Full Length Article

The entry mode strategy and performance of SMEs: Evidence from Norway

Shaista Nisar[a], Agyenim Boateng[b,*], Junjie Wu[c]

[a] University of Tampa, FL, USA
[b] Law, Economics, Accounting & Risk, Glasgow Caledonian University UK
[c] Faculty of Business and Law, Leeds Beckett University, UK

ARTICLE INFO

ABSTRACT

The relationship between foreign entry mode choice and the performance of small-medium sized enterprises (SMEs) has been an overarching theme of research of the past decade. However, the research in this area has been hampered by the difficulty of defining and measuring performance. In this study, we used a multi-item measure of performance, which takes into account the relative importance of each measure and the perceived level of satisfaction, to analyse 146 SMEs in Norway. Our regression analysis shows that firm characteristics: size and sector of operation, significantly influence performance. However, prior international experience did not significantly influence performance. In terms of entry mode via international joint venture, trust and congruity of goals between partners have a positive and significant influence on performance.

1. Introduction

The entry mode choice is one of the most important decisions in a small firm's internationalisation strategy because it determines the amount of resources to be committed, the level of control and market implementation strategy in the host country. These factors have major implications for performance (Caves and Mehra, 1986; Brouthers, 2002; Brouthers and Nakos, 2004; Tsai and Tung, 2014). However, despite the advances in entry mode theory, there remains a gap in our understanding of the performance implications of entry mode by SMEs (Choo and Mazzarol, 2001; Schwens et al., 2011; Stoian et al., 2016). Small firm characteristics, such as limited financial resources, ownership structure, managerial styles and managerial resources, suggest that the international strategies and structures of SMEs differ from large multinationals. However, past empirical efforts have concentrated on large multinational firms (see, Coviello and McAuley, 1999; Carrier, 1994). This raises the question: do SMEs characteristics lead to an improved performance? While past empirical efforts have attempted to address this important question, albeit in a limited way, it is pertinent to note that studies have produced mixed and inconclusive results. For example, Brouthers and Nakos, 2004 and Lu and Beamish, 2001 found a positive relationship between entry mode and performance, others found no effect (Morck and Yeung, 1991; Hoskisson and Hitt, 1990; Geringer et al., 1989); and still Collins (1990), Kumar (1984), Shaked (1986) found negative effects.

A number of researchers attribute the inconsistent results to the difficulty of measuring the key dependent variable (i.e., performance). Researchers have highlighted the lack of uniformity across different studies and the employment of one or two performance measures that may not fully capture the performance of the SMEs, especially if the objective of the firm is broad (see Geringer and Hebert, 1989; Pangarkar, 2008 Pangarkar, 2008). In this paper, we attempt to address the issue of performance measurement by adopting a broad multi-item measures, which encompass product market outcomes, accounting and market-based measures, human

* Corresponding author at: Law, Economics, Accounting & Risk, Glasgow Caledonian University, 70 Cowcaddens Road, Glasgow, G4 0BA, UK.
E-mail addresses: agyenim.boateng@gcu.ac.uk, agyenim5@gmail.com (A. Boateng).

resources measures, customer satisfaction and other objectives of the respondent firms. An intriguing aspect of our investigation is that we take into account both the relative importance and the level of satisfaction when measuring the performance of each respondent firm. We believe that such a measure represents the true economic health of the firms in the study sample. The overall purpose of this paper is to examine the measures of performance and consider firm-specific and selected contextual factors that may influence the performance of three equity modes of entry in Norway by SMEs: international joint ventures (IJVs), cross border mergers and acquisitions (CBM & As) and foreign wholly-owned greenfield start-ups (FWOGS) by SMEs.

The choice of Norway is significant because Norway is a small developed country, very open, and highly dependent on natural resources, which makes this study different from prior studies based on the U.S., UK and other developed countries. The Norwegian market attracts most of its investment opportunities to few target sectors including the high-tech, natural resources and service sectors (Boateng et al., 2015). Moreover, as SMEs tend to have relatively limited resources and the foreign direct investment (FDI) inflows in Norway are concentrated on extractive and high-technology industries, which are capital intensive in nature, it would be interesting to assess the performance implications of the choice of entry mode.

The remainder of the paper is organised into five sections. The following section reviews the relevant literature and presents the hypothesis of the study. Section three describes the methodology and sample characteristics. Section four presents the statistical analysis and discussion of results. Section five provides the managerial implications and conclusion.

2. Relevant literature and hypotheses

2.1. Entry mode choice and performance

Cross-border expansion is one of the most important ways for firms to grow. Barringer and Greening (1998) argue that geographic expansion is even more important for SMEs' growth strategy, especially given that small business scope tends to be geographically restricted. By entering into new markets, SMEs can enjoy a number of benefits including broadening their customer base, capitalising on market imperfections to achieve higher returns and leveraging core competencies across a broader range of markets (Zahra et al., 2000; Lu and Beamish, 2001). However, Lu and Beamish (2001) note that while geographic expansion presents important opportunities for SMEs growth and value creation, there are a number of challenges and difficulties that may erode the purported benefits of internationalisation. Prominent among the factors that can a pose challenge for SMEs expanding abroad are liabilities of foreignness (Hymer, 1976) and behavioural and environmental uncertainties (Brouthers and Nakos, 2004).

Behavioural uncertainties arise from the inability of a company to predict the behaviour of individuals in a foreign country, which leads to opportunistic behaviour such as cheating, distorting information, and other types of dishonest behaviour (Williamson, 1985; Anderson and Gatignon, 1986). Environmental uncertainty denotes the inability of an organisation to predict future events (Milliken, 1987), and it often results from the volatility of environmental conditions in the host country (Hill and Kim, 1988). According to Williamson (1985), Hennart (1989) and Williamson and Ouchi (1981), the above uncertainties create two main costs: market transaction costs and control costs. In the context of Norway, it is argued that behavioural and environmental uncertainties may be especially important, given that most investments occur in high-technology and natural resources sectors, and these sectors require the use of proprietary technology, which have high transaction and control costs (Nisar et al., 2012). Oviatt and McDougall (1997a,b) suggest that, because of these uncertainties, it is required to differentiate between how we do business in international markets and domestic markets. Given that SMEs tend to rely on the managerial abilities of one or two entrepreneurs and have less well-developed management teams (Oviatt and McDougall, 1997a,b; Okręglicka et al., 2015), it is argued that SMEs may not have the ability to establish a competent managerial control structure in another country. Even if, the SMEs are willing to establish and increase control in a foreign country, establishing a foreign presence involves committing additional resources, which may increase SMEs' exposure to external environmental risks (Erramilli and Rao, 1993; Klein et al., 1990). The problems of expanding abroad become even more acute given the limited resources and the small nature of most SMEs. This tends to magnify the negative implications of SMEs expansion activity. One way to reduce the difficulties associated with SMEs' geographical expansion is the choice of entry mode. For example, it is argued that in countries characterised by high environmental uncertainty, SMEs may be better off selecting a relatively low equity investment mode, such as IJV, to retain their flexibility, share costs and risks and increase their chances of better performance.

Regarding behavioural uncertainty, internalisation theorists argue that the high equity entry mode of FDI, such as FWOGS, enable firms to minimise transaction-related risks through internalising markets for proprietary asset exchanges (Hennart, 1982; Laufs and Schwens, 2014). Besides the benefits gained from the internalisation of proprietary asset exchanges across international borders, outward direct investment by SMEs in diversified locations enable them to obtain various location-based advantages (Kogut, 1985), such as access to critical resources (Deeds and Hill, 1998) to develop new knowledge and capabilities that enhance their international competitiveness and, consequently, their performance. While the equity mode of FDI entry is likely to bring in these potential benefits, it is pertinent to point out that equity modes are not risk-free and still have problems. For example, IJVs have problems such as goal conflicts, distrust and disputes over control, which may lead to poor performance (Kogut, 1989; Hamel, 1991; Deeds and Hill, 1998). IJVs as an entry mode are no guarantee to SMEs' successful entry into international markets (Weaver and Dickson, 1998). In summary, the use of various equity modes of entry might bring positive economic benefits, but the modes have the potential to escalate the control problems and coordination costs and reduce or even reverse the long-term benefit of internationalisation, which could lead to poor SMEs performance. However, relatively little attention has been paid to the impact of firm characteristics and other context factors influencing SMEs' performance. To Brouthers and Nakos (2004) and Laufs and Schwens (2014), the impact of entry mode choice on performance remains less clear and this study attempts to fill that void.

3. Measures of performance

The debate over organisational performance and measurement has been a controversial topic for theorists and management practitioners in all types of organisations (Andersson et al., 2001; Benito et al., 2003; Venkatraman and Ramanujam, 1986). While there have been many attempts to define and measure the organisational performance, consensus still eludes researchers on the appropriate definition and measurement of this concept (Lewin and Minton, 1986; Boateng and Glaister, 2002; Elnihewi et al., 2014). A major problem here is the choice of an appropriate yardstick(s) for assessing performance (Andersson et al., 2001). This recognition is supported by Ismail et al. (2010) who stated that it is important to capture not only the financial aspect of business performance but also the non-financial elements. Thus, an effective multifaceted measurement system should be applied. Moreover, many researchers suggest that increased financial performance may not occur for a number of years after initial foreign market entry but that other measures of performance may help to determine the effectiveness of the investment (Anderson, 1990; Geringer and Hebert, 1991). Consistent with the arguments above, this study uses financial and non-financial performance measures to assess the performance of IJVs, CBM & As and FWOGS in Norway.

4. Development of hypotheses

4.1. Firm size and performance

The issue of size and performance relationship has been raised by a number of authors, but the results are mixed (see, Ketokivi and Schroeder, 2004; Bhattacharyya and Saxena, 2009; Ainuddin et al., 2007; and Ismail et al., 2010; Benito-Osorio et al., 2016). Researchers have suggested that small firms suffer from size disadvantages that tend to inhibit their ability to compete internationally and consequently affect their performance (Levitt, 1983; Becker and Porter, 1983). For example, it is argued that SMEs are limited in their entry options due to a lack of human resources and capital and limited access to sophisticated information (Kaufmann, 1995; Benito-Osorio et al., 2016). Against this backdrop, Zacharakis (1997), and Erramilli and D'Souza (1993) suggest that limited resources may lead them to very different strategic choices compared to large firms. This suggests that SMEs may enter foreign markets via cooperative arrangements to overcome their lack of resources. However, a survey by DFAT (1995) indicates that sole ventures appear to be the most popular entry mode choice by SMEs. In terms of size and performance, the results have so far been mixed. For example, Chen and Findlay (2003) stated that a larger size may lead to economies of scale, market power and better performance. However, studies by Boyd and Graham (1991) and Berger (1995) concluded that larger size does not always mean profitability and, consequently, efficiency.

On the other hand, Ingham et al. (1992) suggested that smaller acquisitions are more beneficial because they are easier to integrate, leading to managerial, operational and financial synergies. Others suggest that the size of the firm is more crucial for sole ventures where firms are relying entirely on their own capabilities. In the light of the above, we hypothesise that:

H1. *The size of the firm will be positively related to the performance of IJV, CBM & As and FWOGS.*

4.2. Sector of operation and performance

Traditionally, one of the main motives for FDI in Norway has been to seek natural resources. Entry into manufacturing sector, which includes natural resources in this study, is important to Norway, and the government actively encourages MNEs through incentives to engage with state and other local organisations to bring in new technology and skills to develop the resource-intensive sectors (Nisar et al., 2012). Stretching this argument to the various entry strategies of FDI, an entry through IJV or CBM & A may facilitate the achievement of the above objectives. As a result, the transaction costs in these sectors are more likely to be lower compared to other sectors. Despite this, no study has explicitly examined the relationship between the sectors, performance and entry mode choice in Norway. In the light of the above, we hypothesised that

H2. *The sector of operation relating to manufacturing sector will be positively related to the performance of IJVs, CBM & As and FWOGS.*

4.3. Ownership type and performance

The ownership type of a company may influence how the company is financed and managed and, consequently, its performance (Boateng and Glaister, 2002). Historically, the desire for national control of natural resources through IJVs has been a driving force behind state ownership of investments in Norway (NHO, 2003). The establishment of Statoil AS, the state oil company, in 1972 is a prominent example of the dominance of government ownership in the Norwegian economy (OECD, 2003). Although, in recent years, we have seen an increasing shift towards the private sector (SSB, 2014), state ownership still dominates in Norway. However, we have seen the exposure of state monopolies to competitive market forces. Privatisation, where it has occurred, has been carried out on a case-by-case basis, according to the pragmatic circumstances of the companies concerned and the external environment. Norway's entry into the European Economic Area Agreement (EEA) in 1994 brought several regulatory changes and increased competition in Norwegian markets (Ellingsen, 2008). What is more apparent is the increasing exposure of state-owned monopolies to competitive forces to improve performance (OECD, 2010). However, no study in Norwegian context has tested the impact of ownership type on performance. This discussion leads to the following hypothesis:

H3. *Ownership type of the company will be positively related to the overall performance of IJVs, and negatively related to the overall performance of CBM & As and FWOGS.*

4.4. Previous international experience and performance

The literature suggests that there is a connection between the previous international experience and the development of firm-specific processes and systems that can be exploited internationally (Brouthers and Nakos, 2004). This view is consistent with the internationalisation theory, which suggests that firms develop skills controlling international operations through experience (e.g., Johanson and Vahlne, 1977, 1990). For example, Evans et al. (2008) argue that organisations with limited international experience can overestimate the similarities between their home market and the foreign market "on the basis of superficial observations that are often made from a distance" (Evans et al., 2008: 38). With international experience, the "liability of foreignness" is reduced, and the firm stands a better chance of survival as a foreign unit (Delios and Beamish, 2001; Li and Guisinger, 1991; Pan and Chi, 1999; Shaver et al., 1997; Woodcock et al., 1994) and achieving success in the foreign market at the post-entry stage (Maekelburger et al., 2012). In a survey on economic performance of Scandinavian firms with subsidiaries in China, Carlsson et al. (2005) reported that experience with foreign countries outside of Mainland China had a positive impact on the subsidiaries' performance. Moreover, whereas Beamish and Lupton (2009) and Dikova (2009) report positive effects of previous experience on the performance of shared ownership, Hayward (2002) states that while people undertaking M & A have a great opportunity to learn from their experiences, they seldom do. He found that previous experience is not enough to generate superior performance. On balance, however, more evidence supports the fact that experience is perceived to be a contributing factor towards enhancing firm performance and that firms with previous international experience are likely to perform better than firms without it. Consequently, we put forward the following hypothesis:

H4. *Previous international experience will be positively related to the overall performance of IJVs, CBM & As and FWOGS*

4.5. Trust and convergence of strategic goals between IJV Partners

Many scholars have recognised that trust between partners is a key factor in improving the performance of IJVs (see, for example: Boersma et al., 2003; Madhok, 1995 Larimo et al., 2016). The transaction cost theory argues that trust is a transaction-cost-reducing mechanism that lowers the risk of entering into an agreement because it "economises on the specification and monitoring of contracts and material incentives for co-operation" (Nooteboom, 1996). IJV contracts involve both ex ante and ex post transaction costs. Ex ante costs include drafting, negotiating and safeguarding an agreement. Ex post costs are more complex because they include elements of uncertainty, such as the JV partner's decision to default the agreement. Boersma et al. (2003) and Liu et al. (2010) state that both ex ante and ex post elements are reduced by trust and the subjective probability of ex post transaction failure declines when the parties trust one another. Despite the importance of trust between partners in improving the profitability of joint ventures, studies by Berger (1995) and Nooteboom et al. (1997) suggest a negative effect of trust on perceived dependence on the joint venture partner.

Ainuddin et al. (2007) argue that most joint ventures are formed to generate synergies and profits, and consequently performance. Beamish and Delios (1997) and Larimo et al. (2016) argue that poor performance of an IJV may occur when the partners disagree on the objectives of the organisation. Child and Yan (2003) stated that the poor performance of IJV is also caused by the differences in goals between the parents. In examining the reasons for conflict in 40 Russian IJVs, Fey and Beamish (2000) reported that the greater the similarity between IJV parent firms' organisational climates, the more likely the joint venture would avoid conflicts. Beamish and Lupton (2009) stress the importance of establishing congruity in performance objectives at the establishment stage of the IJV. They further argue that consensus between the partners about the strategic goals of the IJV results in higher performance; when the congruency is lacking, poor performance is observed. This leads to the following hypotheses for IJVs as entry mode choice:

H5a. *Trust between partners will be positively related to the overall performance of IJV.*

H5b. *Congruence of strategic goals between partners will be positively related to the overall performance of IJV.*

5. Research methodology and sample characteristics

5.1. Data collection method

The data were gathered via a cross-sectional survey using a questionnaire on a sample of IJVs, CBM & As and FWOGS in Norway. The development of the questionnaire was guided by the literature review, consultation with 5 academics with research interests in the area, and a pilot test. The research population of interest was obtained from a secondary source − the Dun & Bradstreet database of companies in Norway in 2009. Only firms with the obligation to submit annual accounts were included in the sample because such companies keep proper records, which helps to facilitate proper data collection. According to the Norwegian sector-classification codes for companies, these firms were further grouped into two main sectoral distributions as follows: i) Manufacturing: high-tech companies, mining and quarrying, building and construction and ii) Services: financial intermediation and insurance, real estate and commercial services. These two sectors receive the bulk of FDI in Norway and provide the necessary data to carry out research in this area.

The statistical central bureau of Norway (2011) reported that manufacturing, mining and quarrying, building and construction

amounted to 49% of total inward FDI in Norway in 2009 and that financial intermediation and insurance, real estate and commercial services amounted to 25%. Bearing in mind the importance of these industries in the Norwegian inward FDI, this study focuses on the "manufacturing" and "service" sectors. Our definition of the entry modes included in our sample is as follows. First, an IJV is where two or more distinct organisations each participate in the decision-making activities of a jointly owned entity where at least one parent is headquartered outside the venture's country of operation (Geringer, 1990). This study comprises only equity JVs, which are a subset of inter-firm collaborative activity. A venture is an IJV where foreign equity ownership ranges from 11 to 90%. Second, an FWOGS is a venture with foreign equity shareholding of over 90% and that was started from the scratch by the foreign investor. These definitions are consistent with the definitions used by US Department of Commerce. Third, a CBM & A is described as when one firm acquires over 50% of the equity of another firm in a foreign country (UNCTAD, 2000). Moreover, companies for which full addresses were not available in the Bronnoysund Registrene (the register authority and the central source of information in Norway) are also excluded from the sample. The criteria produced a total of 353 companies: 90 IJVs, 109 CBM & As and 154 FWOGSs.

The questionnaire was distributed via e-mail, postal mail and personal delivery to 353 small medium-sized multinational firms in Norway in the last week of August 2009. The questionnaire was accompanied by a cover letter explaining the purpose of the study and signed by the researcher. After one reminder, a total of 146 usable questionnaires were returned, representing a response rate of 41.35%. The survey for this study relies on data collected from managers of IJVs, CBM & As and FWOGS in Norway. The study considers the ex post assessment of managers' perception of the relative importance of the motivation behind the choice of entry mode at the time of entry into Norway. As the questions were of strategic in nature, it was determined that respondents should be upper level managers of IJVs, CBM & As and FWOGSs in Norway. An examination of the job titles of the respondents revealed that 61.64% were chief executives, 16.43% finance directors, 11.66% marketing directors and 10.27% other senior managers. Clearly, the responses were from top officials of the firms. According to Miller et al. (1997), this high level involvement is important and may significantly reduce the risk of informant fallibility and wrong post hoc attributions.

The non response bias was tested using Armstrong and Overton's procedure (1977). A *t*-test was implemented to compare responses before and after the deadline along the key characteristics of the sample. There were no significant differences between the two groups, suggesting that non-response bias was not a serious problem in this study.

5.2. Characteristics of the sample

Table 1 shows that the response rate for the usable replies of 146 representing 41.35%. A response rate of 41.35% compares favourably with comparable studies, such as the one by Nakos and Brouthers (2002), which investigated entry-mode choice in Central and Eastern Europe and received a response rate of 28.2%. A careful examination of the sample characteristics shows that, with regard to entry modes, the highest response rate was from CBM & As (36.30%), followed by FWOGS (34.94%), and the lowest was from IJVs (28.76%). The sector responses reveals that 73.98% of respondents were from the manufacturing sector and 26.02% from the services sector. In terms of firm size, 65.76% of the respondents were small/medium sized firms, while 34.24% were large firms. In terms of ownership type, 54.11% were privately owned, and 45.89% were publicly owned firms. The sample characteristics reveal that 86.98% of the firms in the sample were firms with previous international experience, and 13.02% were firms with no previous international experience. With regard to the data collection method, the highest response rate was received from personal delivery and collection of the questionnaire. A total of 55 questionnaires were delivered personally, and 50 were received, which represents a 90% response rate. Out of the total 168 questionnaires sent via post, 52 were received, representing a response rate of 30.98%. For the online survey, 130 were sent and 44 received, a response rate, of 33.84%.

6. Statistical analysis

Our analysis began with one way *t*-tests to determine the relative importance of each performance measure to the respondent firms in assessing performance. To examine the hypothesised relationships, correlation coefficients were computed, and hypotheses 1, 2, 3, 4 and 5 were tested using multiple regression analysis. A variance of inflation factor test of the independent and dependent variables of the study was conducted to identify any collinearity problems. The VIF scores are well within the cut-off point of 10, as recommended by Neter et al. (1985). Multicollinearity appears not to be a problem in this study.

6.1. Dependent variable

The performance of the three entry modes (MODE) was measured using a composite variable, that is, the summation of the following terms: multiplicative interaction of the relative importance attached to each of the following measures and the levels of satisfaction with regard to performance measures; such as sales growth, profitability, returns on total assets share price, market share, transfer of technology, employee satisfaction, labour productivity, quality control, improved channels of distribution, improved R & D capacity, returns on sales and product reputation. Following Pangarkar (2008) and Boateng and Glaister (2002) we operationalised performance as: the sum of performance measures = the mean score of the relative importance of each measure x the level of satisfaction with regard to each performance measure.

Table 2 shows how the independent variables were measured

Table 1
Sample Characteristics.

Panel A	Total no. of firms	Total in%
No of firms in sample	353	100
Data Collection Method		
Online delivery of questionnaire	130	36.82
Postal delivery of questionnaire	168	47.59
Personal delivery of questionnaire	55	15.58
Total	**353**	**100**
Replied, but not participated	**52**	**14.73**
No reply	**155**	**43.90**
Usable replies	**146**	**41.35**
Distribution of Replies		
Panel B: According to Entry Mode		
IJV	42	28.76
CB M & A	53	36.30
Greenfield start-up	51	34.94
Total	**146**	**100.0**
Panel C: According to size		
Small/Medium	96	65.76
Large	50	34.24
Total	**146**	**100.0**
Panel D: According to sector		
Manufacturing	108	73.98
Services	38	26.02
Total	**146**	**100.0**
Panel E: According to previous experience		
Yes	127	86.98
No	19	13.02
Total	**146**	**100.0**
Panel F: According to ownership type		
Private	79	54.11
Public	67	45.89
Total	**146**	**100.0**
Panel G: According to data collection method		
Online delivery of questionnaire	44	30.13
Postal delivery of questionnaire	52	35.63
Personal delivery of questionnaire	50	34.24
Total	**146**	**100.0**
Panel H: According to job title		
Chief Executive	90	61.64
Finance Manager	24	16.43
Marketing Manager	17	11.66
Other Senior Managers	15	10.27
Total	**146**	**100.0**

Table 2
Operational Measures of Independent Variables.

SIZE	The size of the firm (SIZE) was measured based on the number of employees. Companies with employees less than 250 were categorised as small and companies with employees of more than 250 but not exceeding 500 as medium sized firms consistent with international classification and prior research (Brouthers and Nakos, 2004). A dummy variable where 0 represents small firms and 1 represents medium sized firms was assigned.
SECTOR	Sector of operation (SECTOR) is represented by a dummy variable, where 1 = Manufacturing sector and 0 = Service sector.
OWNER	Ownership type of the firm (OWNER) is also assigned by a dummy variable. 1 = Private and 0 = Public.
EXPER	Previous international experience of the firm (EXPER) was measured by whether the MNE had subsidiaries outside its home country prior to investing in Norway. A dummy variable 1 was given if the answer was yes, and 0 if it was no.
TRUST	Trust (TRUST) was measured by an ordinal measure developed on the basis of importance of trust between partners to the performance of the IJV.
GOAL	The convergence of strategic goals (GOAL) was measured by an ordinal measure developed on the basis of importance of the convergence of partners' strategic goals to the performance of the IJV.

7. Results and discussion

7.1. Measures of performance

Table 3 shows the relative importance of the performance measures to the respondent firms. It is apparent from the table that all the performance measures were statistically significant at 1%, with respect to the respondent firms in the sample. Profitability, sales growth, returns on total assets, share price and market share are among the most important performance measures for all three entry modes.

Table 3
Relative Importance of Performance Measures to the Respondent Firms.

Measures	Rank	Mean	SD
Profitability	1	4.24	0.82
Sales growth	2	3.97	0.80
Market share	3	3.78	1.26
Share price	4	3.67	1.07
Return on Total Assets	5	3.65	0.86
Quality control	6	3.52	0.92
Product reputation	7	3.50	0.94
Return on Sales	8	3.23	1.18
Labour productivity	9	3.21	1.07
Technology Transfer	10	3.14	1.05
Improved distribution channels	11	3.03	1.05
Improved R & D capacity	12	2.91	1.00
Employee Satisfaction	13	2.84	1.09

Notes: N = 146.
The mean is the average of a scale of (1 = Not at all important to 5 = very important.
Scores are significantly different on one-sample *t*-test ($p < 0.001$).

7.2. Factors influencing performance

Table 4 shows a summary of the means, standard deviations and correlation matrix for the independent variables, the dependent variable and the three entry modes (MODE). Bivariate relationships shown in Table 4 indicate the size of the firm ($p < 0.01$) and sector of operation ($p < 0.01$). The overall performance is negatively correlated with the ownership type of the company and positively correlated with previous international experience, but these results are not statistically significant.

7.3. Main regression results

Table 5 presents the results of multiple regressions that were conducted to predict the overall performance of IJVs, CBM & As and FWOGS in Norway. The table shows that the *F*-value is significant ($p < 0.01$) and that the adjusted R ranges from 31.2% to 56.2% of the variation in the performance of the three entry modes.

The size of the firm has a positive and significant relationship in two out of the three modes of entry. This provides some support for H1. The positive sign for CBM & As and FWOGS indicates that firm size has a positive and significant influence on SME performance. This finding is not surprising and appears to be consistent with the conclusion drawn by Pangarkar (2008) and Bourlakis et al. (2014), who stated that SMEs are more efficient than large firms. This argument is also supported by Ingham et al. (1992), who argued that small acquisitions are easier to integrate compared to large acquisitions. Moreover, the transaction cost theory supports the notion that the additional hierarchical layers in large firms can complicate the internal communication, leading to loss of control by senior managers (Williamson, 1970). This, in turn, results in greater distance between the subordinates and their managers and therefore less information about the opportunist behaviour of senior management. In addition, Williamson (1975) argues that stockholders control over management becomes more difficult when a firm grows in size and complexity, leading to poor performance.

However, the IJVs have a negative coefficient, suggesting that small size exerts negative influence on SMEs performance. This finding is surprising in that it is contrary to our prediction that small IJVs are more likely to perform poorly due, perhaps, to potential conflicts between partners. However, this finding differs from the literature on "Born Global" firms, which suggests that the use of IJVs might help SMEs to overcome both financial and managerial resources constraints and improve performance.

Regarding the sectors of operation and SMEs performance, the results show positive and statistically significant impact across the

Table 4
Pearson's Correlation Matrix of the independent and dependent variables.

Variables	Mean	SD	1	2	3	4	5	6
1.SIZE	0.65	0.47	1.00					
2.SECTOR	0.73	0.44	−0.03	1.00				
3.OWNER	0.54	0.50	−0.20*	−0.01	1.00			
4.EXPER	0.86	0.33	−0.02	−0.04	0.17*	1.00		
5.PERF	3.23	1.13	0.21**	0.37**	−0.07	0.09	1.00	
6.MODE [a]	2.06	0.79	−0.25**	−0.11	0.33**	0.13	−0.07	1.00

Notes: 1.*$p < 0.05$, **$p < 0.01$ (two tailed test).
N = 146.
SD = Standard Deviation.
MODE denotes the following: 1 = IJV, 2 = CBM & A, 3 = Greenfield start-ups.

Table 5
Results of Regression: Factors Influencing SMEs Performance by Entry Mode.

Variables	Model 1 IJV	Model 2 CBM & A	Model 3 Greenfield
Intercept	−6.911	0.833	1.991
	(−3.985***)	−1.642	(5.662***)
Size of the firm	−0.067	0.366	0.432
	(−0.618)	(3.072**)	(3.675***)
Sector of operation	−0.295	0.459	0.461
	(−2.584*)	(3.935***)	(4.187***)
Ownership type	−0.493	−0.15	0.128
	(−3.624**)	(−1.296)	−1.103
Previous international experience	−0.135	0.098	−0.145
	(−1.165)	−0.822	(−1.261)
Trust between partners	0.948	–	–
	(6.868***)	–	–
Convergence of strategic goals	0.458	–	–
	(3.705**)	–	–
R^2	0.63	0.365	0.404
Adjusted R^2	0.566	0.312	0.352
$F - Value$	9.915***	6.901***	7.785***
N	42	53	51

Notes: 1. *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$.
Standardized Beta Coefficient has been used.
Figures in brackets are the t-values.

three models (model 1 at $p < 0.1$, model 2 at $p < 0.01$ and model 3 at $p < 0.01$) suggesting that the sector of operation exerts significant influence on the performance of each entry mode. As expected, sectors of operation have a positive correlation with the overall performance of CBM & A and FWOGS. However, in term of IJV, the coefficient was negative and significant. This suggests that sectors such as natural resources, where the Norwegian government is likely to be a partner to the IJV because of their strategic importance to the state, tend to have poor performance.

Ownership type of the IJVs was negative and statistically significant for the performance ($p < 0.05$). This is not surprising; as suggested by Kvinge and Narula (2001) and Raveed and Renforth (1983), IJVs with government as a partner may become entangled in internal disagreements, politics and bureaucracy, slowing down the activities and decision-making processes of the enterprise and consequently exerting negative influence on performance. However, this may not be the case for sole ventures (Newburry and Zeira, 1997). The Norwegian government as partners to IJVs have different goals and priorities compared to private enterprises (NHO, 2003), which negatively influence performance. The finding is consistent with the findings of the studies by Goldeng et al. (2008). Contrary to our expectation, H4 is not supported. The results are not statistically significant in any of the models. This suggests that previous international experience does not have any implications for the overall performance of any of the entry modes. This result is consistent with that of Lubatkin (1982) who conducted a study on the acquisition experience of firms listed on the Federal Trade Commission's Large Merger Series from 1948 to 1979 and failed to find a significant association between acquisition experience and performance. The coefficient for trust between partners is positive and statistically significant at ($p < 0.01$), and the convergence of strategic goals is significant at ($p < 0.05$). Hypotheses 5a and 5b are therefore supported. Thus, trust between the joint venture partners and the convergence of their strategic goals do affect performance of the joint ventures, which is consistent with the majority of the JV literature (see: Boateng and Glaister, 2002; Boersma et al., 2003; Buckley and Casson, 1988 and Larimo et al., 2016). The trust and convergence of strategic goals between partners to the IJV help reduce uncertainty about the other party's behaviour, improve personal attachment and, consequently, improve performance. On the other hand, disagreements about partners' goals generate an opportunistic environment and create conflicts (Luo and Park, 2004).

Robust Checks

Table 6 summarises the regression results using alternative performance. Following Sim and Ali (1998), performance was measured using a composite index (an arithmetic average score) without weight. We find that the alternative measure of performance has the same qualitative results as in our main results (Table 5). The exception is the sector of operation, which does exhibit a lower impact for CBM & A. In fact, the magnitude of the former effect is much greater than the latter one. Additionally, we note a negative and significant impact of ownership type in respect to Table 6 compared to our main results, which indicate that negative insignificant impact on performance. We also note that our main results in Table 5 have better explanatory power, ranging from an adjusted R of 31.2%–56.6 compared to 16%–54.9%. In summary, our main results are robust to the alternative measure.

8. Implications and conclusion

In this study, we examined the performance implications of equity entry mode choice of SMEs entering Norway. Using a cross-sectional questionnaire survey, a sample of 146 SMEs were analysed. Our results indicate that the multi-item measures of performance used in this study were statistically significant measures for all the firms in the sample. However, the relative importance of each measure differs among the firms and, as a result, we considered the multiplicative interaction of the relative importance

Table 6
Robust Regression Results.

Intercept	−7.754	3.061	2.032
	(−4.556***)	(18.204***)	(5.052***)
Size of the firm	−0.049	0.319	0.397
	(−0.413)	(2.489**)	(3.348***)
Sector of operation	−0.278	0.0.249	0.475
	(−2.393**)	(2.889*)	(4.055***)
Ownership type	−0.479	−0.294	0.119
	(−3.365***)	(−2.293**)	−1.008
Previous international experience	−0.002	0.153	0.092
	(−0.017)	−0.155	−0.777
Trust between partners	0.895	–	–
	(6.986***)	–	–
Convergence of strategic goals	0.487	–	–
	(3.938***)	–	–
R^2	0.615	0.225	0.391
Adjusted R^2	0.549	0.16	0.338
$F − Value$	9.327**	2.482**	7.385***
N	42	53	51

Notes: 1. $*p < 0.1$, $**p < 0.05$, $***p < 0.01$.
Standardized Beta Coefficient has been used.
Figures in brackets are the t-values.

attached to each of the measures and the level of satisfaction to derive the performance measure in this study. The employment of a broader perceptual measure of performance, which considers financial and non-financial measures, is significant in that it inspires confidence in our results. A robust check using an alternative performance measure yields similar qualitative results. In this way, this study contributes to resolving the problems associated with measuring performance. We suggest that our approach to measuring performance may advance existing management research.

Turning to the cross-sectional regression results, we found that the size of the firm and sector of operation have a significant relationship with CBM & As and FWOGS and all the three entry modes, respectively. The finding that size influences the performance of SMEs suggests that small firms are more flexible than large multinational firms due to their size and a lesser degree of organisational inertia, consistent with the view of Hannan et al. (2002) and Benito-Osorio et al. (2016). Sectors are positively and significantly related to the performance of CBM & As and FWOGS but are negatively associated with IJVs, which tend to have government as partners. The results indicate that ownership type, trust and convergence of strategic goals are significantly related to the overall performance of IJVs, while previous international experience did not have any significant relationship with the entry modes.

Our study has several implications for SME managers. First, our results imply that prior international experience does not help to overcome the transaction costs and enormous location-specific advantages in Norway and hence the negative influence on performance. However, firm characteristics, namely, size and sector of operation, tend to have significant influence on SME performance. Second, IJVs with government as a partner tend to exhibit poor performance. However, trust and congruity of strategic goals are important factor for IJV performance.

As is the case of most empirical studies, this study has a limitation. Our analysis is based on cross-sectional rather than panel data. Given the interesting findings with regard to the influence of firm characteristics and negative but not significant influence of prior international experience, a useful extension for future research would be to examine the evolution of foreign entry modes and the performance of SMEs using a longitudinal design. This will allow an explicit modelling of the impact of international experience and other host country institutional variables not considered in this study.

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