropped to zero because Varun did not have the bandwidth to retain his
international customers or find new customers. Robotics was a field that required constant innovation and the time spent on compliance did not leave him enough mental bandwidth for innovation. Varun shared that the burden of compliance was compounded by the high degree of corruption in India. This corruption, he felt, was related to the high number of ‘touch points’ or direct points of interaction with public officials. As he expressed:

*On one hand, keeping the books compliant is a lot of work. But however compliant you get, nowadays people [public officials] come and say, “Look.” [finding errors]. It's also very difficult not to make any mistakes at all because there are so many areas of compliance. You know, it's become a system to the level there are no uncorrupt people in the system. The politician needs to bribe the voter to get his job. Then the bureaucrat needs to bribe the politician to get his job.*

Varun expressed his helplessness and frustration with the system in India that did not control corruption and did not allow an honest entrepreneur to survive. According to him, only entrepreneurs who paid bribes were able to speed up approvals from the bureaucracy. He noted:

*The speed of bureaucracy was really hindering us. And what corruption in recent years has basically only done is, they've speeded up things for people who are willing to pay [bribes].*  

Varun also shared his opinion that even if advanced economies were bureaucratic, the type of bureaucracy did not consume all the mindspace of management. The bureaucracy in advanced economies was systematic and predictable unlike the
arbitrary system in India that lacked transparency. Since he had worked in
Germany, he shared his experience of working there:

* Germany also is highly, you know, bureaucratic. But then you can just
  systemise that. It's just a cost. It's not an overhead. It's not consuming
  mindscape of top management, right? *

He looked wistful when he was asked to compare the experience of being an
entrepreneur in India to being one in Germany. He noted:

* As a business leader, you should just be visioning two, three things you
  should be doing. Just be visioning, just be finding the right people and
  motivating them and you should be also, be the guy who is, you know, the
  touch point with the environment around you, that is all. In Germany that
  is easily possible. *

He said that business leaders in Germany could do what leaders are supposed to
do and did not have to spend their time dealing with compliance and corruption.

Varun continually repeated the importance of having mental bandwidth through
the interview. For example, he expressed his dream of India as follows:

* Corruption free, low overhead bureaucracy where you are not spending
  your time and life, you know, just trying to be compliant. *

Varun’s use of the term ‘spending your time and life’ depicts how he felt his
talents and skills had all been wasted on trying to survive. He added:
If we get a lot of free time to focus on, you know, exactly what we need to do, then I think we’ll also be doing a lot more and be able to do a lot more. Grow faster.

The growth of internationalization of Robotics Inc. had been held back by the bureaucratic and corrupt system in India. According to Varun, SME owner-managers in the manufacturing sector in India often had to spend most of their time on non-core activities.

We have no other go than to spend a lot of time on our non-core competencies which is definitely hitting [our business]. In a SME, you can't be as specialist in everything, right from compliance, to accounts. None of our SMEs, you know, entrepreneurs are wanting to be compliance experts.

Varun ended his interview with a passionate appeal for a country where:

Your mindspace should be freed up to do what you know how to do best.

3.8.2 Impact of Institutional Voids on Growth Mindset

Institutional voids may also affect the mindset of entrepreneurs by inhibiting their ambitions and limiting their desire to grow. This was a new theme that emerged from the interviews. Seven of 22 entrepreneurs and one expert brought up this issue. This ability to think big and undertake challenges corresponds to what has been termed as a ‘growth mindset’ in psychology (Dweck, 2008). Mindsets have been found to influence how individuals perceive their own abilities and this, in
turn, impacts on their motivation levels and their subsequent achievement (Dweck, 2015).

Entrepreneur M in the manufacturing sector, who was the local chairperson of a national industry association, however, attributed the lack of a growth mindset to culture:

*People are afraid to grow. You are not expected to grow beyond your boundaries. If you are too smart, you are actually bridled. I have seen so many SMEs. They could have become huge companies, but they remain at that level … Yesterday only I told one guy, he came to me for advice. He was hiding his income so that he would not have to pay taxes … [I told him] “You are trying to suppress your growth. You are trying to remain in the same place. With that mindset, you will never grow…”*

Hiding growth to escape taxation and the attention of corrupt officials and other criminal elements has also been observed among SMEs in transition economies (Welter & Smallbone, 2011), it is therefore not an uncommon phenomenon. Entrepreneur O in the garment sector felt that government policies were deliberately stifling. He noted:

*The Government kept policies so that all entrepreneurs remain small… Nobody grows.*

Expert 1, from the Small Industries Development Bank of India (SIDBI), the principal financial institution for the promotion, financing and development of the SME sector in India, attributed the fear of growth to culture. She said that Indian children are instructed by parents and teachers to become engineers or doctors.
They are never encouraged to become entrepreneurs because entrepreneurship is not considered a socially desirable career choice. Entrepreneur F in the garment sector attributed the lack of interest of Indian entrepreneurs in growth to their poor attitude to business, and noted:

*Indians are that way, you know, Indian entrepreneurs, lot of them just want to be wheelers and dealers. It's not about growing the organization.*

Entrepreneur F attributed this lack of desire to grow to an Indian mindset. Institutional theory suggests that institutions may shape the behavior of entrepreneurs. In this case, pervasive corruption and regulatory complexity in the institutional environment may encourage certain individuals to engage in unproductive entrepreneurship (Baumol, 1990), as there may be higher incentives for “wheeling and dealing”, as Entrepreneur F noted, rather than engaging in ethical behavior. This may also limit their ambitions to grow.

Based on decades of research in education, Dweck (2008) observed two kinds of mindset among school children—the fixed mindset and the growth mindset. The ‘fixed mindset’ is characterized by the following beliefs: (a) effort is fruitless since intelligence and talent are fixed; (b) challenges are to be avoided; and (c) failures define the person. This is in contrast to the growth mindset where the central beliefs are: (a) intelligence and talent can be developed; (b) effort is the path to mastery, and (c) failures are opportunities to learn (Dweck, 2008). Entrepreneurs in India may avoid challenges because of the hostile institutional environment. While they may or may not believe that intelligence is fixed, they may have observed that effort can sometimes seem fruitless. Even if an entrepreneur makes an effort, the rewards may be misappropriated by public
officials, or the outcomes of his or her efforts may not come to fruition because of bureaucratic hurdles. The next section illustrates the impact of institutional voids on the growth mindset through a vignette focusing on one entrepreneur.

3.8.2.1 VIGNETTE: Semi-Conductor Testing Inc.: Institutional Voids and Growth Mindset

Gajanan grew up in India but went to the USA for his higher studies. He completed his Master’s Degree and PhD from a leading university in the USA. After working in a high-tech company in the USA for a year, he decided to relocate to India. Since Gajanan had been recognized for his brilliance in automation and testing in the USA by a leading US semi-conductor manufacturer, he decided to form a start-up in the same field. One of his motivations to move to India was because he had heard that the Government of India had several initiatives to support export-oriented software ventures including the Software Technology Parks of India Society (STPI) that provided infrastructure and statutory support.

Gajanan was in for some rude shocks in his encounters with bureaucracy during the first few years after beginning his venture. His first unpleasant experience was being held to ransom by electricity board officials who removed the fuse carriers in his office for three days over a misunderstanding about a bill payment. Since mobile phones were not common in India when this incident happened, he could not contact his clients for three days. This affected his firm’s reputation. A further unpleasant experience occurred when an income tax officer refused to accept his legally valid claim for tax deductions until a bribe was offered. This incident upset him so much that he decided to go to Court the next time a public official
demanded a bribe. Soon enough, an excise official asked for a bribe and Gajanan decided he would stand for his values and file a case in the Court. What seemed like a good idea at the start turned out to be a nightmare. The court case ran over three years and drained his financial and mental resources, leaving him demotivated. Despite all these setbacks, Gajanan’s love for technology and innovation and his desire to do something for India kept him going.

In his opinion, the most important LOR that Indian entrepreneurs face is the mindset issue—what could be termed a fixed mindset LOR that limits the ability of an Indian entrepreneur to dream big. He noted:

*I would say the number one limitation I am sensing [among Indian entrepreneurs] is mindset. Mindset that pervades all levels, right? Our ambitions are lower. Our belief in what we can do, you know, is low in relation to our abilities. And I think the same people, sitting in Silicon Valley [California] will be thinking ten times bigger in what they are able to achieve. Here it is ten times smaller and that is something that I feel is a major limitation in, you know, what we [Indian entrepreneurs] strive to do.*

Gajanan confessed that despite being aware of this constraining mindset that could limit his ability to dream big and to grow, he found himself trapped:

*I mean, I try to get myself out of it [the mindset], but I feel, you know, sometimes if you are the only one thinking very differently from the team, you will come back [to the team’s thinking], I mean there's a center of*
gravity that you cannot escape, you will also come back to thinking, Okay, let's do only this much.

Since he is a technologist, Gajanan used the term ‘center of gravity’ to describe how he was drawn back, almost against his will, into the mindset of being cautious and not taking risks. He had invented a visual imaging device that he had patented in the USA. Although the brilliance of this device had been recognized in global innovation meets and in US technology magazines, he still found himself lacking the confidence to market the device globally. He noted:

I mean, sometimes I step back and think, you know, why are we not thinking more ambitiously about what we should do? Take this visual imaging device, why did we not push to think about the imaging device as an international product from the beginning?

This mindset, according to him, had held him back from going international. It was not only his mindset but his team’s mindset too that contributed to his inhibitions. Even though, as the CEO, he had the power to take internationalization decisions, he found himself held back by the lack of enthusiasm among his team. The team did not want to take the risk of investing resources in the internationalization of the visual imaging device, but instead wanted to diversify their portfolio. His senior manager explicitly advised him ‘not to focus on one cannon ball, instead shoot more bullets’.

Gajanan spoke wistfully about some of his friends from India who had studied with him in the USA fifteen years ago and were now millionaires or billionaires living in Silicon Valley, California. Living in Silicon Valley with its
entrepreneurial “can-do” culture had a positive impact on entrepreneurial mindset. As he described:

*I am looking at people in the Valley, at some of my classmates. The same person, if he had been in India, how different his thinking would have been. The fact that he has spent the last 15 years in the Valley, his whole thinking is so different. The ambition with which they are thinking [is so different]. They are thinking they will build a product that will change the whole medical industry. Nothing is thought of as impossible.*

This thinking, he believed, was because of the business environment. As he described:

*When you are in an environment like that [in Silicon Valley], you are saying, "Hey, I know these people. I know, look at the success they have had. I can definitely do the same or even better", and in India, we are looking around and we are not seeing that kind of success. So then why should we suddenly believe that we alone will have this breakthrough success, right, [especially success] in an international market with products?*

It has been almost twenty years since Gajanan established his SME, and he said over the past few years he realized what was holding him back from international success:

*The big thinking is there [in Silicon Valley] and that's absent here [in India].*
3.8.3 Impact on Entrepreneurial Emotions

Emotions are affective states and have been identified as an important topic in entrepreneurship, since they have been found to influence entrepreneurial motivation, opportunity identification, implementation and creativity (Baron, 2008; Cardon et al., 2012; Foo, Uy, & Baron, 2009; Frese & Gielnik, 2014). The pervasiveness of corruption, poor regulatory quality, and perceived lack of government support was found to evoke negative emotions among some of the entrepreneurs. Around half (10 of 22) of the entrepreneurs shared experiences where they had felt frustrated, angry or helpless. For example, Entrepreneur Q described his sense of helplessness and frustration when he refused to pay a bribe to an excise officer and spent years fighting a court case on this issue:

*I felt, you know, we should run business without paying any bribes to the Government offices, right? I learnt my lesson in the first or second month that I cannot [after the Court case], I remember thinking, why did I even come back to India (from the USA)? I was feeling so bad about the whole thing.*

Entrepreneur Q felt frustrated as he could not follow his own value system. An experience even more poignant is that of Entrepreneur O who returned to India from the USA after working for a leading US technology company for six years. After taking a large loan from a bank, he set up a big 100 per cent garment export unit. However, he was forced to shut it down because of changes in government policies and lowering of duty drawbacks. He is now dealing with a huge debt burden and appeared angry and frustrated during the interview.
While Entrepreneur O is now left with no business, Entrepreneur B is struggling to keep her enterprise going. She was advised by her finance manager to pay an income tax official a bribe as otherwise many irrelevant questions would be raised on her SME’s tax returns that would take months of her time to resolve. She described her situation as a ‘hold up’ because she had no money to pay her bills and salaries and she had to keep going to government offices to get her papers cleared. She expressed her frustration with the Indian system, comparing it to Singapore where she had worked previously:

_In Singapore and all that, the Government will go to the SME. The Singapore Government cherishes entrepreneurs._

Another Entrepreneur N described how he had created a high-quality product that could replace costly imports in the defense sector. However, it took him some years to realize that no-one would purchase his equipment until he paid bribes to defense officials. He ended up in bankruptcy and was left feeling frustrated.

Similar experiences of frustration were recounted by seven other entrepreneurs in addition to the four experiences described. A common thread was that the entrepreneurs felt they had no choice but to accept the corrupt system. The alternative to succumbing to corruption appeared to be spending their whole life fighting a system against which they could never win.

Frustration has been defined as interference with goal attainment (Spector, 1978). When desired states or goals are interfered with, blocked or taken away (Spector, 1978) a sense of frustration is likely to be experienced. Studies in psychology have shown that the strength of frustration depends on the importance of the blocked goal, the degree of interference, and the frequency of interference.
(Spector, 1978). More than half (12 of 22) of the participants in the study stated they set up their enterprises because they wanted to do something for society and make a difference. Since their goals were important to them, the frequent and high degree of interference by public officials that blocked their goals were likely to lead to a high degree of frustration.

In addition to frustration, since the entrepreneurs expressed that they had no recourse, a sense of helplessness was evident. The theory of learned helplessness hypothesizes that when humans are exposed to uncontrollable events they may exhibit subsequent disruption of behavior (Abramson, Seligman, & Teasdale, 1978). Learned helplessness has been shown to lead to cognitive, motivational and emotional deficits in a large number of studies (Abramson et al., 1978). When entrepreneurs learn that they have no choice but to pay bribes, or that even when they comply with all the rules and regulations they are still at the mercy of public officials who can put up obstacles or create problems at any time, the feeling of helplessness can manifest.

A wide range of entrepreneurial emotions have been studied including passion, pride, anger, optimism, shame and fear (Baron, 2008; Cardon et al., 2012; Omorede, Thorgren, & Wincent, 2014), but frustration and helplessness have not been explicitly described in the context of EE entrepreneurs. The next section illustrates the impact of institutional voids on entrepreneurial emotions through a vignette focusing on one entrepreneur.

3.8.3.1 VIGNETTE: Machining Inc.: Institutional Voids and Emotions

Naren went to the US to do his Masters in Computer Science. He then worked in a leading tech firm in Silicon Valley for twelve years. He returned to India since
his father was aging and wanted Naren to look after the family business. Since Naren had global exposure, he decided to establish a born-global manufacturing firm in addition to looking after his father’s firm. The business model of his born-global firm was to take orders for customized machine components from global clients and manufacture them in India.

After working for so many years in the USA in a Fortune 500 firm ranked among the World’s Most Admired Companies, Naren found that he just could not adjust to doing business in India:

> It is a mess. All this mess was handled by my Dad until November when I returned ... I don’t know how to navigate the politics of Indian suppliers, customers and ... payments based on relationships and all those things.

He complained that the Indian business environment was very difficult to deal with and has been so for years. With noticeable frustration he said:

> See, I have been in business one way or other, listening to business or talking to business people, one way or other since my second grade. Thirty years, we [Indians] keep talking about the same problems. It is absolute bullshit today to say that the same problems still exist. In this day and time, in this age, if you have still a problem, then the problem is not with the process, it is with the people.

He expressed his anger at the amount of time he spent on compliance rather than increasing his international client base.
Thirty to 40 per cent of my time and my Company's time is wasted in Government regulations rather than finding new markets and new people.

That is the worst.

Given the difficulties he was facing with the regulatory authorities, Naren expressed his desire to have minimal points of interaction with the bureaucratic system.

Ideally, I want one [point of interaction with public officials]. I wish I had zero. In the USA, I did all my accounts, I did all my invoices. I did all my bookkeeping. I did my banking [all this ] in two to three hours a day. In India, I am spending 150 hours a week on compliance versus the 15 hours a week in the USA. When I am trying to bring revenue to the Government by exporting, this is inexcusable.

Naren used emotionally charged language and words such as ‘worst’ ‘inexcusable’ ‘wasted’ and ‘bullshit’. He expressed how shocked he was when he returned to India in 2018 and found that corruption had become rampant:

It [corruption] was not a surprise because I am from India. What I have seen is, it has become another line item in your balance sheet. It is so prevalent ... Our moral compass has become elastic. It's a way of doing business. It's a cost of doing business.

He shared how his energy was getting drained by dealing with corrupt officials:

Energy is lost ... corruption is still there. If anybody is denying it, they are lying. Probably he is corrupt too ... you have to pay the two per cent to get
your work done. That is/that has become normal. That is what is a little bit disgusting ... depressing.

He expressed his helplessness at a system where it was impossible to be honest and get by without paying bribes. He said he had tried resisting paying bribes but found that he just could not move ahead. He said Indian entrepreneurs do not have the choice of not paying bribes. He noted:

*It is not like, Okay, fine, I want to be straight forward and I want to be this way. I don't care if it takes ten days. I'll wait. The point is you can't do it.*

*Even if you are willing to wait for ten days, you can't do it. If you are willing to wait for 100 days, you can't do it.*

After venting his anger and frustration, Naren appeared embarrassed that he appeared to be complaining about the system. He apologized to the researcher saying:

*Now I am looking, like, more like a cribbing guy.*

When asked what he had learned from his experience as an entrepreneur in India, Naren said:

*Don't be a 'Lone Texas Fire Ranger' who goes out and fixes issues. Then that's the one thing you would have done in your life, nothing else.*

3.8.4 Self-Efficacy to deal with Institutional Voids

Institutional voids appear to impact the ability of EE entrepreneurs to internationalize in a variety of ways including reducing firm resources and negatively impacting entrepreneurial mindset, as discussed in earlier sections.
When helplessness is attributed to personal factors then it can lead to depression and demotivation (Abramson et al., 1978). However, if an individual has high self-efficacy, then failures or obstacles are not attributed to the lack of skills, knowledge and abilities (Bandura, 1977). Instead, the individual is able to overcome these obstacles. Except for Entrepreneur O, whose SME went bankrupt and had to shut down, all the other entrepreneurs in this study survived many obstacles—a testimony to their self-efficacy.

Self-efficacy is defined as an individual’s belief in their ability to perform a task successfully (Bandura, 1989) and helps to build resilience or the ability of an individual to withstand and recover from difficulties (Luthar et al., 2000).

Although the entrepreneurs did not use the terms self-efficacy during the interviews, this theme emerged from the interview. Most (17 of 22) participants shared experiences of how they had to draw on their inner strength in order to overcome the problems they faced. For example, Entrepreneur I said that in the first few years of his business, his situation could be described as a series of ‘problems, problems, problems’ because of lack of electricity and other infrastructure, but his self-belief helped him survive and succeed. Entrepreneur N described how he went into bankruptcy since he did not pay bribes to the government but this suffering made him more determined to succeed.

Entrepreneurs B, E, H and S said that their location in a small city where businesses received little government support, which resulted in a situation where entrepreneurs had to rely on their psychological resources. For example, Entrepreneur B noted:
‘So, I find that in all these negative factors, I don’t think you should let it bother you. We’ve just moved on with whatever that we have done, we have just moved on’.

Entrepreneur E spoke of the need to work despite hurdles:

So X city has an Entrepreneurial culture where we work despite our hurdles. And especially in a city like X, the mindset is, despite all of this we will survive … Complaining is of no use. So take action, take/find solutions to, you know, solve these problems.

The metaphor of running an SME being similar to crossing hurdles in sports was used by Entrepreneur M. He had been given the task of selling the assets of a bankrupt manufacturing SME but had, instead, through technical innovation, turned the unit around into a profitable enterprise, whose working conditions were now much better than neighboring enterprises. He spoke of his self-belief:

It was maybe it was a daring act. So in fact I went in for the expansion when we were utilizing the existing capacity only to 50 per cent.

Self-efficacy has been recognized as one of the most important constructs in entrepreneurial psychology (Baum & Locke, 2004; Drnovšek et al., 2010; Frese & Gielnik, 2014; Shane et al., 2003). A substantive body of work has shown that entrepreneurs who have high self-efficacy are more likely to succeed in their ventures (Boyd & Vozikis, 1994; Chen, Gully, & Eden, 2001; Krueger & Dickson, 1994; McGee, Peterson, Mueller, & Sequeira, 2009; Zhao, Seibert, & Hills, 2005). In transition economies and EEs, self-efficacy is recognized as being important to help entrepreneurs to withstand stress and survive turbulent
environments (Kiss et al., 2012; Luthans & Ibrayeva, 2006). In the current study, self-efficacy appeared to help the participants cope with institutional voids.

3.9 Mindset LOR - Novel Constructs for Theory Building

The findings of qualitative study reveal that legitimacy, firm-level capability and entrepreneurial mindset are all negatively impacted by home country institutional voids. Of these three types of LOR, external legitimacy LOR has been discussed extensively in prior LOR literature as discussed in the Literature Review (See Essay Two). While the impact of institutional quality on firm resources and internationalization has also been examined earlier (LiPuma et al., 2013; Ngo et al., 2016; Wu & Chen, 2014) (See Essay Three), the mechanism of firm capability has been further clarified in the current study (See Section 3.6). The novel findings in the current study, therefore, relate to what this study labels as Mindset LOR and its dimensions.

Three novel constructs relating to Mindset LOR emerged from the current study, namely: (a) Mental Bandwidth LOR; (b) Lack of Growth Mindset LOR; (c) Negative Emotions LOR

In order to increase validity of these findings of novel mindset LOR constructs, Table 3.2 presents some of the illustrative quotes relating to the three novel mindset related themes. Table 3.2 also presents illustrative quotes relating to self-efficacy. Self-efficacy is not a novel construct but appears to help entrepreneurs overcome mindset LOR and is therefore relevant to the current study and is included in Table 3.2. The three novel constructs contribute toward theory building for LOR by providing insights into the mechanism for mindset LOR.
### Table 3.2 Institutional Voids and Entrepreneurial Mindset – Illustrative Quotes

<table>
<thead>
<tr>
<th>Participant</th>
<th>Entrepreneurs’ Accounts of Psychological Impact of Institutional Voids</th>
<th>Mindset-related Novel Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MINDSET THEME I: Psychological Scarcity/ Mental Bandwidth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneur B (Mfg)</td>
<td>Entrepreneurs have only time and effort. So it’s entirely up to you how to manage it (...) getting angry ... angry, frustrated. Seriously, this is very frustrating. No point, you know, going and fighting a battle that you anyway know you will lose.</td>
<td>Mental Bandwidth</td>
</tr>
<tr>
<td>Entrepreneur E (Mfg)</td>
<td>We need a corruption free, low overhead bureaucracy where you are not spending your time and life, you know, just trying to be compliant. We have no other go other than to spend a lot of time on our non-core competencies. If we get a free time to focus on, you know, exactly what we need to do, then I think we’ll also be doing a lot more</td>
<td>Mental Bandwidth</td>
</tr>
<tr>
<td>Entrepreneur L (Software)</td>
<td>If my father's help was not there, 40% of my daily work would only go in administrative tasks. So, it would be extremely difficult and, as a start-up, it would be very hard for us to delegate people [for administration]</td>
<td>Mental Bandwidth</td>
</tr>
<tr>
<td>Entrepreneur M (Mfg)</td>
<td>The time spent on replying to those [unreasonable demands for explanations by public officials]. [I was] forced to go on replying and go there [to the government department] and explain. So, these things keep on happening. So compliance issues have (…) gone up drastically.</td>
<td>Mental Bandwidth</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Entrepreneur Q (Software)</td>
<td>Then I realized that either I can serve my customers or I can fight the system.</td>
<td>Mental Bandwidth</td>
</tr>
</tbody>
</table>
| Entrepreneur S (Mfg) | When your other troubles are lesser, you have your mind is free to innovate and do other things. You [need to] de-clutter your mind and space and get to proper space.  
I need that mental space to, you know, to lead the company.  
I think it’s a threshold in dealing with the [mental] space [available], no? You prioritize. | Mental Bandwidth |
| Entrepreneur T (Mfg) | I value time more than money … taking away the time and robbing time is inexcusable.  
But right now … around 100, 150 man-hours a week just goes in regulatory requirements (…) When I am trying to bring revenue to the Government, so it's inexcusable. | Mental Bandwidth |
<p>| Entrepreneur U (Software) | Another challenge is … I think, right now it's kind of a 'one man army' in this company. I have to take care of the HR, Financial, Technology as well. So I am, primarily, I am a Techie but I have to take care of other things as well. | Mental Bandwidth |</p>
<table>
<thead>
<tr>
<th>MINDSET THEME II: Lack of Growth Mindset</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur F (Mfg)</td>
<td>Some [Indian entrepreneurs] don’t grow. Some of them, you know, well a lot of them just want to be wheelers and dealers. It’s not about growing the organization.</td>
</tr>
<tr>
<td>Entrepreneur M (Mfg)</td>
<td>People are afraid to grow. Am I fit enough to export? In [our state] (...) you are not expected to grow beyond your boundaries. If you are too smart, you are actually bridled, “Don’t be too smart”. I have seen so many they should have become huge companies, but they remain at that level (...) I think in terms with that mindset you will never reach that level.</td>
</tr>
<tr>
<td>Entrepreneur O (Mfg)</td>
<td>See, India, you know what? They always kept it as, you know, giving everybody equal chance. So all entrepreneurs remains small. Nobody grew.</td>
</tr>
<tr>
<td>Entrepreneur Q (Software)</td>
<td>I would say the number one limitation I am sensing is mindset. Mindset that pervades all levels. That our ambitions are lower. Our belief in what we can do, you know, is low in relation to our abilities. I mean, sometimes I step back and think, you know, why are we not thinking more ambitiously about what we should do?</td>
</tr>
<tr>
<td>Entrepreneur T (Mfg)</td>
<td>Liability of India is, yeah, mindset of not trying and getting the new things, taking risks.</td>
</tr>
<tr>
<td></td>
<td>Lack of Growth Mindset</td>
</tr>
<tr>
<td>Expert 1 (Banking)</td>
<td>We only ask our children to sit and study and become engineers or doctors ... you never ask your child to become an entrepreneur.</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>

**MINDSET THEME III: Emotions**

| Entrepreneur B (Mfg) | Seriously, this is very frustrating. No point, you know, going and fighting a battle that you anyway know you will lose.  
*Because my story, my agony, my pain, my/I think can be a, you know, lesson for many people.*  
(... getting angry ... angry, frustrated.) | Frustration and Helplessness |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur C (Services)</td>
<td>So, the kind of environment that I went through was little bit, like, too much for me to take. ..... They give you a bad image and all that. That was a little bit disheartening.</td>
<td>Frustration</td>
</tr>
<tr>
<td>Entrepreneur E (Mfg)</td>
<td>We have no other go other than to spend a lot of time on our non-core competencies.</td>
<td>Frustration and Helplessness</td>
</tr>
<tr>
<td>Entrepreneur M (Mfg)</td>
<td>The time spent on replying to those [unreasonable demands for explanations by public officials]. [I was] forced to go on replying and go there [to the government department] and explain. So, these things keep on happening.</td>
<td>Frustration</td>
</tr>
</tbody>
</table>
| Entrepreneur Q (Software) | The headache. Everything involved, right? And you have the potential to lose there also. And you have to go to the next higher court. So they know all of this. And, therefore, that’s how they actually run these things.  
I was feeling so bad about the whole thing |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur T (Mfg)</td>
<td>I value time more than money … taking away the time and robbing time is inexcusable.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MINDSET THEME IV: Self-Efficacy</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Entrepreneur B (Mfg) | Self-made completely. That is why sometimes I say that now my model will not be depending on Government business at all.  
So, I find that in all these negative factors, I don’t think you should let it bother you. We've just moved on with whatever that we have done, we have just moved on. |
|  |  |
| Entrepreneur E (Mfg) | We know we can do it. If we don't have this mindset we are not, it's/complaining is of no use. Taking action on it is definitely of use. But complaining is of no use. So take action, take/find solutions to, you know, solve these problems. And work around it, is what I think.  
So City X has an entrepreneurial culture were we think we work despite our hurdles. |
<p>| | |
|  |  |
| Entrepreneur L (Software) | This particular start-up, I actually failed four times. This is the fifth time in which it has actually taken some shape to reach here. |
|  |  |
|  |  |
|  |  |
|  |  |</p>
<table>
<thead>
<tr>
<th>Entrepreneur M (Mfg)</th>
<th>It was maybe it was a daring act. It's like I tell my guys, in high jump, if you keep a height of two meters, you don't jump five meters. You will jump only two meters. So unless you keep your bar high, when you are having 500 [rupees turnover in millions] you will not try to reach for 1000.</th>
<th>Self-Efficacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur Q (Software)</td>
<td>Self-belief and, you know, that will to push [obstacles] on one side and [move ahead]...</td>
<td>Self-Efficacy</td>
</tr>
</tbody>
</table>
Entrepreneurs in both the manufacturing and software services sector expressed that they suffered from a lack of mental bandwidth because of the burden of regulatory compliance and corruption (See Table 3.2). The lack of growth mindset was mainly observed among entrepreneurs in the manufacturing sector but one entrepreneur in the software sector (Entrepreneur Q) expressed his views on the lack of growth mindset very cogently (See Table 3.2). Negative emotions were expressed by entrepreneurs in both the manufacturing and services sectors. The three entrepreneurs in the trading sector did not express any negative emotions or thoughts. This could be because these entrepreneurs were ‘middlemen; and were only engaged in buying from suppliers and exporting through agents.

3.10 Mindset LOR: Conceptual Framework and Propositions

The conceptual framework (see Figure 2.1) developed from the literature review in Chapter Two demonstrated how institutional voids may result in LOR in three ways. First, host country stakeholder perceptions of home country institutional voids may result in external legitimacy LOR. Second, institutional voids may negatively impact firm resources resulting in firm capability LOR. Third, there is a possibility that managerial perceptions of institutional voids may result in mindset LOR and this relationship was as yet unexplored in the literature and identified as a research gap for the current study. The thematic analysis of the qualitative depth interviews helped to provide insights to this relationship and the different kinds of mindset LOR.

Drawing on the insights from the analysis of the interviews and from the conceptual framework for LOR in the Literature Review in Chapter Two (see Figure 2.1) and Propositions 1a and Propositions 1b developed on the basis of the
conceptual framework in Chapter Two (See Section 2.9.1), three novel constructs of mindset LOR have been identified and labelled in the current study. The three novel kinds of mindset LOR that emerged from the analysis have been labelled: (a) Negative Emotions LOR; (b) Lack of Growth Mindset LOR; and (c) Mental Bandwidth LOR. Each of these types of mindset LOR could potentially hold back EE SMEs from internationalizing as demonstrated in from the interview analysis (See Section 3.8). In Chapter Two, two broad propositions were developed on Mindset LOR (See Section 2.9.1), namely,

**Propositions 1a**: The more adverse the perceptions of the EE manager of home country institutions, the higher the mindset LOR.

**Proposition 1b**: Self-efficacy can help overcome the negative impact of adverse perceptions of home country institutions on mindset.

Based on the findings of the qualitative study on the kinds of mindset LOR, further propositions are now developed on the three types of mindset LOR that emerged from the current study, and the role of self-efficacy in overcoming the negative impact of adverse perceptions of home country institutions. Figure 3.1 presents the development of one segment from Figure 2.1 relating to perceptions of institutional voids, mindset LOR, and EE SME internationalization. Self-efficacy is also included in the model, based on the findings of the qualitative study.
The conceptual framework on mindset LOR (See Figure 3.1), helps to further refine the broad Propositions 1a and 1b suggested in Section 2.9.1 and put forth propositions relating to the three different kinds of mindset LOR that emerged from the interviews as discussed below.

3.10.1 Negative Emotions LOR

Emotions have been found to play an important role in entrepreneurship and can influence opportunity recognition, entrepreneurial intention, creativity and effort (Baron, 2008; Cardon et al., 2012; Foo et al., 2009; Frese & Gielnik, 2014). While positive emotions can enhance creativity and help to acquire the necessary resources for entrepreneurship, negative emotions can have the opposite effect (Baron, 2008). In highly dynamic environments such as in EEs, positive emotions can help entrepreneurs cope while negative emotions can reduce their coping capability. Negative emotions can also reduce the ability to tolerate stress (Baron, 2008; Frese & Gielnik, 2014). Positive emotions can enhance efforts toward long-
term goals (Foo et al., 2009) such as internationalization, but negative emotions can result in entrepreneurs focusing on short-term survival and neglecting internationalization. The interviews of entrepreneurs in the current study revealed that institutional voids such as the burden of regulatory compliance and lack of control of corruption evoked negative emotions such as frustration, anger and helplessness. These negative emotions are likely to reduce the entrepreneurial motivation and effort invested in long-term goals such as internationalization leading to our first proposition, namely:

**Proposition 1a:** *EE Entrepreneurs who perceive institutional voids as barriers to internationalization are more likely to experience negative emotions LOR.*

Self-efficacy has been found to influence emotions and whether our thoughts hinder us or make us productive (Bandura, 1977). Persons with high self-efficacy are more likely to be able to cope with distressing situations and less likely to feel overwhelmed by unfavorable circumstances (Bandura, 1989). An entrepreneur with high self-efficacy is, therefore, more likely to be able to cope with negative emotions and control negative thoughts than one with low-self-efficacy. Successful entrepreneurs have been found to be less likely to engage in regretful thinking that arouses anxiety and inhibits further action (Markman, Balkin, & Baron, 2002). Individuals with high-self efficacy are more likely to be able to control intrusive negative cognitions and overcome negative emotions (Bandura, 1989). Self-efficacy has been found to be critical to entrepreneurial intent, opportunity search, and opportunity exploitation (Drnovšek et al., 2010). Self-efficacy, therefore, is likely to help EE entrepreneurs to overcome their negative emotions and engage in internationalization, leading to the second proposition:
**Proposition 1b:** The relationship between an EE entrepreneur’s perceptions of institutional voids and negative emotions LOR is moderated by self-efficacy. EE Entrepreneurs with high self-efficacy are less likely to experience negative emotions LOR than entrepreneurs with low self-efficacy.

### 3.10.2 Lack of Growth Mindset LOR

The burden of regulatory compliance creates a situation where entrepreneurs have to work in an environment that inhibits their growth (Aidis, 2005; Doern & Goss, 2009; Krasniqi, 2007). For internationalization, entrepreneurs need resources including finance. However, the lack of access to finance for entrepreneurs in EEs is hindered by a lack of transparency and excessive bureaucracy (Doern, 2013; Hashi, 2001). Moving goods, finance and people across borders with ease is another necessity for internationalization. The interview participants in the current study shared their experiences of difficult access to financial resources and the barriers to importing and exporting goods. The lack of control of corruption is also a hindrance to growth, as has been shown in other studies (Tonoyan et al., 2010; Welter & Smallbone, 2011). When a portion of the rewards from internationalization is captured by opportunistic officials, the mindset to grow internationally is likely to be negatively impacted, leading to our third proposition, namely:

**Proposition 2a:** EE entrepreneurs who perceive institutional voids as barriers to internationalization are more likely to experience a growth mindset LOR than entrepreneurs who do not perceive them as barriers.

Growing an enterprise through internationalization is fraught with uncertainty and risk and entrepreneurs are likely to be severely constrained by lack of time and
resources. Self-efficacy influences the level of effort that is put into a task and the level of perseverance (Bandura, 1989; Stajkovic & Luthans, 2003). Self-efficacy has been found to impact entrepreneurial success and the growth of ventures (Boyd & Vozikis, 1994; Chen et al., 2001; Frese & Gielnik, 2014). People high in self-efficacy have been found to be more likely to take up challenging tasks and overcome obstacles (Krueger & Dickson, 1994). Growth through internationalization is extremely challenging as it involves seeking new customers in unknown host country environments, where the entrepreneur is a stranger in a strange land, and, therefore, involves hazards in terms of unfamiliarity, legitimacy, and being an outsider to business networks (Eden & Miller, 2004).

The growth mindset requires self-belief and persistence and these characteristics are associated with individuals with high self-efficacy (Bandura, 1989; Stajkovic & Luthans, 2003). These findings lead to the next proposition, namely:

**Proposition 2b:** The relationship between an EE growth mindset LOR and internationalization is moderated by self-efficacy. EE entrepreneurs with high self-efficacy are more likely to overcome their growth mindset LOR and internationalize than entrepreneurs with low self-efficacy.

### 3.10.2 Mental Bandwidth LOR

The extent of regulatory compliance and corruption perceived by entrepreneurs in the current study appeared to tax their mental bandwidth. Dealing with compliance took up a considerable amount of entrepreneurial resources, leaving less time for internationalization. Participants in the manufacturing sector reported spending more than half their time meeting compliance requirements. This suggests that the burden of regulatory compliance results in a tax on mental
bandwidth (Mullainathan & Shafir, 2013) which, in turn, reduces the entrepreneurial resources available for internationalization. The scarcity of mental bandwidth has been found to be automatic and beyond the control of the individual (Mullainathan & Shafir, 2013). The mental tax on bandwidth has been shown to reduce cognitive capacity and executive control (Mullainathan & Shafir, 2013). Compounding the problem of regulatory compliance is the corruption that accompanies regulatory compliance. For example, corruption in India has been shown to be both pervasive and arbitrary (Collins et al., 2009; Doh et al., 2003). Entrepreneurs in India have to deal with the unpredictable demands of corrupt officials on a regular basis. These demands may come during inspections, tax filing, or paying customs or excise duty. Each interaction with a public official offers potential for a demand for a bribe. Corruption also leads to delays in approvals, with entrepreneurs spending additional time on each compliance requirement. Thus, pervasive corruption is likely to tax the mental bandwidth of entrepreneurs leading to our third set of propositions:

**Proposition 3a:** *EE entrepreneurs who perceive institutional voids as barriers to internationalization are more likely to experience a mental bandwidth LOR than entrepreneurs who do not perceive them as barriers.*

Self-efficacy is defined as the belief in one’s ability to undertake a particular task successfully (Bandura, 1989). Self-efficacy has been shown to increase persistence in executing a task and the ability to deal with hurdles in a constructive manner (Bandura, 1989). Dealing with complex regulatory procedures and bureaucratic delays requires persistence. Individuals with high self-efficacy are more likely to have the motivation to acquire the knowledge to
deal with the tasks required to achieve their goal (Wood & Bandura, 1989). Entrepreneurs with high self-efficacy are more likely, therefore, to be able to gain the knowledge and wherewithal to deal with the complex regulatory procedures in EE and overcome their bandwidth issues leading to the second proposition:

**Proposition 3b:** The relationship between an EE entrepreneur’s mental bandwidth LOR and internationalization is moderated by self-efficacy such that EE Entrepreneurs with high self-efficacy are more likely to overcome mental bandwidth LOR and internationalize than entrepreneurs with low self-efficacy.

### 3.11 Institutional Voids and LOR – Overall Findings

This analysis of the interview data revealed that LOR manifests at several levels, at the host country level, the firm level and entrepreneurial mindset level. Host country legitimacy disadvantages and strategic responses to this type of LOR have been examined in prior studies on LOR (Bangara et al., 2012; Fiaschi et al., 2017; Marano et al., 2017; Pant & Ramachandran, 2012; Yu & Liu, 2016). A major finding in the current study is that, in contrast to previous studies on LOR, the lack of legitimacy among host country stakeholders was not perceived as a major barrier by the entrepreneurs. Some entrepreneurs felt that Indian firms had a negative image in global markets while others did not, the results were, therefore, mixed. The entrepreneurs in the software industry shared that India had built legitimacy across the world in software services. This was in contrast to the entrepreneurs in the manufacturing industry who stated that Indian firms had a global legitimacy deficit in their sector. The entrepreneurs in the trading industry emphasized the importance of international certifications to gain legitimacy as Indian food and agricultural products were not trusted in EU countries and the
USA. The strategies used to internationalize and build legitimacy in host countries by the entrepreneurs in this study were similar to those described in previous LOR studies (Amankwah-Amoah & Debrah, 2017; Bangara et al., 2012; Pant & Ramachandran, 2012). The strategies included using personal networks, building business networks, gaining international certifications and registering offices in advanced economy host countries.

At the firm level, the major institutional voids perceived as creating barriers to internationalization and therefore resulting in LOR were the burden of compliance, lack of control of corruption and inadequate government support. This was particularly acute among the manufacturing firms, but less so among software firms who felt that the Government of India had many schemes to promote software exports. The trading firms shared that the Government of India promoted exports and even offered free training in export management.

In addition to these formal institutional voids, the study found that an informal institutional void ‘lack of a professional culture’ was perceived as a barrier to internationalization. By lack of professional culture, the entrepreneurs referred to a culture that did not value quality and reliability. However, the perceived lack of professionalism among Indian domestic customers and suppliers was also found to be a push factor for internationalization, as entrepreneurs were motivated to internationalize to advanced economy host countries with a more professional culture or better institutions. This ‘institutional arbitrage’ or taking advantage of better institutions in an advanced economy host country has been observed in prior studies (Boisot & Meyer, 2008; Cuervo-Cazurra et al., 2018; Yamakawa et
Lack of professional culture, therefore, while creating disadvantages or LOR, also motivated entrepreneurs to internationalize.

Prior studies on barriers faced by SMEs in transition economies has also found that regulatory compliance, corruption, and lack of government support hold back entrepreneurs from growth and performance (Doern, 2013; Welter & Smallbone, 2011). The current study goes one step beyond by examining the role of these institutional voids, not just on entrepreneurship but on internationalization and, more specifically, how these institutional voids could create LOR for EE SMEs. Prior studies have measured the impact of the quality of home country institutions on the internationalization of multi-national enterprises (MNEs) (He & Lin, 2012; Wu & Chen, 2014) using quantitative measures, but they have not examined the interaction between these institutional voids and SME owner-manager perceptions with regard to internationalization as this current study has done.

The novel findings in this study that contribute to theory-building for LOR, were related to the psychological costs that affected internationalization resulting in what could be termed ‘entrepreneurial mindset LOR’. Entrepreneurial motivation levels were found to be negatively impacted by the extent of corruption, the burden of regulatory compliance and the perceived lack of government support. This psychological impact helps to understand how EE entrepreneurs may be demotivated or unable to internationalize because of institutional voids.

Theoretical perspectives from the behavioral sciences were used to explain the mechanism of entrepreneurial mindset LOR. Three types of entrepreneurial mindset LOR were identified in this study—mental bandwidth LOR, growth mindset LOR, and negative emotions LOR. The theoretical perspective on the
psychology of scarcity (Mullainathan & Shafir, 2013) helps us understand how dealing with the burden of compliance and corruption taxes the mental bandwidth of EE entrepreneurs leaving little time for internationalization. This results in what could be termed mental bandwidth LOR. Institutional voids can also have an impact on entrepreneurial ambitions and lead to a fixed mindset rather than a growth mindset (Dweck, 2008). Some of the entrepreneurs in this study perceived that institutional voids—formal and informal—inhibited their ability to ‘think big’ and kept them small. This results in what could be termed growth mindset LOR. These voids were found to have an even more pernicious effect when they induced a sense of frustration and helplessness among several of the entrepreneurs in this study. By bringing in the concepts of frustration and helplessness into the LOR literature, this study contributes to theory extension. Negative emotions have been found to inhibit entrepreneurial motivation and effort (Baron, 2008; Foo et al., 2009; Frese & Gielnik, 2014), leading to what could be termed negative emotion LOR. Internationalization, therefore, could be negatively impacted by the burden of compliance, corruption, and lack of support because of the negative influence of these institutional voids on entrepreneurial mindsets. Dealing with institutional voids also highlighted the importance of individual psychological resources such as self-efficacy that enabled the EE entrepreneurs in this study to survive in a challenging institutional environment. The importance of self-efficacy in challenging institutional environments has been examined in prior studies (Luthans & Ibrayeva, 2006; Luthans et al., 2000).
3.12 Limitations and Future Research

This current study while providing several new insights into how institutional voids may result in LOR at multiple levels and influence EE SME internationalization has some limitations. A major limitation is that all the interviews were conducted in one particular EE and within that EE in the southern region of the country. Although the interviews were conducted in different linguistic states, and with EE entrepreneurs whose SMEs were headquartered in both metros (including the Silicon Valley of India) and in smaller towns, there may be variations across regions of India in terms of cultural values that influence business (Dheer, Lenartowicz, & Peterson, 2015) or in terms of infrastructure. Future research could involve extending the study to other regions of India. Regional comparisons would be useful. The study could be extended to other EEs. Comparisons in perceptions of institutional voids and LOR could help understand variations across EEs with different levels of globalization and different kinds of institutional voids contributing to furthering understanding of LOR.

Another major limitation is that the study is cross-sectional in nature. Cross-sectional studies have some inherent weaknesses (Bryman & Bell, 2015) such as capturing perceptions at one point in time. The responses of the entrepreneurs could be contingent on recent experiences, as recall of past events may be inaccurate or biased (Fraser & Greene, 2006). Since EEs are marked by unstable regulatory environments marked by volatility and continuous change (Kostova & Hult, 2016), a cross-sectional study will not be able to capture the change in perceptions of the institutional voids over time. However, this bias may be a
greater problem in surveys than in qualitative research (Doern, 2013) that can make up these deficiencies by probing techniques. Future research could use longitudinal methods that could help understand these changes over time. Furthermore, since small firms face a ‘liability of smallness’ (Aldrich & Auster, 1986) the mortality rate of small businesses is higher than large firms, longitudinal research could help track which of the SMEs in the current study survived and increased their degree of internationalization. Since LOR is likely to be a dynamic concept and reduce over time just like liability of foreignness (Zaheer & Mosakowski, 1997) as discussed in Essay One, a longitudinal study could help explore this aspect of LOR.

Language could be another limitation in the current study. The in-depth interviews were limited to entrepreneurs who spoke English. This choice was made for pragmatic reasons as the entrepreneurs in this study belonged to different linguistic states. The use of translators and interpreters for the multiple native languages would have been complex and resource intensive. Using the language of international business — English— (Neeley, 2012) helped overcome these issues of translation, interpretation, and associated distortions and loss of meaning. However, language can play an important role in qualitative interviews (Welch & Piekkari, 2006). Interviewing in the native language may help in establishing greater rapport with the interviewee and may have resulted in a richer dialogue. As Alvesson, (2003) points out language in interviews is not just a mechanical medium for exchange of information but the appropriate use of language can encourage authenticity, honesty, and the making of meaning. Given that the entrepreneurs in this study had to speak about some sensitive issues such
as corruption, speaking in their native language may have elicited more openness. Future research could involve conducting the interviews in native languages and overcome these limitations of non-native language interviewing.

The researcher has made to include an account of the viewpoints of all the entrepreneurs in the analysis. Despite this effort, it was observed that entrepreneurs who had been educated in western universities or had work experience in the West were much more expressive and articulate about the negative impacts of institutional voids on their aspirations, their mindsets and their emotions. Around half (10/22) entrepreneurs had either international education or experience. One possible reason for their openness in sharing their experiences could be their greater self-confidence in being able to articulate their experiences because they had worked or studied in western cultures where open and direct communication is encouraged. Another reason could that since they had experienced working and living in advanced economies and could have become more sensitive to the negative impact of pervasive institutional voids in India. In contrast, entrepreneurs without any exposure to better institutional conditions may find it easier to accept pervasive institutional voids as a taken-for-granted feature of doing business in India. Comparing the perceptions of home country institutional voids (and resulting LOR) of entrepreneurs with international education/experience with those without any international exposure could be a potential area for future research.

Since the research focus was on the phenomenon of LOR, a potential bias seeking negative experiences of EE entrepreneurs may have crept in. A potentially useful area of research could, therefore, be on positive illusions and EE entrepreneurs
rather than negative experiences. There has been extensive research in psychology on the impact of positive illusions and well-being (Taylor & Brown, 1988).

Illusions refer to a perception of something that is different from reality; mentally healthy people have been found to maintain overly positive views of themselves, their control over the environment, and are unrealistically optimistic about the future (Taylor & Brown, 1988). Given that entrepreneurs in some EEs face hostile business environments, a line of research could be to examine whether positive illusions help entrepreneurs to cope. Research has found that people who process and use negative information yet retain their positive self-conceptions are better able to cope with stressful events than people who repress or deny negative feedback (Taylor, Collins, Skokan, & Aspinwall, 1989. In short, seeing the world too accurately may be maladaptive (Baumeister, 1989), while the optimal degree of illusion could result in action and persistence leading to success (Taylor, et al. 1989). Baumeister (1989) suggests that individuals may benefit from slight exaggerations rather substantial distortions — attaining an optimal margin of illusion. Examining the effect of positive illusions on EE entrepreneurs and internationalization may offer insights on how to cope with institutional voids.

3.13 Conclusion

How do EE entrepreneurs perceive home country institutional voids? How and why does a particular institutional void result in LOR? This chapter described a qualitative study of 22 EE entrepreneurs that addressed these questions. Data from three SME experts with experience in public sector undertakings supporting SMEs were also integrated as part of the discussion. The burden of regulatory compliance and the lack of control of corruption were the formal voids that were
perceived as created barriers to internationalization mentioned by the majority of the entrepreneurs. A new theme that emerged from this study was the informal institutional void termed ‘lack of professional culture’ that related to perceptions of lack of reliability and quality among Indian business people. This lack of professionalism was the third most prominent institutional void mentioned by entrepreneurs.

Home country institutional voids resulted in LOR at three levels. At the host country level, host country stakeholder perceptions of institutional voids resulted in lack of legitimacy. At the firm level, the burden of regulatory compliance and corruption increased the costs of doing business and resulted in delays that had a negative impact on performance. At the individual level, three types of novel mindset LOR themes emerged from the interviews. Institutional voids were found to negatively impact entrepreneurial mindset by reducing mental bandwidth for internationalizing, reducing ambitions for growth and evoking negative emotions. A conceptual framework was developed for these mindset themes and propositions presented.

4.1 Chapter Overview

This chapter begins by presenting the introduction to the empirical essay in Section 4.2 and the research questions in Section 4.3. The rationale for selection of the emerging economies (EEs) and advanced economies (AEs) is presented in Section 4.4. This is followed by a description of data sources in Section 4.5, and an analysis of institutional quality differences between EEs and AEs in Section 4.6. There are two parts to this empirical essay. Part I of the essay, discussed in Section 4.7, uses descriptive analysis to compare the costs of internationalization and propensity to export between AE entrepreneurs and EE entrepreneurs. Part II of the essay, described in Section 4.8, shows the empirical model and lays out the methodology and results. The overall results and contributions of the essay are discussed in Section 4.9, followed by the limitations and suggestions for future research in Section 4.10. Section 4.11 closes the chapter.

4.2 Introduction

This dissertation seeks to understand the phenomenon of liabilities of origin in the context of internationalizing EE small and medium enterprises (SMEs). The liabilities of origin — henceforth termed LOR — refer to the disadvantages faced by internationalizing EE firms as a consequence of the institutional voids in their country of origin (Marano, Tashman, & Kostova, 2017; Pant & Ramachandran, 2012).
Institutional voids have been defined as the lacunae created by the absence or malfunctioning of institutions that support market activity (Khanna & Palepu, 1997). Institutional voids can manifest because of a lack of governance mechanisms that control corruption, protect property rights, streamline law enforcement ensuring universalistic practices, and establish quality public infrastructure (Ahlstrom, Levitas, Hitt, Dacin, & Zhu, 2014; Doh, Rodrigues, Saka-Helmhout, & Makhiya, 2017; Khanna & Palepu, 1997). Institutional theory suggests that the structure, strategy and behavior of an organization are influenced by its environment (North, 1990; Scott, 1995); institutional voids, therefore, are likely to shape the international strategy and behavior of firms.

Although there may be many institutional voids in a particular country that may impact social and business interactions, the institutional void lens in international business (IB) focuses on those institutions that impact the interactions between buyers and sellers (Doh, Rodrigues, Saka-Helmhout, & Makhiya, 2017). Surprisingly little attention has been paid to SMEs in the institutional voids literature in IB. The focus, instead, has been on multi-national enterprises, MNEs. For example, in a Special Issue on International Business Responses to Institutional Voids in the top-ranked IB journal, *Journal of International Business*, all the studies focused on MNEs (Doh, Rodrigues, Saka-Helmhout, & Makhiya, 2017). These studies examined the strategic responses that MNEs have made to overcome institutional voids, such as: engaging in corporate social responsibility (CSR) (Marano et al., 2017); accessing international legal arbitration mechanisms to avoid domestic courts (Pinkham & Peng, 2017); or
filling information voids in capital markets with private information sources (Kingsley & Graham, 2017).

While not focusing exclusively on institutional voids, there is also a stream of literature that examines the home country effects on internationalization (Cuervo-Cazurra et al., 2018; Cuervo-Cazurra & Ramamurti, 2017; Estrin, Meyer, Nielsen, & Nielsen, 2016; LiPuma et al., 2013). Cuervo-Cazurra and Ramamurti (2017) suggest that home country disadvantages may fuel two types of internationalization. In the first, innovation-based internationalization, firms may develop innovative products and business models that are suited to the institutionally underdeveloped environment in their home country, which can provide a competitive edge in foreign markets (Cuervo-Cazurra & Ramamurti, 2017). In the second, escape-based internationalization, a firm may be motivated to internationalize in order to escape the poor institutional conditions in their home country and take advantage of higher-quality institutions in the host country (Witt & Lewin, 2014; Yamakawa et al., 2008).

Empirical studies on home country institutions and internationalized MNEs have found that strong home country institutions have a positive impact on MNE internationalization. For example, He and Lin (2012) found that strong regulatory institutions at home fostered the internationalization of MNEs. Similarly, Wu and Chen (2014) found that the level of institutional development and institutional stability had a positive effect on EE MNE propensity to internationalize. Strong formal and informal institutions have been found to strengthen the relationship between state ownership and internationalization (Estrin et al., 2016).
While the studies mentioned above have been on MNEs, some quantitative studies have been carried out on the relationship between home country institutions and the internationalization of SMEs. For example, using secondary data from the Global Entrepreneurship Monitor (GEM), a large-scale cross-country project on entrepreneurship, Li (2018) found that institutional factors moderate the relationship between firm-specific resources and internationalization. However, Li (2018) did not focus specifically on EEs. Muralidharan and Pathak (2017) used GEM data to estimate the influence of informal institutions on internationalization, and found that performance orientation and self-expression had a positive impact on internationalization, while the social desirability of entrepreneurship had a negative effect. In a study of Vietnamese exporters using primary data, stability, predictability, specificity and enforceability of home country institutions were found to have a positive impact on export performance (Ngo et al., 2016). Similarly, Li, Vertinsky and Zhang (2013) studied the impact of domestic legal institutions in 120 cities in China and found a positive relationship between quality of home country legal institutions and export performance. SME internationalization has also been found to be influenced by institutions providing property rights protection, ease of doing business and government support (Acs, Morck, Shaver, & Yeung, 1997; Gassmann & Keupp, 2007). A World Trade Organization (WTO) report that summarizes the results of several surveys by international organizations such as the World Bank lists poor access to information, burdensome regulations at customs and borders, and lack of trade finance as major barriers to SME internationalization (WTO, 2016).
This chapter (Essay Three) describes a quantitative study that examines the phenomenon of LOR. Essay Three addresses Research Objectives Three and Four listed in Chapter One of this dissertation (See Table 1.1), namely: Research Objective Three: To examine whether home country institutional voids result in EE SMEs facing additional costs of internationalization compared to AE SMEs; and Research Objective Four: To explore whether personal factors such as self-efficacy can enable EE entrepreneurs to overcome home country institutional voids with regard to internationalization.

4.3 Research Questions

Prior studies have found that internationalization of firms is positively influenced by the quality of home country institutions, as discussed in Section 4.2 (Estrin et al., 2016; He & Cui, 2012; Li, 2018; Wu & Chen, 2014). However, the relationship between home country institutions and the costs of international business, and the comparison of the internationalization behavior of EE SMEs and AE SMEs, have not yet been examined. Part I of this essay addresses this gap in the SME internationalization literature and is in response to Research Question Three in this dissertation (listed in Chapter One), namely:

Research Question Three: How do home country institutional voids impact internationalization of emerging economy SMEs compared to advanced economy SMEs?
The specific questions addressed in Part I of this essay are:

**Research Question 3a:** How does the quality of home country institutions in advanced economies and emerging economies impact costs of internationalization?

**Research Question 3b:** How does the internationalization behavior of emerging economy entrepreneurs compare with that of advanced economy entrepreneurs?

*Internationalization behavior* in Research Question 3b refers to: (a) the propensity to export, and (b) the intensity of export. This essay focuses on exports since exporting is the most prevalent form of internationalization for SMEs (Reuber, Knight, & Liesch, 2018; World Trade Organization, 2016).

Part I of this study uses descriptive analysis at the country level and secondary data to test whether EE entrepreneurs incur additional costs for internationalization because of their home country institutional voids compared to AE entrepreneurs. If home country institutional voids result in additional costs of internationalization for EE entrepreneurs compared to AE entrepreneurs, then EE SMEs could be said to face LOR. The relationships between the quality of institutions and costs of international business, and the differences between the export behavior of AE and EE entrepreneurs are analyzed.

In SMEs, the owner-manager or entrepreneur has been found to drive internationalization decision-making (Autio, 2005; Freeman & Cavusgil, 2007; Loecher, 2000; Reid, 1981). Entrepreneurial personal factors such as international experience, perceptions of the environment and business skills have also been found to influence internationalization (Manolova et al., 2002; Wright et al., 2007; Zahra et al., 2005). An entrepreneur needs to be positively motivated to...
evaluate opportunities in foreign markets, pursue the resources necessary for internationalization, and to decide on the mode of exploitation. Among motivating variables such as the need for achievement, locus of control and risk-taking propensity, self-efficacy has been found to be a better predictor of entrepreneurial success (Baum & Locke, 2004; Drnovšek et al., 2010; Shane et al., 2003). Self-efficacy is one of the elements in Bandura’s social cognitive theory, and emphasizes the role of human agency (Bandura, 1977; Wood & Bandura, 2016). Self-efficacy can be defined as the belief in one’s ability to attain a certain level of achievement in a given task. According to social cognitive theory, human beings are not autonomous beings nor are they hapless victims of their environment. Instead, there is a reciprocal interaction between action, the environment, and self-efficacy (Bandura, 1989). The critical role of self-efficacy in entrepreneurship has been highlighted in the entrepreneurial psychology literature, which identifies self-efficacy as one of the most important personal factors influencing entrepreneurial success (Drnovšek et al., 2010; Frese & Gielnik, 2014; Shane et al., 2003).

Self-efficacy could be even more important in EEs than in AEs given that entrepreneurs in EEs have to deal with pervasive home country institutional voids (Kiss et al., 2012). Luthans, Stajkovic and Ibrayeva (2000), in their descriptive study of entrepreneurship in Kazakhstan in Central Asia, identify self-efficacy as a key factor helping entrepreneurs overcome institutional barriers. The barriers include conflicts between the older planned economy systems and the new market economies, an unstable legal regime, corruption, criminalization, and arbitrary law enforcement (Luthans et al., 2000). In a subsequent study in Kazakhstan and
Kyrgyzstan, Luthans and Ibrayeva (2006) found that self-efficacy had both a direct and a mediating effect on entrepreneurial performance. However, these studies on EEs have all focused on entrepreneurship in general and not on internationalization, unlike the current essay.

A few studies using GEM data have tested the impact of self-efficacy on SME internationalization but their results have been inconclusive. For example, self-efficacy was not significant in influencing a nascent entrepreneur’s export intention in a study of entrepreneurs in 45 countries (Evald & Klyver, 2011). Similarly, self-efficacy was not found to be significant in influencing internationalization in a study of 69 countries using GEM data (Pawęta & Zbierowski, 2015). Alon, Yeheskel, Lerner and Zhang (2013) examined the effect of perceived business skills (self-efficacy) on positive intention to export for three years for Chinese firms using GEM data, and the relationship was not found significant. However, the perceived business skills/self-efficacy of exporters was found to be higher than non-exporters for two years but not for the third year (Alon et al., 2013). These prior studies have not specifically focused on the comparison of EE and AE SME internationalization, unlike this essay.

The role of entrepreneurial self-efficacy in overcoming the barriers created by institutional voids with regard to internationalization has, therefore, yet to be investigated and is one of the objectives of the current essay. The second research question that Part II of this essay addresses is, therefore:

**Research Question Four:** To what extent do personal factors such as self-efficacy help emerging economy entrepreneurs overcome home country institutional voids with regard to internationalization?
Part II of this essay uses secondary data and an ordered logistic regression model to compare the influence of self-efficacy on EE and AE SME internationalization. The model tests whether self-efficacy can help EE entrepreneurs overcome home country institutional voids and internationalize successfully.

International organizations such as the World Bank, the United Nations Conference for Trade and Development (UNCTAD) and the International Monetary Fund (IMF) have data for different countries and the categorization into AEs and EEs may not always match. The rationale for selecting the EEs and AEs for this essay is discussed in the next section.

4.4 Selection of EEs and AEs for Study

Scholars have noted that there is no agreement on the list of emerging market economies among different organizations, and the list of EEs changes over time because of economic development or economic down-grading (Ghemawat & Altman, 2016; Nielsen, 2011). Furthermore, the systems and terminology classifying levels of economic development vary across international organizations such as the World Bank, the IMF, and the UN.

The World Bank uses the terms high income, low and middle income countries (Nielsen, 2011). UNCTAD uses the terms developed economies, developing economies, transition economies, least developed countries, landlocked developing countries, and small island developing states (UNCTAD, 2018). Even within the different divisions of major organizations such as the World Bank and the United Nations, the terminology may differ (Nielsen, 2011). The IMF employs two categories: (a) emerging market and developing countries, and (b)
advanced economies (International Monetary Fund, 2018). The number of ‘emerging market and developing countries’ is 54 and there are 39 advanced economies. However, out of these 54 ‘emerging market and developing economies’ there is no standard list of emerging market economies and, even within the same IMF report, different analysts may use different list of EEs (e.g., see International Monetary Fund, 2018).

The IMF classification and GEM data have been used in studies on EE SME internationalization. Kim and Li (2014) selected 30 EEs based on IMF, GDP/capita cutoff of 13,000 USD, and classification based on the recommended list of mid-range emerging economies listed in a paper by Hoskisson, Eden, Lau and & Wright (2000). Chen, Saarenketo and Puimalainen (2016) selected 25 EEs, while Pathak, Xavier-Oliveira and Laplume (2016) used data from only 20 EEs.

The choice of EEs and AEs are therefore not consistent. In this essay, building on Chen et al. (2016) (that is one of the few comparative studies between EEs and AEs on internationalization using GEM data) and updating the EE and AE list given in Chen et al (2016) using data from the IMF World Economic Outlook (2018), the list of EEs and AEs selected is shown in Table 4.1.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Emerging Economy</th>
<th>S.No</th>
<th>Advanced Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Name of Country</td>
<td></td>
<td>Name of Country</td>
</tr>
<tr>
<td></td>
<td>ISO-3 Code</td>
<td></td>
<td>ISO-3 Code</td>
</tr>
<tr>
<td>1</td>
<td>Argentina</td>
<td>1</td>
<td>Andorra</td>
</tr>
<tr>
<td></td>
<td>ARG</td>
<td></td>
<td>AND</td>
</tr>
<tr>
<td>2</td>
<td>Bangladesh</td>
<td>2</td>
<td>Australia</td>
</tr>
<tr>
<td></td>
<td>BGD</td>
<td></td>
<td>AUS</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>3</td>
<td>Austria</td>
</tr>
<tr>
<td></td>
<td>BRA</td>
<td></td>
<td>AUT</td>
</tr>
<tr>
<td>4</td>
<td>Bulgaria</td>
<td>4</td>
<td>Belgium</td>
</tr>
<tr>
<td></td>
<td>BGR</td>
<td></td>
<td>BEL</td>
</tr>
<tr>
<td>5</td>
<td>Chile</td>
<td>5</td>
<td>Bermuda</td>
</tr>
<tr>
<td></td>
<td>CHL</td>
<td></td>
<td>BMU</td>
</tr>
<tr>
<td></td>
<td>Country</td>
<td>Code</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>------------------</td>
<td>------</td>
<td>---</td>
</tr>
<tr>
<td>6</td>
<td>China</td>
<td>CHN</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Colombia</td>
<td>COL</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Hungary</td>
<td>HUN</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Indonesia</td>
<td>IDN</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>India</td>
<td>IND</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Mexico</td>
<td>MEX</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Malaysia</td>
<td>MYS</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Pakistan</td>
<td>PAK</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Peru</td>
<td>PER</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Philippines</td>
<td>PHL</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>Poland</td>
<td>POL</td>
<td>16</td>
</tr>
<tr>
<td>17</td>
<td>Romania</td>
<td>ROU</td>
<td>17</td>
</tr>
<tr>
<td>18</td>
<td>Russian Federation</td>
<td>RUS</td>
<td>18</td>
</tr>
<tr>
<td>19</td>
<td>South Africa</td>
<td>ZAF</td>
<td>19</td>
</tr>
<tr>
<td>20</td>
<td>Thailand</td>
<td>THA</td>
<td>20</td>
</tr>
<tr>
<td>21</td>
<td>Turkey</td>
<td>TUR</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>Ukraine</td>
<td>UKR</td>
<td>22</td>
</tr>
<tr>
<td>23</td>
<td>Venezuela, RB</td>
<td>VEN</td>
<td>23</td>
</tr>
<tr>
<td>24</td>
<td>Israel</td>
<td>ISR</td>
<td>24</td>
</tr>
<tr>
<td>25</td>
<td>Italy</td>
<td>ITA</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>Japan</td>
<td>JPN</td>
<td>26</td>
</tr>
<tr>
<td>27</td>
<td>Lithuania</td>
<td>LTU</td>
<td>27</td>
</tr>
<tr>
<td>28</td>
<td>Luxembourg</td>
<td>LUX</td>
<td>28</td>
</tr>
<tr>
<td>29</td>
<td>Latvia</td>
<td>LVA</td>
<td>29</td>
</tr>
<tr>
<td>30</td>
<td>Malta</td>
<td>MLT</td>
<td>30</td>
</tr>
<tr>
<td>31</td>
<td>Netherlands</td>
<td>NLD</td>
<td>31</td>
</tr>
<tr>
<td>32</td>
<td>Norway</td>
<td>NOR</td>
<td>32</td>
</tr>
<tr>
<td>33</td>
<td>New Zealand</td>
<td>NZL</td>
<td>33</td>
</tr>
<tr>
<td>34</td>
<td>Portugal</td>
<td>PRT</td>
<td>34</td>
</tr>
<tr>
<td>35</td>
<td>San Marino</td>
<td>SMR</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>Slovak Republic</td>
<td>SVK</td>
<td>36</td>
</tr>
</tbody>
</table>
Table 4.1 lists 23 EEs and 39 AEs. The standardized ISO 3166 ALPHA-3 code that assigns three alphabets for each country is also provided in Table 4.1 since different databases use different country codes. For example, GEM uses the international dialup code while the UN uses a three-digit numeric code. The IMF uses a three-digit numeric code that is different from the UN.

4.5 Description of Data Sources

The three principal sources of data for this essay are the World Bank Worldwide Governance Indicators (WGI) database, the World Bank Ease of Doing Business database and the Global Entrepreneurship Monitor (GEM) database.

The WGI s were developed by Kaufmann and his colleagues at the World Bank (Kaufmann, Kraay, & Zoido-Lobatón, 1999). The quality of institutions in a country can be evaluated by the quality of governance or ‘the institutions and traditions by which authority in a country is exercised’ (Kaufmann, Kraay, & Zoido-Lobatón, 1999, p. 4). While there are diverse meanings of the word ‘governance’ in the political science literature (Fukuyama, 2016), in this essay governance includes the process by which governments are selected, the rules and regulations and policies that are formulated for economic activities, and the respect that both the citizens and the state have for the institutions that govern social and economic interactions (Kaufmann et al., 1999).
Kauffman et al. (1999) constructed six aggregate indicators corresponding to six measures of effective governance based on over 300 indicators aggregated from 31 different sources developed by 25 different organizations. The six governance indicators are: (a) Regulatory Quality; (b) Rule of Law; (c) Control of Corruption; (d) Government Effectiveness; (e) Political Stability and Absence of Violence/Terrorism; and (f) Voice and Accountability. The shortcomings of the WGI data include the fact that the selection of these six governance indicators has not been based on a theoretical framework, and that there is no sharp distinction between some indicators (Fukuyama, 2016). For example, it has been pointed out that Government Effectiveness could be subsumed under Regulatory Quality, and that Rule of Law could include the Control of Corruption (Fukuyama, 2016). Despite some shortcomings, these indicators are considered meta-indices of institutional quality since they aggregate a wide variety of indicators from multiple sources (Globerman & Shapiro, 2003; Marano et al., 2017).

This essay also uses data from the Ease of Doing Business database developed by the World Bank (World Bank, 2017). These data capture the impact of a particular country’s regulatory environment on local firms, and higher ranking is indicative of smarter regulations or regulations that have a positive impact on market interactions and are transparent (World Bank, 2013). Low scores, therefore, are indicative of institutional voids. This database has been available since 2003 for countries across the world and measures the extent of documentary compliance including the time and costs in fulfilling regulations affecting the following 11 areas: (a) Starting a business; (b) Dealing with construction permits; (c) Getting electricity; (d) Registering property; (e) Getting credit; (f) Protecting
minority investors; (g) Paying taxes; (h) Trading across borders; (i) Enforcing contracts; (j) Resolving insolvency; and (k) Labor market regulation (World Bank, 2017). This database has some shortcomings given that it has to balance large scale collection of data across several countries with a demand for precision. For example, the measurement of cost trading across borders is done for manufactured goods and not for services.

The principal source of data for SME internationalization and entrepreneurship is the Global Entrepreneurship Monitor (GEM). GEM is a multi-national multi-year study initiated in 1998 by Babson College (USA) and London Business School (UK). The objective of the GEM research program was to create a cross-national harmonized dataset on entrepreneurship in order to: (a) enable cross-national comparisons in the levels of entrepreneurial activity; (b) explore the factors that impact the level of entrepreneurial activity, and, in doing so, contribute to policy-making that enhances entrepreneurship (Reynolds, Hunt, Servais, Lopez-Garcia, & Chin, 2005). Topics investigated using GEM data include the impact of formal and informal institutions, women in entrepreneurship, financial aspects, networks, attitudes and perceptions, innovation and internationalization (Bergmann et al., 2014).

In the GEM study, individual level surveys on an annual basis are conducted in over 100 economies across the world. In this geographically stratified sample, the number of countries participating and the number of respondents may vary from year-to-year. Around 2000 randomly-selected individuals per country are surveyed each year on entrepreneurial intentions and activity, self-assessed skills, and personal factors in the GEM-Adult Population Survey(APS) (Reynolds et al.,
The respondents of this study range in age from 18-54. In addition to the GEM APS, interviews and a survey are conducted annually with national experts in each country — this is termed the GEM National Expert Survey (GEM-NES). The GEM-NES includes data on expert perceptions of regulatory systems, corruption, government support, financial capital, and educational capital (Reynolds et al., 2005). The latest GEM data set publicly available is for 2014 and, accordingly, this data set is used for this essay. There are some shortcomings in the GEM data, including the use of single-item measures for complex constructs. According to the leading members of the GEM consortium who designed the study, trade offs had to be made between sample size and depth and breadth of measures (Reynolds et al. 2005). Furthermore, data had to be collected across a broad spectrum of cultures (Reynolds et al. 2005).

**Measuring Difference in Institutional Quality between Emerging Economies and Advanced Economies**

The phenomenon of LOR rests on the premise of weaker institutions in EEs compared to AEs. There have been suggestions that EEs are catching up with AEs in terms of infrastructure development and other factors, and in terms of institutions (Hoskisson et al., 2013). In order to test whether EEs still face a comparative disadvantage in institutional quality compared to AEs, for each of the six WGIs for the year 2014 (the latest year for which GEM data are available), a two-sample t-test with equal variances was conducted. The data are obtained from the World Bank website: https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators. The value of each indicator varies from -2.5 to 2.5, a higher positive value indicating a
higher quality of governance (Kaufmann, Kraay, & Zoido-Lobatón, 2009).

Among the countries listed in Table 4.1, data for 22 EEs and 35 AEs are available and used for comparison between the two groups.

Table 4.2: Two Sample t-test for Six Worldwide Governance Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>AEs</th>
<th>EEs</th>
<th>Mean1</th>
<th>Mean2</th>
<th>Difference</th>
<th>St_Err</th>
<th>t_value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory Quality by Economies 2014</td>
<td>35</td>
<td>22</td>
<td>1.305</td>
<td>.029</td>
<td>1.277</td>
<td>.163</td>
<td>7.85*</td>
</tr>
<tr>
<td>Government Effectiveness by Economies 2014</td>
<td>35</td>
<td>22</td>
<td>1.347</td>
<td>.059</td>
<td>1.288</td>
<td>.137</td>
<td>9.4*</td>
</tr>
<tr>
<td>Control of Corruption by Economies 2014</td>
<td>35</td>
<td>22</td>
<td>1.309</td>
<td>-.344</td>
<td>1.653</td>
<td>.185</td>
<td>8.95*</td>
</tr>
<tr>
<td>Rule of Law by Economies</td>
<td>35</td>
<td>22</td>
<td>1.413</td>
<td>-.227</td>
<td>1.639</td>
<td>.172</td>
<td>9.5*</td>
</tr>
<tr>
<td>Voice and Accountability by Economy</td>
<td>35</td>
<td>22</td>
<td>1.21</td>
<td>-.056</td>
<td>1.266</td>
<td>.134</td>
<td>9.5*</td>
</tr>
<tr>
<td>Political Stability by Economies</td>
<td>36</td>
<td>22</td>
<td>.857</td>
<td>-.554</td>
<td>1.411</td>
<td>.171</td>
<td>8.25*</td>
</tr>
</tbody>
</table>

* p<0.01

Data set: World Bank Governance Indicators 2014; Mean1 refers to Advanced Economies; Mean2 refers to Emerging Economies.

As Table 4.2 shows, on a continuous scale between -2.5 and 2.5, the differences between the means for all six governance indicators between AEs and EEs are statistically significant. Similar tests were conducted for the 2017 data and the differences along all six dimensions remained significant. The implications for
each of these governance indicators for EE firm internationalization and LOR are discussed below.

**Regulatory Quality**

Regulatory Quality refers to the perceptions of quality and implementation of government policies that facilitate private sector development (Kaufmann et al., 2009). This indicator aggregates assessments of factors such as the burden of regulatory compliance, taxation procedures and transparency in their implementation, ease of starting a business, ease of doing business, unfair competitive practices, anti-trust measures, discriminatory tariffs, and financial freedom (Kaufmann et al., 2009). The significant difference in quality between EEs and AEs, shown in Table 4.2, suggests that internationalizing EE firms are likely to face greater barriers than AE firms in terms of regulatory compliance, ease of starting a business, greater complexity and lack of transparency in taxation procedures, leading to LOR.

**Government Effectiveness**

The indicator of Government Effectiveness captures perceptions of the quality of public services (Kaufmann et al., 2009). This includes the quality of administration, transportation, water, electricity and other infrastructure, public education, public health and the frequency of disruption of public services (Kaufmann et al., 2009). The significant difference in quality between EEs and AEs, as indicated in Table 4.2, suggests that internationalizing EE firms are more likely than AEs to face problems gaining access to high-quality infrastructure and public services for their business operations and internationalization, resulting in LOR.
**Control of Corruption**

This indicator of governance captures the perceptions of the extent to which public power is used for private gain and businesses are forced to make informal payments for services and permits (Kaufmann et al., 2009). This indicator measures the extent to which businesses and citizens are compelled to pay bribes to the police, customs department, and income tax department and captures irregular payments for imports and exports (Kaufmann et al., 2009). The significant difference in this indicator between EEs and AEs, as indicated in Table 4.2, suggests that EE firms are more likely to have to pay bribes for exports and imports than AE firms, thus increasing their costs of doing international business and resulting in LOR.

**Rule of Law**

The Rule of Law indicator captures perceptions of whether agents abide by, and trust, that the rules and laws in society will be enforced in a fair and just manner (Kaufmann et al., 2009). This indicator also measures the perceived degree of protection of intellectual property rights. The business cost of crime and violence, the fairness and reliability of the judicial system, the enforceability of contracts and the reliability of the police force are other factors captured in this indicator (Kaufmann et al., 2009). The significant difference in this indicator between EEs and AEs, as indicated in Table 4.2, suggests that internationalizing EE firms compared to AE firms may not be able to rely on the state to protect their intellectual property, protect them from extortion or petty crime, or to help them enforce contracts with suppliers and customers, resulting in LOR.
Voice and Accountability

Voice and Accountability captures the perceptions of the democratic processes in a country, including the degree to which citizens are involved in electing their government, the freedom of the press and media, human rights and civil liberties and the freedom to form associations (Kaufmann et al., 2009). It also includes the reliability of state accounts and state-owned bank accounts, the transparency of the state budget, and the freedom of citizens to move in and out of the country (Kaufmann et al., 2009). The significant difference of this indicator between EEs and AEs, as indicated in Table 4.2, suggests that internationalizing EE firms compared to AE firms may not be able to protest against unfair policies or excessive government interference in their business operations. However, there is an alternative view that democratic processes may not be necessary for economic growth or internationalization, as has been examined in the cases of authoritarian regimes such as China and Singapore that have become economic powerhouses (Fukuyama, 2016).

Political Stability and Absence of Violence/Terrorism

Political Stability and Absence of Violence/Terrorism indicates the perceptions of the likelihood of frequent degrees of change in political regimes, politically-motivated violence and armed conflict (Kaufmann et al., 2009). The likelihood of protests, riots and civil war are also captured in this indicator (Kaufmann et al., 2009). The significant difference in this indicator between EEs and AEs, as indicated in Table 4.2, suggests that internationalizing EE firms compared to AE firms may have to face frequent disruptions to their businesses because of
political violence, thus increasing their costs of doing business and resulting in LOR.

The descriptive statistics in Table 4.2 demonstrate a significant difference in institutional quality between EEs and AEs along all six dimensions of the WGIs. EE firms, therefore, operate in home country environments with significantly lower institutional quality compared to AE firms. Low institutional quality is likely to increase their costs of doing international business. The high costs of doing international business, in turn, may reduce their propensity to export and the intensity of export, as examined in the following sections.

4.6 Part I: Home Country Institutional Quality and Costs of Internationalization

**Research Question 3a:** How does the quality of home country institutions in advanced economies and emerging economies impact costs of internationalization?

The findings of the qualitative study described in Chapter Three (Essay 2) suggest that the poor quality of home country institutions results in higher internationalization costs for EE entrepreneurs compared to AE entrepreneurs. As discussed earlier, prior studies have shown that poor quality of home country institutions impacts internationalization negatively (He & Lin, 2012; Wu & Chen, 2014) but this impact has not yet been explicitly linked to the costs of exporting and importing. These higher costs are likely to create barriers to internationalization for EE entrepreneurs, resulting in a reduced propensity to export and a reduced intensity to export compared to AE entrepreneurs. In a prior
study, AE SMEs and EE SMEs have been compared with regard to their propensity to export (Chen et al., 2016), but this comparison was on the basis of value orientation and, unlike this essay, did not examine the costs of internationalization related to home country institutions.

4.6.1 Correlation between Institutional Quality and Costs of Internationalization

The World Bank Ease of Doing Business database has a special indicator linked to trading across borders (World Bank, 2017b). This indicator captures the costs related to logistics for exports and imports, and measures the cost of exporting a shipment through a port from a warehouse in the country of origin to the warehouse in the overseas trading partner (World Bank, 2017b). This cost does not include tariffs but includes the time and cost of documentary compliance and the cost of transportation (World Bank, 2017b).

There are three major categories in the index of Trading Across Borders in the World Bank’s Ease of Doing Business report, namely: (a) documentary compliance; (b) costs of exporting/importing relating to compliance; and (c) time to export/time to import relating to compliance (World Bank, 2017b). Documentary compliance includes the cost of obtaining, presenting and submitting documents for export/import (World Bank, 2017b). Exporters need documents to present to customs in the home country, to the port authorities in the home country and to the customs agency in the host country (World Bank, 2017b). These documents, such as the certificate of origin or phytosanitary certificates, need to be prepared for customs and the port authorities — if the documents are complicated, the exporter has to spend more time on
documentation. Presenting documents to the customs and port authorities can be resource intensive, adding additional time and money. Submitting documents, even electronically, to the customs agencies in the host and home countries can be equally draining on an exporter’s resources.

The six specific dimensions related to the indicator ‘Trading Across Borders’ are:
(a) mandatory documentation for export; (b) mandatory documentation for import; (c) cost related to documentation for export; (d) cost related to documentation for import; (e) time required for complying with all the government agencies for export procedures; and (f) time required for complying with all government agencies for import procedures.

To test the relationship between institutional quality and the costs of internationalization, pairwise correlations were estimated between the six dimensions of governance from WGI, namely: (a) Voice and Accountability; (b) Political Stability and Absence of Violence/Terrorism; (c) Government Effectiveness; (d) Regulatory Quality; (e) Rule of Law; and (f) Control of Corruption, and between the six factors relating to importing and exporting from the World Bank ‘Trading Across Borders’ database for the year 2014. As mentioned earlier, since the latest GEM data available for public use is 2014, that is the year chosen for all the analyses. These pairwise correlations are presented in Table 4.3.
Table 4.3: Pairwise Correlations between Costs of International Business and Institutional Quality

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
<th>(11)</th>
<th>(12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Voice</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Stability</td>
<td>0.70*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Government</td>
<td>0.69*</td>
<td>0.71*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Regulatory</td>
<td>0.72*</td>
<td>0.65*</td>
<td>0.92*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Rule of Law</td>
<td>0.79*</td>
<td>0.74*</td>
<td>0.93*</td>
<td>0.91*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Corruption</td>
<td>0.76*</td>
<td>0.77*</td>
<td>0.90*</td>
<td>0.85*</td>
<td>0.94*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Documents Export</td>
<td>-0.63*</td>
<td>-0.51*</td>
<td>-0.69*</td>
<td>-0.72*</td>
<td>-0.70*</td>
<td>-0.66*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Documents Import</td>
<td>-0.60*</td>
<td>-0.55*</td>
<td>-0.66*</td>
<td>-0.67*</td>
<td>-0.66*</td>
<td>-0.64*</td>
<td>0.83*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost to Export</td>
<td>-0.41*</td>
<td>-0.40*</td>
<td>-0.40*</td>
<td>-0.42*</td>
<td>-0.43*</td>
<td>-0.41*</td>
<td>0.56*</td>
<td>0.56*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost to Import</td>
<td>-0.42*</td>
<td>-0.42*</td>
<td>-0.44*</td>
<td>-0.44*</td>
<td>-0.45*</td>
<td>-0.43*</td>
<td>0.55*</td>
<td>0.57*</td>
<td>0.95*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time to Export</td>
<td>-0.54*</td>
<td>-0.48*</td>
<td>-0.60*</td>
<td>-0.64*</td>
<td>-0.61*</td>
<td>-0.57*</td>
<td>0.71*</td>
<td>0.63*</td>
<td>0.81*</td>
<td>0.78*</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Time to Import</td>
<td>-0.56*</td>
<td>-0.53*</td>
<td>-0.63*</td>
<td>-0.67*</td>
<td>-0.64*</td>
<td>-0.60*</td>
<td>0.68*</td>
<td>0.65*</td>
<td>0.81*</td>
<td>0.82*</td>
<td>0.92*</td>
<td></td>
</tr>
</tbody>
</table>

*Shows significance at the .01 level

Data set: Worldwide Governance Indicators 2014; World Bank Ease of Doing Business 2014

Voice = Voice and Accountability; Stability = Political Stability and Absence of Violence; Government = Government Effectiveness; Regulatory = Regulatory Quality; Rule of Law = Rule of Law; Corruption = Control of Corruption; Documents Export: Documentation related to exporting; Documents Import = Documentation related to Importing; Cost to Export = Costs related to documentary compliance; Cost to Import: Costs related to documentary compliance; Time to Export = Time related to exporting regulatory compliance; Time to Import = Time related to importing regulatory compliance.
There is a significant negative correlation between the six dimensions of institutional quality from the WGI and the six dimensions of costs of conducting international business, as can be seen in Table 4.3. As the quality of institutions relating to the six dimensions of WGI decrease, the amount of documentation, costs relating to documentation, and time required for regulatory compliance all increase. As previously estimated in Section 4.6, AEs have a higher institutional quality than EEs and this difference is statistically significant. Given this difference in institutional quality between AEs and EEs, it can be inferred that entrepreneurs from EEs are likely to incur higher costs for internationalization than their peers in AEs.

In sum, these results suggest that given the negative correlation between home country institutional quality and costs of internationalization and the significantly poorer quality of institutions in EEs compared to AEs, EE entrepreneurs are likely to incur higher costs for internationalization compared to AE entrepreneurs.

4.6.2 Additional Costs of Trading across Borders for Emerging Economies

Documentary compliance includes all the costs associated with the burden of documentation (including electronic documentation) for all government agencies in the economy of origin and the destination economy, to enable the completion of the trade in the particular product between the two trading partners (World Bank, 2017b). To test whether there is a significant difference in the costs faced by EE firms compared to AE firms for each of the six dimensions measured in the World Bank’s ‘Trading Across Borders’ indicator, t-tests were conducted. Data are taken from 2014 https://data.worldbank.org/indicator/IC.BUS.EASE.XQ.
Tables 4.4 to 4.7 present the results of the t-tests for the differences between EEs and AEs.

A. Export and Import Documents

Table 4.4: Two-sample t-test with Equal Variances - Export Documents

<table>
<thead>
<tr>
<th></th>
<th>AEs</th>
<th>EEs</th>
<th>(Mean_1)</th>
<th>(Mean_2)</th>
<th>Difference</th>
<th>St_Err</th>
<th>t_value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Documents by Type of Economy</td>
<td>34</td>
<td>22</td>
<td>3.912</td>
<td>5.909</td>
<td>-1.998</td>
<td>.33</td>
<td>-6.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>p&lt;0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import Documents by Type of Economy</td>
<td>34</td>
<td>22</td>
<td>4.588</td>
<td>6.864</td>
<td>-2.276</td>
<td>.448</td>
<td>-5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>p&lt;0.01</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data set: World Bank Ease of Doing Business 2014; \(Mean_1\) refers to Advanced Economies and \(Mean_2\) refers to Emerging Economies

As can be seen from Table 4.4, the difference between the means of Documents to Export for AE and EE is -1.99, and the t-value of 6.05 is significant. Similarly, the difference between the means of Documents to Import for AEs and EEs is -2.27, and the t-value of 5.1* is significant. This implies that EE entrepreneurs have to deal with a significantly larger number of documents when they want to internationalize as compared to AE entrepreneurs.

B. Export Cost and Import Cost of Documentation

Table 4.5: Two-sample t-test with Equal Variances – Documentation Export and Import Costs

<table>
<thead>
<tr>
<th></th>
<th>AEs</th>
<th>EEs</th>
<th>(Mean_1)</th>
<th>(Mean_2)</th>
<th>Difference</th>
<th>St_Err</th>
<th>t_value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Cost by Type of Economy</td>
<td>34</td>
<td>22</td>
<td>1093.824</td>
<td>1480.5</td>
<td>-386.676</td>
<td>204.102</td>
<td>-1.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>p&lt;0.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import Cost by Type of Economy</td>
<td>34</td>
<td>22</td>
<td>1127.147</td>
<td>1643.409</td>
<td>-516.262</td>
<td>217.755</td>
<td>-2.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>p&lt;0.05</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data set: World Bank Ease of Doing Business 2014; \(Mean_1\) refers to Advanced Economies and \(Mean_2\) refers to Emerging Economies
As can be seen from Table 4.5, the difference between the means of Cost to Export measured in US dollars is -386.68 US dollars for AEs and EEs, and the t-value is significant. Similarly, the difference between the means of Cost to Import measured in US dollars is -516.26 US dollars for AEs and EEs, and the t-value is significant. This implies that EE entrepreneurs have to incur higher costs for documentation related to exports and imports when they want to internationalize compared to AE entrepreneurs.

C. Export and Import Time for Documentation

Table 4.6: Two-sample t-test with Equal Variances - Export and Import Time

<table>
<thead>
<tr>
<th></th>
<th>AEs</th>
<th>EEs</th>
<th>Mean 1</th>
<th>Mean 2</th>
<th>Difference</th>
<th>St_Err</th>
<th>t_value</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Time by</td>
<td>34</td>
<td>22</td>
<td>10.559</td>
<td>18.6</td>
<td>-8.08</td>
<td>1.836</td>
<td>-4.4</td>
<td>0.00001</td>
</tr>
<tr>
<td>Type of Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import Time by</td>
<td>34</td>
<td>22</td>
<td>9.647</td>
<td>21.5</td>
<td>-11.9</td>
<td>2.703</td>
<td>-4.4</td>
<td>0.00001</td>
</tr>
<tr>
<td>Type of Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data set: World Bank Ease of Doing Business 2014; Mean1 refers to Advanced Economies and Mean2 refers to Emerging Economies

As can be seen from Table 4.6, the difference between the means of Time to Export measured in US dollars is – 8.08 for AEs and EEs, and the t-value is significant. Similarly, the difference between the means of Time to Import between AEs and EEs is -11.9, and the t-value is significant. This implies that EE entrepreneurs have to incur more time for documentation related to exports and imports when they want to internationalize compared to AE entrepreneurs.

Tables 4.4 to 4.6 present the result of the t-tests of the differences between documentary compliance for an EE entrepreneur for exporting and importing compared to an AE entrepreneur. The results of the t-tests suggest that EE entrepreneurs suffer a liability in terms
of cost, time and number of documents when they engage in internationalization compared to AE firms. In other words, the burdens of compliance for internationalization are likely to be higher for the same unit of export for EE firms compared to AE firms.

These results indicate that EE entrepreneurs are likely to incur a higher burden of compliance in terms of cost, time and number of documents required for exports compared to AE entrepreneurs.

4.6.3 Comparison of Internationalization Behavior of AE and EE entrepreneurs

Research Question 1b: How does the internationalization behavior of EE entrepreneurs compare with that of AE entrepreneurs?

To compare the internationalization behavior of AE and EE entrepreneurs, the propensity to export and intensity of export is compared, since exporting is the most likely form of internationalization for EE entrepreneurs (Reuber et al., 2018; World Trade Organization, 2016). Data are drawn from GEM 2014 for nascent entrepreneurs. GEM categorizes entrepreneurs into three types: (a) nascent entrepreneurs, or people who intend to set up their own business and have taken some concrete steps toward this goal; (b) young or baby businesses less than 42 months old; (c) established businesses more than 42 months old (Reynolds et al., 2005). These entrepreneurs are asked the question: “What proportion of your customers will normally live outside your country?” The response to this question is either: (a) more than 90%; (b) between 75% and 90%; (c) between 50% and 75%; (d) between 25% and 50%; (e) between 10% and 25%; (f) 10% or less; or (g) none (Reynolds et al., 2005).

A Pearson’s Chi-square test was conducted between totals of the nascent and young businesses from EEs and AEs participating in GEM 2014. These two categories of respondents are considered as entrepreneurs in the GEM study (Reynolds et al., 2005). The
countries participating in GEM vary from year-to-year. Of the 23 EEs shown in Table 4.1, GEM 2014 data are available for 17 EEs and they are included in this study. The 17 EEs are Argentina, Brazil, Chile, China, Colombia, Hungary, Indonesia, India, Mexico, Malaysia, Peru, Philippines, Poland, Romania, Russia, Thailand and South Africa.

Table 4.7: Comparing AE & EE entrepreneurs Intention to Export Year 2014

<table>
<thead>
<tr>
<th></th>
<th>AEs</th>
<th>EEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>1,202</td>
<td>3,235</td>
<td>4,437</td>
</tr>
<tr>
<td>Percentage</td>
<td>33.28</td>
<td>58.07</td>
<td>48.32</td>
</tr>
<tr>
<td>Yes</td>
<td>2,410</td>
<td>2,336</td>
<td>4,746</td>
</tr>
<tr>
<td>Percentage</td>
<td>66.72</td>
<td>41.93</td>
<td>51.68</td>
</tr>
<tr>
<td>Total</td>
<td>3,612</td>
<td>5,571</td>
<td>9,183</td>
</tr>
<tr>
<td>%</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Pearson Chi2(1) = .2903  Pr = 0.000

Data set: GEM APS 2014

While GEM contacts around 2000 respondents per country, only a small fraction of the respondents are nascent entrepreneurs or run young businesses (Reynolds et al., 2005). Among the thousands of respondents in the year 2014, 5571 EE entrepreneurs and 3612 AE entrepreneurs responded to this question on intention to export. Among these AE entrepreneurs, 66.72 percent expressed an intention to export, while only 41.93 percent of the EE entrepreneurs expressed an intention to export. The Pearson’s Chi-square test comparing the AE and EE entrepreneurs was found to be significant. EE entrepreneurs, therefore, are less likely than AE entrepreneurs to have an intention to export. Given that the costs of exporting are higher for EE entrepreneurs than for AE entrepreneurs because of documentary compliance, this may be influencing the intention to export.
In sum, the higher costs of exporting for EE entrepreneurs are likely to result in a significantly lower percentage of EE entrepreneurs having an intention to export compared to AE entrepreneurs. However, this analysis assumes that entrepreneurs consider only the costs of exports when taking the decision to export. Some entrepreneurs may prefer domestic sales if the costs and risks of exports are equal to or higher than domestic sales.

### 4.6.4 EE SME Intensity of Export versus AE SME Intensity of Export

EE entrepreneurs in the GEM 2014 sample were less likely to engage in exports than AE entrepreneurs. Contingent on this intention to export, the differences between intended intensity of export between AE and EE entrepreneurs were tested for three different degrees of export: (a) low degree of internationalization (export sales 25<=50% of total sales); (b) medium degree of internationalization (export sales 50<=75% of total sales); and high degree of internationalization (export sales >75% of total sales).

#### Table 4.8: Plan to Export Low Intensity 25<=50%

<table>
<thead>
<tr>
<th>Plan to Export</th>
<th>AEs</th>
<th>EE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>1,571</td>
<td>1,719</td>
<td>3,290</td>
</tr>
<tr>
<td>Percentage</td>
<td>65.19</td>
<td>73.59</td>
<td>69.32</td>
</tr>
<tr>
<td>Yes</td>
<td>839</td>
<td>617</td>
<td>1,456</td>
</tr>
<tr>
<td>Percentage</td>
<td>34.81</td>
<td>26.41</td>
<td>30.68</td>
</tr>
<tr>
<td>Total</td>
<td>2,410</td>
<td>2,336</td>
<td>4,746</td>
</tr>
<tr>
<td>%</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Pearson Chi2(1) = 39.3624  Pr = 0.000

Data set: GEM APS 2014

As shown in Table 4.8, among the AE entrepreneurs 34.81 percent expressed an intention to export between 25<=50% of their total sales, while only 26.41 percent of the EE
entrepreneurs said they intend to export between 25<=50% of their total sales. The Pearson’s Chi-square test comparing the AE and EE entrepreneurs was found to be significant. EE entrepreneurs, therefore, are less likely than AE entrepreneurs to intend to export between 25<=50% of their total sales.

Table 4.9: Plan to Export Medium Intensity 50<=75%

<table>
<thead>
<tr>
<th>Plan to Export</th>
<th>AEs</th>
<th>EEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>1,800</td>
<td>1,958</td>
<td>3,758</td>
</tr>
<tr>
<td>Percentage</td>
<td>74.69</td>
<td>83.82</td>
<td>79.18</td>
</tr>
<tr>
<td>Yes</td>
<td>610</td>
<td>378</td>
<td>988</td>
</tr>
<tr>
<td>%</td>
<td>25.31</td>
<td>16.18</td>
<td>20.82</td>
</tr>
<tr>
<td>Total</td>
<td>2,410</td>
<td>2,336</td>
<td>4,746</td>
</tr>
</tbody>
</table>

 Pearson Chi2(1) = 59.9814  Pr = 0.000

As shown in Table 4.9, among the AE entrepreneurs 25.31 percent expressed an intention to export between 50<=75% of their total sales, while only 16.18 percent of the EE entrepreneurs said they intend to export between 50<=75% of their total sales. The Pearson’s Chi-square test comparing the AE and EE entrepreneurs was found to be significant. EE entrepreneurs, therefore, are less likely than AE entrepreneurs to plan to export between 50<=75% of their total sales.

Table 4.10: Plan to Export High Intensity >75%

<table>
<thead>
<tr>
<th>Plan to Export</th>
<th>AEs</th>
<th>EEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>2,040</td>
<td>2,159</td>
<td>4,199</td>
</tr>
<tr>
<td>%</td>
<td>84.65</td>
<td>92.42</td>
<td>88.47</td>
</tr>
<tr>
<td>Yes</td>
<td>370</td>
<td>177</td>
<td>547</td>
</tr>
<tr>
<td>%</td>
<td>15.35</td>
<td>7.58</td>
<td>11.53</td>
</tr>
<tr>
<td>Total</td>
<td>2,410</td>
<td>2,336</td>
<td>4,746</td>
</tr>
</tbody>
</table>
As shown in Table 4.10, among the AE entrepreneurs 15.35 percent expressed a plan to export >75% of their total sales, while only 7.58 percent of the EE entrepreneurs said they plan to export >75% of their total sales. The Pearson’s Chi-square test comparing the AE and EE entrepreneurs was found to be significant. EE entrepreneurs, therefore, are less likely than AE entrepreneurs to intend to export >75% of their total sales.

Tables 4.7 to 4.10 demonstrate that EE entrepreneurs have a lower propensity to export than AE entrepreneurs, and that the intensity of export for EE entrepreneurs is likely to be lower than the intensity of export for AE entrepreneurs.

In sum, these results suggest that contingent on the intention to export, EE entrepreneurs are likely to have a lower intended intensity of export than AE entrepreneurs.

4.6.5 Discussion
The descriptive analysis described in Sections 4.7.1 to 4.7.4 highlights a number of results that offer insights relating to LOR and EE SME internationalization. The negative correlations between all six dimensions of institutional quality (Kaufmann et al., 2009) and all six costs relating to ‘Trading across Borders’ (World Bank, 2013) have grave implications for EE entrepreneurs. EE entrepreneurs face disadvantages compared to AE entrepreneurs along all six dimensions of institutional quality, increasing their costs of internationalization. EE entrepreneurs have to deal with difficult and complex systems of regulation compared to AE entrepreneurs. They also have to face more corruption than AE entrepreneurs thereby increasing their cost of internationalization. The government public services supporting exporting or importing are of lower quality than those in AEs. EE entrepreneurs cannot ensure protection of their property rights or contract enforcement thus increasing their transaction
costs. EE entrepreneurs may also have to deal with violence and political instability in their home countries, and may lack the voice to protest against any injustice, including corruption. EE entrepreneurs, therefore, could be said to face LOR because they incur additional costs of internationalization owing to the institutional voids in their home country.

The significant differences between AE firms and EE firms along all six dimensions of “Trading Across Borders” (World Bank, 2013) that evaluate the ease of doing international business further validate the disadvantages faced by EE firms. EE entrepreneurs are likely to have to deal with more documents for exporting than AE entrepreneurs. The costs of documentation relating to exporting and the time spent attaining documentary compliance are likely to be higher for EE entrepreneurs than for AE entrepreneurs. The global competitiveness of EE entrepreneurs is, therefore, negatively impacted because of these additional disadvantages, leading to LOR.

Finally, the comparison between propensity to export between AE and EE entrepreneurs suggests that EE entrepreneurs are much less likely to engage in internationalization than AE entrepreneurs. Furthermore, the intensity of export of EE entrepreneurs at the three levels of export intensity—low, medium and high—further highlights the differences between AE and EE entrepreneurs with regard to export behavior. Contingent on their intention to export, EE entrepreneurs are likely to have a lower intensity of export.

Part 1 of this essay has used country level data from the World Bank and aggregated individual level data from the GEM 2014. Part II of this study tests an empirical model that draws from the insights gained from the qualitative study (Essay Two) in Chapter Three. The empirical model is hierarchical in nature and combines country level and individual data, and is discussed in the following section.
4.7  Part II: Hypotheses Development and Empirical Model

Research Question Four: To what extent do personal factors such as self-efficacy help emerging economy entrepreneurs overcome home country institutional voids with regard to internationalization?

Chapter Three (Essay Two) of this dissertation described a qualitative study of the experiences of 22 EE entrepreneurs and three experts with regard to institutional voids and the barriers faced during internationalization. The two most critical barriers to internationalization related to formal institutional voids that emerged were: (a) the burden of compliance and regulatory complexity; and (b) lack of control of corruption. In addition to these formal institutional voids, another important governance indicator that has been widely identified in the literature as critical to successful SME internationalization, is property rights protection (Acs et al., 1997; Aidis, 2005; Gassmann & Keupp, 2007; World Trade Organization, 2016; Wright et al., 2007). The impact of the lack of property rights protection on SME internationalization is also tested in this essay. Since the entrepreneurs in the qualitative study described how their self-efficacy helped them overcome all the problems they faced relating to these institutional voids, the role of self-efficacy is tested. The hypotheses are developed next.

4.7.1  Burden of Regulatory Compliance

Regulatory compliance refers to an enterprise’s adherence to the laws and regulations relating to its business. Enterprises are not permitted to operate by the state without regulatory compliance. For an entrepreneur, compliance involves gathering information on relevant rules and regulations, understanding how to comply with those regulations and engaging in the necessary paperwork or on-line filing to complete administrative formalities. Enterprises are
required to comply with a wide range of government regulations including taxation, licensing, environmental, and labor laws. Scholarship attests to the importance of having regulatory systems that promote business growth and development (Bowen & Clercq, 2008; Djankov et al., 2002; Hoskisson et al., 2013; Kaufmann et al., 2009).

The World Bank Group’s Ease of Doing Business index that has been compiled annually since 2002 has objective indicators that reflect the regulatory complexity in particular nations (World Bank, 2017b). In EEs, regulatory systems are often burdensome and complex resulting in high transaction costs for firms compared to developed economies (Hoskisson et al., 2013; Khanna & Palepu, 2010; Meyer & Peng, 2016). For example, Russia and India are ranked 100 and 146, respectively, in the ease of trading across borders, while countries in Europe such as France, Denmark, Italy, Slovenia and the Netherlands have a ranking of 1 (World Bank, 2017). Among the most cited barriers to entrepreneurship in EEs are taxation and complex regulatory procedures (Aidis, 2005; Doern, 2013; Hashi, 2001; Krasniqi, 2007). For example, in India, in addition to facing multiple inspections, small manufacturing enterprises have to, on an average, file around 100 returns a year and comply with around 70 laws and regulations (Deloitte & CII, 2013).

New businesses have been found to be very sensitive to administrative costs, and entrepreneurial intentions have been found to be hampered by regulatory complexity (Griffiths, Kickul, & Carsrud, 2009; Grilo & Thurik, 2008). Regulatory complexity, because of institutional voids, could influence internationalization in at least two ways. First, institutional voids can increase the costs of internationalization for SMEs because of the burden of regulatory compliance. Import and export restrictions can make internationalization cumbersome and expensive. The enterprise may also incur high costs because of complex procedures required for internationalization and the extensive documentation required at
every step (World Bank, 2017). A lack of transparency in the implementation of regulations can further increase the transaction costs of internationalization (Khanna & Palepu, 2010). These high costs, coupled with the high risks involved in internationalization for SMEs compared to domestic businesses (Acs et al., 1997; Wright et al., 2007), may deter entrepreneurs from entering foreign markets.

Second, the burden of regulatory compliance can decrease the availability of resources for SMEs (Aidis et al., 2008) and, therefore, for internationalization. If a large proportion of the resources of an SME is consumed in regulatory compliance (Doern & Goss, 2009) there may be insufficient resources for internationalization. Internationalization is a resource-intensive process and SMEs tend to have limited resources whether financial, human or technological (Dhanaraj & Beamish, 2003; Wright et al., 2007). The extent and complexity of regulatory compliance, therefore, may consume a disproportionate share of SME resources, leaving fewer resources for internationalization.

Given the burden of regulatory compliance leads to both higher costs of internationalization and results in reducing the resources available for internationalization, it is suggested that:

**Hypothesis 1a:** *The higher the burden of regulatory compliance, the lower the degree of internationalization of the SME.*

Social-cognitive theory and its main derivative of self-efficacy have been found useful to understand how and when entrepreneurs overcome environmental hurdles (Bandura, 1977; Luthans, Stajkovic, & Ibrayeva, 2000; Stajkovic & Luthans, 2003). The basic premise of socio-cognitive theory is that behavior can be understood as a continuous interaction between individual cognition, environment characteristics and the behavior itself (Bandura, 2001). A key human capability according to social-cognitive theory is self-efficacy, or the belief in
one’s ability to undertake a particular task successfully (Bandura, 1989). A wide range of studies has found that self-efficacy increases persistence in carrying out a particular task (Bandura, 1989; Stajkovic & Luthans, 1998). Dealing with complex regulatory procedures in EEs requires persistence.

Self-efficacy has also been shown to have a positive effect on entrepreneurial motivation and commitment to goals (Baum & Locke, 2004; Shane et al., 2003). Entrepreneurs with high self-efficacy are, therefore, more likely to be motivated enough to gain the knowledge and wherewithal to deal with complicated regulatory procedures. Furthermore, entrepreneurs with high self-efficacy are likely to have higher resilience, or the ability to survive adversity and maintain a positive outlook (Luthar & Becker, 2000). Resilience has been found to help entrepreneurs overcome crises (Bullough & Renko, 2013). Entrepreneurs with high self-efficacy, therefore, are less likely to get discouraged despite failures, and will have the capacity to overcome the hurdles associated with regulatory compliance. It is reasoned that:

Hypothesis 1b: Self-efficacy is likely to moderate the negative influence of the burden of regulatory compliance on SME internationalization. The higher the self-efficacy of the entrepreneur, the lower the negative influence of the burden of regulatory compliance on SME internationalization.

4.7.2 Lack of Control of Corruption

Corruption is the capture of public good for private benefit, or, ‘the abuse of public or private office for personal gain’ (OECD, 2008, p. 21). There is a stream of literature that demonstrates the negative impact of corruption on the growth of business and economic development (Budak & Rajh, 2014; Djankov et al., 2002; Estrin, Korosteleva, & Mickiewicz, 2013). Corruption has been found to stifle innovation, a key facet of entrepreneurship
(Anokhin & Schulze, 2009) and entrepreneurial growth aspirations (Estrin et al., 2013). While corruption is present in AEs, the extent and pervasiveness of corruption in EEs is much higher (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003). Transparency International, a global organization that seeks to fight against corruption and promote transparency in public administration and business, compiles a Corruption Perception Index each year (Transparency International, 2017). Perceptions of corruption in EEs are generally much higher than the perceptions in developed economies. For example, in the 2017 rankings, developed economies like New Zealand (Rank 1), Denmark (Rank 2), Switzerland (Rank 3), Finland (Rank 3), and Norway (Rank 3), were the least corrupt nations. On the other hand, emerging economies such as China (Rank 77), India (Rank 81), Brazil (Rank 96) and Russia (135) were all associated with high levels of corruption (Transparency International, 2017). These poor rankings reflect the high degree of corruption that business enterprises confront in these EEs. In addition, firms that refuse to participate in corruption may be forced out of business (Doern & Goss, 2014; Tonoyan et al., 2010).

In studies on barriers to entrepreneurship in EEs, corruption is often cited as one of the leading barriers (Budak & Rajh, 2014; Doern, 2013). For example, the World Bank Enterprise Survey measures the perceived corruption among business enterprises among both AEs and EEs (World Bank, 2017a). In 2017, the most important obstacle faced by enterprises in India was corruption (World Bank, 2017a). In several EEs, corruption has been found to be both pervasive and arbitrary (Doh et al., 2003). Pervasiveness refers to the degree to which a firm is expected to encounter corrupt behavior in its transactions with public officials (Rodriguez, Uhlenbruck, Eden, & Rodriguez, 2005). Arbitrariness refers to the degree to which the transactions involving corruption lack transparency or predictability (Rodriguez et al., 2005).
Corruption has been found to effect inward FDI with MNEs less likely to invest in corrupt nations (Habib & Zurawicki, 2002; Uhlenbruck et al., 2006). The internationalization of SMEs is also likely to be impacted by corruption for several reasons. First, corruption has been found to increase economic uncertainty (Goel & Ram, 2013). The internationalization process is very risky, even for SMEs (Wright et al., 2007). If uncertainty associated with the outcomes of internationalization is further increased because of corruption, entrepreneurs may be less motivated to internationalize. Second, corruption increases the cost of doing business (Budak & Rajh, 2014; Tonoyan et al., 2010) thereby making firms less globally competitive and reducing their probability of succeeding internationally. Third, if corruption is involved in the procedures relating to exporting goods and services, the incentive to internationalize decreases as costs, both in terms of money and time, increase. Fourth, if imports are vulnerable to corruption, firms that need imported goods for the processes related to production of goods/services for exports may lose the incentive to import vital equipment. Fifth, if export income is vulnerable to capture by public officials, entrepreneurs will not be motivated to internationalize if the rewards of internationalization are captured by the “grabbing hand” of the state (Shleifer & Vishny, 2002). The lack of control of corruption is, therefore, likely to lead to the increased costs of internationalization and the increased uncertainty of the rewards of internationalization. These higher costs and lower rewards are likely to decrease the incentive for an entrepreneur to internationalize, leading to the next hypothesis:

**Hypothesis 2a:** The higher the lack of control of corruption, the lower the degree of internationalization of the SME.

Entrepreneurial cognition and motivation have been found to play critical roles in internationalization (Maitland & Sammartino, 2015; Zahra et al., 2005). Among several
motivational variables, self-efficacy — the entrepreneur’s belief and confidence in their own capabilities to affect their environment and achieve success through their behavior — has been found to be strongly related to positive entrepreneurial performance outcomes (Bandura, 1977; Shane et al., 2003; Stajkovic & Luthans, 1998). Self-efficacy is an outcome of cognitive thought processes, and is derived from both the environment and from personal factors (Bandura, 1989).

In corrupt environments, entrepreneurs need to deal with many obstacles. These include: contradictory commercial laws, unreasonable rates of taxation and the ‘rule of man’ rather than the ‘rule of law’, administrative discretion that gives public officials power to harass entrepreneurs, and even criminalization (Luthans et al., 2000). Entrepreneurs cannot plan their business activities as public officials can stall their activity at any time (Doern & Goss, 2014; Luthans et al., 2000). Internationalization requires a great deal of planning because it involves crossing borders and finding clients, and corruption can lead to hurdles at each step of the process. High self-efficacy has been found to help entrepreneurs sustain activities through adversity (Luthans & Ibrayeva, 2006). Dealing with corrupt public officials can lead to emotions such as frustration, anger and shame (Doern & Goss, 2009). Entrepreneurs with high self-efficacy are more likely to label a situation as an opportunity rather than a threat because of their belief in their ability to control and manage situations (Krueger & Dickson, 1994). Entrepreneurs with low self-efficacy may, therefore, envisage future scenarios such as dealing with public officials through a negative lens, but those with high self-efficacy are more likely to have faith in their ability to deal with the officials in a constructive fashion. Self-efficacy determines the level of motivation entrepreneurs put into a particular task (Boyd & Vozikis, 1994). Entrepreneurs with high self-efficacy could, therefore, be expected to
remain motivated in order to internationalize and manage corruption more effectively, leading to the next hypothesis:

**Hypothesis 2b:** Self-efficacy is likely to moderate the negative influence of lack of control of corruption on SME internationalization. The higher the self-efficacy of the entrepreneur, the lower the negative influence of lack of control of corruption on SME internationalization.

### 4.7.3 Rule of Law – Property Rights Protection

Rule of Law refers to the perceived ability of the government to enforce laws and regulations, to protect property rights and to ensure the quality of contract enforcement (Kaufmann et al., 2009). Rule of law may influence the transaction costs a firm faces when it seeks to internationalize, since a weak rule of law is likely to increase the costs of enforcing contracts. Transactions costs include the costs of locating business partners, negotiating terms of agreement, writing contracts, monitoring and enforcing the contracts, and changing contracts when necessary (Williamson, 1981). If the home country environment is characterized by an inadequate law enforcement system and weak property rights, the risk and uncertainty of conducting business is likely to increase. Since the judicial process is not trustworthy or efficient in a country with a poor rule of law, SMEs cannot ensure that their property rights will be protected or that contracts they engage in will be enforced. Corruption is likely to compound this problem. SMEs may not have the resources to help them deal with the increased risk of opportunism by domestic suppliers or international partners. Transactions costs are, therefore, under these conditions, likely to increase.

The resource-based view suggests that a firm can maintain a sustained competitive advantage if its resources are valuable, rare and inimitable, and if the firm has the capability to take advantage of those resources (Barney, 1991). These firm resources include tangible assets
such as technology, physical infrastructure, human assets such as a well-qualified top management team, and intangible assets such as organizational culture and trustworthiness (Barney, 2001). If a firm originates in a country where intellectual property rights are weak, the firm may find it difficult to maintain a competitive advantage since other firms can easily imitate the resources.

The impact of rule of law may, therefore, influence both the competitive advantage and the transaction costs a firm could face while internationalizing. SMEs, in particular, are very vulnerable to the loss of intellectual property because innovation is often the most important source of competitive advantage they possess (Acs et al., 1997; Aidis, 2005; Gassmann & Keupp, 2007; WTO, 2016). This leads to the next hypothesis:

**Hypothesis 3a:** *The poorer the rule of law, the lower the degree of internationalization of the SME.*

Self-efficacy has been shown to be a critical mechanism of personal agency (Bandura, 1989). Entrepreneurial self-efficacy incorporates both personality and environmental factors and has been found to be a strong predictor of entrepreneurial intentions and implementation (Boyd & Vozikis, 1994). Self-efficacy influences how we perceive our environment and how we think and behave in a given situation (Krueger & Dickson, 1994). No matter what the external circumstances are, it is the perceptual selection of environmental variables that determines the future course of action taken by an entrepreneur (Luthans & Ibrayeva, 2006). Entrepreneurs in hostile environments often have to rely on their own resources for survival, as the state offers no support but can, instead, erode entrepreneurial initiatives through lack of protection of property rights and lack of action taken against public corruption and criminals (Luthans & Ibrayeva, 2006; Luthans et al., 2000).
Self-efficacy has been found to support self-reliance and self-motivation (Bandura, 2001). Entrepreneurs with high self-efficacy will have the ability not to dwell on the weaknesses of their legal systems but instead move ahead and treat these challenges as learning opportunities (Luthans & Ibrayeva, 2006). Self-efficacy contributes to the ability of an entrepreneur to take risks, as an entrepreneur is likely to take more risks if they perceive themselves as competent (Krueger & Dickson, 1994).

A high degree of entrepreneurial self-efficacy will, therefore, help an entrepreneur to overcome the risks and deal with the higher transaction costs associated with their origin. High self-efficacy has also been found to be associated with ingenuity and resourcefulness that can be very useful in high-risk or turbulent environments (Drnovšek et al., 2010). Furthermore, since high self-efficacy leads to the confidence to affect one’s own environment (Bandura, 2001), an entrepreneur with high self-efficacy is more likely to make the effort to find solutions to overcome the problems associated with poor rule of law in order to internationalize. This leads to the next hypothesis:

**Hypothesis 3b:** *Self-efficacy is likely to moderate the negative influence of poor rule of law on SME internationalization. The higher the self-efficacy of the entrepreneur, the lower the negative influence of poor rule of law.*

Figure 4.1 shows the empirical model for the study suggesting that SME internationalization is impacted by regulatory compliance, lack of control of corruption, and rule of law. These relationships are moderated by entrepreneurial self-efficacy.
Figure 4.1: Empirical Model and Proposed Hypotheses

4.7.4 Data and Variable Description

The data set to test the proposed hypotheses was constructed using multiple sources. The individual level data on EE and AE entrepreneurs was taken from the Global Entrepreneurship Monitor’s (GEM) Adult Population Survey (APS), a survey that covers around 2000 or more working age individuals per country per year. The main features of the GEM project were described in Section 4.5. This standardized data set, although characterized by some limitations such as binary responses, has been widely used in cross-national research published in leading journals (e.g., Anokhin & Schulze, 2009; Autio, Pathak, & Wennberg, 2013; Estrin, Meyer, Nielsen, & Nielsen, 2016; Muralidharan & Pathak, 2017; Schmutzler, Andonova, & Diaz-Serrano, 2018; Wennberg, Pathak, & Autio, 2013). The latest publicly available GEM data set is for the year 2014, and accordingly this data set is used for this
essay. For the year 2014, GEM data is available for the 17 EEs and 26 AEs listed in Table 4.11 and, hence, used for analysis. The data used are for all owner-managers who responded to the export question in the GEM APS survey.

Table 4.11: Number of Respondents per Country GEM 2014

<table>
<thead>
<tr>
<th>S.No</th>
<th>Country</th>
<th>AE</th>
<th>EE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>333</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Russia</td>
<td>107</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>South Africa</td>
<td>158</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Greece</td>
<td>363</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Netherlands</td>
<td>298</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Belgium</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>France</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Spain</td>
<td>2550</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Hungary</td>
<td>222</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>123</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Romania</td>
<td>187</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Switzerland</td>
<td>229</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Austria</td>
<td>630</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>United Kingdom</td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Denmark</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Sweden</td>
<td>259</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Norway</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Poland</td>
<td>260</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Germany</td>
<td>433</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Peru</td>
<td>345</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Mexico</td>
<td>167</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Argentina</td>
<td>320</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Brazil</td>
<td>3,133</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Chile</td>
<td>772</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Colombia</td>
<td>241</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Malaysia</td>
<td>217</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Australia</td>
<td>308</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Indonesia</td>
<td>1,038</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Philippines</td>
<td>248</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Thailand</td>
<td>927</td>
<td></td>
</tr>
</tbody>
</table>
The country-level data are taken from the World Bank’s WGIs. The main features of this data set were described in Section 4.5. Despite some shortcomings, such as the overlapping and high correlation between some of the Governance Indicators (Fukuyama, 2016), and given the complexities and inherent difficulties in measuring governance, the World Bank WGI have been widely used in studies in IB (Cuervo-Cazurra & Genc, 2008; Globerman & Shapiro, 2003; He & Lin, 2012; Marano et al., 2017). Since the GEM 2014 data are being used for testing the model, WGI data for the year 2014 are also used. Table 4.12 provides a description of the variables and sources.

Table 4.12: Data Description and Sources

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Type</th>
<th>Level</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalization</td>
<td>“What proportion of your customers will normally live outside your country?”</td>
<td>Ordinal. Five categories: 0 = No exports (1) = 1-25%</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>182</td>
</tr>
<tr>
<td>China</td>
<td>554</td>
</tr>
<tr>
<td>India</td>
<td>196</td>
</tr>
<tr>
<td>Canada</td>
<td>290</td>
</tr>
<tr>
<td>Portugal</td>
<td>211</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>103</td>
</tr>
<tr>
<td>Ireland</td>
<td>250</td>
</tr>
<tr>
<td>Finland</td>
<td>204</td>
</tr>
<tr>
<td>Lithuania</td>
<td>210</td>
</tr>
<tr>
<td>Estonia</td>
<td>109</td>
</tr>
<tr>
<td>Croatia</td>
<td>96</td>
</tr>
<tr>
<td>Slovenia</td>
<td>157</td>
</tr>
<tr>
<td>Slovakia</td>
<td>212</td>
</tr>
<tr>
<td>Total</td>
<td>8255</td>
</tr>
</tbody>
</table>
(2) = 26-50%
(3) = 51-75%
(4) = 76-100%

<table>
<thead>
<tr>
<th>Explanatory Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-efficacy suskill</strong> Do you have the knowledge, skills, and experience required to start a new business? Binary: Yes = 1 No = 0 Individual GEM-APS</td>
</tr>
<tr>
<td><strong>Burden of Regulatory Compliance rqe</strong> Regulatory Quality that indicates perceptions quality and complexity of regulations and ease of doing business Continuous -2.5 to 2.5 Country World Bank Worldwide Governance Indicators (WGI)</td>
</tr>
<tr>
<td><strong>Lack of Control of Corruption cce</strong> Control of Corruption that indicates perceptions of corruption Continuous -2.5 to 2.5 Country World Bank Worldwide Governance Indicators (WGI)</td>
</tr>
<tr>
<td><strong>Poor Rule of Law rle</strong> Rule of law that indicates property rights protection and effectiveness of court system Continuous -2.5 to 2.5 Country World Bank WGI</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education GEMEDUC</strong> Indicates highest educational degree attained Ordinal. Five categories: None (1); Some Secondary (2); Secondary Degree (3); Post Secondary (4); Graduate Experience (5) Individual GEM-APS</td>
</tr>
</tbody>
</table>

202
<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Scale</th>
<th>Type</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Age of the respondent</td>
<td>Continuous</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
<tr>
<td>Gender</td>
<td>Gender of the respondent</td>
<td>Binary:</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
<tr>
<td>Networking</td>
<td>Do you personally know someone who started a business in the past 2 years?</td>
<td>Binary:</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
<tr>
<td>Risk Perception</td>
<td>Would fear of failure prevent you from starting a new business?</td>
<td>Binary:</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
<tr>
<td>Innovation and New Technology</td>
<td>Were the technologies or procedures required for this product or service generally more available than one year ago?&quot;</td>
<td>Binary:</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
<tr>
<td>Opportunity perception</td>
<td>In the next six months there will be good opportunities to start a business in the area where you live?</td>
<td>Binary:</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
<tr>
<td>Size</td>
<td>Not counting the business owner, how many people are currently working for the business?</td>
<td>Binary: Less than 50 jobs = 0; More than 50 jobs = 1.</td>
<td>Individual</td>
<td>GEM-APS</td>
</tr>
</tbody>
</table>
A further clarification of the choice of operationalization of the dependent variable, independent variables and control variables and the source (see Table 4.12) is discussed below.

**Dependent Variable**

The dependent variable is the *degree of internationalization*. In the case of SMEs, given their resource constraints, exporting is the most common form of internationalization (Lu & Beamish, 2001; World Trade Organization, 2016; Wright et al., 2007). The degree of internationalization could be multi-dimensional in terms of number of countries, geographic scope, and percentage of international sales (Sullivan, 1992). However, for SMEs a single-component measuring the percentage of sales in foreign markets to the total sales has been considered adequate as a measure of extent of internationalization (Chen et al., 2016; Evald & Klyver, 2011; Li, 2018; Muñoz-Bullón, Sánchez-Bueno, & Vos-Saz, 2015; Muralidharan & Pathak, 2017). In this study, the *degree of internationalization* is measured as international sales as a percentage of total sales. This measure has been widely accepted as a viable proxy for degree of internationalization in prior studies (Chen, Saarenketo, & Puormalainen, 2018; Li, 2018; Muralidharan & Pathak, 2017).

There are three categories of respondents in the GEM data: (a) nascent entrepreneurs involved in setting up a business; (b) owners of young firms less than 42 months old; and (c) owner-manager of an established firm more than 42 months old (Reynolds et al., 2005). The current study focuses on perceptions based on actual experience. Owner-managers are more likely to have experienced dealing with institutional voids while internationalizing and are chosen as the focal group for this study.
Key Explanatory Variables

There are four explanatory variables of interest. They are burden of regulatory compliance, lack of control of corruption, rule of law, and self-efficacy. The first three variables vary at the country level, while the fourth variable varies at the individual level.

Burden of Regulatory Compliance

The burden of regulatory compliance is measured using the World Bank’s WGI named Regulatory Quality (Kaufmann et al., 2009). As discussed in Section 4.6, the indicator Regulatory Quality captures perceptions relating to: (a) the ease of obtaining required permits and licenses; (b) the tax system and the transparency and clarity surrounding tax procedures; and (c) the challenges faced in coping with government bureaucracy and regulations. These measures have been used to measure regulatory complexity in previous studies relating to institutional context and entrepreneurial effort (Bowen & Clercq, 2008), and in studies relating to the effect of home country institutions on MNE internationalization (Cuervo-Cazurra & Genc, 2008; He & Lin, 2012). Regulatory Quality can, therefore, be considered an appropriate proxy for the burden of regulatory compliance. This indicator has values ranging from -2.5 to 2.5, with a higher positive value representing a lower burden of regulatory compliance.

Lack of Control of Corruption

The lack of control of corruption is measured using the indicator ‘Control of Corruption’ from the World Bank’s WGI (Kaufmann et al., 2009). As discussed in Section 4.6, control of corruption measures the perceptions of the abuse of public power for private gain, and the extent to which informal payments and bribery are prevalent in a country. This indicator has
values ranging from -2.5 to 2.5. A higher positive value represents a lower lack of control of corruption.

**Poor Rule of Law**

Rule of law captures the quality of enforcement of contracts, fairness and speediness of judicial systems, trust in the police and protection of property rights. This variable is measured using the indicator ‘Rule of Law’ from the World Bank’s WGI (Kaufmann et al., 2009) that captures perceptions of this dimension. This indicator has values ranging from -2.5 to 2.5, with a higher positive value representing a better rule of law.

**Self-efficacy**

The measure for self-efficacy is obtained from the GEM-APS 2014 data. It is measured as a dummy variable that has binary values of Yes/No in response to the question, “Do you think you possess the knowledge, skills, and experience to start a new business?” Self-efficacy is a task-specific characteristic and not a general personality trait (Bandura, 1989; Stajkovic & Luthans, 2003). Hence, measuring the multiple dimensions relating to entrepreneurial self-efficacy (Drnovšek et al., 2010; Mcgee et al., 2009) may provide a more viable proxy. Nevertheless, the employment of a single-item measure of entrepreneurial self-efficacy has been considered an adequate proxy and adopted widely by researchers (Estrin et al., 2013; Evald & Klyver, 2011; Schmutzler, Andonova, & Diaz-Serrano, 2018; Wennberg, Pathak, & Autio, 2013).

**Control Variables**

The following control variables are included. Gender has been shown to influence SME internationalization and women are less likely to be exporters than men (Evald & Klyver, 2011; C. L. Welch, Welch, & Hewerdine, 2008). Networking has been found important for
SME internationalization (Coviello, 2006; Freeman et al., 2006; Wright et al., 2007) and, even more than the EE context, networks help to overcome institutional voids (Ciravegna et al., 2014; Prashantham, 2011) so ‘personal networks’ is included as a control variable. Evidence linking the age of the firm to internationalization has been inconclusive (Alon et al., 2013). Similarly, the relationship between the age of the entrepreneur has also been inconclusive (Manolova et al., 2002). Education has been found to have a positive influence on internationalization since educated entrepreneurs are more likely to possess international business knowledge (Alon et al., 2013; Pawęta & Zbierowski, 2015). The fear of failure has been found to be negatively associated with internationalization in one study (Alon et al., 2013) but did not yield significant results in other studies (Evald & Klyver, 2011; Muñoz-Bullón et al., 2015). Using new technology or innovativeness has been found to influence export intentions positively (Alon et al., 2013; Muñoz-Bullón et al., 2015). Finally, perceptions of opportunity in the environment has had mixed results, with Alon et al. (2013) reporting no significant relationship, while Muñoz-Bullón et al. (2015) report positive results.

4.7.5 Empirical Multi-level Hierarchical Model

Multi-level (hierarchical) mixed-effects ordered logistic regression is used to test the empirical model. This approach is adopted for the following reasons (Statacorp, 2017):

(a) Given the ordered, categorical nature of the dependent variable, the preferred approach is to use an ordered logistic model instead of ordinary least squares.

(b) In addition, the independent variables are hierarchical in nature and at the country and individual level. This necessitates a multi-level hierarchical model.

A multi-level approach permits the control of clustered standard errors since a large number of respondents are from the same country. Since regression is based on the assumption of
independent observations, failure to take this into account would lead to underestimated standard errors and invalid references. The multi-level mixed-effects approach also takes into account the variance of the effect of regulatory quality, control of corruption, and rule of law across countries.

Since the dependent variable *degree of internationalization* is ordered and categorical, an ordered logistic regression model is used. The results of the regression analysis are discussed in the next section. Table 4.13 presents the descriptive statistics. Tables 4.14 and 4.15 present the pairwise correlations for EE entrepreneurs and AE entrepreneurs respectively.
4.7.6 Results

Descriptive Statistics

The descriptive statistics are reported in Table 4.13. The number of observations and mean values for respondents for both EEs and AEs are listed for the variables in the regression model.

Table 4.13: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Emerging Economies</th>
<th>Advanced Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>mean</td>
</tr>
<tr>
<td>Export Intensity</td>
<td>9092</td>
<td>1.28</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>8905</td>
<td>0.16</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>8905</td>
<td>-0.01</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>8905</td>
<td>-0.19</td>
</tr>
<tr>
<td>New Technology</td>
<td>8593</td>
<td>2.66</td>
</tr>
<tr>
<td>Size Employing &gt;50</td>
<td>9092</td>
<td>0.00</td>
</tr>
<tr>
<td>Fear of Failure</td>
<td>8958</td>
<td>0.33</td>
</tr>
<tr>
<td>Self-efficacy</td>
<td>8970</td>
<td>0.74</td>
</tr>
<tr>
<td>Perceived Opportunity</td>
<td>8503</td>
<td>0.56</td>
</tr>
<tr>
<td>Age</td>
<td>9026</td>
<td>41.86</td>
</tr>
<tr>
<td>Male</td>
<td>9092</td>
<td>0.54</td>
</tr>
<tr>
<td>Know Other Entrepreneurs</td>
<td>9052</td>
<td>0.54</td>
</tr>
<tr>
<td>Education</td>
<td>9016</td>
<td>2.68</td>
</tr>
<tr>
<td>Observations</td>
<td>9092</td>
<td>8255</td>
</tr>
</tbody>
</table>

Since there was no WGI data available for Romania for 2014, it was dropped from the model. Data from 16 EEs was used to estimate the model.
Correlation matrices are listed for EE entrepreneurs in Table 4.14, and for AE entrepreneurs in Table 4.15.

Table 4.14: Pairwise correlations Emerging Economy Entrepreneurs

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
<th>(11)</th>
<th>(12)</th>
<th>(13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) omexportfive</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) rqe2014</td>
<td>0.24*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) rle2014</td>
<td>0.19*</td>
<td>0.86*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) cce2014</td>
<td>0.21*</td>
<td>0.83*</td>
<td>0.96*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) omnewtec2</td>
<td>-0.05*</td>
<td>0.04*</td>
<td>0.12*</td>
<td>0.11*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) omsize50</td>
<td>0.10*</td>
<td>0.07*</td>
<td>0.06*</td>
<td>0.06*</td>
<td>0.02</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) fearfail2</td>
<td>-0.01</td>
<td>-0.04*</td>
<td>-0.04*</td>
<td>-0.06*</td>
<td>-0.01</td>
<td>0.00</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.18</td>
<td>0.00</td>
<td>0.00</td>
<td>0.51</td>
<td>0.72</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) suskill2</td>
<td>0.09*</td>
<td>0.09*</td>
<td>0.08*</td>
<td>0.09*</td>
<td>-0.07*</td>
<td>-0.01</td>
<td>-0.26*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.58</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) opport2</td>
<td>0.01</td>
<td>0.05*</td>
<td>0.01</td>
<td>-0.00</td>
<td>-0.05*</td>
<td>-0.03*</td>
<td>-0.08*</td>
<td>0.15*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.28</td>
<td>0.00</td>
<td>0.19</td>
<td>0.91</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4.15: Pairwise correlations Advanced Economy Entrepreneurs

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
<th>(11)</th>
<th>(12)</th>
<th>(13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) omexportfive</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) rqe2014</td>
<td>0.14*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) rle2014</td>
<td>0.10*</td>
<td>0.94*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) cce2014</td>
<td>0.10*</td>
<td>0.93*</td>
<td>0.98*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* shows significance at the .05 level
<table>
<thead>
<tr>
<th>Column</th>
<th>omnewtec2</th>
<th>0.05*</th>
<th>0.10*</th>
<th>0.13*</th>
<th>0.12*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>omsize50</th>
<th>0.07*</th>
<th>0.02</th>
<th>0.01</th>
<th>0.02</th>
<th>-0.03*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.16</td>
<td>0.28</td>
<td>0.13</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>fearfail2</th>
<th>-0.05*</th>
<th>-0.20*</th>
<th>-0.20*</th>
<th>-0.19*</th>
<th>-0.01</th>
<th>-0.01</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.64</td>
<td>0.35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>suskill2</th>
<th>0.04*</th>
<th>0.06*</th>
<th>0.06*</th>
<th>0.04*</th>
<th>-0.02</th>
<th>0.01</th>
<th>-0.19*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.09</td>
<td>0.20</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>opport2</th>
<th>0.08*</th>
<th>0.31*</th>
<th>0.31*</th>
<th>0.30*</th>
<th>0.00</th>
<th>0.04*</th>
<th>-0.18*</th>
<th>0.10*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.69</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>age2</th>
<th>-0.02</th>
<th>0.11*</th>
<th>0.11*</th>
<th>0.12*</th>
<th>0.11*</th>
<th>0.00</th>
<th>-0.05*</th>
<th>-0.04*</th>
<th>-0.05*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.05</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.77</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>male</th>
<th>0.05*</th>
<th>0.03*</th>
<th>0.02</th>
<th>0.02*</th>
<th>-0.01</th>
<th>0.02*</th>
<th>-0.09*</th>
<th>0.11*</th>
<th>0.04*</th>
<th>0.02*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.02</td>
<td>0.08</td>
<td>0.05</td>
<td>0.57</td>
<td>0.04</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.05</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>knowent2</th>
<th>0.02</th>
<th>0.01</th>
<th>0.01</th>
<th>0.01</th>
<th>-0.07*</th>
<th>0.02*</th>
<th>-0.07*</th>
<th>0.16*</th>
<th>0.15*</th>
<th>-0.16*</th>
<th>0.04*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.05</td>
<td>0.64</td>
<td>0.37</td>
<td>0.64</td>
<td>0.00</td>
<td>0.03</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column</th>
<th>Education</th>
<th>0.11*</th>
<th>0.17*</th>
<th>0.13*</th>
<th>0.13*</th>
<th>-0.01</th>
<th>0.05*</th>
<th>-0.09*</th>
<th>0.11*</th>
<th>0.18*</th>
<th>-0.04*</th>
<th>-0.02*</th>
<th>0.09*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.46</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>

* shows significance at the .05 level
As observed in Tables 4.14 and 4.15, there is a high degree of correlation between the WGI s of regulatory quality, control of corruption, and rule of law. This has been discussed in a prior LOR study (Marano et al., 2017). However, there is little or no correlation between the remaining variables, indicating that multi-collinearity is not an issue in the model.

**Regression Results**

The results of the multi-level hierarchical ordered logit regression are presented in Table 4.16. For ease of comparison, the results for both the EE model and the AE model are presented together. The Appendix VI presents the STATA output for the EE and AE regression models.

<table>
<thead>
<tr>
<th>Table 4.16: Results of the Regression Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Emerging Economies</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td><strong>Institutional Variables</strong></td>
</tr>
<tr>
<td>Regulatory Quality</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Rule of Law</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Control of Corruption</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Interaction between Institutional Variables and Self-efficacy</strong></td>
</tr>
<tr>
<td>Self-efficacy x Regulatory Quality</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Self-efficacy x Control of Corruption</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Self-efficacy x Rule of Law</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
### Entrepreneurial Perceptual Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Exponentiated Coefficient</th>
<th>Standard Error</th>
<th>t-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of Failure</td>
<td>1.235**</td>
<td>0.920</td>
<td>(2.92)</td>
<td>0.005</td>
</tr>
<tr>
<td></td>
<td>(1.41)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-efficacy</td>
<td>1.414**</td>
<td>0.797</td>
<td>(2.74)</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(-0.64)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceived Opportunity</td>
<td>1.192*</td>
<td>1.103*</td>
<td>(2.57)</td>
<td>0.010</td>
</tr>
<tr>
<td></td>
<td>(1.74)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Firm-level Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Exponentiated Coefficient</th>
<th>Standard Error</th>
<th>t-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Technology</td>
<td>0.816***</td>
<td>0.826***</td>
<td>(-3.56)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(-3.72)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employing &gt;50</td>
<td>3.150***</td>
<td>2.592***</td>
<td>(3.45)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(5.10)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Demographics and Personal Factors

<table>
<thead>
<tr>
<th>Variable</th>
<th>Exponentiated Coefficient</th>
<th>Standard Error</th>
<th>t-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>1.000</td>
<td>0.999</td>
<td>(0.15)</td>
<td>0.883</td>
</tr>
<tr>
<td></td>
<td>(-0.27)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>1.221**</td>
<td>1.115*</td>
<td>(3.01)</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(2.03)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Know Other Entrepreneurs</td>
<td>1.160*</td>
<td>1.144*</td>
<td>(2.12)</td>
<td>0.020</td>
</tr>
<tr>
<td></td>
<td>(2.52)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>1.261***</td>
<td>1.120***</td>
<td>(7.02)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(3.92)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Exponentiated Coefficient</th>
<th>Standard Error</th>
<th>t-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>cut1</td>
<td>6.313***</td>
<td>0.563</td>
<td>(4.61)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(-0.85)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cut2</td>
<td>53.81***</td>
<td>5.424*</td>
<td>(9.86)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(2.50)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cut3</td>
<td>92.57***</td>
<td>9.119**</td>
<td>(11.12)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(3.26)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cut4</td>
<td>256.6***</td>
<td>15.16***</td>
<td>(13.25)</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(4.01)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>var(_cons[country])</td>
<td>1.997**</td>
<td>1.579***</td>
<td>(2.72)</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(3.36)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Observations

| Observations | 7667 | 6284 |

Exponentiated coefficients; t statistics in parentheses

*p < 0.1, **p < 0.05, ***p < 0.01, ****p < 0.001
The implications for the hypotheses advanced in Sections 4.8.1, 4.8.2 and 4.8.3 are discussed below.

Hypothesis H1 proposed that the burden of regulatory compliance has a negative impact on SME internationalization. The results were significant for both EE SMEs and AE SMEs, as seen in Table 4.13. Burdensome regulatory compliance is likely to hold back SMEs from internationalizing in both EEs and AEs.

Hypothesis H1a proposed that the self-efficacy of the entrepreneur would moderate the negative effect of the burden of regulatory compliance on SME internationalization. While this hypothesis was confirmed for EE SMEs, it was not confirmed for AE SMEs.

Hypothesis H2 proposed that lack of control of corruption would have a negative impact on SME internationalization. The results were not significant for either EE SMEs or AE SMEs, as seen in Table 4.13, while the direction was negative, as expected. Hypothesis H2a proposed that self-efficacy of the entrepreneur would moderate the negative effect of the lack of control of corruption on SME internationalization. The results were not significant for either EE SMEs or AE SMEs.

The final set of hypotheses, H3 and H3a, tested the impact of poor rule of law on SME internationalization. Hypothesis H3 proposed that poor rule of law would have a negative impact on SME internationalization. The results were not significant for either EE SMEs or AE SMEs, while the direction was negative, as expected. Hypothesis H3a posited that the self-efficacy of the entrepreneur would moderate the negative effect of poor rule of law on SME internationalization. The results were not significant for either EE SMEs or AE SMEs, while the direction was negative, as expected.

\[ \text{H1: } p < 0.05 \text{ for EE entrepreneurs and } p < 0.10 \text{ for AE entrepreneurs} \]

\[ \text{H1a: } p < 0.10 \text{ for EE entrepreneurs} \]
moderate the negative effect of the poor rule of law on SME internationalization.

The results were not significant for either EE SMEs or AE SMEs.

Table 4.17 presents an overview of the regression results.

Table 4.17: Overview of Regression Results

<table>
<thead>
<tr>
<th>Hypothesis Description</th>
<th>EE entrepreneurs</th>
<th>AEs Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hypothesis 1a:</strong> Higher the burden of regulatory compliance, lower the degree of internationalization of the EE SME.</td>
<td>Negative and statistically significant</td>
<td>Negative and statistically significant</td>
</tr>
<tr>
<td><strong>Hypothesis 1b:</strong> Self-efficacy is likely to moderate the negative influence of the burden of regulatory compliance on EE SME internationalization. The higher the self-efficacy of the entrepreneur, the lower the negative influence of the burden of regulatory compliance on EE SME internationalization.</td>
<td>Interaction negative and statistically significant</td>
<td>Interaction negative but NOT statistically significant</td>
</tr>
<tr>
<td><strong>Hypothesis 2a:</strong> The higher the lack of control of corruption, the lower the degree of internationalization of the EE SME.</td>
<td>Negative but NOT statistically significant</td>
<td>Negative but NOT statistically significant</td>
</tr>
<tr>
<td><strong>Hypothesis 2b:</strong> Self-efficacy is likely to moderate the negative influence of lack of control of corruption on EE SME internationalization. The higher the self-efficacy of the entrepreneur, the lower the negative influence of lack of control of corruption on EE SME internationalization.</td>
<td>Interaction negative but NOT statistically significant</td>
<td>Interaction negative but NOT statistically significant</td>
</tr>
<tr>
<td><strong>Hypothesis 3a:</strong> Poorer the rule of law, lower the degree of internationalization of the EE SME.</td>
<td>Negative but NOT statistically significant</td>
<td>Negative but NOT statistically significant</td>
</tr>
<tr>
<td><strong>Hypothesis 3b:</strong> Self-efficacy is likely to moderate the negative...</td>
<td>Interaction negative but NOT</td>
<td>Interaction negative but NOT</td>
</tr>
</tbody>
</table>
influence of poor rule of law on EE SME internationalization. The higher the self-efficacy of the entrepreneur, the lower the negative influence of poor rule of law.

Control Variables

The model tested the impact of different categories of variables:

(a) Perceptual variables evaluating (i) self-efficacy, (ii) fear of failure, and (iii) opportunity perception of the individual entrepreneur.

(b) Whether the respondent knows another entrepreneur (networking).

(c) Firm-level variables on the use of new technology and firm size.

(d) Demographic variables including age, gender, and education.

The regression results of the impact of control variables on SME internationalization are shown in Table 4.18.

Table 4.18: Overview of Results: Control Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>EE Entrepreneurs</th>
<th>AE Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of Failure</td>
<td>Positive and significant</td>
<td>Positive and NOT significant</td>
</tr>
<tr>
<td>Opportunity Perception</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Knowing an Entrepreneur (networking)</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>New Technology</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Size</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
</tr>
<tr>
<td>Age</td>
<td>Positive and NOT significant</td>
<td>Positive and NOT significant</td>
</tr>
</tbody>
</table>
As seen in Table 4.18, there are both similarities and differences between impact of control variables on EE and AE SME internationalization.

The demographic variables have a similar impact on EE and AE SME internationalization. Age does not have a significant impact on either EE or AE SME internationalization. Being male has a positive significant impact on internationalization, and the level of significance is higher for EE SMEs\(^6\). *Level of education* has a positive impact,\(^7\) a higher level of education is associated with higher export intensity for both AE and EE SMEs.

*Knowing an entrepreneur* is significant and has a positive impact on internationalization for both EE and AE SME internationalization. The impact of *firm size* and *use of new technology* on internationalization is significant and positive for both EE and AE SMEs.

Among the perceptual variables, *opportunity perception* has a significant positive impact on both EE and AE SME internationalization. However, the impact of *fear of failure* is significant only in the case of EE SMEs and not in the case of AE SMEs. Furthermore, the direction is positive and not negative as expected for EE

---

\(^6\) p<0.01 for EE entrepreneurs; p<0.05 for AE entrepreneurs

\(^7\) p<0.001 for both EE and AE entrepreneurs
SMEs. Self-efficacy was found to have a significant impact only in the case of EE SMEs and not AE SMEs. The direction is positive, as expected.

The random intercepts term for country in the EEs and AEs multi-level mixed-effect models is significant in both models, implying a significant amount of variability between countries with respect to exports for both EEs as well as AEs. The significance for the country level random intercept terms also suggests that the mixed-effect ordinal logistic model is the appropriate modeling choice compared to the normal ordinal logistic model.

4.8 Overall Findings and Contributions

This dissertation makes an empirical contribution by making an explicit comparison of the impact of institutional voids on SME internationalization on EE SMEs and AE SMEs. While prior studies have examined the impact of institutions on internationalization (He & Lin, 2012; Li, 2018; Wu & Chen, 2014), the focus has not been on institutional voids and SMEs. While a wide range of institutional voids may impact SME internationalization, either directly or indirectly. Essay Three chose to focus on three critical institutional voids discussed in Essay Two of this dissertation and prior literature. The three institutional voids are: (a) the burden of regulatory compliance; (b) the lack of control of corruption; and (c) the rule of law. Interestingly, of all three institutional voids, only the burden of regulatory compliance was found to have a significant negative impact on SME internationalization for both EE SMEs and AE SMEs. The burden of regulatory compliance captures a wide variety of factors including bureaucratic opacity and inefficiency, the ease of starting a business, the effectiveness of anti-trust legislation, discriminatory tariffs, unfair competitive
practices, disproportionate and discriminatory taxation systems, and the stringency of environmental regulations (Kaufmann et al., 2009). Neither lack of control of corruption nor rule of law was found to be significant for EE and AE SMEs, unlike a prior study of Chinese MNEs where both these home country institutions were found to have significant negative effects (He & Lin, 2012). In contrast, the qualitative study suggested that lack of control of corruption hindered EE SME internationalization and is an important barrier to internationalization. Prior studies using GEM data have shown that corruption has a negative impact on both high-growth entrepreneurship (Bowen & Clercq, 2008) and innovation (Anokhin & Schulze, 2009).

A comparison of the perceptual variables between EE entrepreneurs and AE entrepreneurs offers some interesting insights and contributes to the SME internationalization literature. Opportunity Perception has a positive impact for both EE entrepreneurs and AE entrepreneurs, as shown in prior studies (e.g., Evald & Klyver, 2011). However, self-efficacy had a positive and significant impact only for EE entrepreneurs, and was not found significant for AE entrepreneurs. This highlights the critical role of self-efficacy in EEs compared to AEs. Fear of Failure was not found significant for AEs, but was significant with a direction opposite to that expected for EEs. A higher fear of failure was found to have a positive impact on internationalization for EE entrepreneurs. A possible reason is that the question on fear of failure was focused on starting a new business (“Would fear of failure prevent you from starting a new business?”) not

\[ p<0.01 \text{ for EE entrepreneurs} \]

\[ p<0.01 \text{ for EE entrepreneurs} \]
internationalization. A possible explanation for this interesting relationship could be that EE entrepreneurs who feared failure in starting a new business domestically may seek to escape their challenging domestic environment and seek a more conducive institutional environment in AE international markets. This ‘institutional escape’, or institutional arbitrage, where EE firms seek to take advantage of better institutions in AEs, has been discussed in prior studies (Boisot & Meyer, 2008; Yamakawa et al., 2008).

This essay makes an empirical contribution by being the first to investigate the effect of self-efficacy on overcoming institutional barriers to internationalization, and to compare the effect of self-efficacy between AE and EE entrepreneurs. An interesting result is that self-efficacy was found to be significant in overcoming the impact of the burden of regulatory compliance in the case of EE entrepreneurs but not in the case of AE entrepreneurs. This suggests that given the poor institutional quality in EEs compared to AEs, self-efficacy is even more important for survival and success for entrepreneurs in EEs than in AEs. This result is in line with what Kiss, Danis and Cavusgil (2012) suggest in their review of IE and in their discussion of personal factors for entrepreneurship. Similarly, Fred Luthans and his co-authors have emphasized the importance of self-efficacy to achieve entrepreneurial success in challenging institutional environments (Luthans & Ibrayeva, 2006; Luthans et al., 2000). However, unlike in this essay, Luthans et al. (2000) have not examined internationalization. Internationalization has been found to be more challenging for SMEs than in domestic operations because of the higher risks and uncertainty involved (Lu & Beamish, 2001; World Trade Organization, 2016; Wright et al., 2007).
The impact of demographic variables such as age, gender, and education is in line with prior studies (Alon et al., 2013; Evald & Klyver, 2011; Muñoz-Bullón et al., 2015). This essay extends these findings to a comparison of EE entrepreneurs and AE entrepreneurs. Age was not found to be significant, but a higher level of education has been found to be significant for both EE and AE entrepreneurs. Interestingly, being male had a higher significance in an EE compared to an AE. One possible explanation for this result could be that being male may be more important in a gender-unequal society where females have less access to resources and opportunities. This could be investigated in further research drawing inputs from global cross-cultural studies (House, Javidan, Hanges, & Dorfman, 2002).

The positive and significant results for knowing an entrepreneur, for both EE and AE entrepreneurs, points to the importance of networks for SME internationalization, as highlighted in prior studies (Ciravegna et al., 2014; Coviello, 2006; Freeman et al., 2006; Prashantham, 2011).

4.9 Limitations and Future Research

The quantitative analysis used data from the World Bank’s WGI. There have been criticisms of the WGI for the high degree of correlation observed between the six indicators and their a-theoretical nature (Fukuyama, 2016). These shortcomings may influence the results. However, given the widespread use and acceptance of WGI indicators in leading IB journals (Cuervo-Cazurra & Genc, 2008; Globerman & Shapiro, 2003; Marano et al., 2017), this may not be a major issue. Since the focal group is comprised of SME owner-managers whose perceptions of the business environment influence internationalization decision-making (García-Cabrera et al., 2016; Manolova et al., 2002), collecting primary data on these
perceptions rather than using secondary data and then testing the empirical model, may be a fruitful avenue for future research.

The data for the costs of internationalization are obtained from the World Bank’s Ease of Doing Business Index, on the indicator “Trading across Borders.” The costs are estimated for exporting and importing goods and not for other forms of internationalization. However, as exporting is the most prevalent form of internationalization for SMEs given their size and resources (Reuber et al., 2018; World Trade Organization, 2016), this may not be a major issue. However, the cost of exports of software services is quite distinct from physical goods as it does not involve physical movement. Future research could compare the costs of manufacturing exports and services exports across AE SMEs and EE SMEs.

The data on entrepreneurship used in the study is entirely from GEM. Scholars have pointed out some shortcomings in the GEM data, including the use of single-item measures for complex constructs (Bergmann et al., 2014; Schmutzler et al., 2018). These shortcomings arose because the data had to be collected across a broad spectrum of cultures. As a result, the GEM team had to make a trade-off between the large sample size in each country and the depth and breadth of the measures (Reynolds et al., 2005). Despite these shortcomings, GEM data continues to be used in publications in leading IB and entrepreneurship journals (Bowen & Clercq, 2008; Schmutzler et al., 2018; Stephan, Uhlander, & Stride, 2015).

A limitation of the model estimation is that entrepreneurial self-efficacy is measured using a single-item measure rather than a psychometric scale. However, articles in leading entrepreneurship journals have used the GEM single-item
measure of self-efficacy (Estrin et al., 2013; Schmutzler et al., 2018; Wennberg et al., 2013). Entrepreneurial self-efficacy (ESE) is a complex construct which has been widely researched and different scholars have proposed different measures of ESE (e.g., Chen et al., 1998; Luthans & Ibrayeva, 2006; McGee et al., 2009). However, even so, the validity of the established ESE scales has been questioned. For example, Drnovšek et al. (2010) suggest that different stages of the entrepreneurial process, such as entrepreneurial intent, opportunity search, decision to exploit, and opportunity exploitation, require different types of ESE. Furthermore, the ESE required for business start-up and business growth may be different. Future research could involve collecting primary data from entrepreneurs using an appropriate established psychometric multi-item measure of ESE.

The dependent variable degree of internationalization is measured using the measure of international sales/total sales. However, the measure of degree of internationalization would be richer if it included measures of geographic scope and intensity, international team members, and profitability from international markets (Sullivan, 1992). Given the limitations of the GEM database the current study has used the measure available in GEM. This measure has been widely used in prior studies using GEM data, and published in IB and entrepreneurship journals (Alon et al., 2013; Chen et al., 2016; Li, 2018; Muralidharan & Pathak, 2017).

This study is cross-sectional in nature and, therefore, faces the limitation that it measures the impact of institutional voids on internationalization at a single point in time (Bryman & Bell, 2015). While some prior studies on internationalization
using GEM data have used multi-year data (e.g., Muralidharan & Pathak, 2017), others have focused on a single year (Chen et al., 2016). The choice was made to focus on the most recent annual data (GEM, 2014) from the GEM database to explore whether EEs as a category still face LOR, despite the improvements in the institutional environments of certain EEs that have been highlighted by scholars (Hoskisson et al., 2013; Kostova & Hult, 2016). Further research could test the model over multiple years.

This study estimated the correlation between six types of governance indicators and the costs of internationalization using World Bank Data and finds that EE SMEs are likely to face higher costs of internationalization. EE SMEs were also found to have lower propensity to export than AE SMEs. However, the relationship between costs of internationalization and propensity to export was not estimated. Future research could explore ways of measuring this relationship.

A further limitation is that the internationalization of EE firms could be impacted by a wide range of factors, not just institutional quality and personal factors as measured in this study. Macroeconomic variables such as currency strength, trade policies, GDP, domestic market size (LiPuma et al., 2013; Wei & Alon, 2010), or firm-level variables such as financial capital and technological capital (Dhanaraj & Beamish, 2003; World Trade Organization, 2016; Wright et al., 2007), could also have an impact on internationalization. While the study has taken into account country-level variables in terms of regulatory quality and legal institutions, it has not specifically modeled for the impact of macroeconomic factors such as trade policies, exchange rates and growth rates (LiPuma et al., 2013) as these factors were not central to the current study that focuses on
institutions. However, these impacts are captured in the country-level random intercepts of the mixed-effects regression models that have been used.

Future research could also further examine the puzzling results on the control variable “fear of failure” and the positive and significant impact it was found to have on internationalization. Another potential area of future research is the impact of gender. Being male was found to be of higher significance in EEs than in AEs. This could be investigated in future research using a cultural lens. Prior studies have combined data from the GEM and Global Leadership and Organizational Behavior Effectiveness (GLOBE) (House, Javidan, Hanges, & Dorfman, 2002) databases to examine the influence of culture on entrepreneurship (Autio et al., 2013; Muralidharan & Pathak, 2017). Future research could compare gender egalitarianism for the selected EEs and AEs, using data from the GLOBE database.

4.10 Conclusion

How do home country institutional voids affect the internationalization of EE SMEs compared to AE SMEs? Can personal factors such as self-efficacy help EE entrepreneurs overcome institutional voids and engage in internationalization? Finding answers to these questions is the focus of this essay. The descriptive analysis in Part 1 of this essay, using data from the Global Entrepreneurship Monitor and the World Bank, found that: (a) EE SMEs have to operate in a home country environment with significantly poorer institutional quality than AE SMEs; (b) there is a negative correlation between costs of exporting and importing and institutional quality, implying that EE SMEs are likely to face higher costs for exporting/importing than AE SMEs; (c) EE SMEs have to deal
with the significantly higher number of documents required for regulatory compliance for exports and imports, and the time and cost spent on this mandatory documentary compliance is also higher for EE SMEs compared to AE SMEs; (d) EE entrepreneurs are likely to have a lower propensity to export compared to AE entrepreneurs; and (e) contingent on this propensity to export, EE entrepreneurs are likely to have a lower intensity of export compared to AE entrepreneurs.

Part II of this essay tested a multi-level hierarchical ordered logistic regression model for both EE SMEs and AE SMEs to test the moderating impact of entrepreneurial self-efficacy on the relationship between internationalization and: (a) the burden of regulatory compliance; (b) the lack of control of corruption; and (c) a poor rule of law. The moderating impact of self-efficacy on the burden of regulatory compliance was found significant only for EE entrepreneurs and not for AE entrepreneurs. While demographic variables were found to have results in line with prior studies, the effect of fear of failure was found to be significant only in the case of EE entrepreneurs, and had an unexpected positive impact on internationalization.

Taken together, the results of Parts I and II of this essay suggest that EE entrepreneurs face significant disadvantages during internationalization, which is attributable to their home country institutional voids — in other words, liabilities of origin — compared to AE entrepreneurs. These results have significant implications for both practice and policy with regard to EE SME internationalization, as discussed in the next chapter of this dissertation.
5. Chapter Five: Conclusions and Discussion

5.1 Chapter Overview

This chapter begins by overviewing the overall findings of the dissertation in Section 5.2. The contributions to theory and empirical areas are discussed in Sections 5.3 and 5.4 respectively. This discussion is followed by outlining the contributions to practice and policy in Sections 5.5 and 5.6 respectively. The limitations and suggestions for future research are presented in Section 5.7. The dissertation concludes in Section 5.8.

5.2 Overall Findings

The purpose of this dissertation was to explore the role of liabilities of origin (LOR) in emerging economy (EE) SME internationalization. LOR refers to the additional costs faced by internationalizing EE firms compared to advanced economy (AE) firms because of the home country institutional voids. The specific objectives of the dissertation are listed in Table 5.1 below.

Table 5.1 Research Objectives

<table>
<thead>
<tr>
<th>Research Objectives</th>
<th>Research Approach</th>
<th>Chapter (Essay)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 To synthesize the diverse views of LOR and integrate the multiple levels of LOR into one framework</td>
<td>Systematic Literature Review</td>
<td>Chapter Two (Essay One)</td>
</tr>
<tr>
<td>2 To explore the perceptions of home country institutional voids among EE SME owner-managers and</td>
<td>Qualitative Study</td>
<td>Chapter Three (Essay Two)</td>
</tr>
</tbody>
</table>
understand how and why a particular home country institutional void could result in LOR.

| 3 | To examine whether home country institutional voids result in EE SMEs facing additional costs of internationalization compared to AE SMEs. | Quantitative Study | Chapter Four (Essay Three, Part I) |

| 4 | To explore whether personal factors such as self-efficacy can enable EE entrepreneurs to overcome home country institutional voids with regard to internationalization. | Quantitative Study | Chapter Four (Essay Three, Part II) |

This dissertation consists of three essays. Essay One describes a systematic literature review; Essay Two is a qualitative study of 22 EE SME entrepreneurs and three EE SME experts; and Essay Three is a quantitative study comparing the internationalization of AE and EE SMEs. The following sections integrate the findings from all three essays for each of the four research objectives.

5.2.1 Integration of Multiple Levels of LOR: Research Objective One

The integrative conceptual framework developed from the systematic literature review in Essay One (see Figure 2.1) highlights that LOR can manifest at three levels — host country, firm-level, and individual level. First, LOR can manifest at the host country level if host country stakeholders perceive that firms coming from countries with institutional voids lack legitimacy or social acceptance (Marano et al., 2017; Pant & Ramachandran, 2012). Second, LOR can manifest at
the firm-level if home country institutional voids hamper firm capabilities to internationalize and increase their costs of doing business (Madhok & Keyhani, 2012; Ramachandran & Pant, 2010). Third, LOR can manifest at the mindset level if EE entrepreneurs feel their capacity to internationalize is limited (Bartlett & Ghoshal, 2000; Ramachandran & Pant, 2010).

The qualitative study in Essay Two of 22 EE entrepreneurs and three experts in India, validated the relationships suggested in the conceptual framework and found that Indian SMEs could face LOR at the host country level, firm-level, and mindset level. At the country level, around one-third of the entrepreneurs felt that Indian firms faced a legitimacy disadvantage in host countries because of a negative country image. Almost all the entrepreneurs spoke of how the Indian software industry had contributed to creating a positive image of India in global business. At the firm-level, entrepreneurs shared their experience of how home country institutional voids, especially the burden of regulatory compliance and the lack of control of corruption increased their costs of doing business and had a negative impact on the SME’s capability to internationalize. Interviews with SME experts confirmed that pervasiveness of corruption and regulatory complexity was a problem in the SME sector. At the mindset level, LOR was experienced by around half the participants; institutional voids were found to: (a) reduce cognitive resources available for internationalization; (b) inhibit entrepreneurial ambitions to grow; and (c) evoke negative emotions that reduced motivation to internationalize.

The quantitative study in Essay Three validated the presence of firm-level LOR by testing the relationship between home country institutional voids and costs of
internationalization at the firm level. The results showed a significant correlation between six World Governance Indicator (WGI) dimensions of institutional quality and costs of internationalization. The costs of internationalization (measured by ‘costs of mandatory documentary compliance related to exporting’ and ‘costs of mandatory documentary compliance related to importing’) were found to increase with the reduction in quality of: (a) the regulatory system; (b) the control of corruption; (c) government effectiveness; (d) the rule of law; (e), freedom of expression and human rights; and (f) political stability. Estimating LOR at the host country level and mindset level was beyond the scope of the quantitative study.

5.2.2 Comparison of Advanced Economy and Emerging Economy SME Internationalization:

LOR is a relative concept like the complementary concept of liability of foreignness (LOF) (Zaheer, 2002) as described in Essay One. Comparing the disadvantages of internationalizing AE firms and EE firms, therefore, assists in assessing LOR. The quantitative study used data from three sources: The World Bank’s WGI, the World Bank’s Ease of Doing Business Indicators, and the Global Entrepreneurship Data (GEM). Data for the analysis was for the year 2014, since that is the latest year for which GEM data are publicly available. The descriptive analysis (Essay Three, Part I) showed that compared to AE SMEs, EE SMEs face significantly higher costs of exporting and importing in terms of the number of documents, costs of mandatory documentary compliance, and time spent on documentary compliance. Furthermore, the propensity to export for EE entrepreneurs was found to be lower than AE entrepreneurs as was
the intensity of export. The results of the analysis suggest that compared to AE entrepreneurs, internationalizing EE entrepreneurs face additional costs attributable to institutional voids—in other words, the results suggest that EE entrepreneurs face challenges of LOR.

The impact of three governance indicators—regulatory quality, control of corruption, and rule of law—was tested in a mixed effect ordered logistic regression empirical model in Essay Three (Part II). Among these three indicators of institutional voids, only regulatory quality was found to have a significant effect on both EE and AE SME internationalization.

Pervasive corruption was perceived as creating barriers to internationalization in the qualitative study (Essay Two) but was not found to be significant in the quantitative study (Essay Three, Part II). A possible explanation for the non-significant finding in the quantitative study is that corruption could also be a reason for ‘escape’ internationalization (Boisot & Meyer, 2008; Witt & Lewin, 2014). In other words, if EE entrepreneurs need to deal with an extremely corrupt environment in their home country, some entrepreneurs may be motivated to escape to countries with less corrupt environments. In contrast to the results of the quantitative study (Essay Three), the qualitative (Essay Two) study revealed that EE entrepreneurs felt frustrated with the corruption experienced at multiple levels—with public officials, domestic customers and domestic suppliers. The interviews with SME experts confirmed that EE entrepreneurs had to deal with corruption on a regular basis. The SME experts shared that corruption had become a taken-for-granted feature of doing business in India. Therefore, even if corruption did not have a significant impact on SME internationalization in the
quantitative analysis (Essay Three, Part II), it still appeared to have a negative impact on the costs of doing business and on entrepreneurial mindset as revealed in the qualitative study (Essay Two).

5.2.3 EE Entrepreneur Perceptions of Institutional Voids: Research Objective Two

EEs home environments are characterized by institutional voids such as a lack of protection for property rights, weak contract enforcement, infrastructure bottlenecks, a weak judicial system, lack of transparency in taxation procedures, political instability and violence, weak capital markets, corruption, and political interference (Khanna & Palepu, 2010). The qualitative study (Essay Two) explored perceptions of these institutional voids among EE entrepreneurs. For these EE entrepreneurs, the burden of regulatory compliance and lack of control of corruption were the two formal institutional voids most often mentioned as creating hurdles to internationalization. Lack of government support and poor infrastructure were other voids mentioned. Despite the implementation of on-line systems for filing taxes, entrepreneurs complained about the lack of transparency in the taxation system and the associated corruption. In contrast to prior studies on SME barriers in transition economies (Aidis, 2005; Doern, 2013; Hashi, 2001; Krasniqi, 2007), where financial barriers were identified as one of the primary barriers to entrepreneurship, less than one quarter of the EE entrepreneurs in the qualitative study complained of financial barriers. This may have been either because these entrepreneurs did not perceive access to finance difficult or because they found dealing with corruption and the regulatory burden much more challenging than access to finance. In contrast to this finding, the SME experts in
the qualitative study spoke about financing being a major challenge in the SME sector. These SME experts shared that the collateral for SME loans in India is very high and that the cumbersome and outdated loan procedures hold back SME growth.

Dealing with pervasive corruption and the burden of compliance were the two most widely cited formal institutional voids that held back entrepreneurs from internationalization. The third most highly cited institutional void in the interviews was informal, namely, the lack of a professional culture among Indian nationals when doing business. By lack of professional culture, the entrepreneurs in this study referred to the lack of reliability and the lack of attention to quality that they thought were prevalent among Indian suppliers and customers. Lack of societal respect for entrepreneurs was another informal institutional void mentioned by a few entrepreneurs as holding them back from internationalization.

The qualitative study (Essay Two) revealed that the experience of LOR varied from entrepreneur to entrepreneur and across industry sectors. Overall, the manufacturing industry appeared to suffer the most from the burden of compliance. The burden of compliance, in turn, amplified the number of interactions with the government and increased vulnerability to corruption. The entrepreneurs in manufacturing industries also complained about the lack of government support both in terms of infrastructure and general support; some entrepreneurs expressed the opinion that the Government of India neglected the manufacturing industry but provided considerable support to the software industry. In sum, entrepreneurs in the manufacturing industry appeared to face the highest number of institutional barriers and firm capability LOR while
entrepreneurs in the high-tech software industry had mixed experiences. Software services entrepreneurs whose enterprises were located in software export zones set up by the government did not appear to experience LOR since they benefited from government support. This was in contrast to software services entrepreneurs located outside these zones. The entrepreneurs in the qualitative study who were engaged in pure trading (such as the purchase of agricultural products and the exporting of those goods) used intermediaries or agents to deal with government officials. These traders did not appear to experience LOR directly because of the use of agents who paid the ‘necessary’ bribes and fees to public officials.

In terms of external legitimacy LOR, there was widespread agreement among all the entrepreneurs that the Indian software industry had gained widespread legitimacy across the world unlike the manufacturing industry. However, in contrast to prior studies on LOR that have highlighted the legitimacy disadvantages faced by EE firms in advanced economy host countries (Panibratov, 2015; Ramachandran & Pant, 2010; Yu & Liu, 2016), the entrepreneurs in the qualitative study did not consider legitimacy of EE firms a major problem. This finding does not imply that Indian firms do not face legitimacy problems, but rather that: (a) entrepreneurs are not aware of the importance of legitimacy as a factor in their success (Zimmerman & Zeitz, 2002) or that: (b) host country legitimacy was not a pressing problem compared to dealing with the regulatory burden and corruption in their home country. The entrepreneurs in the qualitative study emphasized the importance of building trust with their clients and cultivating networks to establish credibility in foreign markets. This is in line with prior studies (e.g. Ciravegna, Lopez, & Kundu,
that have emphasized the importance of informal institutions such as network ties to overcome formal institutional voids.

5.2.4 Mechanism of LOR: Research Objective Two

Understanding how and why a particular home country institutional void results in LOR was another objective of the study. While “how and why” questions are normally answered through qualitative research (Yin, 2014), in this dissertation, however, both the qualitative (Essay Two) and quantitative (Essay Three) studies offer evidence on how institutional voids can result in LOR as discussed in this section.

In the qualitative study (Essay Two) the participants shared their experiences of how the burden of regulatory compliance resulted in higher costs of exporting (or LOR). Some participants in the manufacturing sector shared that the cost and time required for dealing with Customs and Excise deterred them from exporting. Corruption at Custom and Excise offices exacerbated this problem.

The mechanism of mindset LOR was a novel finding of the qualitative study (Essay Two). Although mindset LOR has been mentioned in a prior study on LOR by Bartlett and Ghoshal (2000), only the negative impacts of the two types of mindset LOR — under-confidence and over-confidence — on internationalization were described by Bartlett and Ghoshal (2000) who did not pay attention to institutions. The qualitative study revealed how home country institutional voids impacted the cognition and emotions of some of the participants and resulted in different kinds of mindset LOR. Three novel constructs related to mindset LOR emerged as themes from the interviews. These
constructs have been labelled as follows: (a) Mental Bandwidth LOR; (b) Lack of Growth Mindset LOR; and (c) Negative Emotions LOR.

Dealing with home country institutional voids such as the burden of regulatory compliance and corruption was found to result in psychological scarcity (Mullainathan & Shafir, 2013). Psychological scarcity refers to the psychological impact of scarcity on the mind when an individual feels that he or she has too little of a resource (whether time, money, or even food) and this scarcity consumes their mental bandwidth (Mullainathan & Shafir, 2013). Mental bandwidth includes both cognitive capacity and executive control and shapes the choice and behaviour of individuals (Mullainathan & Shafir, 2013). In the qualitative study, around one-third of the entrepreneurs shared that focusing on bureaucratic compliance and dealing with corruption led to psychological scarcity and reduced mental bandwidth with the resultant neglect of internationalization or what is labelled in the current study as ‘Mental Bandwidth LOR’.

Dealing with home country institutional voids on a regular basis led to entrepreneurs experiencing what has been termed in the psychology as a ‘fixed mindset’ rather than a ‘growth mindset’ (Dweck, 2008). Growth was seen by around one-third of the entrepreneurs in the qualitative study as drawing the unwelcome attention of corrupt public officials and increasing their chances of being a target of envy, so entrepreneurs sometimes preferred not to grow. This is labelled as ‘Lack of Growth Mindset LOR’ in the current study, and could be considered an extension of the under-confidence mindset LOR described by Bartlett and Ghoshal (2000).
The third way in which home country institutional voids resulted in mindset LOR was the negative impact these voids had on emotions. Entrepreneurs mentioned how dealing with institutional voids on a continual basis resulted in feelings of frustration and helplessness. These negative emotions, in turn, reduced their motivation to internationalize and led to what is labelled ‘Negative Emotions LOR’. These emotions have not been examined in prior EE SME internationalization literature. The qualitative study therefore contributes three novel constructs to the LOR and the entrepreneurship literature — Mental Bandwidth LOR, Lack of Growth Mindset LOR, and Negative Emotions LOR.

Surprisingly, given that the software industry receives more support than the manufacturing industry, there was no visible difference among manifestation of the different kinds of mindset LOR across the manufacturing and software industry. Mental Bandwidth LOR, Lack of Growth Mindset LOR and Negative Emotions LOR was observed among entrepreneurs in both the manufacturing and software sectors. This may be because the software entrepreneurs compared their situation to the business environment in Silicon Valley, California, and felt constrained by the Indian business environment as compared to their peers. As discussed earlier, entrepreneurs engaged in trading did not share any experience of LOR as their interactions with the Government of India was through middlemen. The three entrepreneurs in trading shared the opinion that the Government of India had many schemes supporting agricultural exports.

The qualitative study (Essay Two) could not measure perceptions of host country stakeholders and therefore could not directly examine the impact of institutional voids on host country legitimacy disadvantage LOR. However, around one-third
of the participants shared their perceptions that Indian firms could face a legitimacy disadvantage in some host countries because of their negative country image.

The results of the quantitative study (Essay Three) complemented the findings of the qualitative study (Essay 2). The quantitative analysis found that institutional voids are significantly correlated with three categories of costs of doing international business: (a) number of mandatory documents for exporting/importing; (b) time required for mandatory documentary compliance; and (c) cost of mandatory documentary compliance. EE firms were found to face significantly higher costs than AE firms in all three categories for both exporting and importing. This suggests that home country institutional voids result in higher costs of exporting/importing resulting in firm-level LOR for EE firms.

To sum up, the findings of Essays One, Two and Three suggest that home country institutional voids could result in LOR by: (a) creating legitimacy disadvantages in host countries or external legitimacy LOR; (b) increasing costs and decreasing firm resources resulting in firm-level capability LOR; or (c) resulting in mindset LOR — mental bandwidth LOR, lack of growth mindset LOR and negative emotions LOR.

5.2.5 Role of Personal Factors in Overcoming LOR: Research Objective

Four

Self-efficacy emerged as an important factor that can help EE entrepreneurs overcome home country institutional voids in both the qualitative study (Essay Two) and the quantitative study (Essay Three, Part II). During the interviews, entrepreneurs mentioned that their self-belief helped them overcome the hurdles
they faced. In the quantitative study (Essay 3, Part II) self-efficacy was found to have a positive impact on the degree of internationalization for EE entrepreneurs. In contrast, self-efficacy was not found to have a significant relationship with degree of internationalization for AE entrepreneurs. Self-efficacy was found significant in helping internationalizing EE entrepreneurs overcome the burden of regulatory compliance in the quantitative study. However, the moderating effect of self-efficacy on regulatory barriers was not significant for AE entrepreneurs (Essay Three, Part II). One reason for this is could be that AE entrepreneurs do not face burdensome regulatory compliance processes and hence the interaction between regulatory quality and self-efficacy was not significant.

5.3 Theoretical Contributions

The theoretical contributions of this dissertation can be divided into three broad categories:

(a) Building Theory: Contributing toward building a theory the phenomenon of LOR.

(b) Extending and Refining Existing Theory: Enhancing understanding of EE SME internationalization and using constructs that have hitherto not been used in the EE SME literature.

(c) Testing Theory: Measuring the impact of institutional voids on internationalization and role of entrepreneurial self-efficacy.

These three kinds of theoretical contributions are discussed in greater detail below.
5.3.1 Toward Building a Theory for LOR

Weick (1995) terms theory as a process rather than a product. There is as yet no theory of LOR. This study contributes to building a theory for LOR by developing a conceptual framework for LOR (See Figure 5.1). Contributions to theory should ideally specify how a study contributes to the understanding of a particular phenomenon by altering the ‘What’, the ‘How’ or the causal mechanisms, and the ‘Why’ by explaining the logic behind the mechanism (Whetten, 1989). Clarifying the ‘Where’ (context), ‘When’ (temporal factors) and ‘Who’ (specific segment) helps to specify the conditions and limitations of the propositions of a theoretical framework.

The conceptual framework in Figure 5.1 was derived from a synthesis of current literature and the qualitative study. While the conceptual framework in the Literature Review (Essay One) was for EE firms in general (See Figure 2.1), the conceptual framework developed from the qualitative study (See Figure 3.1) is specific to EE entrepreneurs and EE SMEs in India and not to large EE MNEs. The boundary conditions for this framework are thus specified as recommended by Whetten (1989) for theory-building. In other words, the ‘who’ (entrepreneur/SME owner-managers), and ‘where’ (emerging economies, more specifically India) are specified.

The conceptual framework contributes to building a theory of LOR by specifying the ‘what’ (institutional voids, multiple levels of LOR, moderating factors, and internationalization). The explicit linkage between institutional voids and multiple levels of LOR has not yet been elucidated in extant literature. Figure 5.1 illustrates ‘how’ home country institutional voids can result in LOR at three levels.
— the host country level, the firm level, and the entrepreneurial mindset level — and impact internationalization.

Figure 5.1 An Enhanced Conceptual Framework of LOR for EE SMEs

A significant contribution to theory-building for LOR is specifying and labelling three types of mindset LOR that emerged from the qualitative study. These three novel types of entrepreneurial mindset LOR were: (a) Mental Bandwidth LOR; (b) Lack of Growth Mindset LOR, and (c) Negative Emotions LOR. Specifying these types of mindset LOR contributes to the ‘why’ of theory-building (Whetten, 1989) by contributing insights on why institutional voids may result in EE entrepreneurs being reluctant to internationalize. The ‘why’ is the impact of home country institutional voids on cognition and emotions.
The field of cognition in psychology deals with learning, memory, problem solving and decision-making (Fiske and Taylor, 2013; Locke, 2000). Emotions refer to subjective feelings and moods (Cardon et al., 2012; Fiske and Taylor, 2013). Entrepreneurial cognition deals with knowledge structures and the mental models that entrepreneurs use for opportunity recognition and exploitation (Baron, 2004; Frese and Gielnik, 2014; Mitchell et al., 2007; Zahra et al., 2005).

The qualitative study (Essay Two) contributes to the field of entrepreneurial cognition and IE by helping us understand why EE entrepreneurs may hold back from internationalization because of the impact of the perceptions of institutional voids on their mindset.

This study highlights the importance of ‘perceptions’ in resulting in mindset LOR. It is not the mere presence of institutional voids that results in mindset LOR, nor is every EE entrepreneur likely to experience mindset LOR. This LOR mindset, it is proposed, reflects the way in which EE entrepreneurs make sense of their capabilities, home country institutional voids, and the relative standing of their country when they make decisions to go global. Relative standing refers to the status of the entrepreneur’s home country relative to host countries along economic, technological or cultural dimensions (Kobrin, 1994; Zahra et al., 2005). It is proposed that the LOR mindset is a socio-cognitive phenomenon and is inherently subjective because it is based on the perceptions of a particular EE entrepreneur. Understanding the LOR mindset, therefore, requires considering the ‘gestalt’ of social cognition – person, situation, cognition, and motivation (Fiske and Taylor, 2013; Mitchell et al., 2007; Shaver and Scott, 1991). In other words, we examine the interactions of the person (individual entrepreneur), the situation
(operating out of a home country with institutional voids), cognition (knowledge structure for internationalization) and motivation (drive to internationalize). By examining the ‘how and why’ relationships between institutional voids, LOR mindset, and internationalization, we contribute to theory-building in entrepreneurial cognition literature (Smith, Mitchell, & Mitchell, 2009).

5.3.2 Extending and Refining Existing Theories

This dissertation extends theory by employing concepts from psychology that have not yet been used in the LOR or IE literature. The first concept is that of psychological scarcity and its impact on mental bandwidth (Mullainathan & Shafir, 2013; Shah, Shafir, & Mullainathan, 2015). Entrepreneurs in the qualitative study explained how dealing with regulatory compliance and corruption in EE led to a feeling of psychological scarcity. Because of this feeling of scarcity, the entrepreneurs found that they had insufficient mental bandwidth to engage in internationalization. The second concept is ‘growth mindset’ (Dweck, 2015, 2008). This theme emerged from the interviews when entrepreneurs in the qualitative study expressed that they were reluctant to grow, or they had observed that entrepreneurs were afraid to grow. This dissertation also introduces entrepreneurial emotions into the LOR literature. The interviews with EE entrepreneurs (Essay Two) show how dealing with institutional voids could evoke negative emotions among entrepreneurs and how negative emotions had an adverse impact on their motivation to internationalize. Prior studies on entrepreneurial emotions (see Baron, 2008; Frese & Gielnik, 2014; Omorede, Thorgren, & Wincent, 2014 for reviews) have not examined the interaction of institutional voids, entrepreneurial emotions and internationalization.
Two specific emotions that emerged in the interviews were frustration and helplessness. The entrepreneurs felt frustrated because they had to expend precious time and scarce resources on dealing with corruption and regulatory complexity instead of spending time on marketing and innovation. They experienced helplessness as they felt powerless having to deal with a system where they had no legal recourse to address demands for bribes because of the poor rule of law. They felt that they had to succumb to demands for bribes in order to survive. Proposing specific relationships between institutional voids, negative emotions, namely, (a) frustration (Fox and Spector, 1999; Spector, 1978), (b) learned helplessness (Abramson et al., 1978; Maier and Seligman, 1976) and internationalization makes a contribution to the IE literature.

The diversity of SMEs and their motives for internationalization have meant there is no single theoretical framework that explains SME internationalization (Ruzzier et al., 2006; World Trade Organization, 2016). Some perspectives commonly used to understand SME internationalization are: (a) the Uppsala internationalization model (Johanson and Vahlne, 1977); (b) innovation-related models (e.g. Reid, 1981); (c) the network perspective (Coviello, 2006); and (d) international entrepreneurship (IE) (Knight and Cavusgil, 2004; McDougall and Oviatt, 2000). These theoretical perspectives, however, have not explicitly considered the impact of home country institutional voids since they were developed on the basis of observations of AE firms. This dissertation extends these theoretical perspectives by highlighting how home country institutional voids shape SME internationalization.
The Uppsala and innovation-related internationalization models both emphasize the progressive nature of a firm’s internationalization — with an increase in experiential knowledge firms, increase their level of commitment and involvement in overseas markets and begin exporting to countries that are more institutionally distant (‘psychic distance’) (Andersen, 1993; Johanson and Vahlne, 1977). The qualitative study (Essay Two) found home country institutional voids motivate EE entrepreneurs to pursue opportunities in countries with superior institutions and not those that are institutionally close. This preference for AE host markets was not just for ‘institutional arbitrage’ or escaping from home country formal institutional voids in order to exploit favorable institutions abroad as has been highlighted in the literature (Luo and Tung, 2018; Witt and Lewin, 2014) but also because the EE entrepreneurs in this study preferred dealing with customers who valued their innovations. The entrepreneurs in the qualitative study shared that domestic customers were often fixated on low prices and did not value innovation and extra product features.

The critical role played by networks in SME internationalization has been highlighted both in the conceptual and empirical literature (Chetty and Holm, 2000; Coviello, 2006; Freeman et al., 2006). Networks, formal and informal, have been found to provide both AE and EE SMEs with information, opportunities, and legitimacy thus helping them overcome internationalization barriers (Ciravegna et al., 2014; Prashantham, 2011). The current study confirms the importance of network ties, formal and informal, in facilitating internationalization. In addition, Essay Two contributes to the SME internationalization network perspective by drawing attention to the role of home
country institutional voids. The findings of the qualitative study suggest that internationalizing EE firms not only require networks for accessing opportunities and gaining legitimacy in host countries, but also to overcome bureaucratic hurdles or LOR in their home countries.

Essay Two enhances the IE perspective, by highlighting the role home country institutional voids play in the choice of host markets. There have been suggestions that EE MNEs may have an advantage over AE MNEs in host markets with poor institutions as they are already used to operating in institutionally weak environments and can therefore ‘transform disadvantages into advantages’ (Cuervo-Cazurra and Genc, 2008; Cuervo-Cazurra and Ramamurti, 2017).

However, none of the entrepreneurs in the qualitative study (Essay Two) preferred to export to other EEs. Instead, they preferred AEs where they perceived that customers were more professional than those in EEs. The entrepreneurs explained that they did not have the mental bandwidth to deal with institutional voids in host countries in addition to dealing with their own home country institutional voids.

This dissertation extends the theoretical perspective on LOR by highlighting the critical role that institutional voids can play in increasing the costs of internationalization in the home country itself. This is in contrast to prior studies on LOR that have focused on the host country experience of EE firms and the legitimacy disadvantages faced (e.g. Marano et al., 2017; Pant & Ramachandran, 2012; Yu & Liu, 2016). This dissertation found that the home country experience can be as important as the host country experience in contributing to the additional disadvantages faced by internationalizing EE firms compared to AE
firms. By explicating these higher costs incurred at home, the complementarity between the concept of liability of foreignness (LOF) (Zaheer, 2002, 1995) and LOR is elucidated. There have been arguments that IB research has not made an adequate distinction between institutional quality and institutional distance (Van Hoorn and Maseland., 2016). This dissertation makes a theoretical contribution by showing a clear distinction between the two kinds of institutional effects with regard to the liabilities faced by internationalizing firms. Institutional distance between host and home country is the key driver of LOF (Eden and Miller, 2004), while this study identifies the key driver of LOR as home country institutional quality thus contributing to a theoretical understanding of the antecedents of LOR and clearly distinguishing LOR from LOF.

5.3.3 Testing Theory

The quantitative study contributed by testing theory. A comparative approach to studying the impact of institutional quality on SME internationalization between EEs and AEs helped to highlight the importance of self-efficacy in overcoming institutional voids in EEs. In the quantitative study covering 23 EEs and 39 AEs, regulatory quality was found to be the most critical institutional factor impacting internationalization and even more important than corruption and rule of law.

The role of self-efficacy from Bandura’s social learning or social cognitive theory (Bandura 1977, 1989) in overcoming institutional voids was tested in the quantitative study. While self-efficacy has been identified as important to overcoming institutional voids in EEs in prior studies (Kiss et al., 2012; Luthans and Ibrayeva, 2006) it has not used in the specific context of internationalization.
The theoretical contributions are summarized in Figure 5.2. The literature review contributed to theory-building by developing an integrated conceptual framework. The qualitative study contributed to theory building on LOR and to extension of theories. The quantitative study tested theories and compared the relative importance of self-efficacy in AE and EE SME internationalization.

**Figure 5-2 Summary of Theoretical Contributions**

In sum, as shown in Figure 5.2, this dissertation makes a theoretical contribution to the concept of LOR by clarifying its antecedents, dimensions and mechanism. In addition to adding to the body of knowledge on a particular concept, impactful research is characterized by specification of how the findings and ideas extend beyond the narrow research domain to other areas of research inquiry (Bello & Kostova, 2012). The findings of this dissertation extend beyond LOR and EE SMEs by contributing to two other broader fields of SME internationalization and entrepreneurial cognition.
5.4 Empirical Contributions

This dissertation is the first study to use the qualitative approach (Essay Two) to understand the mechanism of how and why home country institutional voids result in LOR for EE SMEs. The qualitative study found that institutional voids affected the mental bandwidth of entrepreneurs (Mullainathan & Shafir, 2013) and resulted in the lack of a growth mindset (Dweck, 2015). Furthermore, institutional voids were found to evoke negative entrepreneurial emotions or subjective feelings that in turn had a negative impact on entrepreneurial motivation (Baron, 2008; Cardon et al., 2012).

The ‘lack of a professional culture’ (a business culture where quality and reliability are neglected) emerged from the interviews (Essay Two) as a factor hindering internationalization. The lack of a professional culture can be categorized as an informal institutional void. Specifying the influence of this void on internationalization makes a contribution to the IB literature which has mainly focused on formal institutional voids (Doh et al., 2017).

The quantitative descriptive analysis (Essay Three – Part I) found that compared to AE SMEs, EE SMEs face significantly higher costs of exporting and importing in terms of the number of documents, the costs of mandatory documentary compliance, and the time spent on documentary compliance. Furthermore, the propensity to export for EE entrepreneurs was found to be lower than AE entrepreneurs as was the intensity of export. The quantitative study (Essay Three, Part II) is the first to make a comparative study between EE and AE SMEs on the effect of home country institutional voids on SME internationalization (to the best of the author’s knowledge). Essay Three contributes to the literature by testing
the moderating effect of self-efficacy on the relationship between institutional voids and EE SME internationalization using a mixed effects logistic regression model. Self-efficacy was found to reduce the negative impact of poor regulatory quality on EE SME internationalization. However, the moderating effect of self-efficacy was not found to be significant for AE SMEs.

5.5 Contributions to Practice

This dissertation contributes to practice in several ways. The conceptual framework (Essay One) can assist EE entrepreneurs to understand that they face challenges at multiple levels when they internationalize. Understanding the legitimacy challenges that EE entrepreneurs may face in host countries may encourage these entrepreneurs to take proactive strategic responses to address these challenges, potentially increasing their successful outcomes (Zimmerman & Zeitz, 2002). Similarly, if EE entrepreneurs are aware of the additional costs they are likely to face at the firm-level because of institutional voids, they can be better prepared to adapt their strategies to external environmental contingencies rather than engaging in firefighting (Honig, 2004). Understanding the impact of institutional voids on mindset can also help entrepreneurs respond better to the psychological challenges such as psychological scarcity and negative emotions.

The three kinds of mindset LOR that emerged from the interviews (Essay Two) can have implications for practice. If EE entrepreneurs are made more aware of the possible negative impacts of institutional voids on their mental bandwidth, they may be better able to deal with this issue. One possibility is to hire agents who handle these issues in EEs (Welter & Smallbone, 2011) as practiced by the
participants. However, hiring agents or ‘consultants’ to take care of the regulatory burden may not always be feasible if the entrepreneur has insufficient financial resources to pay the agency fees. In some cases, hiring agents may also be against the value system of some EE entrepreneurs since it, too, may involve paying bribes.

If an EE entrepreneur decides to use the agents for dealing with the regulatory burden, they can ‘free up their intelligence’ and their mental bandwidth (Mullainathan & Shafir, 2013) for more productive tasks such as following up on leads, visiting customers in foreign markets attending international trade fairs or innovation. Similarly, being aware of the limiting effect of institutional voids on their growth ambitions may encourage EE entrepreneurs to join associations of entrepreneurs that provide support and mentoring. Positive entrepreneurial emotions have been shown to enhance: (a) opportunity recognition and creativity; (b) the acquisition of human and financial resources; (c) the ability to respond effectively to turbulent environments; and (d) increase tolerance of stress (Baron, 2008). Increasing the awareness of the importance of maintaining positive emotions may also motivate EE entrepreneurs to join support groups and entrepreneurial training programs that address this dimension of entrepreneurship.

The quantitative study (Essay Three) demonstrated that EE entrepreneurs face higher costs and barriers to internationalization that can be attributable to their home country institutional voids and not to their capabilities. Attribution theory in psychology has differentiated between the failure attributed to external versus internal causes, and the failure attributed to internal causes which is likely to have a negative impact on self-esteem (Weiner, 1985). If EE entrepreneurs blame
themselves for their failed efforts at internationalization their self-belief may be negatively impacted and they may not attempt to internationalize again. If, however, EE entrepreneurs understand how poor institutional quality and the resulting dimensions of LOR could hinder their internationalization, rather than doubting their own capabilities, they are more likely to make attempts to try to internationalize again.

The importance of developing self-efficacy (that emerged from both the quantitative and the qualitative studies) in order to overcome the barriers created by these institutional voids was another important insight derived from this dissertation. Following the suggestions of Bandura (1989) on developing self-efficacy, EE entrepreneurs can be encouraged to develop their self-efficacy through training in international business skills, finding entrepreneurial mentors who inspire them, joining support groups, and making sure they take steps to reduce their stress levels.

5.6 Contributions to Policy

At the policy level, this dissertation helps understand the role the state can play at all three levels to mitigate LOR and foster EE SME internationalization. As discussed in Essay One of this dissertation, policies to improve country image, reduce the regulatory burden at the firm level and support training programs to improve self-efficacy can help mitigate LOR.

More specifically, given that SME internationalization has been recognized by national governments as critical to creating employment, fostering innovation and contributing to economic growth (World Trade Organization, 2016), policies
could be promulgated that support SME entrepreneurs proactively. Essay Two revealed that entrepreneurs in the manufacturing sector perceived they were neglected by the Indian government compared to SMEs in the software sector — a more favored sector which received more support. Given that manufacturing is critical to national economic development (Deloitte & CII, 2013) policy makers could pay attention to this perceived neglect.

Essay Two revealed that despite efforts by the Government of India to decrease corruption by shifting to online transactions from paper transactions, public officials have found ways to continue asking for bribes. Policy-makers could pay greater attention to the number of points of interactions with public officials because each point of interaction offers the potential for corruption according to the participants in the study. The Indian Government provides a lot of support to software export firms located inside designated technology zones. Policymakers could also consider providing support services to deal with compliance for the software firms located outside these zones.

5.7 Limitations and Future Research

The articles for review in Essay One were limited to those that treated origin as a source of liability with regard to internationalization. Since Essay One is the first systematic literature review on LOR (to the best of the author’s knowledge), it could not benefit from references from earlier reviews, and despite the careful search may have missed an article. Systematic literature reviews in related fields have included a greater number of articles — for example a review of IE by Keupp and Gassmann (2009) covered 179 articles while a review of LOF by Denk et al. (2012) covered 27 articles. Only 18 articles were used in this review.
since the concept of LOR is still relatively under-researched. Despite the limited number of articles in the literature, a systematic review of this work was conducted.

The qualitative study was conducted in one EE, namely India. While EEs share some similar characteristics such as rapidly changing institutional environments, institutional voids and high rates of growth, each EE is unique (Hoskisson et al., 2013; Meyer & Peng, 2016). There are small and large EEs with different political systems. The interviews for the qualitative study (Essay Two) were conducted in four linguistic states in Southern India. Some of the experiences of the participants, therefore, may be specific to their region and culture. Since SMEs across India are controlled by regulations decreed at the national level (Ministry of MSME, 2018a) several of the experiences relating to the burden of compliance and corruption are likely to be shared across different regions. There, however, may still be factors that vary with the quality of governance in a particular linguistic state. Findings relating to informal institutions may also differ across regions because of differences in culture (Dheer et al., 2015).

Another possible limitation was that the research was conducted with only English-speaking entrepreneurs. This was a choice taken because translating and interpretation across different linguistic states would have been extremely complex. English is widely spoken in India among the urban educated classes. Since this dissertation focuses on internationalization and the language of global business is English (Neeley, 2012), English was considered an appropriate medium of communication. However, conducting interviews in English could also be a limitation because using native languages in qualitative research can
encourage openness between interviewee and interviewer, since language is more than a mechanical means of communication and can convey meaning in different ways (Alvesson, 2003; Welch & Piekkari, 2006). Future research which is conducted in regional languages may offer fresh insights into the phenomenon of LOR.

Another weakness of the qualitative study is that despite efforts to interview female exporters, the majority of the participants in the qualitative interviews were males. This is most likely because that females are less likely to be exporters because of social barriers (Welch, Welch, & Hewerdine, 2008), which are more prevalent in India, a country that ranks high on gender inequality despite globalization (Arora, 2012). It may mean that there are simply fewer female exporters to interview. However, two of the three SME experts were women. Future research could explore whether women’s perceptions of institutional voids differ from males’ perceptions. Another limitation is that only three SME experts were interviewed for this study. Although the experts belong to leading public sector institutions supporting SME development, future studies could include interviews of SME experts from a wider range of organizations involved in exports and internationalization.

The findings related to the mindset LOR are subject to the limitation that entrepreneurial cognition is not observable. Similarly, since direct questions were not posed with respect to entrepreneurial emotions or mindset, but these themes emerged from the interviews, these findings need to be further validated. The generalizability of the findings on mindset LOR to other EEs may be questioned because of contextual differences. However, these prior studies on SMEs in
transition economies exploring entrepreneurial emotions (Doern & Goss, 2014) suggest that entrepreneurs in transition economies have similar experiences with public officials who appear to have a ‘grabbing hand’ (Budak & Rajh, 2014; A. Shleifer & Vishny, 2002; Tonoyan et al., 2010). Studies on SME barriers in transition economies (Aidis, 2005; Hashi, 2001; Krasniqi, 2007) suggest that regulatory complexity can restrict entrepreneurial growth in these economies. However, these studies did not examine internationalization. The findings of the qualitative study are, therefore, likely to be relevant to other EEs and future research could explore the relevance of mindset LOR in other EEs.

A limitation of the quantitative study is that the measure used for self-efficacy is a single-item measure and not a psychometric scale. Given the complexity of the entrepreneurial self-efficacy (ESE) construct as described in the literature (Chen, Greene, & Crick, 1998; Drnovšek, Wincent, & Cardon, 2010; McGee, Peterson, Mueller, & Sequeira, 2009) using a more fine-grained measure could offer more insights into the impact of personal factors in overcoming LOR. However, the GEM database does not contain this data. By comparing the impact of self-efficacy between EE SME and AE SMEs on overcoming institutional voids, the quantitative study (Essay Three) suggests that self-efficacy is even more important in EEs than in AEs. Future research could further explore the comparative importance of self-efficacy. Given that self-efficacy has been identified as one of the most prominent constructs in the field of entrepreneurial psychology (Frese & Gielnik, 2014; Shane, Locke and Collins, 2003), this could prove a fruitful area of research. Another paradoxical result in the quantitative study was that the fear of failure was positively related to degree of
internationalization for EE entrepreneurs. Investigating this paradox could be an avenue for future research.

The cross-sectional nature of both the quantitative and the qualitative study is another limitation as it only captures perceptions at one point in time. The quantitative study was limited to the year 2014 because this is the latest year for which the GEM data were available at the period the analysis was conducted. Future research could extend this study to multiple years as had been the case with some prior studies using GEM data (Muralidharan & Pathak, 2017). Longitudinal research could offer insights into the dynamic nature of LOR.

The results related to LOR have been limited to ‘propensity to export’ and ‘intensity of export’ and did not include other measures of internationalization such as geographical scope and intensity. Conducting a study using these measures of internationalization could offer more insights. However, the GEM data does not contain these measures so other sources of data would have to be found.

Essay Two suggested that the industry sector is likely to influence LOR with manufacturing firms in India more likely to experience LOR than software firms. Further research could study the impact of the industry sector on LOR. Another limitation of both the quantitative and the qualitative studies is the focus on exports. All the entrepreneurs in the qualitative study were exporters and had not yet engaged in equity-based internationalization modes or other modes of internationalization. However, exports are the most likely mode of internationalization for SMEs (LiPuma et al., 2013; Reuber et al., 2018; World Trade Organization, 2016), and especially at the early stages of
internationalization. Investigating the impact of LOR on other entry modes is a potential area of research.

Both the qualitative and quantitative studies suggest that the business environment EE entrepreneurs face is very challenging. If nascent entrepreneurs were cognizant of all the obstacles they would need to overcome in order to succeed and internationalize they may never attempt to internationalize. The entrepreneurial psychology literature has examined the impact of optimism in business start-up and business performance. Both overconfidence and underconfidence have been found to be harmful in entrepreneurship studies (Frese & Gielnik, 2014; Hmieleski & Baron, 2008) and in the seminal LOR study (Bartlett & Ghoshal, 2000). Studies in psychology have found that maintaining positive illusions despite negative circumstances can help individuals cope (Taylor & Brown, 1988; Taylor, Collins, Skokan, & Aspinwall, 1989). It has also been suggested that human beings perform better with an ‘optimal margin of illusion’ since both the overestimation of capabilities and the underestimation of capabilities can be counterproductive (Baumeister, 1989). Given the challenging business environment in EEs, a useful avenue of further research could be to examine the impact of positive illusions on EE entrepreneurs and internationalization.

The theory of work frustration states that frustrated employees are likely to engage in interpersonal aggression, sabotage, hostility, search for alternatives or complete withdrawal (Chen & Spector, 1992; Spector, 1978). These emotions have not yet been explored in the context of IE. If EE entrepreneurs are frustrated with their home country governments, the resulting consequences need to be
investigated. Employees of companies have been found to take out their frustration by searching for alternatives, engaging in destructive acts and aggression, or withdrawing (Fox & Spector, 1999; Spector, 1978). Interviewed entrepreneurs (Essay Two) shared how their search for alternatives to bribery were not fruitful. Since EE entrepreneurs cannot take out their frustration on their own enterprises a question that remains to be answered is ‘How do EE entrepreneurs deal with their frustration? A follow-up study on the entrepreneurs who expressed frustration may enhance our understanding of the impact of this under-researched entrepreneurial emotion.

A limitation is that this study does not measure success or international performance in internationalization neither in the qualitative nor in the quantitative study. This is because success is a subjective measure that would depend on the goals of the entrepreneur. The internationalization goals were varied among the participants in the qualitative study. Essay Two found that while some entrepreneurs internationalized for profitability reasons, others sought foreign markets for learning and innovation, while some other entrepreneurs internationalized as they preferred dealing with professional customers in AEs who appreciated high quality products and paid their bills promptly. Just as success is difficult to define, so is performance. Export performance can have a multitude of measures, subjective and objective, financial and non-financial (Sousa, 2004; Zou & Stan, 1998). Furthermore, export performance can be impacted by a wide range of macroeconomic factors such as exchange rates, trade policies, GDP or firm-level factors such as financial capital and other resources (LiPuma et al., 2013; Wright et al., 2007). Another unexplored factor in the
current study is culture. Culture has been found to influence entrepreneurship (Autio et al., 2013; Ute & Uhlner, 2010) and future research could explore whether LOR has cultural dimensions.

5.8 Conclusion

Starting a business has been likened to going into battle because entrepreneurs have to garner sufficient resources and need to strategize in order to survive hostile adversaries (Honig, 2004). Internationalization renders this battle of entrepreneurship even more challenging given the high risk and uncertainty involved. Entrepreneurs across the globe are, therefore, often cautious about entering foreign markets (World Trade Organization, 2016; Wright et al., 2007). Given the liabilities resulting from pervasive home country institutional voids that EE entrepreneurs face compared to AE entrepreneurs — as this dissertation has shown — it is almost as if EE entrepreneurs have to enter this battle with their hands tied. In other words, the dice appear to be loaded against EE entrepreneurs in their internationalization ventures resulting in LOR. The loaded dice do not just have negative implications in material terms as validated by both the qualitative study and the quantitative study but may also impact entrepreneurs psychologically.

The qualitative study uncovered novel findings relating to entrepreneurial psychology. EE entrepreneurs were found to experience psychological scarcity (Mullainathan & Shafir, 2013) because of the cognitive load of dealing with the burden of compliance and corruption. This resulted in reduced mental bandwidth for internationalization. Additionally, institutional voids were found to decrease growth ambitions, and even evoked negative emotions that reduced
entrepreneurial motivation. The quantitative study found that poor regulatory quality had a negative impact on EE SME internationalization. Furthermore, poor institutional quality was associated with higher costs of internationalization for EE entrepreneurs compared to AE entrepreneurs.

Both the qualitative and the quantitative study confirmed the importance of self-efficacy for EE entrepreneurs. Self-efficacy was found to help EE entrepreneurs overcome regulatory hurdles and internationalize. Since self-efficacy is not a personality trait but can be cultivated (Bandura, 1989; Stajkovic & Luthans, 2003), this finding has a positive implication for practice. EE entrepreneurs can be encouraged to take proactive measures to develop self-efficacy through experience, training, finding mentors, and joining support groups (Bandura, 1989). This dissertation is also a testimony to the resilience of the human spirit. The participants in this study demonstrated that despite LOR and the associated challenges, it is still possible to hold on to self-belief and not let go of the desire to make a positive difference to society.
References


Alkire, T., & Meschi, P. X. (2018). The decision to stay or resign following an acquisition by a Chinese or Indian company. *Management International Review, 58*(1), 9–42.


496–519.


## Appendix I  Summary of LOF Studies

<table>
<thead>
<tr>
<th>Year</th>
<th>Authors</th>
<th>Research Purpose/Question</th>
<th>Empirical/ Conceptual</th>
<th>Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Zaheer</td>
<td>Do firms face a “liability of foreignness” and to what extent does isomorphism help to overcome LOF?</td>
<td>Empirical. 24 forex trading rooms in Japan and New York.</td>
<td>Firms face a liability of foreignness. Rather than local isomorphism, firm specific advantages are a more effective way to overcome LOF.</td>
</tr>
<tr>
<td>1999</td>
<td>Zaheer and Mosakowski</td>
<td>What is the behaviour of LOR over time?</td>
<td>Empirical. 2667 forex trading rooms in 47 countries.</td>
<td>LOF declines over time. Adoption of technology and mode of internal control (non-hierarchical) influences survival. High proportion of foreign firms in the environment leads to weaker LOF.</td>
</tr>
<tr>
<td>2002</td>
<td>Mezias</td>
<td>Do labour law suits represent LOF?</td>
<td>Empirical. 486 British, Japanese and German firms in the USA.</td>
<td>Foreign subsidiaries faced significantly more labour lawsuits. Firms using US nationals in the top management or with larger US operations faced less lawsuits.</td>
</tr>
<tr>
<td>2009</td>
<td>Elango</td>
<td>What are the strategies foreign firms use to cope with LOF?</td>
<td>Empirical. 3861 insurance firms in the US. Cultural Distance used as a control variable</td>
<td>Foreign firms have greater product variety and are likely to be associated with a business group. They are likely to have lower third party ratings than domestic firms.</td>
</tr>
<tr>
<td>2010</td>
<td>Nachum</td>
<td>When is foreignness an asset or a liability?</td>
<td>Empirical. 181 foreign and 268 domestic financial services firm in London.</td>
<td>In global cities like London, foreignness is not a disadvantage. Affiliates have superior advantages as compared to local domestic firms but not when compared to local multinationals. Entry mode does not make a difference.</td>
</tr>
<tr>
<td>2010</td>
<td>Barnard</td>
<td>How can EMNEs overcome their LOF in a highly developed host country?</td>
<td>Empirical. 53 EMNE operating in the USA</td>
<td>EMNEs can overcome their LOF in developed countries by acquiring market-based resources such as qualified human resources and high quality inputs from suppliers</td>
</tr>
<tr>
<td>Year</td>
<td>Authors</td>
<td>Research Question</td>
<td>Research Design</td>
<td>Mitigation Strategies</td>
</tr>
<tr>
<td>------</td>
<td>---------</td>
<td>-------------------</td>
<td>-----------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>2012</td>
<td>Klossek, Linke, and Nippa</td>
<td>How do Chinese enterprises in Germany mitigate their LOF?</td>
<td>Empirical. Case studies of seven Chinese MNEs in Germany</td>
<td>Chinese MNEs mitigate their LOF through due diligence, legitimacy and reputation building measures, and sharing control and responsibilities with local managers</td>
</tr>
<tr>
<td>2012</td>
<td>Yildiz and Fey</td>
<td>What is the relationship between legitimacy, local isomorphism, and overcoming LOF in the context of transforming economies?</td>
<td>Conceptual</td>
<td>MNEs gain legitimacy because of (i) global supply chains (ii) customers’ positive perceptions of foreign goods (iii) employee’s predilection for MNE HRM practices (iv) host government preferential treatment to MNEs. Local isomorphism is not that important.</td>
</tr>
<tr>
<td>2013</td>
<td>Moeller, Harvey, Griffith, and Richey</td>
<td>What is the relationship between an MNE’s country of origin and the acceptance of its subsidiaries by local stakeholders?</td>
<td>Conceptual</td>
<td>Managers need to recognize the different sources of LOF including tangible (e.g TMT composition) and intangible (e.g stigmatization, reputation)</td>
</tr>
<tr>
<td>2015</td>
<td>Zhou and Guillen</td>
<td>As a firm internationalizes, the firm’s home base, or the number of countries in which the firm already operates, gains importance and defines the LOF faced</td>
<td>Empirical. Chinese listed firms. LOF measured as the distance between home base and the home country</td>
<td>Firms with more international experience (and therefore a diverse home base) face lower LOF. Diversity of international experience helps in mitigating LOF</td>
</tr>
</tbody>
</table>
## Appendix II: Details of Entrepreneurs and SMEs

<table>
<thead>
<tr>
<th>S. No</th>
<th>Pseudonym</th>
<th>M/F</th>
<th>Age</th>
<th>Position</th>
<th>Mfg/Servic e/Trading</th>
<th>Line of Business</th>
<th>Year Established</th>
<th>Annual Turnover in Indian Rupees</th>
<th>Internationalization</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Entrepreneur A</td>
<td>Male</td>
<td>25-35</td>
<td>Founder</td>
<td>Trading</td>
<td>Fruits and Vegetables</td>
<td>2016</td>
<td>11 million</td>
<td>100 percent export unit</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Entrepreneur B</td>
<td>Female</td>
<td>46-55</td>
<td>CEO/Founder</td>
<td>Manufacturing</td>
<td>Electric Vehicles</td>
<td>2007</td>
<td>180 million</td>
<td>Less than 5 percent</td>
<td>150</td>
</tr>
<tr>
<td>3</td>
<td>Entrepreneur C</td>
<td>Male</td>
<td>25-35</td>
<td>Founder/Manager</td>
<td>Service/manufacturing and trading</td>
<td>Hospitality, coffee, pepper, handicrafts</td>
<td>2018</td>
<td>None as yet</td>
<td>N.A</td>
<td>Recruiting</td>
</tr>
<tr>
<td>4</td>
<td>Entrepreneur D</td>
<td>Male</td>
<td>25-35</td>
<td>Founding partner</td>
<td>Service</td>
<td>Digital Education</td>
<td>2014</td>
<td>&lt;10 million</td>
<td>66 percent exports</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Entrepreneur E</td>
<td>Male</td>
<td>36-45</td>
<td>CEO/Founder</td>
<td>Manufacturing plus service</td>
<td>Robotics and Industrial Automation</td>
<td>2007</td>
<td>35 million</td>
<td>20 percent was 60 percent</td>
<td>35</td>
</tr>
<tr>
<td>6</td>
<td>Entrepreneur F</td>
<td>Male</td>
<td>46-55</td>
<td>Founder/CEO</td>
<td>Trading</td>
<td>Garments - Outdoor wear</td>
<td>2007</td>
<td>1 million dollars</td>
<td>100 percent</td>
<td>220</td>
</tr>
<tr>
<td>7</td>
<td>Entrepreneur G</td>
<td>Male</td>
<td>35-35</td>
<td>Managing Partner/Founder</td>
<td>Trading</td>
<td>Spirulina</td>
<td>2016</td>
<td>&lt;10 million</td>
<td>100 percent</td>
<td>2</td>
</tr>
<tr>
<td>No.</td>
<td>Entrepreneur</td>
<td>Gender</td>
<td>Age</td>
<td>Role</td>
<td>Industry</td>
<td>Year Founded</td>
<td>Revenue</td>
<td>Export %</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>--------------</td>
<td>--------</td>
<td>-----</td>
<td>------</td>
<td>----------</td>
<td>--------------</td>
<td>---------</td>
<td>----------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>H</td>
<td>Male</td>
<td>36-45</td>
<td>Founder, CEO</td>
<td>Mfg</td>
<td>Tyre Retreading Tools</td>
<td>2004</td>
<td>12 million</td>
<td>Was 40 percent now reduced</td>
<td>12</td>
</tr>
<tr>
<td>9</td>
<td>I</td>
<td>Male</td>
<td>56 and above</td>
<td>Founder</td>
<td>Mfg</td>
<td>Garments</td>
<td>1987</td>
<td>1 billion</td>
<td>100 percent export unit</td>
<td>300</td>
</tr>
<tr>
<td>10</td>
<td>J</td>
<td>Male</td>
<td>36-45</td>
<td>CEO, Founder</td>
<td>Mfg</td>
<td>Products (Software) Woocommerce X adapter</td>
<td>2017</td>
<td>10 million</td>
<td>Over 80 percent exports</td>
<td>14</td>
</tr>
<tr>
<td>11</td>
<td>K</td>
<td>Male</td>
<td>36-45</td>
<td>CEO, Partner</td>
<td>Services and Products</td>
<td>Travel solutions</td>
<td>2009</td>
<td>3.5 billion</td>
<td>100 percent</td>
<td>500</td>
</tr>
<tr>
<td>12</td>
<td>L</td>
<td>Male</td>
<td>36</td>
<td>Founder, CEO</td>
<td>Products and Services</td>
<td>Learning Games</td>
<td>2015</td>
<td>&lt; 10 million</td>
<td>Not yet</td>
<td>10</td>
</tr>
<tr>
<td>13</td>
<td>M</td>
<td>Male</td>
<td>53</td>
<td>Managing Director</td>
<td>Manufacturing</td>
<td>Rubber tapes</td>
<td>1994</td>
<td>2.2 billion</td>
<td>20 percent</td>
<td>Permanent &gt;100</td>
</tr>
<tr>
<td>14</td>
<td>N</td>
<td>Male</td>
<td>56 and above</td>
<td>Founder, CEO</td>
<td>Mfg</td>
<td>Military Grade Cases</td>
<td>1992</td>
<td>150 million</td>
<td>Working toward agreement with Israel. Would like 25 percent or more.</td>
<td>120</td>
</tr>
<tr>
<td>15</td>
<td>O</td>
<td>Male</td>
<td>46-55</td>
<td>MD, Son of Founder</td>
<td>Mfg</td>
<td>Textiles</td>
<td>1993</td>
<td>250 million</td>
<td>100 percent export unit</td>
<td>Shut down</td>
</tr>
<tr>
<td>16</td>
<td>P</td>
<td>Male</td>
<td>46-55</td>
<td>Founder, MD</td>
<td>Service</td>
<td>Logistics</td>
<td>2000</td>
<td>800 million</td>
<td>Exports/ FDI</td>
<td>400</td>
</tr>
<tr>
<td>No.</td>
<td>Entrepreneur</td>
<td>Gender</td>
<td>Age Range</td>
<td>Role</td>
<td>Industry</td>
<td>Key Services/Products</td>
<td>Year Established</td>
<td>Revenue</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>--------------</td>
<td>--------</td>
<td>-----------</td>
<td>------</td>
<td>----------</td>
<td>----------------------</td>
<td>------------------</td>
<td>---------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Entreprenuer Q</td>
<td>Male</td>
<td>46-55</td>
<td>Founder CEO</td>
<td>Mfg and Services</td>
<td>Semiconductor Solutions, Platform solutions, Smart Cameras</td>
<td>1998</td>
<td>350 million</td>
<td>Registered office in USA. More than 80 percent exports</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Entreprenuer R</td>
<td>Male</td>
<td>36-45</td>
<td>Founding partner</td>
<td>Service</td>
<td>Software platforms for online marketplaces</td>
<td>2014</td>
<td>6 million</td>
<td>Over 80 percent exports</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Entreprenuer S</td>
<td>Male</td>
<td>36-45</td>
<td>Founder CEO</td>
<td>Mfg</td>
<td>Machining of Valves</td>
<td>2012</td>
<td>20 million</td>
<td>Clients are MNCs or exporters but wanting to move to exports</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Entreprenuer T</td>
<td>Male</td>
<td>36-45</td>
<td>CEO Owner</td>
<td>Global manufacturing outsourcing sources</td>
<td>Valves</td>
<td>2012</td>
<td>10 million</td>
<td>100 percent</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Entreprenuer U</td>
<td>Male</td>
<td>25-35</td>
<td>Founding partner CEO</td>
<td>Service</td>
<td>Mobile Apps</td>
<td>2014</td>
<td>10 million</td>
<td>100 percent</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Entreprenuer V</td>
<td>Male</td>
<td>25-35</td>
<td>Founding partner</td>
<td>Trading</td>
<td>Agri Exports</td>
<td>2016</td>
<td>&lt; 10 million</td>
<td>100 percent</td>
<td></td>
</tr>
</tbody>
</table>
Appendix III: Interview Schedules: SME Owner-Managers and Experts

Part I: INTERVIEW SCHEDULE: SME Owner-Manager

Liabilities of Origin and Emerging Economy SME Internationalisation

Name of SME Owner-manager:

Name and location of SME:

Interview Date:

1. Can you provide an overview of your organisation?
   a. When was your company established?
   b. What are your major products and services?
   c. How many employees do you have currently?
   d. What is your annual turnover?

2. Internationalization experience and future plans
   a. When did you first internationalize? When you first internationalized, how was your firm doing in the domestic market?
   b. Which international markets do you serve now?
   c. What was the first product/service that you internationalised? Was it successful?
   d. Which entry modes have you used in foreign markets (i.e. exporting, alliances, joint ventures, FDI etc.)
   e. How would you describe your performance in international markets? How important is for your firm (approx. percentage of total turnover)
   f. Overall, would you say you have been successful in meeting the goals of your internationalisation programme?
   g. Are you planning to increase your international activities, or reduce them in the future?

3. Business environment and internationalisation
   a. When you first internationalized did you face any challenges? If yes, what were the challenges? Do you face any challenges now? If yes, please could you describe these challenges
   b. (If respondent does not mention challenges in the business environment) In addition to these challenges that you described, what factors in the Indian business environment (mention factors such as legal requirements, political interventions, labor and capital markets if not mentioned in response to 3a) played a role in your ability to internationalize? Why?
   c. Did you adopt any strategies to overcome the barriers in India that you faced during internationalisation? What were those strategies and why did you choose them? Which of these strategies do you think were most
effective and why?

d. Do you feel that being an SME from an emerging economy like India has influenced your internationalisation path? How? (Probe) If you had been an SME from a advanced economy such as Australia or the USA, do you think your experience of internationalisation would have been different?

e. *(Ask only if the participant does not mention advantages in response to 3d and 3e)* What advantages do you believe SMEs from an emerging economy like India have as players in the global market place?

f. *(Ask only if the participant does not mention disadvantages in response to 3d and 3e)* What disadvantages do you believe SMEs from an emerging economy like India have as players in the global market place?

4. Liabilities of Origin

*Liabilities of origin are defined as the disadvantages faced by internationalizing firms due to their origin in emerging economies*

a. What is your opinion on the regulatory systems in India with regard to firm internationalisation?

b. What is your opinion of Indian business norms and practices and their suitability for international operations?

c. What is your opinion of the support services (financial credit, infrastructure, legal assistance) available in India with regard to firm internationalisation?

d. How do you think your customers in foreign countries view firms from India in terms of honesty and credibility? How about the government?

e. How well do you feel the quality of your products and/or services are relative to similar products and/or services sold in the global market?

f. How do you feel you international customers/partners view the quality of your products and/or services? What about reliability?

g. How do you feel foreign country governments, customers and the general public view Indian enterprises? *(probe each one, government, customers, general public)*

h. What do you feel Indian SMEs need to do to become successful global players?

5. Demographic Information

a. Education *(Highest Degree)*

b. International Education or Training *(if any)*:

c. International Work Experience *(if any)*:

d. International Travel *(Frequency)*:

e. Age

   (i) 25-35   (ii) 36-45
   (iii) 46-55   (iv) 56 and above
Part II: INTERVIEW SCHEDULE: SME Expert

Liabilities of Origin and Emerging Economy SME Internationalization

Name of Expert:

Name of Organization

Interview Duration/Date:

1. What do you believe are the most important challenges that Indian SMEs face in terms of their internationalization? *(If expert does not mention institutional challenges, then probe)*
   a. Do you think the regulatory systems in India play a role in SME internationalization? If yes, how?
   b. Do you think Indian business practices play a role too? If yes, how?

2. Are you familiar with the kinds of responses that Indian SMEs take to address these challenges? Which of these responses do you think are most effective?

3. *(If not mentioned)* Do you think Indian SMEs face challenges in international markets in terms of reputation? How do you think governments/customers/partners view Indian firms in terms of honesty and credibility?

4. What is your opinion on the willingness and ability of SME owner-managers in India to internationalize?
   a. Have you observed that the lack of confidence among some SME managers holds them back from internationalization? If yes, why do you think they are under-confident?
   b. Have you observed that some SME managers are over-confident in the ability to succeed internationally? If yes, why do you think they are overconfident?

5. Have you observed that the disadvantages related to internationalization faced by Indian SMEs because of their origin have changed over time?

6. Overall, do you think that SMEs from India can compete successfully with SMEs from advanced economies? Why?

Background

- Years of Work Experience in SME sector:
- Education (Highest Degree):
- Age (i) 25-35 (ii) 35-45 (iii) 45-55 (iv) 55 and above
Appendix IV: PLS Statement and Ethics Approval

Dear Shobhana, Jane et al,

BL-EC 68-17 Liabilities of Origin and Emerging Economy SME Internationalization

Thank you for submitting the above project for consideration by the Faculty Human Ethics Advisory Group (HEAG). The HEAG recognised that the project complies with the National Statement on Ethical Conduct in Research Involving Humans (2007) and has approved it. You may commence the project upon receipt of this communication.

The approval period is for four years. It is your responsibility to contact the Faculty HEAG immediately should any of the following occur:

- Serious or unexpected adverse effects on the participants
- Any proposed changes in the protocol, including extensions of time
- Any changes to the research team or changes to contact details
- Any events which might affect the continuing ethical acceptability of the project
- The project is discontinued before the expected date of completion.

You will be required to submit an annual report giving details of the progress of your research. Failure to do so may result in the termination of the project. Once the project is completed, you will be required to submit a final report informing the HEAG of its completion.

Please ensure that the Deakin logo is on the Plain Language Statement and Consent Forms. You should also ensure that the project ID is inserted in the complaints clause on the Plain Language Statement, and be reminded that the project number must always be quoted in any communication with the HEAG to avoid delays. All communication should be directed to blethics@deakin.edu.au
The Faculty HEAG and/or Deakin University Human Research Ethics Committee (HREC) may need to audit this project as part of the requirements for monitoring set out in the National Statement on Ethical Conduct in Research Involving Humans (2007).

If you have any queries in the future, please do not hesitate to contact me.

We wish you well with your research.

Kind regards,

Katrina Fleming

BL-HEAG Secretariat
TO: SME Owner-manager

Plain Language Statement

Date:

Full Project Title: Liabilities of Origin and Emerging Economy SME Internationalization

Principal Researcher: Dr. Jane Menzies
Student Researcher: Shobhana Madhavan
Associate Researcher(s): Associate Prof. Ambika Zutshi

We would like to invite you to take part in this research project. This project is being undertaken as part of a PhD degree. I obtained your contact details through ________

This Plain Language Statement contains detailed information about the research project. Its purpose is to explain to you as openly and clearly as possible all the procedures involved in this project so that you can make a fully informed decision about whether you are going to participate.

Participation in this interview is entirely voluntary. Your decision whether to take part or not to take part will not affect your relationship with Deakin University. Once you have read this form and agree to participate, please sign the attached Consent Form. You may keep this copy of the Plain Language Statement.

This study seeks to investigate how the disadvantages associated with the origin of a country could influence SME internationalization. Internationalizing SMEs in India are likely to be affected by challenges in the Indian business environment such as regulatory hurdles, corruption, infrastructure bottlenecks and many others. This study explores the perceptions of the SME owner-manager of their business environment. It also examines how SME owner-managers respond to the challenges in the business environment with regard to internationalization.

Around 20 Indian SMEs that are engaged in some form of internationalization will participate in this study which uses the case method. The outcomes of this study will help to contribute to the limited literature on Indian SME internationalization and can potentially help owner-managers improve their internationalization decision-making.

The face-to-face semi-structured interview with you will take approximately one hour to complete. This interview will be audio-recorded with your consent and professionally transcribed. You are free to withdraw from this process any time and this will not jeopardize your relationship with Deakin University. A separate form is provided for this purpose.
The findings of this research study will be published as part of PhD thesis, in conference papers and in journal articles. In any publication, information will be provided in a collective, non-identifiable manner and in no way identify any individual or organisation. Upon completion of this research project, you will be sent (on request) a copy of the resulting publications.

**Ethical Guidelines**

This project will be carried out according to the National Statement on Ethical Conduct in Human Research (2007) produced by the National Health and Medical Research Council of Australia. This statement has been developed to protect the interests of people who agree to participate in human research studies. The ethics aspects of this research project have been approved by the Human Research Ethics Committee of Deakin University.

**Complaints**

If you have any complaints about any aspect of the project, the way it is being conducted or any questions about your rights as a research participant, then you may contact:

The Manager, Research Integrity, Deakin University, 221 Burwood Highway, Burwood Victoria 3125, Telephone: 9251 7129, Facsimile: 9244 6581; research-ethics@deakin.edu.au

Please quote project number [201X-xxx].

**Further Information, Queries or Any Problems**

If you require further information, wish to withdraw your participation or if you have any problems concerning this project, you can contact either of the researchers:

**Shobhana Madhavan**
Department of Management  
Faculty of Business and Law  
Deakin University, 221 Burwood Highway, Burwood, VIC 3125  
Email: smadhava@deakin.edu.au  
Tel: +91-2685000 ext 5414

**Dr. Jane Menzies**
Department of Management  
Deakin Business School  
Faculty of Business and Law  
Deakin University  
221 Burwood Highway, Burwood, VIC 3125  
Email: jane.menzies@deakin.edu.au  
Tel: +61 3 92445104

**Associate Prof. Ambika Zutshi**
Department of Management  
Deakin Business School  
Faculty of Business and Law  
Deakin University  
221 Burwood Highway, Burwood, VIC 3125  
Email: ambika.zutshi@deakin.edu.au  
Tel: +61 3 92446678
PLAIN LANGUAGE STATEMENT AND CONSENT FORM

TO: Owner Managers of SME

Consent Form

Date:

Full Project Title: Liabilities of Origin and Emerging Economy SME Internationalization

Reference Number:

I have read and I understand the attached Plain Language Statement.

I freely agree to participate in this project according to the conditions in the Plain Language Statement.

I have been given a copy of the Plain Language Statement and Consent Form to keep.

The researcher has agreed not to reveal my identity and personal details, including where information about this project is published, or presented in any public form.

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>I give my consent for audio-recording of this interview (please tick).</td>
<td></td>
</tr>
</tbody>
</table>

Participant’s Name (printed) .................................................................

Signature ................................................................. Date ..................
PLAIN LANGUAGE STATEMENT AND CONSENT FORM

TO: (Name of Organisation)

Organisational Consent Form

(To be used by organisational Heads providing consent for staff/members/patrons to be involved in research)

Date:

Full Project Title:

Reference Number:

I have read and I understand the attached Plain Language Statement.
I give my permission for [staff/members/patrons] of [name of organisation] to participate in this project according to the conditions in the Plain Language Statement.
I have been given a copy of Plain Language Statement and Consent Form to keep.
The researcher has agreed not to reveal the participants’ identities and personal details if information about this project is published or presented in any public form.

I agree that

1. The institution/organisation MAY / MAY NOT be named in research publications or other publicity without prior agreement.
2. I / We EXPECT / DO NOT EXPECT to receive a copy of the research findings or publications.

Name of person giving consent (printed) .................................................................

Signature ................................................................. Date .................................
PLAIN LANGUAGE STATEMENT AND CONSENT FORM

TO: Owner-manager of SME

Withdrawal of Consent Form

(To be used for participants who wish to withdraw from the project)

Date:

Full Project Title:

Reference Number:

I hereby wish to WITHDRAW my consent to participate in the above research project and understand that such withdrawal WILL NOT jeopardise my relationship with Deakin University

Participant’s Name (printed) ............................................................

Signature ................................................................. Date .................

Please mail or fax this form to:

Dr. Jane Menzies
Department of Management
Deakin Business School
Faculty of Business and Law
Deakin University
221 Burwood Highway,
Burwood, VIC 3125
PLAIN LANGUAGE STATEMENT AND CONSENT FORM

TO: SME Expert

Plain Language Statement

Date:

Full Project Title: Liabilities of Origin and Emerging Economy SME Internationalization

Principal Researcher: Dr. Jane Menzies

Student Researcher: Shobhana Madhavan

Associate Researcher(s): Associate Prof. Ambika Zutshi

We would like to invite you to take part in this research project. This project is being undertaken as part of a PhD degree. I obtained your contact details through ______.-

This Plain Language Statement contains detailed information about the research project. Its purpose is to explain to you as openly and clearly as possible all the procedures involved in this project so that you can make a fully informed decision about whether you are going to participate.

Participation in this interview is entirely voluntary. Your decision whether to take part or not to take part will not affect your relationship with Deakin University. Once you have read this form and agree to participate, please sign the attached Consent Form. You may keep this copy of the Plain Language Statement.

This study seeks to investigate how the disadvantages associated with the origin of a country could influence SME internationalization. Internationalizing SMEs in India are likely to be affected by challenges in the Indian business environment such as regulatory hurdles, corruption, infrastructure bottlenecks and many others. This study explores the perceptions of the SME owner-manager of their business environment. It also examines how SME owner-managers respond to the challenges in the business environment with regard to internationalization.

Around 20 Indian SMEs that are engaged in some form of internationalization will participate in this study which uses the case method. The outcomes of this study will help to contribute to the limited literature on Indian SME internationalization and can potentially help owner-managers improve their internationalization decision-making.

The face-to-face semi-structured interview with you will take approximately one hour to complete. This interview will be audio-recorded with your consent and professionally transcribed. You are free to withdraw from this process any time and this will not jeopardize your relationship with Deakin University. A separate form is provided for this purpose.

297
The findings of this research study will be published as part of PhD thesis, in conference papers and in journal articles. In any publication, information will be provided in a collective, non-identifiable manner and in no way identify any individual or organisation. Upon completion of this research project, you will be sent (on request) a copy of the resulting publications.

5. Ethical Guidelines

This project will be carried out according to the National Statement on Ethical Conduct in Human Research (2007) produced by the National Health and Medical Research Council of Australia. This statement has been developed to protect the interests of people who agree to participate in human research studies. The ethics aspects of this research project have been approved by the Human Research Ethics Committee of Deakin University.

Complaints

If you have any complaints about any aspect of the project, the way it is being conducted or any questions about your rights as a research participant, then you may contact:

The Manager, Research Integrity, Deakin University, 221 Burwood Highway, Burwood Victoria 3125, Telephone: 9251 7129, Facsimile: 9244 6581; research-ethics@deakin.edu.au

Please quote project number [201X-XXX].

6. Further Information, Queries or Any Problems

If you require further information, wish to withdraw your participation or if you have any problems concerning this project, you can contact either of the researchers:

Shobhana Madhavan
Department of Management
Faculty of Business and Law
Deakin University, 221 Burwood Highway,
Burwood, VIC 3125
Email: smadhava@deakin.edu.au
Tel: +91-2685000 ext 5414

Dr. Jane Menzies
Department of Management
Deakin Business School
Faculty of Business and Law
Deakin University
221 Burwood Highway,
Burwood, VIC 3125
Email: jane.menzies@deakin.edu.au
Tel: +61 3 92445104

Associate Prof. Ambika Zutshi
Department of Management
Deakin Business School
Faculty of Business and Law
Deakin University
221 Burwood Highway,
Burwood, VIC 3125
Email: ambika.zutshi@deakin.edu.au
Tel: +61 3 92446678
PLAIN LANGUAGE STATEMENT AND CONSENT FORM

TO: SME Expert

Consent Form

Date:

Full Project Title: Liabilities of Origin and Emerging Economy SME Internationalization

Reference Number:

I have read and I understand the attached Plain Language Statement.

I freely agree to participate in this project according to the conditions in the Plain Language Statement. I have been given a copy of the Plain Language Statement and Consent Form to keep.

The researcher has agreed not to reveal my identity and personal details, including where information about this project is published, or presented in any public form.

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>I give my consent for audio-recording of this interview (please tick).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Participant’s Name (printed)
.................................................................

Signature ......................................................... Date
.................................................................

\
PLAIN LANGUAGE STATEMENT AND CONSENT FORM

TO: SME Expert

Withdrawal of Consent Form

(To be used for participants who wish to withdraw from the project)

Date:

Full Project Title:

Reference Number:

I hereby wish to WITHDRAW my consent to participate in the above research project and understand that such withdrawal WILL NOT jeopardise my relationship with Deakin University.

Participant’s Name (printed) .................................................................

Signature .............................................................. Date .....................

Please mail or fax this form to:

Dr. Jane Menzies
Department of Management
Deakin Business School
Faculty of Business and Law
Deakin University
221 Burwood Highway,
Burwood, VIC 3125
15 January 2018
Appendix V: A Priori and A Posteriori List of Codes

I. A-PRIORI CODES

<table>
<thead>
<tr>
<th></th>
<th>INTERNAL LIABILITIES OF ORIGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a. Mindset</td>
</tr>
<tr>
<td></td>
<td>b. Mindset of under-confidence</td>
</tr>
<tr>
<td></td>
<td>c. Mindset of overconfidence</td>
</tr>
<tr>
<td></td>
<td>d. Lack of experience</td>
</tr>
<tr>
<td></td>
<td>e. Cultural Differences</td>
</tr>
<tr>
<td>2</td>
<td>INSTITUTIONAL BARRIERS</td>
</tr>
<tr>
<td></td>
<td>a. Corruption</td>
</tr>
<tr>
<td></td>
<td>b. Lack of Access to Finance</td>
</tr>
<tr>
<td></td>
<td>c. Lack of Government Support and Services</td>
</tr>
<tr>
<td></td>
<td>d. Infrastructure Bottlenecks</td>
</tr>
<tr>
<td></td>
<td>e. Educational System</td>
</tr>
<tr>
<td>3</td>
<td>EXTERNAL LIABILITIES OF ORIGIN</td>
</tr>
<tr>
<td></td>
<td>a. Perceptions of Low Quality</td>
</tr>
<tr>
<td></td>
<td>b. Perceptions of Low Reliability</td>
</tr>
<tr>
<td></td>
<td>c. Perceptions of Credibility and Competence</td>
</tr>
<tr>
<td></td>
<td>d. Lack of Acceptance</td>
</tr>
<tr>
<td>4</td>
<td>RESPONSES</td>
</tr>
<tr>
<td></td>
<td>a. Networks and Contacts</td>
</tr>
<tr>
<td></td>
<td>b. Certification</td>
</tr>
<tr>
<td></td>
<td>c. Association</td>
</tr>
<tr>
<td></td>
<td>d. Building Trust</td>
</tr>
<tr>
<td>5</td>
<td>OTHER FACTORS</td>
</tr>
<tr>
<td></td>
<td>a. Time</td>
</tr>
<tr>
<td></td>
<td>b. Self-efficacy</td>
</tr>
</tbody>
</table>

II. A Posteriori Codes

<table>
<thead>
<tr>
<th>S.No</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic Market Challenges</td>
</tr>
<tr>
<td>1.</td>
<td>Lack of Professionalism among Indian firms</td>
</tr>
<tr>
<td>2.</td>
<td>Lack of transparency among Indian partners</td>
</tr>
<tr>
<td>3.</td>
<td>Low profitability of domestic business</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>4.</td>
<td>Preference for international customers within India</td>
</tr>
<tr>
<td><strong>Firm-level Factors</strong></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Identity of SME</td>
</tr>
<tr>
<td>6.</td>
<td>Emphasis on quality and excellence</td>
</tr>
<tr>
<td>7.</td>
<td>Unique organizational culture</td>
</tr>
<tr>
<td>8.</td>
<td>Lack of knowledge of complex regulations</td>
</tr>
<tr>
<td>9.</td>
<td>Lack of resources</td>
</tr>
<tr>
<td><strong>Importance of International Business</strong></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Competition</td>
</tr>
<tr>
<td>11.</td>
<td>Cost advantage</td>
</tr>
<tr>
<td>12.</td>
<td>Early recognition of importance</td>
</tr>
<tr>
<td>13.</td>
<td>Entry mode</td>
</tr>
<tr>
<td>14.</td>
<td>Innovation and technology</td>
</tr>
<tr>
<td>15.</td>
<td>Profitability</td>
</tr>
<tr>
<td><strong>Institutional Barriers</strong></td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>Bureaucratic hurdles</td>
</tr>
<tr>
<td>17.</td>
<td>Corruption and bribery</td>
</tr>
<tr>
<td>18.</td>
<td>Culture Lack of respect for entrepreneurs</td>
</tr>
<tr>
<td>19.</td>
<td>Indian culture lack of reliability and commitment</td>
</tr>
<tr>
<td>20.</td>
<td>Indian culture lack of respect for procedures</td>
</tr>
<tr>
<td>21.</td>
<td>Indian culture saying something doing something else</td>
</tr>
<tr>
<td>22.</td>
<td>Lack of accountability and transparency</td>
</tr>
<tr>
<td>23.</td>
<td>Lack of culture of quality</td>
</tr>
<tr>
<td>24.</td>
<td>Lack of Ethics</td>
</tr>
<tr>
<td>25.</td>
<td>Lack of support from the government to SMEs</td>
</tr>
<tr>
<td><strong>LOR External</strong></td>
<td></td>
</tr>
<tr>
<td>26.</td>
<td>Client Perception that low cost is associated with low quality</td>
</tr>
<tr>
<td>27.</td>
<td>Client perceptions of risk</td>
</tr>
<tr>
<td>28.</td>
<td>Client threatened by job loss to Indian firms</td>
</tr>
<tr>
<td>29.</td>
<td>Perception of low competence of Indians</td>
</tr>
<tr>
<td>30.</td>
<td>Poor image of Indian firms overseas</td>
</tr>
<tr>
<td>31.</td>
<td>Language barriers in non-English speaking countries</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>32.</td>
<td>Visa barriers</td>
</tr>
<tr>
<td><strong>LOR Internal</strong></td>
<td></td>
</tr>
<tr>
<td>33.</td>
<td>Lack of confidence in value of product</td>
</tr>
<tr>
<td>34.</td>
<td>Lack of Negotiation Skills</td>
</tr>
<tr>
<td>35.</td>
<td>Lack of openness among employees</td>
</tr>
<tr>
<td>36.</td>
<td>Limiting Mindset</td>
</tr>
<tr>
<td>37.</td>
<td>Time and Energy fighting system / Mental Space</td>
</tr>
<tr>
<td><strong>Overcoming External Barriers</strong></td>
<td></td>
</tr>
<tr>
<td>38.</td>
<td>Building Legitimacy</td>
</tr>
<tr>
<td>39.</td>
<td>Certifications</td>
</tr>
<tr>
<td>40.</td>
<td>Networks</td>
</tr>
<tr>
<td>41.</td>
<td>Referrals from International Clients</td>
</tr>
<tr>
<td>42.</td>
<td>Registration of office in host country</td>
</tr>
<tr>
<td>43.</td>
<td>Same client with global locations</td>
</tr>
<tr>
<td><strong>Personal Factors</strong></td>
<td></td>
</tr>
<tr>
<td>44.</td>
<td>Feeling of Helplessness</td>
</tr>
<tr>
<td>45.</td>
<td>Wanting to making a difference</td>
</tr>
<tr>
<td>46.</td>
<td>Self-efficacy</td>
</tr>
</tbody>
</table>
Appendix VI: STATA Output Regression Models

MODEL I  Emerging Economies

Mixed-Effects Multilevel Ordinal Logit Regression for Export Intensity

| Variable          | Odds Ratio   | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|-------------------|--------------|-----------|------|------|----------------------|
| osexportfive      |              |           |      |      |                      |
| rple2014          | 3.576129     | 2.306016  | 1.98 | 0.048| 1.01048              | 12.65606 |
| rle2014           | .2306258     | .332142   | -1.02| 0.308| .0137097             | 3.879616 |
| cce2014           | 3.97039      | 5.033543  | 1.09 | 0.277| .3309064             | 47.63884 |
| onewtech2         | .8156747     | .0467071  | 3.56 | 0.000| .7290806             | .9125536 |
| omzsiz50          | 3.149656     | 1.045899  | 3.45 | 0.001| 1.642882             | 6.038369 |
| suskill2#c.rqa2014| .6506337     | .1687968  | -1.66| 0.098| .3912962             | 1.081851 |
| suskill2#c.cce2014| .9318451     | .4439721  | -0.15| 0.882| .3662367             | 2.370793 |
| suskill2#c.rle2014| 1.410389     | .7812707  | 0.62 | 0.535| .4762385             | 4.176893 |
| fearfail2         | 1.23528      | .983353   | 2.92 | 0.003| 1.072029             | 1.423391 |
| suskill2          | 1.414275     | .1769317  | 2.74 | 0.006| 1.103475             | 1.812285 |
| opport2           | 1.191898     | .084102   | 2.57 | 0.010| 1.042759             | 1.362367 |
| age2              | 1.000425     | .027471   | 0.15 | 0.878| .9950506             | 1.005819 |
| male              | 1.220836     | .808391   | 3.01 | 0.003| 1.072245             | 1.390019 |
| knovent2          | 1.105624     | .801048   | 2.12 | 0.034| 1.01185              | 1.329853 |
| Education         | 1.26135      | .5417369  | 7.02 | 0.000| 1.182143             | 1.345864 |
| /cut1             | 1.84263      | .4000096  | 1.05 | 0.862| 1.058626             | 2.626635 |
| /cut2             | 3.983394     | .404394   | 3.19 | 0.002| 3.192796             | 4.777992 |
| /cut3             | 4.527977     | .4072628  | 3.72 | 0.000| 3.729777             | 5.326218 |
| /cut4             | 5.547434     | .4187301  | 4.72 | 0.000| 4.726738             | 6.36613 |
| country           | .691658      | .2545865  |      |      | .336185              | 2.921183 |

Note: Estimates are transformed only in the first equation.
LR test vs. ologit model: chibar2(01) = 494.33  Prob >= chibar2 = 0.0000
#### MODEL II: Advanced Economies

Mixed-Effects Multilevel Ordinal Logit Regression for Export Intensity

```
Mixed-effects ologit regression                      Number of obs = 6,284
Group variable: country                              Number of groups = 26

Obs per group:
  min = 65
  avg = 241.7
  max = 1,938

Integration method: mvaghermite                       Integration pts. = 7

Log likelihood = -6319.9782                           Wald chi2(15) = 99.96
Prob > chi2 = 0.0000

|                  | Odds Ratio | Std. Err. | z     | P>|z| |  [95% Conf. Interval] |
|------------------|------------|-----------|-------|-----|-----------------------|
| rle2014          | 3.643596   | 2.682754  | 1.76  | 0.079 | .8605901              |
| cce2014          | 1.849446   | 1.865002  | 0.61  | 0.542 | 0.2542598             |
| omnewtec2        | 0.825941   | 0.0424674 | 3.72  | 0.000 | 0.746716             |
| omsize50         | 2.59211    | 0.4838256 | 5.10  | 0.000 | 1.797935             |
| suskill2#c.rle2014 | 1         | 0.9076885 | 0.3510192 | 0.25 | 0.802 | 0.4253653 | 1.936919 |
| suskill2#c.cce2014 | 1        | 0.5123024 | 0.279947 | -1.22 | 0.221 | 0.175540   | 1.495080 |
| suskill2#c.rle2014 | 1         | 2.467863  | 1.882946 | 1.18 | 0.236 | 0.5531791   | 11.00972 |
| fearfail2        | 0.9196573  | 0.054705  | -1.41 | 0.159 | 0.8184518             |
| oppor2           | 1.10312    | 0.062248  | 1.74  | 0.082 | 0.9876213             |
| age2             | 0.9993767  | 0.0022854 | -0.27 | 0.785 | 0.9949074             |
| knowent2         | 1.113592   | 0.0598589 | 2.03  | 0.042 | 1.004031               |
| Education        | 1.119636   | 0.0322804 | 3.92  | 0.000 | 1.058122               |

|                  | Odds Ratio | Std. Err. | z     | P>|z| |  [95% Conf. Interval] |
|------------------|------------|-----------|-------|-----|-----------------------|
| /cut1            | -1.546715  | 0.676523  | -1.20 | 0.00633 | 0.751292             |
| /cut2            | 1.690811   | 0.6767705 | 1.64  | 0.101275 | 3.017256             |
| /cut3            | 2.210357   | 0.6772573 | 2.81  | 0.005375 | 3.537757             |
| /cut4            | 2.718372   | 0.6780989 | 3.18  | 0.001389 | 4.047404             |

|                  | var(_cons) | Std. Err. | z     | P>|z| |  [95% Conf. Interval] |
|------------------|------------|-----------|-------|-----|-----------------------|
| country          | 0.4566892  | 0.1358532 | 3.39  | 0.000416 | 0.2549238 | 0.8181466 |
```

Note: Estimates are transformed only in the first equation.

LR test vs. ologit model: chibar2(101) = 574.57, Prob > chibar2 = 0.0000