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SMEs prefer JVs: why SMEs' equity entry mode choices are different from those of large firms?

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Abstract: Using a sample of 770 foreign market entries in the time period 2005–2015 we examine whether the equity entry mode strategies chosen by SMEs are different from those of large firms. Our findings reveal that when compared to large firms, SMEs tend to rely more on cooperative entry modes. More specifically, SMEs prefer joint venture rather than wholly owned subsidiary. Using a propensity score matching approach to avoid sample bias issues, our results show that the choice between joint venture and wholly owned subsidiary is strongly influenced by the size of the investing firm and by their financial resources, while the family ownership structure is not a significant discriminant. We discuss the theoretical underpinnings of our findings along with the managerial implications emerging from this research.

Keywords: entry modes; joint venture; wholly owned subsidiary; SMEs.

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1 Introduction

The strategy to enter into foreign markets is one of the most important aspects in a firm's internationalisation process. How to enter into foreign countries has a significant impact on a firm's survival, performance and subsequent growth (e.g. Lu and Beamish, 2001; Brouthers, 2002; Rasheed, 2005). Thus, given their prominence, entry mode strategies have been one of the main researched topics in international business studies (Brouthers and Hennart, 2007; Aharoni and Brock, 2010).

More than 15 different entry modes, ranging from non-equity mode such as export, to equity investments such as joint venture (JV) or wholly owned subsidiary (WOS), have been identified by previous scholars (e.g. Brouthers and Hennart, 2007; Dikova and Brouthers, 2016). These studies have also investigated in depth which determinants affect this important strategic choice. However, despite the relevant contribution of SMEs to the global economy in terms of both GDP and employment, research on foreign markets entry strategies has mainly been focused on large firms (Laufs and Schwens, 2014; Bruneel and De Cock, 2016). The bias towards large firms can be explained by two main reasons. First, the entry mode research on SMEs has often been limited to the relative simple form of exporting because of the SMEs' renewed liability of smallness to tackle the more costly and higher resource committing entry modes. Second, the larger visibility of large firms has facilitated the collection of data by scholars for studying entry mode strategies. However, the number of SMEs entering into foreign markets and investing in forms different from exporting has been growing exponentially in recent times (OECD, 2018) making the topic of SMEs' entry mode choices timely and very relevant.

Despite being copious, previous research has left a number of important questions unanswered (Hennart and Slangen, 2015), particularly with reference to SMEs' entry mode strategies (Laufs and Schwens, 2014; Bruneel and De Cock, 2016; Lindsay et al., 2017). In this paper, we specifically address one of these questions, i.e. what is the role played by the size of the investing company on the choice between shared (JV) and full (WOS) ownership? Previous studies (Yiu and Makino, 2002) have mainly investigated entry mode strategies using samples of large firms, while the majority of earlier studies on SMEs (Brouthers and Nakos, 2004; Hernández and Nieto, 2015; Hollender et al., 2017) have not provided any comparison between small vs. large companies. For instance, Hollander et al. (2017, p.258) demonstrated that "international experience and product adaptation help SMEs mitigate their liabilities of smallness." However, what we still miss to understand is whether and how SMEs differ from large firms in terms of JV or WOS entry strategies in foreign markets.

The study of Li and Qian (2008), who focused on a sample of 166 firms in technology industries, represents an interesting exception providing a comparison between the two groups of firms. Their study shows that there are some factors that do not discriminate entry mode choices by SMEs and large firms (i.e. innovative technological advantage), while other factors affect the two groups differently. For instance, the dynamism of the market induces large firms to opt for WOS and SMEs for JVs. Our study builds on these results and investigates, from another point of view, the difference between SMEs and large firms in their equity entry mode choice. While Li and Qian (2008) studied the effect of different factors on the entry mode choice of SMEs vs. large firms, we compared the two groups of firms with the same characteristics in terms of industry, R&D, industry growth, etc., differentiating them exclusively in terms of size (SMEs vs. large firms).

Besides the importance of size as a discriminant element in determining equity entry mode strategies, two other elements, namely, the related paucity of financial resources (Musso and Francioni, 2014; Lindsay et al., 2017) and the family ownership structure of SMEs (Laufs and Schwens, 2014) have been highlighted as key aspects characterising the entry mode strategies particularly of these latter. Therefore, our second research question is what is the role played by financial resources and ownership structure on the choice between shared (JV) and full (WOS) ownership?

By using a dataset of 770 foreign market entries, the purpose of this research is to examine whether SMEs differ from large firms when they choose their equity entry mode strategies and what are the key discriminant elements that move their choice. Therefore, we first compare a sample of SMEs with a control group of large firms to study whether they prefer to enter a foreign market through a JV rather than a WOS. Second, we compare SMEs with low financial resources and family ownership structure with their counterparts (i.e. large firms and SMEs with high financial resources and non-family SMEs). We adopted a propensity score matching methodology in order to address potential endogeneity and sample bias issues to test the impact on the entry mode choice played by the variable identifying the SMEs status.

Our research provides both empirical and theoretical contributions. Empirically, as shown by OECD (2018) SMEs are increasingly investing internationally going beyond exporting. Thus, the analysis of the entry mode strategies (other than exporting) and their main determinants is an important element of the SMEs internationalisation process that deserves thorough investigations. Brouthers and Hennart (2007, p.412) argued that "there

is far less research on SME mode choice decisions than has been undertaken on large firms" but that this research is relevant because "if the same theories that explain large firm mode decisions are applicable to SMEs then the theories developed to explain international entry mode choice are robust and generalizable." Based on the literature on SMEs internationalisation (Laufs and Schwens, 2014; Bruneel and De Cock, 2016), we theoretically present (and empirically validate) how the shortage of financial resources and the ownership structure of SMEs may affect their equity entry mode choice.

2 Theoretical background and hypothesis development

Scholars have devoted considerable attention to classify the different foreign entry mode strategies (Brouthers and Hennart, 2007; Dikova and Brouthers, 2016). With reference to the equity entry modes, the two main distinctions are between ownership and establishment modes. The first category, ownership modes, is the focus of our paper and relates to the choice between shared (JV) vs. full ownership (WOS). This choice concerns the level of control of foreign activities achieved through the investment. The second category, the establishment modes, refers to the choice between greenfield and acquisition.

We concentrate on the ownership modes because, due to the lack of available information, we could differentiate the choice between greenfield and acquisition in JVs but not in WOSs.

According to the Transaction Cost (TC) theory (Gatignon and Anderson, 1988) firms choose the degree of control in foreign entry strategy in line with the level of specificity of the asset transacted, the uncertainty of the investment and its frequency. In turn, these factors influence the related risk of opportunistic behaviours and the level of resource commitment and control required by the investing firms. However, the relationship between uncertainty, asset specificity, risk and the ownership mode are quite complex. In the words of Gatignon and Anderson (1988, p.309) "Uncertainty and asset specificity are thus hypothesized to determine jointly the appropriate degree of control. The higher the combined level of asset specificity and … risk is, the higher the appropriate degree of control will be …" but "… conversely, risk by itself should lead to a need for greater flexibility and therefore to use of lower-control governance."

Thus, a WOS will be preferred when the asset involved in the foreign investment is highly specific, difficult to transact with a foreign firm and the uncertainty of opportunistic behaviour by a local partner is high. On the contrary, a JV might be preferred to a WOS investment when a partnership allows the investing company to share the risk of the investment and to overcome its liability of foreignness in the host market. Hennart (2009) generalises these findings providing a theoretical framework that consider the degree of difficulty to transact assets for both the investing company and the local owners in the target country. In Hennart's (2009) approach the characteristics of the asset located in the foreign country are an important determinant of the optimal entry mode choice. This broader approach is relevant in the context of our analysis because when the investing company is a SME some assets can be considered difficult to be acquired just because they are simply too expensive given the limited finances. For this same reason, most SME studies focused on internationalisation through export, overlooking the other entry modes strategies. The two existing reviews on SMEs' entry

mode strategies (Laufs and Schwens, 2014; Bruneel and De Cock, 2016) found, respectively, 33 and 47 articles that investigated this issue. However, most of the articles on SMEs analyse one specific entry mode such as export or JV without assessing the choice between JV vs. WOS. Moreover, these studies focused on the process and outcomes of entry modes but did not concentrate on the entry mode choice. Indeed, when the alternative between two entry mode choice is considered the number of studies becomes extremely limited. Musso and Francioni (2014) stated that SMEs do not follow a systematic approach to entry mode choice. Maekelburger et al. (2012) showed that SMEs prefer internalisation when they own specific assets, while previous studies on large firms found the opposite (Erramilli and Rao, 1993). Furthermore, Li and Qian (2008) showed that in dynamic markets large firms prefer self-reliance modes, i.e. stand alone, while SMEs prefer to enter into dynamic markets with the support of local partners that supply local knowledge. Oehme and Bort (2015) investigating the choice between four different alternatives found, differently from studies on large MNEs, that only the experience with FDIs positively influenced the subsequent formation of international R&D and Marketing and Distribution alliances, while the experience with other entry mode choice did not.

One possible explanation for this limited number of studies is that when considering just the investor side, most of the literature assumes that both large and SMEs follow the same choosing logic (Nakos and Brouthers, 2002; Brouthers and Nakos, 2004). Brouthers and Nakos (2004), for example explicitly stated that theories used to explain foreign entry strategies of large firms are also suitable for SMEs. Hence, the research on SMEs' foreign entry strategies did not need to be logically separated from the research on large firms (Schwens et al., 2011).

However, other studies (Makino and Neupert, 2000; Dikova and Van Witteloostuijn, 2007; Chiao et al., 2010; Majocchi et al., 2013) empirically found that size is a significant determinant of entry strategies and given the scarcity of resources, SMEs are more vulnerable than large firms to environmental and institutional changes (Brouthers and Nakos, 2004; Cheng and Yu, 2008; Li and Qian, 2008; Schwens et al., 2011). Consequently, SMEs tend to enter into a limited number of foreign markets, but possibly with a high potential (Nakos and Brouthers, 2002; Pinho, 2007). Erramilli and D'Souza (1993), in their seminal paper, found that size explained the different effects of uncertainty on entry mode choice. Their paper empirically showed that "the relationship between firm size and foreign market entry behaviour of firms is conditioned by the capital intensity of the industry to which the firm belongs" (Erramilli and D'Souza, 1993, p.39).

The extant empirical evidence seems to suggest that when compared to large firms SMEs may have different behaviours when it comes to entry mode choice because, besides the TC considerations, the lack of resources, on one side, and the need for flexibility, i.e. responsiveness to external local changes, on the other side, could lead SMEs to favour a more cooperative and lower controlling governance mode. Therefore, we posit:

Hypothesis 1: SMEs show a larger preference for cooperative entry modes, i.e. JV rather than WOS, in comparison to large firms.

But why do SMEs follow a different logic in choosing between ownership entry modes compared to their larger counterparts? Previous studies suggest two main reasons: (1) the lack of resources, mainly financial but also human and managerial, and (2)

the typical family ownership structure of SMEs (Laufs and Schwens, 2014; Bruneel and De Cock, 2016).

First, human resources in terms of management skills, foreign knowledge and experience are crucial to the growth of the firm and its internationalisation (Nakos and Brouthers, 2002; Paul et al., 2017). The lack of specific knowledge may push SMEs when venturing abroad to look for a foreign partner that can provide the required knowledge and expertise that is not available within the firm. The lack of international experience and human resources might be increased by the psychic distance between home and host country.

Second, the lack of finance and the hurdles to capital market access (Hall et al., 2004), given their aversion to using external equity to minimise external influence and ownership dilution (Becchetti and Trovato, 2002), may limit SMEs available resources forcing to choose a JV vs. a WOS or other establishment modes. For instance, the full acquisition of an existing company or a desired asset in the host market could be unaffordable for SMEs due to the up-front payment leaving the firm to opt for a JV. Similarly, as argued by Hennart (1991) and by Makino and Neupert (2000), cooperative modes are preferred to full acquisitions every time the relative size of the target firm is larger than that of the investing company. As Lindsay et al. (2017) state, entry mode research has mainly focused on the role of resources transferred through the internationalisation rather than on the need of resources to enter a foreign country. However, it is arguable that the resource needs of investing firms affect their entry mode choice (Lindsay et al., 2017). Based on these arguments we hypothesise that:

Hypothesis 2: SMEs with lower than the average financial resources tend to prefer cooperative entry modes, i.e. JV rather than WOS, in comparison to firms with above the average level of financial resources.

When studying what determines different ownership modes between large firms and SMEs it is important to consider the peculiar governance structure of the latter. Indeed, most of the SMEs are family controlled (Laufs and Schwens, 2014). SMEs' entry mode strategies are heavily influenced by the family ownership structure, values and goals (Pinho, 2007). Recent studies have highlighted that ownership structure and corporate governance characteristics do affect firms' foreign entry mode strategies (Filatotchev et al., 2007; Musteen et al., 2009). Boellis et al. (2016), for example show that family firms have a higher propensity towards greenfield investments rather than acquisition. Sestu and Majocchi (2018) demonstrate that family involvement of both the investing company and the local firm affect the entry mode choice. Focusing on the choice between JV and WOS, this study claims that when both the investing firm and the local firm are family controlled a JV is more likely than a WOS, as well as in the case of a large non-family firm and a local family firm. This is because the investing company is not able to fully acquire the local family assets which can be difficult to evaluate and to transact (Gedajlovic and Carney, 2010).

Evidence suggests that the familiar nature of SMEs could significantly impact on their ownership entry mode choice. Family firms typically rely on family management that tends to be less skilled than external managers (Bloom and Van Reenen, 2007; D'Angelo et al., 2016; Majocchi et al., 2018). While external managers are hired because of their specific international knowledge and expertise, family managers are often hired based on kinship relationships. Moreover, family managers are generally sure of lifetime employment and this weakens their incentives to get specific additional training. As a

consequence, family firms tend to have a more limited knowledge of foreign markets (Hennart et al., 2017). So, when family firms lack specific market knowledge, they tend to have a lower number of investments in physically distant countries (Baronchelli et al., 2016). Similarly, when family controlled SMEs enter into foreign markets, they could look for local partners to fill this knowledge gap.

Moreover, in many family SMEs, firm's and family's goals overlap (Laufs and Schwens, 2014). Therefore, given their biased orientation to safeguard the family wealth, to maintain control and to avoid dilution of their holdings, investing in cooperation with a foreign partner might be preferable to exposing the family wealth to the more expensive and riskier full acquisition. Based on these arguments we hypothesise that:

Hypothesis 3: Family SMEs tend to prefer cooperative entry modes, i.e. JV rather than WOS, in comparison to non-family SMEs and large firms.

3 Research design

In this section, we first present the characteristics of the sample and then we statistically test whether the entry mode choices by SMEs and large firms differ by looking at the peculiar aspects earlier revised in the literature.

3.1 Sample

To empirically compare SMEs entry modes with those of large firms, we use a dataset of 770 foreign entries in the Italian market from 2005 until 2015. The sample contains 550 large firms and 220 SMEs from 37 different countries. Data are taken from different Bureau van Dijk databases: Zephyr for deals and Orbis for firm-specific data. Using Zephyr, we selected the deals made between a non-Italian company, i.e. a company with a headquarter located outside Italy, and an Italian firm in the period 2005–2015. The Italian context is particularly interesting for our study because it is not only characterised by a large presence of SMEs, but also because well-known brands and companies are becoming the target of acquisitions by many foreign investors. For example, only in 2018 and to name just a few, Michael Kors, the US designer of luxury accessories, acquired the iconic Italian family-owned luxury house Versace for 2.1 billion of US$; or, Magneti Marelli, the braking systems company owned by FCA, was sold for 6.2 billion euros to the Japanese Calsonic Kansei. This makes the Italian context particularly relevant for studying the phenomenon under investigation.

We selected the deals (greenfield joint ventures, partial acquisitions and full acquisitions) in the period 2005–2015 according to two criteria: the foreign company should have no initial stake in the Italian company, and the selected deals should allow the acquiring firm to take control of at least 10% of the stake (Cuypers et al., 2015). Thus, for instance, in the case of a greenfield joint venture investment to be included in the sample the investors should have at least 10% of the stake of the new entity created from scratch by at least a foreign and an Italian company. Additionally, through a detailed perusal of web sources and company websites, we collected data also on ultimate ownership for each of the companies involved in these deals. Ultimate ownership allows a better and more precise understanding of the real ownership compare to first shareholders since mechanisms such as pyramiding, multi-control chains, cross-

holdings and dual class determine a significant discrepancy between first shareholder and ultimate owner (La Porta et al., 1999).

Based on the discussion developed in previous sections we investigate whether, everything else equal, SMEs choose different ownership entry modes in comparison to large firms. More specifically, we focus on the equity mode selection (JV vs. WOS), using the classification of Brouthers and Hennart (2007). To distinguish between JVs and WOSs, we use the commonly accepted threshold of 95% of equity (Yiu and Makino, 2002). If a firm owns less than 95% of the equity, the investment is classified as a JV; if it owns more than 95% of the equity, the investment is classified as WOS.

3.2 Methodology

Investigating whether being an SME or a large firm determines a different entry mode selection might be affected by the presence of endogeneity. Indeed, the entry mode choice might be biased by some differences between the two groups which influence both the entry mode and the probability to be an SME or a large firm. For example, SMEs could be concentrated in industry sectors where cooperative modes are more common. To address this issue, we use a propensity score matching methodology, to estimate causal treatment effects (Caliendo and Kopeinig, 2008), and frequently recommended in international business studies (Reeb et al., 2012; Puck et al., 2016). First, we estimate the propensity score, which is the probability, given a set of covariates, that a firm is an SME rather than a large firm based on an appropriate matching algorithm. Then we match the two samples on their predicted propensity to be an SME. In other words, we create statistically matched pairs of firms that differ exclusively in terms of the classification (SME or large firm) and are equal for all the other observed characteristics. Indeed, as explained by Caliendo and Kopeinig (2008, p.32), this procedure allows "to find in a large group of non-participants those individuals who are similar to the participants in all relevant characteristics. That being done, differences in outcomes of this control group and of participants can be attributed to the programme." We perform a one-to-one matching without replacement in a descending order (Reeb et al., 2012). This approach matches only the nearest neighbour propensity score. Finally, as the last step in the procedure, we estimate the effect to be SME on the probability to choose a particular entry mode, using only firms in the matched sample. To test our second and third hypothesis we repeat this procedure changing the variable selected to build the propensity score. Thus, while to test the first hypothesis we calculate the probability to be a SME, to test the second and third hypotheses we calculate the probability to be a SME with fewer financial resources than average and the probability to be a family controlled SME.

In all our analyses, the outcome is the entry mode choice for all the three hypotheses. In the first hypothesis, the treatment group is composed of SMEs, while the large firms are the control group. In the second hypothesis, the treatment group is composed of SMEs with ROA lower than average, while large firms and SMEs with ROA higher than average are the control group. In the third hypothesis, the treatment group is composed of family SMEs, while the large firms and non-family SMEs are the control group.

3.3 Variables

3.3.1 Outcome variable

To investigate whether SMEs have different preferences in comparison to large firms in terms of entry modes we use as outcome variable JV. It is a binary variable which takes the value 1 if the foreign company make a JV, i.e. owns less than 95% of the investment (Makino and Neupert, 2000; Chen and Hennart, 2002), and 0 in the case of a WOS (more than 95%).

3.3.2 Treatment variable

As treatment variables, we used three different variables to test respectively our three hypotheses. First, *MNCSME* is a binary variable which is coded 1 if the investing company is SMEs (number of employees lower than 250). This variable distinguishes our sample in the treated group (SMEs) and control group (large firms).

Our second hypothesis states that SMEs with lower than average financial resources tend to prefer cooperative entry modes. In order to measure the availability of financial resources and following Tseng et al. (2007), we use SMEs past profitability and we compare it to the average SMEs profitability.

Second, *SME with Financial Resources Below Average* is a binary variable which is coded 1 if the investing company is a SME and has a ROA lower than the sector average of all firms in the sample.

Our third treatment variable measures family control in SMEs (*Family SME*). Following Sestu and Majocchi (2018), we define a company as family controlled if, the ultimate owner is an individual or a family and a member of the family is the CEO, Chairman, President or a member of the Board of Directors of the firm. Consequently, we define *Family SME* as the binary variable coded 1 if the investing company is a SMEs controlled by a family.

3.3.3 Covariates

The matching procedure rests on the conditional independence assumption which requires that the outcome variable (the entry mode selected) is independent of treatment assignment (Caliendo and Kopeinig, 2008). Thus, we carefully choose the variables that satisfy this condition. We tested three models, one for each hypothesis. Following previous research on entry mode determinants, we include in our model different control variables. The control variables in all models are the following. The ROA of the investing firm (*MNC ROA*) and the family control of the MNC (*MNC Family*). We drop these variables respectively from Model 2 and Model 3 when they are used as treatment. The age (*MNC Age*) of the MNC one year before it makes the foreign entry. Previous studies (Makino and Neupert, 2000) identified the industry growth in the host market as a significant determinant. Therefore, we include this covariate (*Local Industry Growth*) that measures the local industry growth rate in the industry in which the MNC invests. To measure industry growth we use the yearly growth rate of the gross value added for the two-digits Nace industry sectors in Italy, as defined by Eurostat. The R&D intensity, i.e. the amount of R&D expenditures on total sales, is used as a proxy for the level of asset specificity that impacts on entry mode choice (Yiu and Makino, 2002). We control for this effect in our analysis (*MNC R&D Intensity*). Different studies (Chiao et al., 2010;

Dow and Larimo, 2011) claim that international experience affects the choice between different entry modes, thus we control for the previous experience of the MNC in the host country. We include as a covariate the variable *MNC Experience* that takes the value of 1 if the investing company has already made previous investments in Italy (e.g. Slangen and Hennart, 2008).

To control if the MNC is investing in a company operating in the same industry sector (Hennart and Larimo, 1998) we include the variable labelled *Same Industry.* This variable takes the value of 1 when both the MNC and the local company operate in the same industry. Finally, we control for the geographic effect and for the time effects using dummy variables. Table 1 reports the list of the covariates and their description.

Table 1 Description of variables

Name variable	*Description*
MNC SME	Dummy variable coded 1 if the MNC has more than 10 employees and less than 250.
MNC ROA	Continuous variable measuring the Return on Assets of the MNC one before the investment.
MNC Family	Dummy variable coded 1 if MNC is a family firm using both ownership and management criteria. Specifically, if the ultimate owner of the investing firm is an individual or a family and a member of this family is the CEO, Chairman, President or a member of the Board of Directors the firm is considered as family controlled.
SME with Financial Resources Below Average	Dummy variable coded 1 if the investing company is an SME and has an ROA lower than the sector average of all firms in the sample.
Family SME	Dummy variable coded 1 if the investing company is a SME controlled by a family.
MNC Age	Continuous variable measuring the age of the MNC one year before the investment.
Local Industry Growth	Local industry growth is a continuous variable measuring the local industry growth rate of the industry in which the MNC makes the investment. Annual % growth of the gross value added by Nace industry 2 digit in Italy. (*Source*: Eurostat)
MNC R&D Intensity	MNC's Research & Development intensity is a continuous variable, measuring as Research & Development expenditures over total sales one year prior the investment.
MNC Experience	Previous international experience of the MNC: dummy variable which takes the value 1 if the MNC made previous deals in Italy.
Same Industry	Dummy variable which takes the value 1 if the MNC and the local firm are active in the same industry.
USA, Rest of the World	Dummy variables which take the value 1 if the MNC is based respectively in USA or in the Rest of the World, the baseline variable is Europe continent.
Pre-Crisis	Dummy variable which takes the value 1 if the deal has been concluded in the period 2005–2007.
Crisis	Dummy variable which takes the value 1 if the deal has been concluded in the period 2008–2009.
Post-Crisis	Dummy variable which takes the value 1 if the deal has been concluded in the period 2010–2015.

4 Results

4.1 Descriptive statistics

Table 2 reports the results of the univariate test of significance (*t* test) for a set of variables to test the difference between large firms and SMEs. This table shows, quite surprisingly, that there are not significant differences between large firms and SMEs in terms of family control and R&D intensity. Large firms and SMEs in our sample present a similar pattern in terms of ownership and control as well as in terms of R&D investments.

On average, large firms have significantly more international experience than SMEs. Large firms have on average a significantly higher level of investments in the same sector of the local firm. SMEs and large firms are not significantly different in terms of preference for investments in high growth industries. Overall these disparities raise the question if these structural differences between large and SMEs impact on their entry mode choice.

Table 2 Descriptive statistics

Variable	*Obs*	*Mean*	*SD*	*Min*	*Max*
MNC ROA	770	6.803	14.933	–92.4	98
MNC Age	770	50.412	46.635	1	288
MNC R&D Intensity	770	0.882	13.078	0	282.871
Local Industry Growth	770	0.009	0.060	–0.23	0.48

Table 3 shows the pairwise correlation between the variables used in our analysis. The correlation coefficients do not present problems of multicollinearity, as the VIF values suggest.

Table 3 Frequencies of positive values of binary variables

Variable	*Obs*	*Freq.*
JV	770	249
MNC SME	770	220
Family SME	770	69
MNC Experience	770	221
Same Industry	770	390
USA	770	113
Rest of the world	770	52
Pre_crisis	770	186
Post_crisis	770	361

4.2 Propensity score matching results

We started our empirical analysis by calculating the propensity scores. We first run three logistic regressions in which the dependent variables are the variables testing our hypotheses and coded 1 if the firm is an SME, or an SME has an ROA lower than average, or an SME is family controlled. With the propensity scores in hand, we

proceeded with the matching. The results of the logistic regression for the full samples are provided in Table 4. We report the covariate balancing tests for the three models in Table 4. The results of this test show that the matching procedure has effectively removed the differences between the two samples in all three models. Indeed, the median bias is reduced, respectively, by 70% in Model 1, 48% in Model 2 and 58% in Model 3. Thus, the matching procedure was effective in reducing the bias and after matching none of the covariates is significant. The pseudo *R*-squared decreases approximately to zero in all models. This sharp decrease testifies that covariates do not have explanatory power in the matched samples.

In order to verify our hypotheses we refer to the average treatment effect on the treated (ATT) in the three models. In Model 1 ATT is significant at 5% level and equals to 8.6%. So, everything else equal, SMEs are 8.6% more likely to choose a JV than a WOS in comparison to large firms. This result confirms our first hypothesis, which predicts that the effect to be an SME increase the probability to choose a JV rather than a WOS.

In Model 2 the ATT is significant at 5% level and equal to 12.3%. This result supports our second hypothesis stating that SMEs with few financial resources prefer collaborative modes like JV. The ATT is not significant in Model 3. Thus, despite the matching procedure has successfully removed all the differences between the two sample (family SMEs vs. non-family SMEs and large firms), we do not find a significant difference between family SMEs and the control group when they choose their entry modes. Therefore, we cannot confirm our third hypothesis.

Table 4 Univariate test of significant differences between SMEs and large firms

Variable	*Mean difference between large firms and SMEs. NO = no statistical difference*	*Explanation*
MNC ROA	NO	Large firms do not have on average higher ROA than SMEs
MNC Age	YES	Large firms are on average older than SMEs
MNC Family	NO	Large firms are not on average more family controlled than SMEs
MNC R&D Intensity	NO	Large firms do not have on average a significantly higher R&D intensity than SMEs
MNC Experience	YES	Large firms have significantly more international experience than SMEs
Local Industry Growth	NO	Large firms do not have on average high preference for an investment in an industry with high growth than SMEs
Same Industry	YES	Large firms have a higher mean of investments in the same sector of the local firm

Table 5 Correlation matrix

	VIF	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*
1. JV	1.05	1												
2. MNC SME	1.15	0.036	1											
3. MNC ROA	1.02	0.080	0.032	1										
4. MNC Family	1.02	–0.047	0.030	–0.048	1									
3. MNC Age	1.13	–0.009	–0.270*	0.042	0.058	1								
5. MNC R&D Intensity	1.02	–0.041	–0.042	0.006	0.097*	–0.032								
6. MNC Experience	1.07	0.040	–0.153*	0.031	0.130*	–0.029	–0.032	1						
7. Local Industry Growth	1.08	0.087	–0.004	0.042	0.055	0.009	0.022	0.064	1					
8. Same Industry	1.05	–0.023	–0.192*	0.023	0.125*	–0.011	0.047	0.012	–0.023	1				
9. USA	1.03	–0.020	–0.010	0.049	0.058	–0.032	–0.028	–0.036	0.006	–0.009	1			
10. Rest of the World	1.07	0.113*	–0.090	0.078	–0.024	–0.048	–0.017	–0.114*	–0.037	0.038	–0.112*	1		
11. Pre-crisis	1.41	0.116*	–0.061	0.015	0.089	–0.062	–0.034	0.085	0.175*	0.026	–0.028	–0.067	1	
12. Post-crisis	1.50	–0.1154*	0.0798	0.006	–0.154*	0.032	0.006	–0.130*	–0.260*	0.058	0.052	0.089	–0.530*	1

Note: *Pairwise correlations significant at $p < 0.01$.

Table 6 Logit model for the propensity score matching

Variables	*Model 1*	*Model 2*	*Model 3*
MNC ROA	0.001		–0.005
	(0.003)		(0.004)
MNC Family	0.061	–0.154	
	(0.112)	(0.131)	
MNC Age	–0.009***	–0.010***	–0.003*
	(0.001)	(0.002)	(0.002)
MNC R&D Intensity	–0.547*	–0.183	–0.157
	(0.285)	(0.155)	(0.168)
MNC Experience	–0.464***	–0.398***	–0.346**
	(0.124)	(0.147)	(0.164)
Local Industry Growth	0.505	–0.341	0.746
	(0.949)	(1.074)	(1.176)
Same Industry	–0.502***	–0.312***	–0.180
	(0.104)	(0.120)	(0.135)
USA	–0.086	–0.003	–0.084
	(0.147)	(0.169)	(0.186)
Rest of the World	–0.690***	–0.488*	
	(0.239)	(0.277)	
Pre-crisis	–0.092	–0.277	–0.105
	(0.146)	(0.171)	(0.190)
Post-crisis	0.098	–0.128	0.092
	(0.128)	(0.142)	(0.162)
Constant	0.234*	–0.172	–0.948***
	(0.138)	(0.152)	(0.165)
Observations	770	770	718
Pseudo R-squared	0.142	0.112	0.0419

Notes: Standard errors in parentheses.
*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

Table 7 Result of the covariate tests before and after matching procedure

	Outcome	*Treatment variable*	*Pseudo R-squared before matching*	*Pseudo R-squared after matching*	*Median bias before matching*	*Median bias after matching*	*ATT*
Model 1	JV	SME	0.142	0.007	13.9	4.2	0.086**
Model 2	JV	SME with financial resources below average	0.113	0.013	13.4	7.0	0.1228**
Model 3	JV	Family SME	0.042	0.021	16.2	6.8	0.043

5 Discussion and conclusions

One of the most prominent areas of research in international business concerns the firm's strategies to enter a foreign market (Aharoni and Brock, 2010). However, up to now, research on foreign entry strategies has mainly focused on large firms (Brouthers and Hennart, 2007). Irrespective of the theoretical framework (Brouthers and Hennart, 2007), far too little attention has been paid to foreign entry strategies of SMEs (Laufs and Schwens, 2014; Bruneel and De Cock, 2016). In particular, a comprehensive comparison of entry strategies of large firms and SMEs is still lacking. The few studies devoted to SMEs (Nakos and Brouthers, 2002; Brouthers and Nakos, 2004) lack a control group of large firms to compare. In this paper, we specifically address this gap and we argue that studies comparing SMEs to large firms, as those of Erramilli and D'Souza (1993) and Li and Qian (2008), are needed in order to extend our knowledge on entry mode strategies. Our findings show that when it comes to entry modes similar variables have a different impact (on magnitude and sign) on the foreign entry strategy selection of large and SMEs.

Using a sample of 770 foreign market entries in Italy for the period 2005–2015 we study the equity mode selection of large and SMEs (JV vs. WOS). Our results show that being an SMEs increases the probability to choose a JV rather than a WOS.

Using a propensity score matching approach, i.e. controlling for endogeneity, we show that the size of the investing firms is a relevant variable impacting on the entry mode choice. But why are SMEs more interested in cooperative entry mode rather than in WOS? We further investigate this issue considering two possible explanations. First, we look at the financial resources of SMEs and more specifically to their profitability. Given asymmetry of information, high uncertainty and bounded rationality that characterise the internationalisation process, SMEs with scarce financial and managerial resources (and expertise) must acquire information at the lowest possible cost in order to facilitate their entry into foreign markets (Sharma and Eramilli, 2004). Therefore, we argue that SMEs with less resources tend to prefer cooperative modes because these allow SMEs to rely on complementary resources and local knowledge to facilitate their learning and lower uncertainty and bounded rationality. Our results confirm this hypothesis.

Second, we test a complementary explanation, i.e. that familiar control promotes cooperative agreement rather than WOS. Based on family business studies (Miller et al., 2013), we argued that family SMEs, who are typically short of both financial and managerial resources as well as oriented towards the preservation of family wealth, were favouring cooperative modes to compensate for the resource deficiency and to safeguard the family's interests. In this case, the empirical finding does not support our arguments.

The implications of our results are relevant to both theoretical and managerial terms. Form a theoretical perspective, we clearly show that size is a relevant variable in the entry mode analysis and that this variable should be included in order to avoid specification errors. Our analysis further shows that SMEs with fewer resources tend to prefer cooperative modes. This result suggests that measurements of the available resources should be included in any entry mode analysis and that when resources are scarce firms tend to prefer, among equity entry modes, JV. In the paper, we just consider financial resources generated by profit but clearly, this is only one of the possible sources and types of firm resources. We do not control for other kinds of resources such as intangibles, tangible assets or network resources that firms could lack or even have in excess and compensate for the lack of financial resources. Our findings suggest that further analysis of the resources available to firms is a promising field of research. However, due to data limitations we were not able to investigate further the differences between the three groups (SMEs with lower and higher financial resources and large firms). Future research using larger samples and different measures of financial resources is needed to shed light on these different types of firms entering a foreign country.[1]

Our assumption that family SMEs tend to prefer JV rather than WOS, however, is not confirmed. Running a different analysis distinguishing between family and non-family SMEs and then between family SMEs and family large firms our results remained not significant. The lack of significant results suggests that our choice to consider family SMEs as a homogenous set of firms is too broad. The universe of family firms is so differentiated (Chrisman et al., 2012; Nordqvist et al., 2014) that family SMEs cannot be considered as a unit of analysis, but they should be distinguished according to the kind of ownership, the quality of management (D'Angelo et al., 2016) and the consequent attitude towards internationalisation.

The lack of significance of the family variable is in line with the theoretical arguments of Verbeke and Kano (2010, 2012) that argue that the real distinction is not between family and non-family firms, but between family firms that show bifurcation bias, i.e. have a dysfunctional treatment of family and non-family assets and those firms that do not show such dysfunctionality. Clearly, this is an issue that requires further investigation.

Our findings have also some relevant managerial implications. First, our results show that SMEs cannot follow the exact same logic of large firms when entering foreign countries. We show that resources are critical variables that managers of SMEs should carefully consider. We also show that SMEs with low profitability tend to have limited choices and that cooperative entry modes are the preferred solutions. This means that when SMEs have highly specific and valuable assets that they do not want to share with international partners then profitability is a prerequisite for WOS.

Future research might investigate deeper the effect of cultural similarity between countries on the entry mode choice. For instance, using insights from studies investigating the effect of psychic distance (Dow and Karunaratna, 2006) or based on the CAGE framework (Ghemawat, 2001).

The main findings of the paper allow to identify the weaknesses that are also interesting avenues for future research. Given the limitation of our dataset we could not control for other different sources of capital or other resources in general. We identify profitability as a possible source of capital but, as reported above, there are many other ways to increase firms resources and to compensate for this shortage. An analysis of how SMEs compensate the scarcity of specific resources when they implement international entry mode strategy is surely needed. Second, we could not discriminate the different kind of family firms. Further research should delve into the world of family firms in order to further investigate the role of familiness on entry mode strategy and how different kind of family firms approach international strategy (Boellis et al., 2016; Sestu and Majocchi, 2018).

Given these limitations our findings suggest that studies on entry mode should investigate deeper the drivers of foreign entry strategies for large and SMEs, many issues still need to be analysed: we are just at the beginning of a long interesting research journey.

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Note

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