UNIVERSITÀ DEGLI STUDI DI PADOVA

DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI "M. FANNO"

CORSO DI LAUREA MAGISTRALE IN

BUSINESS ADMINISTRATION

TESI DI LAUREA

"Going global seriously: do SMEs rely on FDIs?"

RELATORE:
CH.MO PROF. CAMPAGNOLO DIEGO

LAUREANDA: D'AURIA FLAVIANA

MATRICOLA N. 1181707

ANNO ACCADEMICO 2018/2019

To my parents and my sister
for their constant support
for their boundless love

La candidata dichiara che il presente lavoro è originale e non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere.
La candidata dichiara altresì che tutti i materiali utilizzati durante la preparazione dell'elaborato sono stati indicati nel testo e nella sezione "Riferimenti bibliografici" e che le eventuali citazioni testuali sono individuabili attraverso l'esplicito richiamo alla pubblicazione originale.

Firma

____

TABLE OF CONTENTS

FIGURES & TABLES

Executive Summary

THE PURPOSE OF MY DISSERTATION. The purpose of this dissertation is to study the phenomenon of foreign direct investments (or FDIs) in relation to a specific class of firms, i.e. the one of small and medium enterprises (or SMEs).

In the present era, characterized by globalization and faster ways to shorten distances, small and medium enterprises may find a fertile ground for being involved into new internationalization activities. However, studies concerning internationalization, and in particular those analyzing the phenomenon of foreign direct investments, are typically more concentrated on its exploration in connection to large and well-established firms, based on the assumption that small firms are at disadvantage. On the contrary, these ones have been the focus of that part of international literature mainly interested in studying international trade and export, which are considered as more feasible forms of internationalization.

Given this general approach, this thesis aims to offer a contribution to a more recent trend of studies (Kuo and Li, 2003; Li L., Li D., Goerzen and Shi, 2018; Ruzzier, M., Hisrich, R. D. and Antoncic, B., 2006; De Maeseneire, W. and Claeys, T., 2012) according to which small and medium enterprises may rely on FDIs. In the course of the paper, several aspects of this combined analysis are addressed, starting from an analysis of which capabilities and factors typically influence SMEs' choices to invest abroad, of which reasons lead firms to take this kind of decision and how the new foreign unit is finally managed. Particularly important is the idea of internationalization as a sequential process, where the choice to make a foreign direct investment is seen as a challenging accomplishment, which in turn might still evolve over time, by changing its form and the reasons of its existence.

All these concepts and ideas have been applied to the Italian context, where small and medium enterprises account for 92% of all active companies and the "Made in Italy" concept represents a never-ending source of opportunities also for smaller firms.

FIRST CHAPTER - THE INTERNATIONALIZATION PROCESS AND THE PHENOMENON OF FDI- In this first chapter the main purpose is to provide a comprehensive description of what internationalization is and in which way foreign direct investments represent the hardest forms of internationalization activities. Both topics are not new to literature, in fact several studies and theories have characterized their evolution. Particularly important are the theories developed by Dunning (1980) with its Eclectic Paradigm, by Johanson and Vahlne (1977) with the Uppsala model and by all the theorists that recognize the importance of networks during an international process, such as Johanson and Mattson (1987), Johanson and Vahlne (2009), Chetty and Holm (2000). The choice to insert these theories is not random, but it is the result of a careful examination of models that, even if developed without distinguishing smaller and larger firms, or by focusing on the latter ones, address topics which are essential when dealing with SMEs. Conversely, in the last part of the chapter, two theories developed by Buckley (1989) and Aharoni (1966) are proposed, because they have been originated by considering smaller firms only.

SECOND CHAPTER – INTERNATIONAL ENTREPRENEURSHIP AND MANAGEMENT OF SUBSIDIARIES- After this overview, the second chapter focuses its attention on two macro topics: the importance of capabilities and entrepreneurship in small and medium enterprises, and the way in which foreign units are managed and decisions are taken.

The first issue assumes relevance in the context of SMEs because, by possessing dynamic capabilities, firms are able to reconfigure and adapt in relation to a dynamic environment. Thus, during an internationalization process, firms might be ready to change and to face challenging situations. If SMEs are considered, these capabilities become even more important because they allow to overcome their typical financial constraints. The development of (international) dynamic capabilities is a fundamental step toward a more complex process, which includes the recognition of opportunities. In this case, the human factor, i.e. the founder or manager, assumes a relevant part in recognizing and exploiting foreign opportunities; he/she is required to possess an international vision, his/her experiences and background are likely to impact decision-making process.

The second part of the chapter is linked to the exploration of the different approaches that firms might consider when they have to take decisions about the new foreign unit. Firms may decide to leave a certain level of autonomy to the subsidiary or to detain the entire control. Generally, there are some control mechanisms firms may adopt such as the use of expatriates.

THIRD CHAPTER – INVESTIGATING ITALIAN SMES' APPROACH TO INTERNATIONALIZATION AND FDI ACTIVITIES- Differently from the previous chapters, this one deals with an explorative research based on an online questionnaire, in which the main goal is to understand if the concepts proposed by the literature may find an application within the Italian context. In particular, the chapter is opened by a description of the actual European and Italian situation in matter of internationalization, with a focus on the use of those forms entailing high levels of commitment, such as FDIs and joint ventures. Concerning the Italian condition, the concepts of "global gap" and low international engagement by SMEs are introduced.

Nevertheless, the chapter continues with the presentation of the empirical work and of the several steps needed to perform it. First, there is the presentation of the reference dataset and the applied criteria. Second, the attention is moved on the way in which the online questionnaire has been created and sent to a total of 3741 Northern enterprises with a final response percentage of about 5%. The main characteristics of the 191 respondents have been further analyzed with the aim of comprehending if specific features of firms are able to influence internationalization choices. Furthermore, a considerable part has been deserved to the exploration of possible internationalization paths followed by our sample's firms. The importance of exporting before investing seriously represents a key issue which confirms the idea of sequential steps, together with the general tendency to invest in Europe. Moreover, if the investment changes its form, it means that the firm has changed its original investment reason; by affirming the idea of continuous evolution. Finally, it is possible to find some insights regarding the way in which SMEs take decisions concerning the foreign investment.

At the end of the chapter, a series of final reflections are made, together with some suggestions for future researches and limitations of the present work.

1. CHAPTER

The internationalization process and the phenomenon of fdi

1.1 Introduction to the concept of internationalization

Internationalization is a phenomenon that has received an increasing level of attention from the research and literature over the last decades. In particular, the higher level of interest has occurred because of the myriad of points of view from which the phenomenon might be analyzed (Ruzzier, Hisrich & Antoncic,2006). Within the literature it still represents a controversial topic, but in reality, firms pursue this kind of activity more and more.

Defining the term “internationalization” is not an easy task. Researchers have tried to integrate several aspects of the phenomenon in question into a unique explanation. Over time, an acclaimed definition was the one proposed by Pierce (1981, cited by Morgan & Katsikeas, 1997), for which internationalization is an outward movement of a firm’s operations. However, this definition has been amplified in order to accommodate two possible perspectives: inward and outward internationalization. For this reason, Welch and Luostarine (1988) have introduced a more broaden definition that recognizes internationalization as a process that implies a growing involvement into international operations. This more complex definition declares that internationalization is not a one-step activity, but it is identified as a process which entails a continuous and increasing engagement, and consequently, an increasing level of commitment.

Today, there is still a no common definition of what internationalization is (Susman,2007); nevertheless, it is possible to affirm that it is considered as the involvement of enterprises in a geographical expansion activity, beyond the national country’s border (Ruzzier, Hisrich & Antoncic,2006). The mentioned involvement and the related international activities may take different forms, that in turn affect the level of investment (both in terms of resources and time), the level of commitment, and the results expected by the internationalized enterprise.

Sometimes a simple definition is not enough, and a further step of reasoning is required. In fact, according to Gubitta (2013), if a firm enters into a foreign market with the aim of only exploiting cost advantages, it is not fully recognized as an internationalization activity, rather it is an “offshoring” activity.

However, regardless of the definition, what has been demonstrated by recent researches is that firms able to internationalize are more disposed to generate higher profits given the possibility to pursue economies of scale and scope, and to acquire new knowledge and skills developed in the foreign market (Hitt *et al*., 2006 cited by Onkelinx *et al*. 2016). Furthermore, MNEs[1] have the chance to face compelling challenges in a different social, economic and cultural context, which is naturally going to affect strategic choices and organizational structures (Beugelsdijk *et al*., 2018).

Before continuing with the analysis of the phenomenon, it is very important to be aware of a distinction between the globalization and the internationalization phenomena. The two concepts are frequently used as interchangeable terms, but they suppose two different concepts (Daly,1999). Internationalization, as the word itself reminds, refers to an international activity that means trade, relationships and alliances between or among nations. Globalization deserves to be thought as the global economic interdependence of many national economies, made possible thanks to the free trade and free capital mobility (Daly,1999). As a result of a faster market and mobility, reduction of barriers and increasing technology, companies have responded with more complex organizations that aim to be present all over the world for facing a more global competition (Ruzzier, Hisrich & Antoncic,2006).

Once the general idea of internationalization has been clarified, it is fundamental to deeply investigate on it, by understanding the possible different internationalization modes, together with their implications and how the phenomenon might be applied to a specific reality such as the one of SMEs. This latter point represents the general focus of the entire thesis and will be discussed within the next section, with a particular attention toward the foreign direct investments.

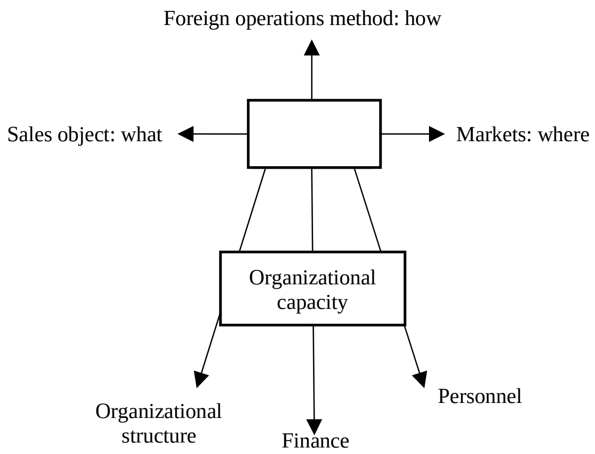
1.1.1 Internationalization dimensions

As already stated, internationalization is not identifiable as a unique type of investment and activity. In other words, it is composed by more than one dimension that might be summarized in a visual scheme as Figure 1, developed by Welch and Luostarinen (1988) in their publication.

[1] MNEs stands for multinational enterprises

By analyzing Figure 1, it is possible to comprehend that the phenomenon under study is able to deal with more than one aspect within the single company. First of all, by looking at the upper part of the model, firms have to face a dilemma, i.e. "how" to enter into a foreign market.
In order to examine the issue, it might be useful to ideally represent the variety of international entry modes along a continuum or horizontal array, that begins[2] with the *"weaker"* forms of internationalization and it ends[3] with the *"harder"* ones (Campagnolo & Camuffo,2008).

Figure 1 Dimensions of internationalization



Source: Welch and Luostarinen (1988)

In accordance with the logic proposed by this kind of representation, it is necessary to consider two elements: the level of investment and the level of control. The more a company moves from the left to the right part, the higher the level of investment required in terms of capital and other kinds of resources. The more a company engages into a *"hard"* form, the higher the level of control it can detain over the investment (Rothaermel,2015). In particular, among the different entry methods, two of them have been the focal points of the international literature: the export and the foreign direct investment, also called FDI. The choice between one mode or another is the result of a multifactor analysis and changing the initial choice with a new one is both costly and time consuming. So, it is important for an enterprise to make a very well-reasoned decision (Laufs & Schwens, 2014).
In between export and FDI, it is possible to find other forms such as licensing, franchising and joint ventures (Rothaermel, 2015). For example, contractual agreements entail a lower level of capital with respect to *harder* forms like a greenfield investment, but complexity and risks reside in the monitoring of the personnel in a new working environment (Laufs & Schwens,

[2] The beginning of the array is intended as the left part of it
[3] The end of the array is intended as the right part of it

2014). In this way, the upper part and the lower part of the proposed model are naturally connected. As a matter of fact, it is not possible to conduct an analysis without considering all the illustrated dimensions.

Traditionally, export has been defined as the simplest form typically used by smaller firms. This possibility is mainly explained by the lower level of resources required for implementing it and the associated lower risk. Furthermore, as the paper will discuss in the next section, by following the Uppsala school, many theorists recognize export as the first stage of a longer internationalization process (Ratajczak-Mrozek, Dymitrowski & Malys, 2012; Buckley, 1989). Typical pattern indicates that firms begin their international involvement by exporting through the employment of an agent, then they invest into a sales subsidiary and finally the full commitment occurs with the establishment of a production subsidiary (Welch & Luostarine,1988).Thus, according to some theories, exporting lays the foundation for a further investment, in particular for a direct investment, and it allows to gain knowledge and experience within the foreign context (Lu & Beamish,2001). In terms of financial gains, exporting should grant increasing benefits in terms of economies of scale and scope, given the ampler sales area (Kogut, 1985). Nonetheless, starting to export does not necessary lead to an increase in profit; in fact, common mistakes are made by enterprises in deciding the right model when going global. Among them, there is the failure of not consider the differences between the domestic and the foreign country in terms of trade habits (Chitakornkijsil,2009). Sometimes, enterprises demonstrate unwillingness to meet foreign preferences and regulation (Chitakornkijsil,2009), and this reluctant behavior may damage the final performance of the process. However, adapting the business to the needs of a new market requires a high level of flexibility, in particular because of what theorists have defined as cultural and psychic distance (Buckley,1989; Sousa & Bradley,2006). The major contribution and comprehensive research regarding the analysis related to the cultural differences is that one of Hofstede (1980), with his culture theory and the identification of six dimensions of national culture (Hofstede, 2011). The mentioned six dimensions are: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, long term orientation versus short term orientation and indulgence versus restraint (Hofstede, 2011). Countries all over the world show different levels of the cited dimensions, and by examining them it is possible to recognize similar and opposite nations, whose relation has an impact on economic activities. Hence, several empirical studies have focused on the relationship between cultural distance and its influence on the international activities, but with different results. For some theorists the two dimensions are positively related, and for others the relationship is a negative one (Tihanyi, Griffith & Russell, 2005). Regardless of the type of effect, by taking into account Figure 1, the country choice (what is denominated as “market: where”) appears to have an influence on all the other dimensions, and the same happens in the opposite sense. In other words, the higher is the level of cultural distance, the higher is the risk of a competitive disadvantage (Perks & Hughes, 2008). Together with the role covered by the cultural distance, when dealing with elements affecting internationalization dimensions, another factor should be taken into account: the psychic distance. In some occasions, this term has been used as a synonym or as a proxy for the cultural distance (O'grady & Lane,1996). Overlapping these concepts leads to the risk of do not full appreciate some details that might be interested and useful for further researches. In particular, psychic distance can be redrawn as the uncertainty related to the knowledge of the new markets during the internationalization process (Kogut & Singh, 1988 cited by O'grady & Lane,1996), which can damage the ability of the firm to learn about main differences and implications (O'grady & Lane,1996)[4].

More recent theories have tried to demonstrate how the level of importance connected to psychic and cultural distance is lowering because of new channels and a more homogeneous culture around the world (Axinn & Matthyssens, 2001). However, even if globalization has reduced differences and distances, when handling with internationalization, the role of cultures, habits and way of thinking is still alive. Culture has a fundamental part in situations where firms expand themselves in certain countries (e.g. western companies that enter in China and vice versa), which are significantly linked to some traditions and ideals (Aureli & Demartini, 2010). Thus, when deciding about *“where”* to internationalize (Figure 1), firms tend to choose countries according to the perceived level of cultural and psychic distance. If the idea of internationalization is associated to a process with an increasing level of commitment, it is possible to state that firms gradually become not only more committed, but they also acquire more confidence that allows them to leave “*low distance”* countries, and to explore *“higher distance”* ones (O'grady & Lane,1996 and Jones & Coviello, 2005).

After having analyzed the different entry modes (“how”) in connection with the choice of the market (“where”) based on cultural criteria, it is possible to move the attention on the lower part of Figure 1 concerning the organizational aspect[5]. The three dimensions under the unique name of “organizational capacity” cover a fundamental role for the success of an international activity. In particular, human resources are people that not only execute decisions, but more important, they make decisions about how and when to internationalize. Good people mean good activities. Moreover, organizational structure deals with the way in which the company

[4] In this definition of psychic distance, it is possible to notice that internationalization is seen as a process, during which the enterprise is convened to learn.
[5] Even if this part will be further discussed along this thesis.

decides to arrange the organization as a result of the new international activity (Welch & Luostarinen,1988). The way in which a firm is organized may reveal the level of interest and commitment toward the investment. Finally, finance is the economical basis of any activity. (Welch & Luostarinen, 1988). When discussing about organizational implications, the focus moves from an external to an internal analysis. In this perspective, researches wonder on which internal factors and constraints play a fundamental role in foreign context, given a stable and equal environment (Perks & Hughes, 2008). By following this question, different explanations have been proposed, such as the resource-based view and the knowledge-based view. Both of them consider factors such as the capacity of the international personnel and their commitment, the amount of resources, if the firm is willing to devote them and how the enterprise is able to change in order to accommodate a new subsidiary, a new export agent or a new partner within the organizational structure (Perks & Hughes, 2008).

Until this moment, foreign activities have been examined in general terms, by considering frameworks which are applicable to any kind of enterprise. However, in the context of internationalization, the organizational capacity plays a major role in certain kinds of firms, which are usually capacity constraints, but can present very determined personnel and a well-structured organization; this kind of firms are the so called “small and medium enterprises” (SMEs). Foreign activities applied to SMEs may have a different configuration, in terms of reasons, ways to act and final performances (Lin & Ho, 2019). Given the peculiarity of these enterprises, it might be convenient to offer a more detailed analysis.

1.1.2 Internationalization for SMEs

Small and medium enterprises are peculiar kind of firms that cannot be simply defined as smaller versions of multinational enterprises (MNEs), but they possess distinctive characteristics (Lin & Ho, 2019), that make them unique in terms of management, decision making process and international behavior.

Before focusing on the phenomenon of internationalization, it is proper to offer a general overview about the main small and medium enterprises’ features.

According to the European Commission (2015), in order to define an enterprise as a small or medium one, it is necessary to analyze more than one factor.

First of all, what has to be considered is the *size*. The EU Commission declares that *size* deals with three main dimensions, i.e. number of employees, turnover and balance sheet. In particular, the Commission has established thresholds for each dimension. It recognizes a SME as an enterprise with less than 250 employees and either a turnover lower than or equal to EUR 50 million, or a total balance sheet lower to or equal to EUR 43 million (European Commission, 2015). However, *size* is not the only variable to consider when dealing with SMEs. Indeed, in the same user guide published by the EU commission, it is declared that if an enterprise has a significant level of resources, either owned or acquired through a partnership, it is not considered as a small one even if it meets the above thresholds (European Commission, 2015).This kind of enterprises have unique features if compared to those which are considered as big ones. In particular, SMEs have to pay attention on two main issues: the presence of market failures and of structural barriers. The EU Commission (2015) underlines how market failures may modify the competitive environment and make it harder, in particular in areas like finance, research and innovation.

Regarding structural barriers, in the case of small and medium companies, they usually suffer a poor management and low technical competencies, together with the possession of limited knowledge (European Commission, 2015).

Traditionally, studies about internationalization have focused on the main features concerning mature MNEs. However, over time, new approaches have evolved, and a greater level of consideration has been attributed to the role that SMEs may have within the international context (Ruzzier *et al*., 2006). This shift of attention, demonstrated by the literature, is mainly explained because of the higher level of importance that SMEs have been covering in the last decades all over the world (Kunday and Şengüler2015).

As pointed out by Ruzzier, Hisrich and Antoncic (2006), more recent researches have emphasized distinct aspects while defining internationalization for SMEs, i.e. firm's operations, relationships, networks and resources.

The mentioned writers have collected several definitions of internationalization in connection to SMEs and have regrouped them according to some criteria. The first group includes the definitions given by Welch and Luostarinen (1933), together with the one offered by Calof and Beamish (1995). They have been regrouped because both of them have focused on the idea of internationalization as a process and on the importance of firm's operations. In particular, Calof and Beamish (1995) follow the theory for which once started the process, a company (a SME) is going to further increase the level of involvement. Their definition seems to evoke the already cited one by Welch and Luostarine (1988).

A second group of definitions is represented by those whose writers have focused on the importance of relationships and networks for SMEs. In particular, Johanson and Mattson refer to a *"cumulative process in which relationships are continually established"* (Johansson and Mattsson,1988). However, by considering that SMEs operate in a more dynamic context, the introduction of networks proposed by Johanson and Vahlne (1990) is more particularly important. The attention is assigned to the establishment of international contacts and to the importance of personal attitudes.

What seems to deserve a special definition is a particular kind of SMEs: the so-called “born-global” firms. This particular case has recently attracted the attention of many theorists and literature. Born global firms are defined as enterprises that start their international activity shortly after their constitution (Zhou & Luo, 2007). The main feature of born global firms is the possibility to exploit the latest technology that allows them to facilitate activities in foreign markets, together with the employment of their own internal knowledge (Knight, 2015).
The majority of theories regarding born global firms have essentially focused on which characteristics and resources play a fundamental role in implementing an international path. In particular, the advanced market conditions, the new technologies for communicating and producing, the more and more important role of global networks and the organizational capabilities represent the elements that encourage the entrance into foreign markets during the early stages of life (Knight, 2015).
Thus, it is possible to state that born-global firms pave the way for an essential element to consider, i.e. firm age.
Empirical studies tend to compare *born globals* with other SMEs that decide to internationalize during their mature phase, in order to deduct the main differences in terms of behavior and results.
Nevertheless, the dominant issue about *born globals* and SMEs is how firms with limited resources are able to go global. Usually, this question concerns all small and medium enterprises. Indeed, the possession of limited tangible and financial resources represents the main constraint when dealing with SMEs, which becomes even tougher to sustain when approaching young ventures’ internationalization (Knight, 2015). This kind of enterprises may be limited in investing resources for a competent management outside the home country. As Buckley (1989) points out, smaller firms may lack of expert executives or in some cases they do not have a well-structured hierarchy, for which precise people are in charge to take relevant decisions. The author sheds a light on the fact that smaller firms are more likely to use personalized parameters when taking a decision. Thus, scholars may wonder why, given this limit, smaller firms do not hire external experts and typically the answer is related to the impossibility to clearly evaluate outsiders (Buckley,1989).

However, what is also limited is the number of researches about SMEs if compared to those about large MNEs. The problem faced by researchers is the difficulty to directly apply international theories based on large MNEs to smaller companies (Lin & Ho, 2019).

In fact, different characteristics, behaviors and opportunities have been attributed to SMEs. If on one hand, the level of resources may represent a constraint, on the other hand, this kind of firms are in some circumstances more effective and flexible in exploiting new global opportunities with respect to big MNEs (Zhou & Luo, 2007). SMEs are more sensitive to external factors, making them more susceptible in the event of negative circumstances and risks (Laufs & Schwens, 2014).

The cited issues have a strong influence on relevant choices during the process of internationalization, in particular on important strategic decision proposed by Figure 1. By looking at the lower part of this model, it is possible to notice that differently from big MNEs, small and medium enterprises are usually owned by families or by a single person who owns and manages them. Consequently, in contrast with MNEs, going global becomes a decision that concerns the willingness of these people to partially loose the control, in particular if the company opts for a partnership or an alliance. (Laufs & Schwens, 2014)

As already mentioned, by focusing the attention on the upper part of the model represented by Figure 1, researches tend to attribute to smaller companies the choice of close markets in terms of cultural distances and the use of *easier* forms of internationalization, like export or partnerships. However, these considerations are not always confirmed in reality. In fact, in reality smaller firms may decide to opt for high-investment forms of internationalization.

More recent studies have shown that small and medium-sized firms are more and more engaged in *hard* forms of internationalization, such as foreign direct investments (Kuo & Li, 2003).

The international literature has tried to explore in deep the way in which SMEs internationalize, but currently the research field seems to be still not clear, full of discordant explanations. This discrepancy is partially attributed to the fact that first of all, it is more difficult to get sensible information and data on SMEs activities, in particular on their foreign investments, since data are not public (Lu & Beamish,2001). Second of all, several empirical studies have been conducted by taking into account one specific country and analyzing the connected enterprises. Even if results have an important role within the research on this field, this kind of empirical studies underline limitations of the model that do not allow to generalize the issue.

However, even if results coming from specific cases are not directly applicable to a larger sample, it is still important to understand what FDIs are and how they are employed by SME.

1.2 Foreign direct investments (FDIs)

Foreign direct investments, also called FDIs, are defined as international investments, made with the purpose of obtaining a lasting interest in an enterprise located in a different economy (IMF, 1993). Taking into consideration this definition, more elements might be analyzed.

First, it is important to clarify the roles of the direct investor and of the direct investment enterprise. The first one is the person, the enterprise or the government, that decides to invest into another enterprise operating in a different country. In particular, the International Monetary Fund (1993) has identified a threshold of 10% in order to recognize a direct investment with the aim of holding a lasting control. However, this limit is not an exclusive parameter, but it only helps to identify FDI cases. In fact, in some case with a lower percentage it is still possible to detain the control (Duce & Espana, 2003).

The direct investment enterprise is where the investor owns the 10% (or more), and it can be either an incorporated or unincorporated enterprise (Duce & Espana, 2003).

The second element of the previous definition to consider is the lasting interested, it is what essentially distinguishes FDI from a portfolio investment in stocks and bonds, given the underlined idea of a long-term relationship that allows a significant degree of influence over the management (Makoni,2015).

As already stated, the competitive environment in the last decades has been becoming particularly tough together with the presence of several barriers (political, social and economic ones) that make the pursuit of a foreign direct investment difficult. For these reasons, enterprises have to be aware of the different typologies of FDI they can make. In particular, studies traditionally recognize two kinds of investments: the greenfield and the acquisition (or merger).

In the first case, a greenfield investment implies the constitution of a new affiliates or the establishment of operations in a foreign country. In the second case, the acquisition (or merger) implies the presence of an already existing company ready to be acquired (or merged), through which the direct investor might be able to expand internationally (Cheng, 2006). However, broadly speaking, the use of M&A is very frequent, even if less typical when dealing with FDI (Tülüce & Doğan, 2014).

In between these two typologies, there are the brownfield investments, which imply the total reconversion of an existing company acquired by a foreign investor (Cheng, 2006).

The choice among the different typologies is the result of a multifactor analysis, both internal and external. As the paper will discuss in the following sections, external factors are essentially linked to the characteristics of the host country, the level of competition and the market structure. While, internal analysis is conducted in connection to the organization of the company, that might demonstrate a capable management, enough resources and a good plan for investing.

In general terms, it is likely to affirm that FDIs are kinds of investments that have a strong impact on the economic growth, and this is confirmed by the quantity of studies totally focused on explaining the relationship between FDI and economic growth of a specific country.

1.2.1 FDI's contributions

When dealing with either FDI or any kind of international activity, the number of aspects, dimensions and factors to consider is huge.

Hence, in this part of the paper, the focus shifts from the export to the analysis of the most complex form of internationalization: the foreign direct investment. FDI has been traditionally considered as the type of investment pursued by mature and large enterprises (Kuo & Li, 2003), given the high level of resources, knowledge and competent management.

The fact that foreign direct investments are frequently used by large sized firms is still confirmed today, and typically when an MNE decides to invest abroad, the consequences of this investment create a spillover effect in both the domestic and the host country (Tülüce & Doğan,2014). Indeed, FDI is a phenomenon that implies several macroeconomics consequences, besides the microeconomics ones related to the enterprises. As stated by the two authors Tülüce and Doğan (2014), usually FDI contributes positively to the growth of a country, by bringing to the host countries new technologies, opportunities (also in terms of labor mobility and demand) and managerial expertise; together with an increase of competition that forces local enterprises to innovate[6]. All these possible benefits are essentially the reasons why some developing countries have started to promote incentives in order to attract higher levels of FDI (Urata & Kawai, 2000).

By taking into account the macroeconomics contributions given by the phenomenon in question, Makoni (2015) in her paper enriches the classical definition of FDI by distinguishing the macro and micro economic level. In the first case, the macro view of FDI sees it at the flow of capital from one country to another, measured in "balance-of-payments statistics" (Makoni,2015). In the second case, the author follows the traditional definition. All the macro

[6] This phenomenon is defined as productivity spillover effect. The presence of MNE may have consequences on the local economy in different ways, as shown by Blomström and Kokko (1996, cited by Tülüce & Doğan, 2014). For example, knowhow acquired by employees may be transferred to local companies, the presence of a monopolistic economy may be broken down in order to leave space to competition and more open economies.

economics' aspects are usually able to explain why governments in developing countries[7] are willing to trade and host foreign enterprises.

However, beyond the utility of FDI from the macroeconomics point of view, what is the focus of the present paper is to understand its dynamics and main factors within the single enterprise, both in general terms and in connection with the specific reality of SMEs previously discussed. The main issue to clarify is the identification of the principal factors affecting the phenomenon, the reasons that lead enterprises to invest and in particular why small and medium sized firms opt for a risky form of internationalization rather than a *softer* one.

1.2.2 FDI for SMEs: an overview on recent researches

Why and how SMEs are able to invest abroad given their resource disadvantage? This question represents a key issue.

Until now the main characteristics concerning internationalization and FDI process have been illustrated. However, what effectively leads to invest abroad through FDI, and which benefits a SME expects from it, they are still non-touched topics.

Traditionally, SMEs have been associated to the use of *soft* internationalization modes, such as export or other no-equities forms[8]. However, is it true? Newer theorists, such as, Kuo and Li (2003) have underlined the growing role of SMEs in FDI. These authors have tried to summarize the way in which small and medium enterprises are able to invest abroad given their limitations and many answers have been given. In fact, the two writers believe that this kind of firms take such risk because they are powered by other firms. Thus, internationalization is seen as the result of the formation of alliances (Acs,1999 cited by Kuo & Li, 2003).

Another explanation might be the possession of ownership advantages[9] or the fact that these companies perform as leaders in a technological field (Kuo & Li,2003).

However, even if these explanations might be true and might find application in reality, they represent only a part of the large number of factors leading to invest abroad and only a part of a recent literature which seems to be more and more focused on SMEs internationalization. Next to the fact that smaller enterprises are able to go abroad, another trend of researches is focusing on the role that SMEs have within the *harder* forms of internationalization, by looking at them from different perspectives. For instance, authors like De Maeseneire and Claeys (2012)

[7] The macro level view of FDI entails the use of some parameters able to identify countries which are more or less able to attract FDIs like the market size, the GDP, the level of infrastructures and the institutional variables (Makoni,2015)

[8] Rothaermel, 2015

[9] Ownership advantages represent one the three elements (ownership, location and internalization) presented by Dunning in its OLI theory (1987)

have offered a study concerning if smaller enterprises investing abroad face more problems when aiming to access to debt and equity finance for their investments. A similar study is the one conducted by Li L., Li D., Goerzen and Shi (2018), that have examined SMEs in the US pharmaceutical sector with the aim of exploring if and when smaller firms gain financial and intellectual advantage from their investment. Their research has found positive results when a long run perspective is adopted. Nowadays the way in which small and medium enterprises invest abroad is more and more similar to the one used by well-established MNEs. Ruzzier *et al*. (2006) belong to this increasing trend of thought which aims to investigate the relationship between FDI and SMEs. In their paper, Ruzzier *et al*. (2006) have underlined the evolution of the internationalization concept for smaller firms, by emphasizing that "in previous international business literature, mature multinational corporations played a dominate role, whereas SMEs (and especially their internationalization) have only recently attracted broader interest" (Ruzzier *et al*., 2006, p.447).

A recent global survey, conducted by the Multilateral Investment Guarantee Agency, with the assistance of Deloitte & Touche Spa (2002), has pointed out several interesting issues about the reasons and the factors influencing FDI. Even though the study addresses several points, its limits, in connection to the present paper, are given by the use of large companies as the majority of the respondents. This limit represents the main problem when dealing with small and medium enterprises (Lin & Ho, 2019) and internationalization theories. However, even if the limit exists, it is still possible to extract some relevant points from the survey. Specifically, it states some discrepancies between larger and smaller firms among those ones represented in its bundle of samples. In particular, the survey points out differences in terms of behaviors between larger and smaller companies. Indeed, in the first case, companies undertaking FDI seem to be only interested on labor costs, rather than on factors like the labor relations. A different approach is instead using by smaller firms, whose focus is also on the importance of hiring qualified personnel and management staff (Multilateral Investment Guarantee Agency with the assistance of Deloitte & Touche Spa,2002). Moreover, it emerges that larger companies tend to expand an existing facility, while smaller ones are more willing to pursue M&A (Multilateral Investment Guarantee Agency with the assistance of Deloitte & Touche Spa,2002).

Furthermore, it is very important to notice that the empirical study confirms the theoretical idea for which smaller firms internationalize in accordance with other firms, as stated by Acs (1999 cited by Kuo & Li, 2003).

In terms of motives for investing through FDIs, the study demonstrates that the main reasons are essentially the opportunity to get access to new markets, the possibility to reduce operating costs and to source raw materials (Multilateral Investment Guarantee Agency with the assistance of Deloitte & Touche Spa,2002). The operating costs reduction may particularly refer to the use of local labor, as demonstrated by Urata and Kawai (2000) in their study of Japanese' SME determinants for FDI.

Beside to the typical reasons of FDI, Buckley (1989) has also added other kinds of motives, such as the domestic market condition. In this case, the smaller enterprise can find itself working within a declining home market, or it is "pulled" by the government, given for example the presence of hostile tariffs. Certainty, the underlying motives for investing abroad are in deep connection with the choice of the host country. In particular, given their financial and human resource limits, SMEs seem to be more aware of the host country choice and in this sense, it is possible to state that smaller firms are more risk averse[10] (Urata & Kawai, 2000).

This deep connection among all the factors perfectly matches with the model of Figure 1; in fact, in the particular case of FDI, the *where* choice affects the level of *organizational* dimensions, in particular in terms of finance and personnel to devote.

As Buckley (1989) states, the level of financial constraints in relation to smaller firms is especially due to the (im)possibility to find external available funds; if external funds are not available, firms should only count on profits generated by previous investments.

About the organizational challenges faced by a smaller firm, Buckley (1989) sheds a light on the difficulty to both control and cooperate with the new foreign venture, and on the very delicate choice that SMEs have to afford in relation to the new venture's CEO.

Thus, given the complexity under the study of SMEs and their foreign direct investments, it might be useful to go in deep with the analysis of the main theories that over time have treated this issue, by trying to answer to the following questions: "which are the factors that influence the most?" and "which dimension allows to be successful when internationalizing through FDI?".

1.3 Joint ventures: an alternative to wholly owned subsidiaries

By analyzing the internationalization modes represented along an ideal horizontal array, it is possible to notice the presence of joint ventures as an intermediate mode in between export and FDIs. Hence, JVs represent a widespread phenomenon, particularly used by firms that decide to go abroad and, because of particular constraints or lack of knowledge, they decide to rely on an equity partnership. Essentially, a JV is defined as an alliance where two (or more) firms

[10] The risk aversion is one of the six dimensions introduced by Hofstede (2011)

devote resources in order to create a new venture, which metaphorically represents the child born from two parents' firms (Inkpen, 2000). Thus, the main issues when dealing with a JV are essentially referred to the collaboration between the two firms, the benefits they may get, in contrast to those coming from a wholly owned subsidiary, and the limits that this form implies. The collaboration between the two firms is really peculiar, since the they both keep their own independence, but at the same time, they share key resources for the success of their "child" (Buckley & Casson, 2009).

According to Yiu and Makino (2002), the presence of transaction costs explains why JVs are many times preferred to other forms of internationalization. In particular, Yiu and Makino (2002) identify two main conditions, whose presence may lead firms to opt for a JV: the need to get complementary assets owned by the partner and the fact that the acquisition of these assets results to be too difficult because of indivisibility or tacit nature. When these two conditions coexist, firms are willing to enter into a JV.

Many scholars have underlined the myriad of benefits generated by a JV, in particular in relation to the internationalization of small and medium enterprises. An example is the study conducted by Lu and Beamish (2001) on SMEs. The authors affirm that this kind of firms experience management difficulties, knowledge shortages and resource vulnerability, and they are able to benefit from the creation of alliances, which minimize transaction costs and allow to share risks. The reduction of risk is particularly evident when the partner is a firm located in the host country (a local partner) rather than a firm located in the home country or in a third country. This difference is mainly explained by the fact that local partners not only are able to reduce risks associated to costs or capital, but they also are able to offer market knowledge which is fundamental to overcome the liability of foreignness (Lu and Beamish, 2001).

However, joint ventures entail some disadvantages and risks associated to the (un)cooperation between firms, which represents a risk *per se*. Firms may disagree on final goals, they may not trust the partner or there may have cultural differences that managers are not able to overcome. Yiu and Makino (2002) claim that in the case of JVs, uncertainty may be present in two ways. The behavioral uncertainty is connected to the possibility that the partner behaves in an opportunistic way, even if parties are totally involved through equity. While, the contextual uncertainty is usually connected to external institutions and it goes beyond firms' control.

All these obstacles may lead to the failure of the joint venture, which for the single firm means loss of time, money and possibility to enter into the new market.

Thus, JV, as any other form of internationalization, poses a trade-off (Buckley & Casson, 2009), and firms have to balance possible pros and cons.

1.4 Main internationalization theories

Explaining which factors influence an enterprise the most when choosing to internationalize and to do it through foreign direct investments is not an easy task. In particular, it becomes even tougher when dealing with SMEs.

What might be a good starting point is to classify all the factors affecting the international process into two macro categories: external and internal factors (Perks & Hughes, 2008; Ruzzier *et al*., 2006).

Taking into consideration one category rather than the other one will affect the way in which the entire process is seen and faced by the enterprise.

Over time, within the international economic field, several theories have succeeded in presenting the phenomenon of internationalization[11], some of them have adopted either an external or an internal perspective (Ruzzier *et al*., 2006) in order to illustrate the factors affecting the phenomenon, or others have described the way in which the phenomenon is undertaken by the companies. Some of them have also presented the enterprise size as an issue to consider in the international context. Buckley (1989) underlines the importance to notice that in some traditional theories, such as the resource-based view model and the internalization approach, scholars have considered the firm size as a dynamic process of growth.

In the matter of factors, the best approach should be the consideration of all the them (both internal and external ones), as they all contribute to the possible success or failure of the international activity.

In particular, when discussing about external factors, authors and studies essentially refer to the role that the external environment covers. In fact, it is not possible for a company to operate alone and independently (Perks & Hughes, 2008), but it always needs to rely on a stable and stimulating environment.

For external environment, Perks & Hughes (2008) refer to both the social-political situation and to the market condition in which a firm operates. Thus, according to them, it is important to take into consideration aspects like the customers linkages, the cultures of the domestic and host country, the level of competition and the presence of resources (e.g. natural resources).

The external or market perspective has been adopted by studies such as the international product life cycle of Vernon (1966, cited by Perks & Hughes, 2008), the market imperfection theory by Hymer (1976) and the culture theory of Hofstede (1980).

In the first case, Vernon (1966, cited by Perks & Hughes, 2008) explains internationalization as a process made of four sequential stages: introduction, growth, maturity and decline. Each

[11] And of FDI

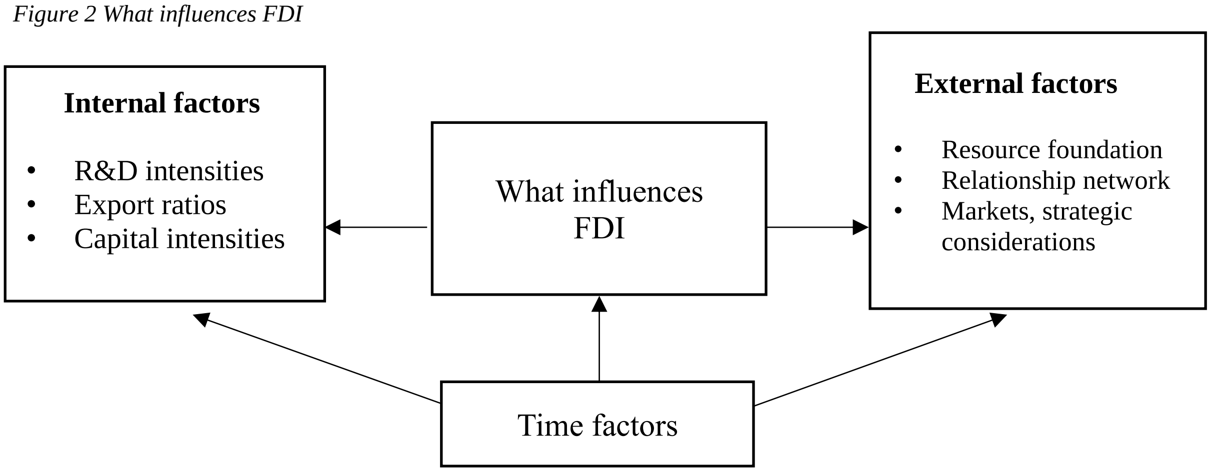
stage represents a moment of a product life cycle, and for each stage the author attributes a location where the product needs to grow. Even if the theory has been largely used, Perks and Hughes (2008) have criticized the lack of interest versus the managerial decision aspects and the enterprise as whole.

Very important, but still criticized, has been the theory proposed by Hymer (1976, cited by Perks & Hughes, 2008) of the market imperfection. According to this theory, FDI may help enterprises with little knowledge of the foreign local conditions to overcome the weaker position. However, Perks and Hughes (2008) address a similar critique to this theory, which according to them, is too much focused on the market dynamics and pays no attention on the enterprise and individual conditions. Thus, if the previous theories are two examples of studies which have focused on the external environment, it is possible to mention other theories that instead have used internal factors as the main focus.

Typically, this shift of attention stems from the fact that the external environment is common to all the enterprises that are located in the same market, with the same level of competition, customers and government. Thus, what makes the difference is the enterprise itself (Perks & Hughes, 2008).

For internal factors the two authors Perks and Hughes (2008) mean the presence of good resources, high level of knowledge and expertise inside the company and a positive inclination toward the internationalization. Moreover, other internal factors to consider are those proposed by Kuo and Li (2003), which they summarize in a visual scheme reported in Figure 2.

Figure 2 What influences FDI



Source: Kuo & Li (2003)

From the empirical analysis conducted on Taiwanese SMEs by Kuo and Li (2003), it has been demonstrated the high level of importance that internal factors cover in deciding to invest through a foreign direct investment. Particularly, from the presented results, the two scholars have shown that the higher is the level of R&D of a firm, the higher is the probability it undertakes FDI, but at a diminishing rate. Moreover, in relation to the export, the Taiwanese SMEs show that the activity of export has a positive influence on the possibility to undertake FDI, given the already existing dependence on a foreign market (Kuo & Li, 2003).

The model presented by Kuo and Li (2003), reported in Figure 2, introduces an element which is seldom considered by traditional theories, i.e. the time factors. Time is a very important element because it accosts foreign direct investment process to the idea of dynamism and evolution.

The first scholars that have put the emphasis on the internationalization seen as a dynamic, evolutionary process that ends with FDI are those ones under the name of Uppsala school. Their theories were born together with that one of Dunning (1980).

1.4.1 The Eclectic Paradigm (OLI model)

The Eclectic Paradigm, or OLI model, is a theory presented by Dunning (1980), based on models of internalization previously developed.

The focus of the model is to explain the three main determinants for undertaking an international activity, in particular it explains how enterprises evaluate the possibility to pursue foreign direct investments (Rugman, 2010). In addition, as Dunning clarifies in a subsequent publication, the Eclectic Paradigm wants to evaluate the determinants that lead companies to invest abroad and that allows the foreign production to grow (Dunning, 2015).

As the OLI acronym reminds, the three key elements identified by Dunning (1980) are the Ownership advantage, the Location advantage and the Internalization advantages. The three advantages are strictly related, and in particular it is possible to find a strong logical connection between the ownership and the internalization elements (Rugman, 2010).

The ownership advantage is essentially explained as the possess of assets by a firm or the possibility to acquire them, in contrast to the advantages owned by the competitors. In this case, assets are both intangible[12] and natural resources, such as culture and local institutions (Rugman, 2010), coming from a possible geographical diversification (Dunning, 2015).

As Dunning specifies (2015), ownership advantages have the role to reduce the impact created by the costs of set up coming from the establishment of a foreign operation.

Given the ownership advantage, companies have to examine the possibility to perform certain operations in a specific nation/country to get a substantial competitive advantage. Thus, the location advantage refers to the chance of benefit from the transfer of ownership advantages into a particular nation through the use of FDIs (Rugman, 2010).

[12] Typically protected by some kind of legal rights (Dunning, 1980)

However, Rugman (2010) underlines the difficulty in distinguishing location and ownership advantages in some peculiar cases, e.g. when an MNE is able to get natural resources given its position in the host country, for which a location advantage becomes an ownership one.

Finally, the transfer of operations abroad is the result of a more specific analysis of the last element, which is the internalization advantage. The internalization advantage refers to the benefits a firm can get when decides to develop ownership advantages in its home country (Rugman, 2010) and on its own, rejecting other forms like international partnerships and alliances. Typically, firms internalize in order to overcome the negative effects of market imperfections and to avoid transaction costs[13]. Precisely, firms internalize when markets do not allow price discrimination and costs for trade are higher than the benefits (Dunning,1980).

Thus, the Eclectic Paradigm's dimensions might be considered as factors that are likely to change according to context, geography, culture and industry in which firms operates, given the high level of influence that external factors can assume.

With the possession of all the three advantages, the enterprise may pursue FDI as international activity, otherwise it should opt for other forms of internationalization.

1.4.2 The Uppsala model

One of the major theories within the international literature is the one proposed by Johanson and Vahlne (1977), and further discussed by several scholars that it is possible to identify under the name "Uppsala school".

The original theory has been considered a really revolutionary one, since it has been the first one dealing with the idea of internationalization as an evolutionary process. In detail, the theory does not only propose factors or motives leading to invest abroad, but it also describes how the international process occurs, taking into account more elements with a dynamic approach (Johanson & Vahlne,1977). However, even if the original theory is still considered by scholars, over time its authors have added and reviewed the theory in order to adapt the concepts to the modern market and to the new models.

Johanson and Vahlne (1977) present their model as the one able to explain the internationalization process by considering the individual firm and its development, in particular for what concerns the acquisition of knowledge and its use for further commitment toward foreign markets. This concept represents a key issue for the general understanding of the model; in other words, the lack of knowledge brakes firms to undertake an international expansion because of all possible risks behind a foreign country investment.

[13] Transaction costs are usually all the costs associated to the selling or buying of goods or services (e.g. search and information costs, negotiation costs etc.)

The model has been created by looking at empirical results coming from the observation of Swedish enterprises with foreign subsidiaries. The authors have noticed that Swedish companies' internationalization process is the result of a series of steps that typically start with an export activity. Then, they are able to formalize the investment by creating deals and contracts with local intermediaries. At this point, they have enough knowledge to replace local intermediaries with their own sales organization. Finally, companies demonstrate the ability to not only sell but also to produce in the host country[14], and in this way, they totally formalize their presence in a new country (Johanson & Vahlne,2009). This process has been defined by Johanson and Vahlne (2009) as the *establishment chain*, and typically the theory is also known as the stages model of internationalization.

During the establishment chain, firms seem to build confidence, which is also demonstrated by a change in their country choice. Indeed, during the first part of the chain, firms tend to choose foreign markets with a low psychic distance, but over time, firms are able to get away by choosing countries which are more distant with a higher level of uncertainty (Johanson & Vahlne, 2009). The model proposed in 1977 is based on a mechanism which illustrates two aspects: the state and the change aspects. The former is represented by the market knowledge and the market commitment; while the latter is represented by the commitment decisions and the current activities. The market knowledge affects the decisions in terms of resources commitment, and in turn the current activities affects the level of market commitment. This happens because the two state elements influence the way in which risk and opportunities are perceived, and according to their perception firms take decisions about the two change elements[15]. The idea of knowledge is illustrated by the authors with a distinction between general and market-specific knowledge. In particular the market-specific knowledge can be acquired only with the accumulation of experience that at the end leads the firm to commit resources to the new market. Thus, firms with a certain level of knowledge have to take commitment decisions. However, commitment might be a double-edged sword, because on one hand it allows firms to grow from an economic point of view given the increase of operations, on the other hand it brings an uncertainty effect to the firms, that is related to the future of the foreign market (Johanson & Vahlne, 1977). In this sense, firms are willing to commit resources to the new market when the associated risk is lower than the maximum tolerable risk. Over time, firms are able to further increase their commitment in small additional steps. When firms

[14] Firms internationalize through the *hardest* form of internationalization, e.g. FDI
[15] Johanson and Vahlne (2009)

commit resources, they start to operate by defining activities, which are a fundamental source of experience (and of knowledge)[16].

At this point, the establishment chain suggests the pursuit of a final market commitment. The higher the level of commitment, the harder is the possibility to invest the committed resources into an alternative purpose[17]; it means that all the resources are highly integrated with other parts of the firm (Johanson & Vahlne,1977). Thus, the higher level of commitment is represented by a change in the modes through which the firm operates abroad. In other words, the model shows that during the first stages of the internationalization process, firms are more willing to undertake *soft* international activities, usually direct or indirect export. By following the establishment chain, firms acquire confidence and knowledge that allow them to commit through a foreign direct investment, typically a production subsidiary.

The illustrated model is a dynamic one, so once a firm has reached a first level of commitment, it continues to operate and to acquire more experience, that in turns gives it more knowledge and more propensity to further invest.

Differently from other theories, such as the OLI model, the internalization theory and the transaction cost theory, the Uppsala model has been defined as a behavioral theory rather than an economic one[18]. Therefore, for the purpose of this paper, what is useful to underline is the introduction of fundamental concepts, like the acquisition of knowledge, that makes firms more confident, together with the ideas of opportunity and risk affected by the market knowledge. Opportunity, knowledge coming from other firms and risk perception are elements that have been further analyzed in more recent theories.

However, even if the model has largely contributed the growth of international theories, it has been developed in a period where the market dynamics were very different and theoretical contributions were smaller than those produced recently. Thus, these are the main reasons for which the same authors have constantly updated their theory over time, in particular by approaching to the idea of capabilities and network creations.

1.4.3 The network approach and the business network model

The above theories have focused on the enterprise as a single force, that using its own knowledge, advantages and resources is able to compete at an international level. The network approach goes a step further and proposes a model whose main focus is the importance of creating a right network of both personal and professional relations. The creation of a network

[16] Johanson and Vahlne (2009)
[17] Johanson and Vahlne (2009) define commitment as “the product of the size of the investment times its degree of inflexibility”.
[18] Johanson and Vahlne (2009)

results to be very helpful in particular when firms decide to internationalize. In fact, through the use of networks, relationships are created and consequently firms work together in order to overcome resource or knowledge constraints[19] (Zain & Ng, 2006).
According to some empirical studies, summarized by Johanson and Vahlne (2009), networks have a dominant role in the field of internationalization for several reasons: they have an impact on the mode of entry selected by a firm, the location where to invest, the choices of SMEs about international activities.
One of the major contributions on this model is the one proposed by Johanson and Mattson (1987), in which the authors discuss relevant aspects emerged through the analysis of relations among firms.
Some years later, Johanson has published [20] (2009) a review of the original stages model of internationalization, by adding the concept of network.
Johanson and Mattson (1987) define what a network is and what are consequences and implications it has on the firms belonging to it. First of all, networks are defined as bundles of relationships that arise between various firms. The creation of networks is a natural consequence of the market dynamics, given the presence of more players. In fact, it is possible to imagine a typical seller-buyer transaction where the two players have a sort of interaction for which they establish a relationship. Thus, each firm is naturally involved in a network because it keeps relations with suppliers, customers and shareholders.
However, when firms go abroad, they enter into an already existing network, in which they are new and where they have to build new relationships (Johanson & Mattson,1987). The need to create relations is linked to the fact that they ensure short-term economic returns, they help firms to survive over the long term and to overcome constraints and limits. Therefore, the network model follows in part the idea that external factors play a fundamental role because firms are not able to operate alone. Through the activities of the network, firms establish relations that guarantee the access to resources otherwise impossible to obtain, in particular if the firm is a foreign enterprise (Johanson & Mattson,1987).
Relationships imply a mutual orientation, meaning that in the case of a relation between two firms, both of them are interested in build an interaction. It is important to notice that not all the interactions are the same, but in their paper Johanson and Mattson (1987) distinguish two kinds of interactions, that in turn affect the relationships and vice versa: the exchange and adaptation processes. First, the exchange process arises because the two parties are mutually interested in

[19] The possibility to overcome constraints in particular important in the case of SMEs. For this reason, the network approach could be considered as an appropriate model when dealing with SMEs (Zain & Ng, 2006).
[20] Together with Vahlne.

what the other party has, and in particular the interaction becomes even more lasting if they recognize a certain level of heterogeneity[21]. Second, the adaptation process represents the other type of interaction and generally firms can adapt in different ways, e.g. logistically, financially or technically (through to the modifications of products and processes).

Regardless of the type, adaptation is always considered as a fundamental factor when dealing with firms and their relations. In particular, it is possible to identify three main reasons for which adaptation plays an important role in a network. First of all, if a firm is willing to adapt its production, technique or level of investment for a specific supplier or customer, it means that their union is strong and even more relevant is the high level of dependence that firms have on each other. Second, firms that decide to adapt in order to reinforce their relations are also more disposed to find alternative ways to solve conflicts[22]. The third reason for which adaptation is important lies in the fact that it allows firms to change in order to fit together (Johanson & Mattson, 1987).

As discussed above, relationships imply mutuality and more specifically, people within firms establish a mutual orientation. As a matter of fact, people (e.g. salesmen) entertain relationships outside their own firm and consequently people represent the main source of interaction (Johanson & Mattson, 1987).

The idea of people as main resources inside a firm is a concept strictly connected to the classical resource-based view (RBV) theory. In particular, one of the main contributions to the RBV theory has been given by E. Penrose with its book *"Theory of the Growth of the Firm"* (1959)[23]. An exhaustive review of Penrose's ideas as been offered by Kor *et al*. (2016), in which the authors underline the central role that managers have in the RBV, in particular because of their experience and lasting knowledge of firms. In connection to the concept of knowledge, Kor, Mahoney, Siemsen and Tan (2016) point out that the acquisition of knowledge and trust is in essence the result of relationships accumulated by people over time.

By applying the basic concepts developed by Penrose (1959) to the network theories context, it is possible to appreciate the role that people, relationships and knowledge have in an international process. This broader view is the reason why Johanson and Vahlne (2009) have

[21] The heterogeneity assumption is a concept coming from resource-based studies (Penrose,1959 cited by Vahlne & Johanson, 2017) that underlines how resources and products are not equally owned by firms. Heterogeneity essentially explains why competitive advantages exist and it contributes to the understanding of why firms internationalize.

[22]Usually firms are inclined to consider exit as a possible solution when conflicts arise. However, because of adaptation, firms have to find alternative ways able to solve problems.

[23] According to her theory, resources are both physical and human, and in order to grow, firms should focus on managerial competences.

revised their original internationalization model[24] (1977) to propose a more modern one: the business network model.
Among the new concepts introduced in 2009, Johanson and Vahlne define internationalization as a learning process where firms strive to enter into an unknown network, made of actors linked by interdependent relationships. Thus, internationalization is seen as process during which firms attempt to assume a network position. Moreover, when abroad, firms not only have to acquire general market knowledge, but also general international knowledge[25].
In any case, knowledge development is the main interaction's consequence between a buyer and a seller operating in the same network. Firms in a network are willing to commit and build lasting relationships with the purpose of discovering or creating new opportunities.

The importance of networks during the internationalization process has been confirmed by some empirical studies such as the one of Chetty and Holm (2000) conducted in relation to small and medium enterprises operating in New Zealand. In line with the above concepts, the authors affirm that in the case of SMEs, networks are mostly used to pool resources and benefit from the resulting synergies (Chetty & Holm, 2000). Managers and human resources play a fundamental role as decision-makers and researchers of opportunities, both inside and outside the firm. Thus, firms and environment are not separate, but when enterprises decide to go abroad, their choice cannot prescind from the consideration of other enterprises with whom they have to interact.

1.5 FDI for SMEs: specific theories

The above theories have examined different aspects of internationalization and have ignored, or only partially considered, the size issue. However, when discussing about internationalization, the size issue may become a particular subject to consider, given the peculiarities of SMEs.
In fact, classical theories have been constructed on the assumption that the main focus is a large enterprise, typically in possess of advantages or a certain market position, and consequently they have underestimated the potential of SMEs.
Hence, even if the proposed theories represent a kind of pillars within the international literature, other theories have been developed in order to accommodate specifications of SMEs. Classical theories have been threatened by new approaches concerning born global firms, network perspectives and the idea of dynamic capabilities, as key success factor in an international context.

[24] Uppsala model
[25] This kind of knowledge essentially refers to the understanding of capabilities and resources used to go abroad.

All these issues have not been treated by classical models, and so it emerges the need to integrate old paradigms with new patterns (Buckley,1989).
In fact, this need of integration justifies some modifications made by the same classical authors on their own theories. Some examples are the modifications proposed by Dunning in 2000 (cited by Buckley,1989) of his OLI model, that has been reviewed in order to leave space to the incorporation of a more dynamic approach; or the one previously described of Johanson and Vahlne (2009) regarding their stage model of internationalization, that has been adapted to a market where networks play a fundamental role.
Even if these modifications have led to the creation of reliable theories, Buckley (1989) evokes other two post-war models that may be considered relevant for the specific case of FDIs undertaken by SMEs. The first hypothesis is called "Gambler's earnings hypothesis", while the other is the one proposed by Aharoni (1966) "The foreign investment decision process".

1.5.1 The "Gambler's earnings hypothesis"

The "Gambler's earnings hypothesis" has been proposed in 1950 with the aim of explaining certain behaviors emerged by a study about FDIs (Buckley, 1989).
Thus, it has been noticed that some enterprises behave in the same way, in particular their strategy might be compared to that of a gambler. In other words, gamblers (or firms) start their game with a low investment, then they tend to always invest the profits coming from the previous investments until a *"real killing was made"* (Buckley, 1989).
If this idea of continuous reinvestment is applied to FDI, it means that the repayment made to a parent firm from its subsidiary is larger than the amount previously invested. Buckley (1989) states that this behavior gives birth to some issues. The author points out that the subsidiary is largely independent from the parent, and that the choice between a domestic investment or a foreign one is very important and leads to several consequences. In fact, profits from the foreign subsidiary have to be enough to cover the higher level of risks faced by the company. The presence of risks explains why the first investment is low, i.e. it is made to test the market.
Once that the first investment has been repaid through the generation of profits and it has been successful, the investor (or the firm) considers more profitable to re-invest in the same subsidiary rather than looking for a new one. However, this behavior is not always assumed, because it may also lead to some biased behaviors. In fact, this hypothesis is typically adopted by smaller firms that are willing to reinvest in the same subsidiary because they have not enough resources to overcome new costs coming from another country investment (Buckley, 1989).

Hence, the “Gambler’s earnings hypothesis” explains a particular pattern that certain SMEs follow, but at the same time it reveals possible limits. In fact, by following this path, firms may lose other opportunities.

1.5.2 The corporate decision-making

The other specific model of FDI, from the small and medium enterprises’ point of view, is the one proposed by Aharoni in 1966. Buckley (1989) explains the model and defines it as a model that proposes internationalization as a managerial process made of several stages. In this sense the model reminds the Uppsala model of stages, but here the author underlines issues like the decision-making process made by managers and the uncertainty of outcomes. In particular, the first part of the process is a kind of short-term decision, where the investor is the one who decides. Only at the final stage, the idea of lasting investment is introduced.

In particular, by looking at the different stages, the model suggests that the entire process starts with an initiating force that works like a pressure for the investor and leads him to invest through FDI. The initiating force does not only refer to the presence of an opportunity, but it has to offer something more convincing. Then, the investor starts the second phase, where a process of investigation is carried out. In this phase, if something is not good for the investor, the entire process is abandoned. When the investigation is over, a kind of commitment is built, and so the investor is willing to invest. At the end, different people and groups belonging to the firm start to negotiate and define the terms of the investment. The last step is the introduction of the long run concept. In fact, the entire firm may decide to change in order to better control the new foreign investment, which now does not seem to be as risky as before.

1.6 Conclusions

The aim of this first chapter was to describe the phenomenon of internationalization, and more specifically of foreign direct investments, from the point of view of small and medium enterprises.

When dealing with concepts related to internationalization, a myriad of models, factors and dimensions have to be considered. For this reason, the chapter has first identified general issues about internationalization and FDI, then it has offered a more detailed view in connection to the role covered by small and medium enterprises, and at the end, it has presented theories, able to point out different issues.

According to the first part of this chapter, it is possible to affirm that internationalization is a complex phenomenon, made of different dimensions[26]. For the latter, they comprehend both

[26] Summarized in Figure 1.

external (connected to the social, political and economic environment) and internal elements (related to the level of resources owned and ready to be invested).

In connection to how many resources an enterprise wants to invest, and how much commitment it wants to devote, it is able to take decisions about the international entry mode. Export represents the *softest* form of internationalization, while FDI represents the *hardest* ones; in between firms are able to choose among other forms, like the JVs.

However, the majority of theories have always attributed the use of export to SMEs, and the use of FDI to large MNEs. Recent studies have demonstrated that this distinction no longer exists. On the contrary, smaller enterprises have assumed a dominant role in the context of *hardest* forms of internationalization. Classical theories, such as the OLI paradigm and the Uppsala model, have offered the possibility to reflect on the determinants of FDI[27] and on the fact that internationalization may come in several steps, each one representing an increase in commitment and in self-confidence developed by the enterprise.

However, the way in which internationalization is performed is not a sufficient explanation for how SMEs are able to succeed in FDIs.

The increasing role of smaller firms in FDIs context has led scholars to investigate on which factors allow SMEs to invest abroad, given their financial and managerial limits. The network approach has introduced the importance of the other firms on the investment' success, and more important, it has introduced the concept of opportunity and the role of the decision-maker.

In the following chapter, these issues will be discussed in deep, in order to understand if they may be considered as key success factors when SMEs pursue FDIs.

[27] i.e. ownership, location and internalization advantages

2. CHAPTER

International entrepreneurship and management of subsidiaries

2.1 Introduction

The main theories concerning internationalization have presented the phenomenon by considering factors, either internal or external, that lead firms to go abroad.

However, classical theories have not moved a step further by proposing models which integrate more different elements. For instance, by taking into account the Eclectic Paradigm model proposed by Johanson and Vahlne (1977), it has introduced the idea of dynamism and acquisition of knowledge that permit firms to further commit to the market. However, 'what if a company is tied to some previous experiences that allow it to do not follow a linear and unidirectional process (Perks & Hughes, 2008)?'; 'What if a company is supported by a manager with particular capabilities and knowledge?'

In these cases, the internationalization process may assume different forms, because the enterprise will try to leverage internal capabilities, and in particular on what scholars have defined as "dynamic capabilities".

2.2 Defining capabilities

Even if neglected in the past, over time (dynamic) capabilities have acquired an important part within the international literature and have paved the way for a new current of scholars, committed to the study of capabilities and entrepreneurship.

Basically, the capabilities framework attempts to give an explanation to questions concerning the acquisition of competitive advantage, in a context where external factors are equal for all (Perks & Hughes, 2008). In particular, by considering an international perspective, firms are distinguished by their higher or lower ability to internationalize (Westhead, Wright & Ucbasaran, 2001 cited by Perks & Hughes, 2008). This ability is not random, but it is the result of a set of factors that allow firms to recognize an international opportunity, to pursue it, to devote the right resources and finally to succeed by sustaining a competitive advantage.

Hence, the capabilities approach's main goal is the offer of a more solid theory of multinational enterprises, that may help to understand how competitive advantage is built (Teece, 2014). Researches focusing on internationalization results[28] have usually proposed an analysis of firms' performances in relation to certain external factors (environment) affecting firms' resources and opportunities (Prange, & Verdier, 2011).

Whereas, other factors concerning entrepreneurship, the role of managers and internal resources have been seldom considered as determinants for firms' internationalization success (Prange, & Verdier, 2011).

In this view, it has been necessary to first introduce the general concept of capability, and then to define dynamic capabilities, to understand if they are key factors when firms go abroad.

David J. Teece is one of the main exponents to affirm the crucial role of (dynamic) capabilities. With his several publications, he has been able to propose a full view on the topic. According to him, it is possible to state that a firm possesses a capability when, despite opposition from the outside, it is still able to use resources and perform tasks (Teece, 2014). From this definition, it becomes clear that the capabilities framework is strictly connected to the resource-based approach, which represents a sort of antecedent. In fact, Penrose in her model has affirmed the importance of possessing and using resources in the right way to grow (Kor *et al*. 2016).

What is considered particularly important, in connection to the capabilities' framework, is the fact that Penrose has introduced the idea for which resources represent the most stable basis an enterprise may build its competitive advantage (Pehrsson, Ghannad, Pehrsson, Abt, Chen, Erath & Hammarstig, 2015). However, the resource-based view has conserved a theoretical approach, by ignoring practical consequences coming from the possession of resources that allow to get a competitive advantage[29] (Grant, 1991).

The link between the theory and the practice has been offered by Barney (1986, cited by Teece, 2014) with the introduction of the VRIN concept. Through this concept, Barney has restricted Penrose's broad ideas, by proposing a set of four criteria that allow the identification of certain kinds of resources. In particular, firms should focus on those which are valuable, rare, inimitable and non-substitutable [30](Teece, 2014).

Thus, it seems that the mere possession of VRIN resources should be able to guarantee a competitive advantage in both domestic and foreign market. However, they[31]are not sufficient. More specifically, VRIN resources can influence choices concerning markets where to

[28] In terms of growth and survival in the competitive environment
[29] In particular, the resource-based view has not considered the case of multinational enterprises (Teece, 2014).
[30] Interestingly, Teece (2014) has noticed that the resource most frequently able to meet the four criteria is the intellectual capital
[31] The possession of VRIN resources can be also thought as a resource advantage

compete, but in terms of advantages, an enterprise should demonstrate distinctive capabilities in using them (Wang & Ahmed, 2007).

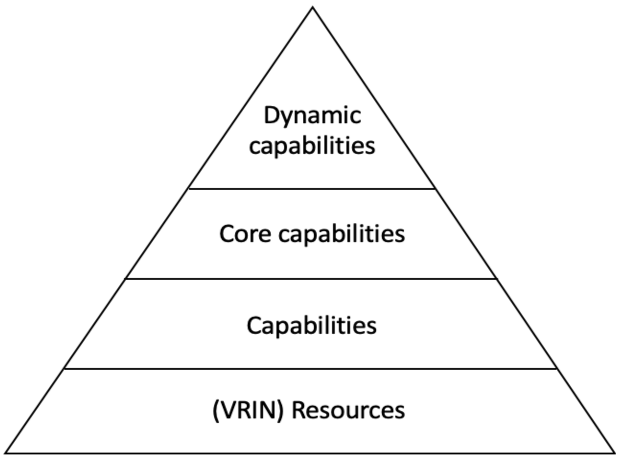
Accordingly, (VRIN) resources only represent a building block of a more ample concept, i.e. the one of dynamic capabilities.

2.2.1 Understanding dynamic capabilities

Dynamic capabilities are defined by Teece *et al.* (1997) as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments." Therefore, with the introduction of dynamic capabilities, scholars have invited enterprises to not only look for good resources, but also to develop the ability to reconfigure and adapt competences in connection to external contingencies (Prange, & Verdier, 2011). In this view, dynamic capabilities are associated with managerial and organizational determinants (Teece, 2014).

However, the distinction between ordinary capabilities and dynamic ones, together with the passage from the concept of resources to that of capabilities, might be of difficult interpretation. For this reason, by assuming the idea followed by Wang and Ahmed (2007), also cited by others, such as Winter (2003), it might be useful to represent the above concepts into a pyramidal scheme, as proposed by Figure 3. This kind of illustration allows to comprehend the distinction among different resources and capabilities, by discussing them as a hierarchy (Wang & Ahmed, 2007)

Figure 3 Hierarchical representation of resources and capabilities



Source: personal elaboration on the work of Wang & Ahmed (2007)

As possible to apprehend from Figure 3, resources represent the foundation on which a firm is built. In particular, VRIN resources ("zero-order" level) are considered as key components for firm's advantage, but Wang and Ahmed (2007) underline the view for which their mere possession is not enough, given the presence of a dynamic environment. By going up, the pyramid shows the "first-order" elements, i.e. capabilities.

In fact, capabilities might be considered as the ability to use the "zero-order" resources, in order to get a certain result. However, it is necessary to add a "second-order" element represented by core capabilities. This need is due to the fact that an enterprise strategically integrates only certain resources and capabilities intending to pursue its own goals. Hence, core capabilities represent those resources and capabilities able to define a strategic direction (Wang & Ahmed, 2007). In particular, Teece (2014) states that "ordinary" capabilities[32] are basically linked to everything an enterprise needs to do in order to offer its product or to perform its service. Yet, in the case of multinational enterprises "ordinary capabilities" do not permit to grow, but they only allow to serve and produce. The only exception is represented by the case in which the MNE finds itself in operating within a stable environment, with low competition and globalization (Teece, 2014). By looking at the actual global markets, it seems that this hypothesis has a very difficult application.

Finally, dynamic capabilities (DCs) are located at the top of the pyramid.

This shift from core to dynamic capabilities lies in the fact that the first may represent a constraint for the firms. In particular, this situation may occur when the environment changes, and the enterprise can find itself very good in certain competencies, or with specific resources, that are no longer valuable (Tallman, 2003 cited by Wang & Ahmed, 2007; Teece *et al*., 1997). Consequently, the enterprise needs to reconfigure, change and adapt in relation to a dynamic environment. This ability refers to the dynamic capabilities, which are the only elements that permit firms to sustain an advantage over time (Wang & Ahmed, 2007).

A practical example to understand the distinction between a capability and a DC is offered by Zahra, Sapienza, and Davidsson (2006). The main distinction lays in the fact that a capability can be thought as the ability to develop new products, while a DC the ability to update how the new product is generated.

After having analyzed the different levels of capabilities and having appreciated the role occupied by dynamic capabilities within a firm' strategy and organization, it is important to go into details with the examination of what Teece (2014; Teece *et al*., 1997) has defined as dynamic capabilities' core building blocks. Thus, a firm's dynamic capabilities, and consequently its competitive advantage, is based on three main blocks (processes, positions,

[32] Which essentially include both "first" and "second" order capabilities.

and paths). First, “processes” are defined as both managerial and organizational functions that allow firms to establish routines. In other words, they are “patterns of current practice and learning” (Teece *et al.*, 1997, p. 518). Then, “positions” represent the second building block and they may be considered as the current asset-positioning of the firm. Put it differently, “positions” refer to any kind of resource a firm possesses, both tangible and intangible, such as human capital, knowledge, and reputation (Teece *et al.*1997; Teece 2014). Among all the resources, it is possible to identify those which meet VRIN’s criteria. In a dynamic environment, it has been demonstrated that resources are not enough, and consequently, they should be combined by managers through a so-called “orchestration” activity (Teece, 2014). The way in which resources are managed assumes a fundamental role in the creation of competitive advantage. The last block to consider is the one of “paths” (or strategy), which essentially refers to the bundle of concepts, policies, and actions that firms decide to undertake. Strategy should be formulated in a manner consistent with the previous blocks (Teece, 2014). In this view, the management and development of capabilities are critical in the pursuit of an organization’s goals (Zahra *et al.*, 2006).

Taking into account the above building blocks’ definitions, Helfat and Peteraf (2009) argue that dynamic capabilities are founded on the way in which firms configure, integrate and manage (“processes”) their actual resources (“positions”), that in turn has an effect on the strategic available alternatives (“paths”).

From a more practical point of view, dynamic capabilities give the chance to develop competitive advantage and demonstrate market agility. Firms with strong dynamic capabilities should be able to deal with changing environments (Teece, 2014) and to manage risks coming from unknown markets.

In the last decades, given a global and fast economy, the importance of dynamic capabilities is increasing. In fact, it is not only a matter of managing resources in order to maintain a stable advantage but more important, firms should exploit capabilities with the aim of growing and taking advantage of international opportunities (Teece, 2007).

In this sense, the concept of opportunity, recognition and exploitation represent the focus of the following pages. These have the purpose of proposing a complete framework that integrates the capabilities-based view with the internationalization process.

2.3 Dynamic capabilities within the internationalization process

Dynamic capabilities have been defined as the ability to reconfigure and adapt in relation to a dynamic environment. Essentially, these capabilities deal with three different firms’ aspects: the owned resources, how they are managed and the ultimate aim the enterprise aspires to.

The presence of a dynamic environment requires the enterprise to understand external changes and, if necessary, to adapt (Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005).
In particular, externalities offer to the enterprises a myriad of opportunities, and the main issue consists both in identify as well as seize them.
In other words, firms need dynamic capabilities (ability to reconfigure resources) in order to identify opportunities and, through the renewal of its existing resources, to seize all possible benefits (Jantunen *et al*., 2005).
The role of dynamic capabilities has acquired importance not only in relation to an enterprise's internal organization but also in connection to the international business' field. In this sense, from an international perspective, (dynamic) capabilities are considered as the ones that allow firms to transfer resources and processes to another country, outside national borders (Teece, 2014). From this point of view, the previously used definition to identify dynamic capabilities becomes restrictive. Hence, Luo (2000, p.355) reports a new and more complete definition: "dynamic capability can be defined as an MNE's ability to create, deploy, and upgrade organizationally embedded and return-generating resources in pursuit of sustained competitive advantages in the global market-place." Taking into account this broader definition, the connection between dynamic capabilities and their new international role becomes clear. Their static use is set aside to make room for a new one, beyond firms' own borders.

Luo (2000) points out the limits of MNE classical theories (such as the Eclectic Paradigm) in exploring the importance of capabilities and their active role.
Of the same view, Teece (2014) illustrates a series of shortcomings coming from the transaction-cost based theories, and specifically, he critiques the fact that capabilities are completely neglected.
Although, an element, that may bring closer the different visions, has been offered by Dunning (1980) with its Ownership advantage[33]; it might be interpreted as a proxy for capabilities. In this view, transaction-cost based theories and capabilities approach may coexist (Teece,2014).
During the internationalization process, the possession and the right implementation of resources constitute a first fundamental driver for competitive advantage, but the set of capabilities developed until that moment, in the respective home market, have to be constantly updated. Therefore, learning is the key. Actually, once a firm has started its internationalization process, it begins to learn and to acquire skills from the new market[34].

[33] As defined in Chapter 1, par. 1.4.1, ownership advantage essentially includes firms' resources advantage in contrast to those owned by competitors. From a dynamic-capability's point of view, Ownership advantage might be considered as the possession of strategic resources, whose renewal and implementation give the possibility to seize market opportunities (Teece, 2014).
[34] In fact, Johanson and Vahlne (2009) define internationalization as a learning process.

This continuous learning and improvement of capabilities gives firms the chance to overcome the typical liability of foreignness[35] and pursue good global performance. A constant update of resources and continuous learning are critical for competing in global markets (Luo, 2000). There is not a "once-and-for-all" solution, but managers have to constantly improve the existing capabilities (Zahra *et al*., 2006).

As presented in Chapter I, foreign markets may present differences in terms of culture, policies and competitive forces. But by all means, the new environment may offer opportunities as well as threats.

Luo (2000) arises an interesting point concerning the need to establish a high level of commitment toward the new foreign market. If the internationalized firm is willing to take advantage of opportunities coming from the new market, the level of commitment, in terms of invested resources, is critical. In this sense, the *hardest* form of internationalization is represented by FDI; consequently, a foreign direct investment, supported by an organizational structure able to learn and to renew, results to be necessary when MNEs look for long term opportunities. Of course, if a firm possesses strong dynamic capabilities, FDIs are easier to implement and their incremental costs are lower. In the opposite case, if a firm has a weak position in terms of capabilities, it may count on a partner to invest abroad (Teece, 2014).

Regardless of the entry mode, by looking at internationalization through the DC perspective, it is possible to make a further distinction by introducing the idea of dynamic internationalization capabilities (DICs). These are not only DC developed within the internal organization, but they are also able to influence international performance (Pinho & Prange, 2016). In particular, DICs may be divided into exploitative and explorative DICs (Pinho & Prange, 2016; Prange & Verdier, 2011).

2.3.1 An examination of international exploitation/exploration capabilities

When firms go abroad, they may either decide to focus on existing capabilities and improve them (exploitation), or to develop new capabilities (exploration)[36].

Naturally, the difference between the two resides in the fact that in the first case, firms pursue a certain path, where risks are minimized. While, in the case of exploration, firms decide to discover, and so they undertake high-risks operations (Prange & Verdier, 2011).

Even if exploitation DCs imply small variations, maybe with existing technologies, the transformation of resources into something new is still present. Thus, exploitation capabilities

[35] Luo, 2002
[36] Pinho & Prange, 2016

represent a sort of foundation, on which the company may subsequently renew itself (exploration)[37].

The exploitation issue is connected to the chance to incrementally improve something in which the firm is already good. By following this reasoning, the exploitation might be anchored to the stages model introduced by Uppsala scholars (Johanson & Vahlne, 1977, 2009). As enlightened in Chapter 1, this model is based on the idea for which firms start to internationalize by investing in "closer" countries, and once a certain level of confidence is built, they move away, by discovering other countries. Therefore, firms first build and exploit current capabilities in their home country, and then, when thy "feel ready", they follow the incremental path (Pinho & Prange, 2016). Thus, it seems that the home country represents a reference, a "safe zone" where firms are willing to test their own capabilities, and only under certain conditions, they decide to internationalize.

This passage from the home country to a new one is established through the achieving of a sort of threshold. In other words, the so-called *threshold capabilities* (TCs) represent a set of abilities a firm aims to perform, as their achievement is a necessary condition for the implementation of an internationalization strategy (Prange & Verdier, 2011). *Threshold capabilities* represent the first group of exploitation capabilities.

However, firms need to be aware of "time-compression diseconomies" (Pinho & Prange, 2016, p.395). In fact, if firms increase *threshold capabilities* but they are not able to effectively use them, there is the risk of a negative performance, unless firms do not adopt the so-called *consolidation capabilities* (CCs). These represent the second group of exploitation capabilities and they allow the creation of an international structure, focused on opportunities recognition and synergies.

In the light of the previous explanation, it is possible to state that exploitation capabilities are mainly focused on building and assessing during the early stages of internationalization[38]. Even if these capabilities are based on existing mechanisms and routinization, a good knowledge of new market conditions remains a relevant factor (Yalcinkaya *et al*., 2007).

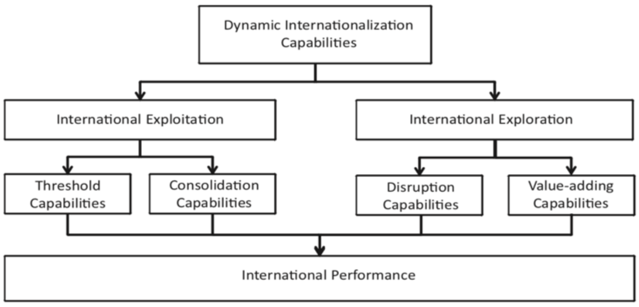
Conversely, explorative DICs are based on the development of new capabilities. This kind of capabilities are able to generate new value coming from unexplored abilities (Prange & Verdier, 2011). In order to understand how capabilities work, it might be useful to think about the case of born-global firms. They are enterprises that start their internationalization path during the early years of their activities[39], and this creates questions about their capabilities to go abroad.

[37] Yalcinkaya, Calantone & Griffith, 2007
[38] Luo, 2002
[39] Par. 1.1.2 for further discussion.

In this case, they do not follow a sequential path and so they represent the extreme example in the use of explorative capabilities, in particular of *value-adding capabilities* (VACs) *(*Prange & Verdier, 2011; Pinho & Prange, 2016). What allows these firms to overcome experience's lack is both managers' knowledge and collaboration with other firms to get relevant assets.

Together with VACs, the last explorative DC group to mention is the one of *Disruption Capabilities* (DCs). These are essential for keeping the internal learning process and to avoid the possibility to be stuck into the lock-in effect (Weerawardena *et al*., 2007 cited by Prange & Verdier, 2011). A summary of the described DICs is offered by Figure 4.

Figure 4 A visual scheme of DICs



Source: Pinho & Prange, 2016 adapted from Prange & Verdier, 2011

2.3.1.1 D(I)Cs and firms' performances

The possession and development of certain dynamic capabilities has led literature to wonder about the effective relation between DCs and firms' performances both in the domestic and foreign markets. The mere possession of DCs does not imply superior performance (Zahra *et al*., 2006), but the ability to change and reconfigure organizational routines might lead to good results (Pinho, 2011).

By looking at the different researches, it is possible to state that each of them has focused the attention on particular aspects of the DCs and performance's relation. For example, Luo (2002) has offered an analysis of factors affecting capability exploitation and building in connection to MNEs; March (1991) has examined the relationship between exploitation and exploration capabilities by taking into account the learning issue and those elements affecting costs and benefits over time. The majority of scholars have investigated the relationship between dynamic capabilities and performance, only a few of them have further investigated on DCs and international performance (Pinho, 2011).

In accordance to the content of the present thesis, it might be useful to concentrate the attention on the exposition of three interesting models: the one of Prange and Verdier (2011), of Pinho and Prange (2016)[40] and finally the one of Pinho (2011).

These theories are united from a series of good points: first they all have been formulated in the last decade, meaning that they reflect a quite modern situation, second, they offer noteworthy cues in relation to not only D(I)Cs, but also to social capital and networks issues[41], third, two of them deal with SMEs.

In presenting empirical analysis in their paper, Prange and Verdier (2011) support the thesis for which there is a relevant difference in terms of result when performance is associated either to the growth rate or to the survival rate. In particular, growing in a foreign market is not only a matter of new routines and opportunities but, as already stated, growth strictly depends on a set of capabilities and how firms reconfigure them. In other words, growth depends on DCs. In particular, exploitation capabilities are, by definition, recognized as those abilities which are path dependent, and when a firm reaches a certain threshold, it exploits consolidation capabilities. However, focusing on this type of capabilities may make firms blind in terms of other opportunities because too much limited to their previous path (Prange and Verdier, 2011). Thus, the result is that growth rates are lower for firms that pursue exploitation capabilities than those which pursue exploration ones.

These latter have the plus to offer a competitive advantage based on new products/services, even if they typically require higher investment at first and so profit might not immediately result.

The fact that profits are late to arrive lead to consider survival as a better indicator of firms' performances.

However, Prange and Verdier (2011) assume a completely different relationship in connection to exploitation and exploration capabilities. In the case of survival, it seems that firms adopting exploitation capabilities are more able to reduce uncertainty and consequently the probability of survival is higher.

Given the opposite results, the two authors underline the importance of finding the right balance between the two capabilities' groups. In this view, Prange and Verdier (2011) follow the idea for which both groups might influence (international) performance. This case is defined as "ambidexterity". This term has been largely used to essentially refer to the case in which firms

[40] The papers prosed by Prange and Verdier (2011) and by Pinho and Prange (2016) have been discussed also from a theoretical point of view (par. 2.3.1). For this reason, their use for an empirical analysis is considered helpful.

[41] As presented in Chapter 1, par. 1.4.3, the importance of network is an evolving topic, with particular reference to SMEs.

are better in using exploitation and exploration capabilities simultaneously (Judge & Blocker, 2008).

While in the above model the authors are not focused on the study of SMEs, the situation is different in the paper proposed by Pinho and Prange (2016).[42] In fact, in this case, the empirical analysis is conducted through an investigation of SMEs, and consequently, the results find an application in this thesis, together with those proposed by Pinho (2011).
In Chapter 1, the role of networks has been largely discussed until the conclusion for which SMEs are able to overcome typical resource constraints thanks to the development of networks. Thus, SMEs have the need to not only adapt and reconfigure resources, but they also have to create and keep network ties.
However, the connection between the level of network relationships and of firms' performance is not a linear one, but there are four variables, i.e. the four DICs, that may modify the final result. The first hypothesis assumes that each capability has a positive impact on the final performance. After the survey release and its analysis, it has emerged that *threshold capabilities* have a negative impact. This result may be explained in a very simple way. *Threshold capabilities* are strictly linked to an incremental internationalization; when a firm starts an incremental expansion, it might not consider the importance of adapting current routines to the new market, leading to a negative result (Pinho & Prange, 2016).
All the other capabilities have a positive influence on the final performance, by allowing firms to ensure consistent procedure (*consolidation capabilities*), to improve productivity (*value-adding capabilities*) and to change (*disruption capabilities*). Consequently, from this analysis, the relationship between social networks and international performance is mediated and influenced by the mentioned capabilities[43]. This result is particularly important in connection to SMEs, whose managers should pay attention to those capabilities able to influence performance.

The importance of social networks, in particular, if related to SMEs, has been previously proposed by Pinho (2011).
However, his analysis is more focused on the strict connection between DICs and international performance. Even in this case, the trade-off between growth and survival is highlighted, for which, in the early years the probability survival may be lower than that of growth (Pinho, 2011). What is peculiar in Pinho's model is the U-shaped curve adoption.

[42] This paper has represented a sort of continuum of the previous one. In fact, the same author, i.e. Prange, has decided to move a step further by proposing a model applicable to small and medium enterprises.
[43] Pinho and Prange, 2016

In particular, exploitation capabilities show an inverted U-shaped relation to performance. Accordingly, in the short term they have a positive effect, but over time (long-term) their effect on international performance might be low (or negative)[44].

Conversely, the use of new and innovative forms of advantage, the introduction of new products and their development show a normal U-shaped relation to performance. Thus, exploration capabilities lead to negative or low performance in the short term, but over time they allow good performances[45].

Based on the previous studies, it is clear that international dynamic capabilities, either if exploited or explored, assume a relevant role within the internationalization process. Even if difficult to practice, the development of all the mentioned capabilities seems to be the best solution. In fact, firms should focus on the continuous renewal of their current activities, and they should exploit them until they feel ready for looking for new ones and assuming risks outside the market. In this view, exploration capabilities might result in low performances, but over time what was previously unknown becomes a routine, that consequently has to be constantly updated and so on. If firms are able to deal with this "circle" of capabilities, they may be able to succeed in foreign markets.

The right use of DICs is particularly important for SMEs, given their resources constraints. The chance to develop capabilities, better than their own competitors, might result in an advantage when abroad.

In particular, Pinho (2011, p.415) affirms that SMEs that show a good balance between exploration and exploitation "are likely to evidence greater levels of international performance".

During this analysis of capabilities, two important concepts have been frequently mentioned: the opportunities recognition and the role of managers.

The choice of going abroad is usually not random, but it is the result of a series of considerations made by managers when a foreign opportunity arises. However, what differences the final result,[46] is the ability to recognize an opportunity and to manage it in a proper manner.

[44] Pinho, 2011
[45] Pinho, 2011
[46] In particular when talking about SMEs with low resources.

2.4 The international entrepreneurship perspective

The idea that dynamic capabilities may be considered as success factors within the internationalization process[47] gives the opportunity to reflect on the need to consider other elements.

In particular, it seems that the development of D(I)Cs is a fundamental step toward a more complex process that essentially starts with the recognition of opportunities, continues with their exploitation and finishes with the application and developments of old or new capabilities. By following this view, managers do not only have to properly focus on the right capabilities, but they also have to "sense, shape and exploit opportunities" (Teece, 2014).

A theory that does not consider the role of managers as decision-makers and the complex process which comes before the investment itself, it is a theory unable to explain the reasons why certain multinational enterprises are able to get better results than others.

Thus, after having introduced the main theories within the international business literature and having analyzed the concepts of dynamic capabilities as possible success factors, it is possible to present a more complete view offered by the so-called international entrepreneurship (IE) perspective. What differentiates classical theories of internationalization, such as the RBV and transaction costs theory, to the new IE perspective, is the fact that the formers are centered on finding factors influencing the process, while the latter is oriented on finding the successful keys that distinguishes different practices.

Broadly speaking, international entrepreneurship examines the internationalization process by focusing its attention on the role of the entrepreneur (i.e. the human factor)[48].

This approach results particularly interesting in connection with the study of SMEs. In fact, if for other kinds of enterprises, it is possible to count on a resource view, in this case, it is both difficult and biased. From this, the need to look for a perspective that overcomes some limits.

McDougall and Oviatt (2000) have outlined which are the domains that characterize internationalization theories and the IE. According to them, the formers pay attention on large or established firms that have an international scope, while the latter proposes a view on entrepreneurial organizations with an international scope.

2.4.1 Main features of international entrepreneurship

Several definitions have been suggested by scholars in relation to IE, but today there is still not a unique definition. However, what is generally accepted is the central role of the "human

[47] i.e. the capabilities approach
[48] Wach & Wehrmann, 2014

factor" over the "planning" one. According to McDougall and Oviatt (2000, p.203), international entrepreneurship (IE) is "...a combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value in organizations". This definition is the most used one by the literature when dealing with IE. The main reason for that is the intrinsic ability of the definition to integrate the generally accepted view of internationalization with the typical entrepreneurial orientation, underlined by the use of "innovative, proactive and risk-seeking" (Jones & Coviello, 2005). In fact, international entrepreneurship is a phenomenon able to integrate different fields of economics (Figure 5). As the name itself reminds, it deals with the international business; but also, with the strategic management field and the entrepreneurship models (Wach & Wehrmann, 2014).

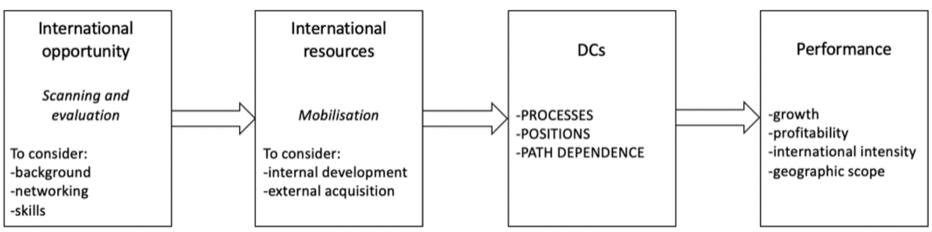
Figure 5 The integration of three fields as foundation of IE

Source: Personal elaboration on the work of Wach & Wehrmann (2014)

The IE research is acquiring more and more consensus within the economics literature, but it remains a quite modern approach, for which, with respect to other theories, it cannot count on a large number of researches. However, its connection with the study of smaller enterprises is particularly approved and tested by scholars.

In order to better comprehend how IE looks at the internationalization process, it might be useful to take into consideration the model proposed by Zucchella and Sciabini (2007), reported in Figure 6.

Figure 6 How IE looks at internationalization



Source: Personal elaboration on the work of Zucchella & Sciabini (2007)

According to it, international entrepreneurship views internationalization as a process that starts with the recognition of an international opportunity. Then, international resources are mobilized and, by developing the right dynamic capabilities, results are obtained in terms of growth, profitability or other indicators. Thus, internationalization is a pattern of actions that firms follow by making use of business opportunities (Zucchella & Sciabini, 2007).

Hence, at the heart of the process, there are opportunities, which can be perceived by the single entrepreneurs.

As reported in Figure 6, the opportunities recognition might be influenced by the background and knowledge belonging to decision-makers or entrepreneurs (Perks & Hughes, 2008). In fact, previous entrepreneurs' knowledge, skills and experience are all important resources for a company that meets VRIN parameters and adds value (Lumpkin & Dess, 1996).

Furthermore, the opportunities' pursuit denotes the ability to act "entrepreneurially", i.e. the so-called entrepreneurship-orientation. However, entrepreneurship and entrepreneurship-orientation (EO) are two distinct, but strictly related, concepts. Lumpkin and Dess (1996) highlight this distinction by considering entrepreneurship as the decision in relation to the possibility of entering into new markets; while the EO as the process following this decision. Entrepreneurship reflects the "what to do" decision, EO the "how do it". So, an EO refers to the practices and activities that lead to undertake an entrepreneurial act, i.e. the new entry (Lumpkin & Dess,1996).

2.4.1.1 Entrepreneurial orientation's five dimensions

Entrepreneurial orientation is defined as a particular type of strategic orientation (Wiklund & Shepherd, 2005), characterized by five key dimensions: autonomy, innovativeness, risk- taking, proactiveness, and competitive aggressiveness. Three out of five dimensions are those mentioned in connection to the definition of IE. Certainty, this overlapping should not surprise, because it is explained by the fact that IE is the result of an integration process between international business researches and entrepreneurship [49](Wach & Wehrmann, 2014).

Nevertheless, the five dimensions are not all necessary for handling a new entry, but it is possible that only some of them are owned. This condition might be explained by the fact that the relevance of each dimension is context dependent. So, how much autonomy, innovativeness or proactiveness is required to undertake an entrepreneurial act depends on several factors, both internal[50] and external.

[49] Figure 5 The integration of three fields as foundation of IE

[50] Such as the managers experience and characteristics.

What is interesting to notice is that all the dimensions are correlated and related to the concept of opportunities that is repeated as a mainstay.

Accordingly, the autonomy dimension refers to the ability to pursue opportunities in an independent way, regardless of any possible organizational/ resource constraints. When talking about constraints, it is automatic to think about SMEs. Specifically, in terms of autonomy, Lumpkin and Dess (1996) have reported the results of a series of studies intent on examining the level of autonomy in smaller enterprises according to the centralization of ownership and leadership. The results underline the importance of executives, by showing that the higher the level of central authority kept by executives (autonomous leaders), the higher the level of entrepreneurial activity (autonomy).

The innovativeness dimension might be thought as the mean through which new opportunities are followed. Risk-taking deals with the threat coming from the pursuit of something new and unknown (Wiklund & Shepherd, 2005). Proactiveness defines the way in which initiatives are taken, in particular in connection to the anticipation of possible future problems arising from the opportunity's activity. Finally, competitive aggressiveness refers to the way in which firms compete in order to achieve or improve their position in the new market, once the opportunity has been undertaken (Lumpkin & Dess, 1996).

2.4.2 The international opportunity

The notion of opportunity is of particular interest when dealing with internationalization in connection to the international entrepreneurship.

In fact, international opportunity knowledge is essentially what allows firms to initiate their international process, while, its development is what motivates firms to commit to that investment. The opportunity recognition and exploitation are concepts generally linked to entrepreneurship; in other words, in order to undertake an entrepreneurial act in an international market, identification and exploitation of new opportunities is necessary. The pursuit of opportunities delineates how much the individual, together with the entire organization, is entrepreneurial (Żur, 2015).

Indeed, each of the above entrepreneurial orientation dimensions are, by definition, able to influence firms' tendency to handle opportunities.

According to the steps defined in Figure 6, international opportunities represent the first step of the more complex internationalization process. Nonetheless, some entrepreneurs seem to be more able to take on opportunities than others. Basically, the main reason to this gap stands in the fact that the opportunity issue is an objective phenomenon, but when the attention moves from the opportunity itself to its recognition, it becomes a highly subjective matter (Żur, 2015).

However, an interrogation to be concerned about is: ‘how does the process represented in Figure 6 occur?’. Answering this question requires an understanding of how the entire process starts, i.e. how the single entrepreneur comes to know foreign opportunities (Muzychenko & Liesch, 2015). There are several sources of opportunities, for example, an opportunity may arise because of market inefficiencies that create information asymmetries, or the technological progress may create new knowledge arising good occasions to undertake. In the first case, market inefficiencies create information gaps, allowing thereupon entrepreneurs to get a superior (or lower) access to new knowledge (Drucker, 1958 cited by Żur, 2015). More recent researches have offered other views on the possible sources of opportunities. In particular, according to Shane (2003), Kirznerian opportunities occur whenever existing identifiable knowledge is combined in a different manner; while Schumpeterian opportunities[51]arise from new and unexplored combinations.

Even if, in whatever way an opportunity occurs for internationalize, it is possible that more entrepreneurs identify it, but only some attribute it a certain value. Moreover, as underlined by Żur (2015), each entrepreneur may also have different considerations about the “remaining durability”[52] of the opportunity.

These differences in the way in which an “equal for all” opportunity is valued and perceived by more subjects justifies the passage from an objective to a subjective idea of opportunity. Different perceptions arise because each entrepreneur has dissimilar information or skills that make him/her unique with respect to the others.

In this view, what makes them distinctive is essentially what they have developed prior to the opportunity recognition that might be classified into two main factors: the prior experiences and the social ties (Gumel, 2018).

The former allows entrepreneurs to discover opportunities that are somehow related to their prior knowledge. In the case of internationalization, it is possible to think about the case of an entrepreneur who is able to identify an opportunity because he/she has already been involved in an internationalization process, and this can result in an advantage if compared to a young manager with no prior experience. Hence, the presence of prior international experiences will increase the chance of a new international process (Perks & Hughes, 2008).

The latter reclaims the importance of social networks[53]; they are a fundamental source to get and gather information (Gumel, 2018 and Żur, 2015).

[51] Żur, 2015
[52] i.e. entrepreneurs may have different perceptions regarding the longevity of an opportunity.
[53] Par. 1.4.3 for further discussion.

Thus, according to the proposed analysis, opportunity recognition is a contingent issue that depends on subjective factors.

Consequently, internationalization results as a response to the entrepreneurial approach adopted by the organization. The high level of subjectivism that the process[54] entails gives us the chance to further examine the role of entrepreneur and management during the international process. The focus on this kind of topics results particular interesting in connection to smaller enterprises as the following parts will report.

2.5 International entrepreneurship application to SMEs

The conceptual model of IE seen in Figure 5 is applicable to any kind of firm, but in particular it has been developed to give specifications about the dynamics concerning smaller enterprises, that usually are not included in the MNEs literature. Thus, as described above, IE has been widely used to examine how entrepreneurs in small-sized firms make decisions in connections to the possibility to enter into new markets.

In contrast to other theories, the international entrepreneurship model is able to integrate different topics, in particular, the emphasis is put on the entrepreneurs and their characteristics (Ruzzier *et al*., 2006). Broadly speaking, if the possession of a higher/lower level of resources and capital is what distinguishes large and well-established firms to smaller ones, in turn, what differentiates smaller firms is the entrepreneurship itself. In other words, the level of proactiveness, innovation or risk-seeking make firms more or less able to recognize and take advantage of international opportunities.

Generally, there is the idea for which the larger an enterprise' size, the higher is the likelihood it engages into an international investment with a good performance (Gubik & Bartha, 2014). However, more recent empirical studies do not totally confirm this hypothesis. Smaller firms show a positive attitude toward the possibility to internationalize, by demonstrating also more flexibility and faster decision (Perks & Hughes, 2008). The flexibility and decision process are typically the results of a good management.

As seen above, the entrepreneurs' prior experiences and connections within a network are likely to impact the recognition of opportunities in foreign markets. From the mere recognition of an opportunity, entrepreneurs have to take decisions in connection to the possibility of pursuing it and how to do it.

The increasing role of entrepreneurship, human capital and social ties leads to reconsider the above international entrepreneurship conceptual model. In Figure 6, IE looks at the internationalization as a series of steps that starting from the opportunity recognition allow

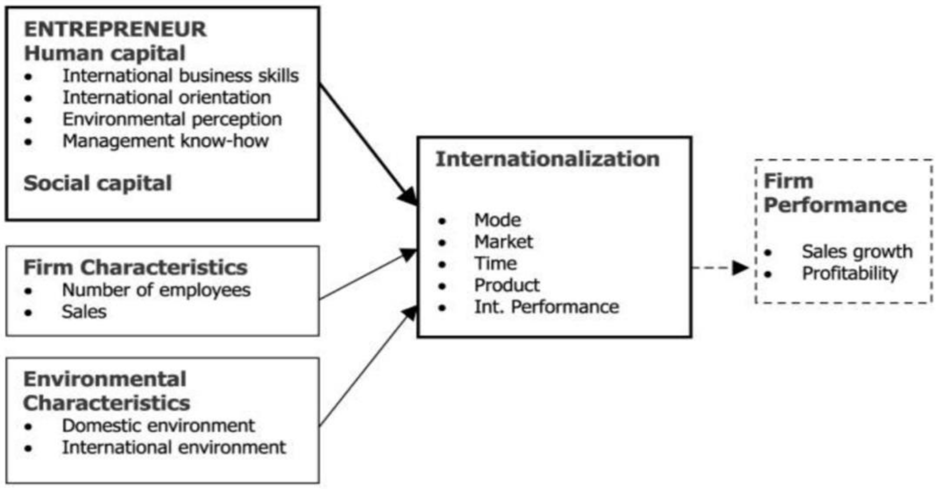
[54] Represented in Figure 6

firms to get a foreign performance. Thus, it gives the chance to better appreciate the role of opportunities and DCs with respect to international activities.

However, it does not clearly focus on the role of the entrepreneur as a source of human and social capital and this may represent a limit in an international literature which is more and more concentrated on human factors.

For this reason, a further reconfiguration of international entrepreneurship in connection to internationalization becomes necessary. At this scope, Ruzzier *et al.* (2006) have developed a model able to emphasize the role of entrepreneurs, and in particular, it specifies characteristics like the international skills and environmental perceptions. Furthermore, it considers internationalization as the result of the mode of entry, market, time, product and internationalization performance (Figure 7).

Figure 7 The international entrepreneurship model



Source: Ruzzier *et al.* (2006)

In this view, the model represents a combination of previous international business illustrations, i.e. Figure 1 and Figure 2.

The former displays the different internationalization dimensions and the latter presents the factors affecting the international process, either internal or external. The above new model is able to take into account the dimensions of Figure 1, by clearly considering the "mode" of internationalization. i.e. "how to enter" into the new market; the choice of the market itself, so "where to go"; the product to adopt, i.e. the "sales objective" and the organizational aspect through the definition of firms' characteristics. Certainty, in the new model particular emphasis

is put on the role of entrepreneurs, while in Figure 1, only a general consideration on human resources as part of the organization is made.
Whereas, the link between the new model and the previous one, which introduces influencing factors, is given by the exemplification of social capital and environmental characteristics.
Thus, the new representation proposed by Ruzzier *et al.* (2006) is built around the concept of internationalization, with three building blocks that precede it.
The application of the new model to small and medium enterprises allows to discuss the way in which entrepreneurs influence decisions when international opportunities arise.

2.5.1 SMEs entrepreneurs' influence on international decisions

In smaller enterprises, the role of entrepreneurs is amplified given the reduced numbers of people for which the single entrepreneur or manager becomes the main reference point.
In particular, when a relevant change, such as an international investment, is likely to occur, the entrepreneur's propensity, culture and background are particularly important factors.
Several empirical studies concerned on SMEs have confirmed this strict correlation between the single entrepreneur and the international activities. By looking at Perks and Hughes (2008), they emphasize not only the factors that affect decisions to internationalize, but also which are the managers' own biases in taking decisions. With no doubt, it emerges that in mid-sized firms the stronger the abilities of the single individual, the greater is her/his tact knowledge and the higher is the possibility she/he will take international decisions.
The main biases typically come from the perceived psychic distance between the entrepreneurs' home country and the foreign markets (Perks & Hughes, 2008). Psychic distance may lead entrepreneurs of SMEs to prefer "closer" countries from a cultural point of view.
The interaction between home and foreign country lead European entrepreneurs to typically choose other European countries (Perks, 2009). However, it is important to always consider the effects that autonomy, innovativeness, proactiveness, innovation and risk-seeking[55]; in other words, each entrepreneur as individual may have a different level of the cited dimensions, and, as stated in par. 2.4.1.1, not all of them are necessary to define an act as entrepreneurial. In the case of psychic distance, the choice related to close countries may come from an entrepreneurial attitude with a low risk-seeking level.
Moreover, another element that influences the entrepreneurs, and consequently it creates a bias in her/his choice to go abroad, is the customers' closeness. Researches have accentuated the predominant customers' role. Indeed, according to Perks (2009), firms constituting the sample

[55] These five constitute the dimensions of EO.

of research have recognized the fact that, in the majority of cases, the choice to go abroad, when dealing with SMEs, is connected to the need and willingness to be close to customers as much as possible. The need to serve customers also creates consequences in the entry mode choices. Otherwise stated, if firms internationalize because of their willingness/need to be close to their customers, then they will most likely choose a form of internationalization that allows them direct contact (Perks,2009), such as a production subsidiary.

2.6 How to manage the subsidiary

After having seized an international opportunity, firms[56] find themselves responsible for the management and governance choices connected to the new subsidiary[57]. Once the subsidiary has been established, the parent company has to take decisions on the level of autonomy it is going to leave, taking into account possible problems, omissions and different paths the new company might take.

2.6.1 Factors to consider

When dealing with foreign subsidiaries, several factors may hinder the success of this kind of collaboration between the parent and its new affiliate.

In particular, the internationalized firm likely encounters problems in approaching to a new culture, government, and institution. The difficulties with the new subsidiary are those connected to the so-called cultural distance, which, from this view, affects both the choices about *where* to internationalize[58] and *how* to manage it. The cultural distance might or might not be directly connected to the geographical one; two distant countries might be similar in terms of cultures and vice versa. In any case, geographical distance, between headquarter (HQ) and subsidiaries, is still considered as an element that affects how they communicate. In fact, even if globalization has shortened distance, the geographical issue is still seen as a possible obstacle to effective communication between parties (Bouquet & Birkinshaw, 2008). Specifically, it is likely to encourage the arising of information asymmetry, which in turn develops the typical agency theory issue (Chang & Taylor, 1999 and Chen & Zheng, 2018).

Moreover, in coping with a foreign unit, the parent company may encounter other problems related to the presence of specific country's issues (such as corruption[59]) or to the level of industry concentration.

[56] either large or SMEs

[57] Following the theories proposed, a new affiliate is the result of a joint venture together with a partner or, in its *hardest* form, it is a foreign direct investment (FDI).

[58] As seen in Chapter 1.

[59] Rabbiosi and Santangelo, 2019

To better analyze these factors, it is possible to classify them according to two main categories: those related to the institutional theory and to the FDI theory (Vachani, 2005); all of them are likely to impact the quantity of problems faced abroad by enterprises.

The first group deals with issues concerning differences of the two firms' countries in terms of economic developments and institutional environment. Particularly challenging is the case of an enterprise, used to operate in a developed market that invests in a developing country. Typically, these firms encounter problems when they have to transfer organizational practices that reflect their home market. Therefore, many firms, in particular SMEs, may decide to invest in countries that remind their own institutional situation, to avoid discrepancies once the investment is made (Vachani, 2005). An example of possible divergences is offered by Das (1981), who examines how the Indian government's influence on the economics activities is likely to impact the relationships between the headquarter and the Indian affiliate. In this economy, the main regulations concern the control of Indian firms, which has to be shared with the government; while, the flow of resources or other assets is highly monitored by authorities. Certainty, these limitations do not only regard the Indian economy, but they might find application into the majority of developing countries. The need of local authorities to keep the control over the subsidiaries might be explained by the fact that FDIs produce a series of consequences for the "selected country", as discussed in par. 1.2.1.

The second group of factors comprehends all that elements at both industry and firm level, such as the industry concentration (Hymer, 1976) and the management of intangibles.

A firm is likely to encounter fewer problems if its subsidiary is located within a low fragmented market; in other words, in concentrated industries firms enjoy higher bargaining power and this facilitates the entry into a foreign market (Vachani, 2005).

Concerning intangible assets, scholars have demonstrated their importance in terms of technology, development of capabilities and reputational opportunities (Teece *et al.*, 1997).

When firms go abroad through FDI, the development and ownership of these assets result fundamental in building a competitive advantage given the high level of uncertainty.

However, if the firms' product/service requires a high level of tacit knowledge, the problems in terms of transfer to the new subsidiary will be higher (Vachani, 2005). Thus, the relationship between the parent and its new "child" will be easier if they both produce something that requires a low level of know-how.

Given these problematic factors, managers should wonder how to interact with the foreign subsidiary in order to align their interests and get good international performance.

Thus, coping with the management and governance of a foreign affiliate is a very challenging issue for managers, in particular if they belong to a small enterprise. For this, several studies have used empirical researches and real cases to explain different (small) MNEs structures.

2.6.2 Autonomy versus control

The degree of autonomy HQ leaves to its subsidiaries has recently become an increasingly discussed topic. If MNEs classical theories have always been focused on the ability of HQs to integrate and control foreign subsidiaries, more recent scholars have developed a tendency toward the consideration of decentralized mechanisms that enable top managers to be less hard-pressed (Jakobsen & Rusten, 2003).

In the context of internationalization, control defines all that mechanisms HQ undertakes to influence the actions of other participants in the organization, with the aim of achieving common goals (Speklé, 2001). Gates and Egelhoff (1986, p.72) specify that control in a multinational context is the "level at which a decision would need to be approved before being implemented". The attempt to increase the control over a subunit permits to reduce uncertainty, since both parties are aligned in terms of strategy (Chang & Taylor, 1999).

In contrast, autonomy refers to how much the subunit can define itself independent from the top managers' decisions.

Even if the two concepts seem to be opposed to each other, and therefore not reconcilable, many theorists have underlined the benefits coming from the possibility to handle both control and autonomy.

As mentioned above, the use of control is particularly important to reduce risks tied to the agency theory, which assumes that self-interested behaviors are those on which choices are made. Thus, there is potential for firms' managers to take decisions that work in their favor, by ignoring those of the owners (Chen & Zheng, 2018).

If applied to multinational enterprises, the agency theory predicts the possibility that foreign units' have their own goals that differ from those followed by the headquarter (Du, Deloof & Jorissen, 2015). The agency issue is mainly due to the fact that foreign subsidiaries have unique knowledge, particularly in connection to the market dynamics that creates a gap in terms of information in its relationship with the parent company. Moreover, the cultural distance also affects the agency issue, since foreign individuals work under different values and so, they might be more or less inclined to face decisions in contrast to those of the HQ.

In light of all these issues, one wonders whether centralization and full control of subsidiaries are the best choices to make.

However, according to scholars, full centralization seems to be not the best path, since the foreign unit risks not to be able to handle emergencies in its own ways and to innovate its processes (Chen & Zheng, 2018).

Consistent with Chang and Taylor (1999), the control degree is strictly related to the characteristics of a HQ-subsidiary relationship. Generally, control may occur in two forms, either output control or staffing control (Chang and Taylor, 1999). The former refers to the strict monitoring and evaluation of subsidiaries' performance, through a system of reporting and feedbacks. The latter involves the employment of people coming from the parent's nation to fill top management positions (Baliga & Jaegar, 1984 cited by Chang and Taylor, 1999). This kind of control should guarantee a congruence in terms of goals and culture. In other words, by employing same nation's people, HQ expects from them behaviors and decisions in line with those proposed by the parent company's managers.

At the same time, Chen and Zheng (2018) classify the idea of autonomy in two different types: the strategic and the operational autonomy. The strategic autonomy refers to the degree of freedom the foreign subsidiary has in setting its own goals and agenda[60]; while the operational one denotes the foreign unit's ability to manage and take decisions about everyday operations.

2.6.3 The output control

As mentioned above, control may occur in two different forms, each one able to guarantee to the HQs a certain level of influence on a foreign subsidiary.
In detail, the output control, through which subsidiaries are monitored and coordinated, seems to be a very common practice because of the high level of expectations companies have on the foreign unit performance. The headquarters are particularly interested in keeping the control over some critical areas, such as the level of capital expenditure, the possibility to pursue M&A activities and all the accounting field decisions (Gupte, Sen & Paranjape, 2013).
In all these cases, evaluations are made at the central level and the foreign units are seen as one single organization, to ensure the application of a common strategy. The cited areas concern decisions that involve a continuous exchange of information and transfer of expertise, i.e. knowledge flow (Hong Chung, Gibbons, & Schoch, 2000). This continuous flow may take two forms, outflow and inflows, and in both cases, it is likely to influence the level of control exerted by the headquarters. For instance, when the amount of inflow knowledge increases[61] , the level of uncertainty connected to the actions and results performed by the subsidiary increases,

[60] Some examples are the choices about marketing scope and the annual budget (Chen & Zheng, 2018).
[61] Thus, the foreign subsidiary gets information from the HQ.

because subsidiaries' managers have less control over the outcomes of their actions, which are the results of a set of information coming from another company (Hong Chung *et al.*, 2000). As the outcome uncertainty increases, the reliance on the outcome control decreases.
Furthermore, in the case of knowledge outflows, the subsidiary not only has unique information for itself but more important it is called to deliver expertise to the entire group. In this case, a strict outcome control by the HQ would prevent communication, which in turn becomes easier through the use of a more flexible control (Hong Chung *et al.*, 2000).
Hence, in the case of knowledge flow, both inflow and outflow, HQs seem less inclined to rely on an output control, leaving to subsidiaries a certain margin of autonomy.

Besides the knowledge flow, the level of control is also the result of other factors such as the ownership degree. If, on one hand, knowledge flow pushes HQs toward low levels of control, on the other hand, the ownership degree, and so how company' stocks are distributed, induces owners to increase the level of output control (Chang and Taylor, 1999). Thus, it is expected that the relationship between the ownership and control levels is directly proportional. Certainty, the level of ownership as a factor able to explain different levels of control assumes relevance in cases where a single subsidiary has more than one owner; for example, it is possible to think about a JV with two or more owners/partners. If one of them detains the majority of stocks, consequently it is more inclined to exert an output control, asking for reports and feedbacks.

What is important to point out is that HQ control may also depend on specific subsidiary's characteristics. Put it differently, issues like the subsidiary size and its "importance" contribute to the governance and management choices taken by the headquarters.
Accordingly, the larger is its size, the lower is the level of centralized control (Gates and Egelhoff, 1986). Harris and Holden (2001) are of the same view and confirm this hypothesis by adding several considerations for explaining the phenomenon. For instance, the smaller the enterprise, the higher is the likelihood people entertain interpersonal relationships that consequently create a direct management and a reciprocal influence.
Moreover, the "importance" factor (Chang & Taylor, 1999) has been also considered by scholars as an element able to influence output control choices. Before understanding how "importance" may influence control decisions, a premise is needed. Until now, only the positive aspects of the control in relation to the parent company have been considered, but in reality, control means more costs, more time lost and reduction in resources. So, the "importance" issue, proposed by Chang and Taylor (1999), attempts to explain the reasons why in certain

cases HQs exert more or less control over a subsidiary[62]. In other words, if an MNE with more subsidiaries is considered, it is possible to notice that the HQ may detain a different level of control over them. This may happen because, *ceteris paribus*, foreign subsidiaries have different importance levels. Consequently, given the high level of effort needed to control a foreign unit, one may expect a high level of output control when the subsidiary covers a strategic role to the parent company[63].

In the case of a smaller enterprise, where a low number of people are employed, interpersonal relationships likely influence the management and governance choices.

For this reason, choices related to staff, in particular about people able to cover powerful positions, are particularly problematic. In the case of an enterprise with foreign subsidiaries, people not only are fundamental resources, but they also represent a mean of control.

2.6.4 Expatriates as a control mechanism

Staffing control is the second type of control identified by Chang and Taylor (1999) and it refers to the selection of HQ's nation employees to cover top positions within the foreign subsidiary organization. Those people, who are selected to join the foreign subsidiary board/management, are the so called "parent country nationals" or expatriates (Harris & Holden, 2001). The main purpose of this choice is the alignment of goals and strategies of both parties, together with other general functions such as training and development (Paik & Sohn, 2004). Generally, expatriates, differently from local employees, are believed to have a better knowledge of the company's culture and systems to adopt, and so they are more able to reproduce them within another unit (Paik & Sohn, 2004). For instance, the high level of knowledge hold by expatriates allows to be more confident on the way in which they manage information; consequently, the reliance on staffing control tends to increase as knowledge flow increases as well.

Especially, the subsidiary board assumes an intermediary function between the HQ and the subsidiary management, by facilitating the communication and reducing the information asymmetry (Du *et al.*, 2015). Its strategic role is essentially connected to the authority it can exert over the unit in order to avoid opportunistic behaviors.

[62] Chang and Taylor, 1999
[63] An index of the value a subsidiary has to its parent is relative to the amount of investments it makes in terms of money and employees (Chang & Taylor, 1999)

Staffing control is also called socialization control by authors such as Hong Chung *et al.* (2000), because the interaction between different members create an influence on subsidiary's ones in terms of values and behaviors.

However, it is not always easy to coincide two different cultures, in particular if they experience high levels of cultural distance. This is the reason why part of the literature has investigated on the inter-cultural difficulties experienced by expatriates. Challenges and complications tend to decrease as the level of knowledge owned by expatriates about the host country increases. Being aware of the right words to say, the rewards to use and the behaviors to be taken, all brings a big advantage to the entire company (Paik & Sohn, 2004).

Conversely, if expatriates prove they do not have enough knowledge, then for the enterprise is better not to count on them for a strategic control, but other mechanisms will be found (Paik & Sohn, 2004).

The choice to rely on staffing control depends on factors that may differ from those discussed for the output control. For instance, the higher is the level of information exchange (knowledge flow), the higher is the probability HQ will rely on staffing control (Hong Chung *et al.*, 2000). At the same time, the small size of a subsidiary will have a positive impact on the use of staff as a control mechanism.

However, the effects of high degree of ownership detained over the level of control by the parent company will be the same viewed with regard to the output control, i.e. staffing control and ownership degree have a positive relationship (Chang and Taylor, 1999).

2.6.5 Autonomy

When an enterprise invests into a foreign affiliate, it cannot rely on absolute control over it, because it is both costly and not always efficient as expected.

Consequently, what the parent company should do is to guarantee an overall common strategy, approved and followed by all the units, and at the same time, to leave subsidiaries a certain level of autonomy to handle specific contingencies.

As seen for the control, also autonomy may assume two different forms, identified by Chen and Zheng (2018), as strategic and operational autonomy. Each of them creates different dynamics within the group and may or may not have positive consequences on the overall performance.

As mentioned in par. 2.7.2, strategic autonomy is defined as the ability of subsidiaries to take independent strategic decisions, such as those concerning R&D and marketing budgets (Chen & Zheng, 2018).

The main problems associated with strategic autonomy are information asymmetry and agency issue. In other words, it is very risky for HQs to leave autonomy over relevant decisions, which may involve consequences for the rest of the group.

Usually the level of strategic autonomy left to foreign units is very low, or it is always monitored by the subsidiary's boards, that ensure the following of a unique path. Moreover, a high level of strategic autonomy may lead subsidiaries to be isolated from the rest of group. If an MNE with more than one subsidiary is considered, it is possible that the one of them owning the highest level of strategic autonomy, becomes more and more isolated from the rest of the group, by reducing its networkability and possible benefits (Chen & Zheng, 2018).

From the empirical results developed by Chen and Zheng (2018), it is clear that strategic autonomy is not positively related to subsidiary performance; when a foreign unit is strategically aligned with its parent company, the whole group can benefit from it and can realize a sort of synergies effect.

However, a low level of strategic autonomy does not have to inhibit subsidiaries from suggesting good initiatives for the group. Subsidiaries must always keep high the attention of the HQ by "raising their voice" through a constant proposal of plans (Bouquet & Birkinshaw, 2008).

Very different are the considerations to make for the other type of autonomy: the operational one. Operational autonomy refers to all those operating decisions subsidiaries made to manage day to day business, within their own environment. The operational autonomy helps firms to "maximize their entrepreneurial capabilities" (Chen & Zheng, 2018, p.352), which in turn allows them to get advantages for externalities and opportunities.

Even if this kind of autonomy may increase the costs connected to the agency theory, differently from the strategic one, it allows to pursue better performance.

By leaving a certain margin of operational autonomy, the HQ ensures that the subsidiaries exploit the most of their knowledge and the skills within a market of which they are the ones to know how it works.

2.7 Conclusions

In this chapter, several issues have been discussed, but it is possible to distinguish two macro topics: the first one deals with the initial part of the chapter concerning the ideas of capabilities and entrepreneurship; the second one refers to the study concerning the way in which a foreign subsidiary is managed and how parents companies take decisions.

By taking into account the first group, the chapter sheds a light on some theories that have been seldom considered by traditional studies on internationalization. In particular, the considerations proposed above try to offer an explanation regarding the different behaviors that SMEs have toward internationalization. In other words, small and medium enterprises show different attitudes when dealing with internationalization; this happens because they have dissimilar dynamic international capabilities that make them more or less able to adapt or develop resources in new contexts. Together with the different capabilities, a relevant role is covered by the presence of an entrepreneur with an international vision and an entrepreneurial orientation. His/her past experiences and background are likely to impact decision-making process. So, even if capacity-constrained, smaller firms are able to overcome restrictions, by looking at resources as only one of the several factors affecting international activities.

Specifically, an entrepreneurial attitude allows to not only benefit from a higher level of confidence but also to get in the right network relationships. The aptitude to establish meaningful relationships is considered as a factor able to influence decisions, together with the willingness or necessity to be close to customers as much as possible. The considerations of capabilities, of the entrepreneurs and the importance of social capital, they are all elements falling within the international entrepreneurship research path, which is acquiring more and more consensus.

Thus, it is possible to affirm that all SMEs have the chance to internationalize if they demonstrate a right use of capabilities, entrepreneurial orientation and the willingness to take risks to reach their own clients. In particular, the more firms are willing to engage in a hard form of internationalization (FDI as the extreme form), the higher is the need to count on elements different from monetary or other physical resources.

However, in the event that an enterprise establishes its own subsidiary abroad through an FDI, then what makes the difference is the way in which it is managed and controlled.

In this sense, it comes naturally to wonder on the best governance and managerial form to adopt, and here a focus on the second group becomes necessary.

Generally speaking, there is no a once-for-all solution, because everything depends on several factors such as the culture, the local government and the role the affiliate covers according to the headquarter. Certainty, what scholars, with their empirical researchers, have pointed out is the importance of not generalizing the concepts of both control and autonomy.

For instance, the choice regarding how much control to hold may be different if HQs consider the output control or the staffing control. In the latter circumstance, people assume a strategic function, given the possibility to either count on "expatriates" knowledge of both the foreign market and of the HQ strategy to reduce information asymmetry or to rely on a board of directors, whose role is to ensure strategic homogeneity and a reduction of opportunistic behaviors.

Concerning autonomy, it represents a risky choice for headquarters, in particular, if referred to a strategic autonomy. However, it has been demonstrated that a certain level of operational autonomy helps subsidiaries to maximize their entrepreneurship abilities and exploit their network. Operational autonomy allows to take decisions in case of emergencies and to respond to local changes and environment dynamics.

Thus, even if in the last decades many studies and researches have deepened the topic, only a few of them have analyzed the dynamics that are triggered between the subsidiary and the HQ when the latter is represented by a small or medium enterprise.

In this case, the presence of few people and resources may lead to take decisions that larger firms do not consider. For instance, sending people from the HQ to the new subsidiary represents a high cost for the enterprise that cannot lose internal people; so, in this case, periodic visits, general meetings and, incentives (Lu & Beamish, 2001), such as a reward system based on the obtained results, might represent more common tactics to ensure a unique strategy.

3 CHAPTER

Investigating Italian SMEs' approach to internationalization and FDI activities

3.1 Introduction

Differently from the previous ones, in this chapter we conduct an explorative research with the aim of extracting interesting data for the studies concerning internationalization, with a particular attention paid to the case of Italian small and medium enterprises that have invested abroad through FDIs.

The present chapter deals with different topics and insights. In the first part, we propose some previous studies, this time concerning European and Italian contexts. As a matter of fact, an overview on previous works is fundamental to understand the main trends and shortcomings deriving from other studies. Moreover, a review of the main statistics about internationalization for small and medium enterprises allows to insert new results into a realistic context based on certain data.

Therefore, after this introductive, but necessary, part, we present the empirical work, starting from the chosen methods and procedures and by defining the research objectives. Then, the analysis is presented by following all the sequential steps. So, we aim to display a clear description of the criteria used to define our final dataset, together with some descriptive statistics on it. Thereafter, a deep investigation on how the survey we used has been created and which are the final results together with their limits and implications.

3.2 General overview on European SMEs' international activities

Small and medium enterprises represent an important reality within the European context. According to Daniel Clark (2019), in Europe there are 24.5 million SMEs which represent about 99% of all European businesses (Wach, 2014).

Among them, only a part is involved in international activities, and in particular, the majority decides to go global through *soft* modes such as export or subcontracts (European Commission, 2010). In terms of sectors, the enterprises that decide to go abroad mainly belong to manufacturing and wholesale trade, that in turn have very high export rates (56% and 54% respectively), followed by transportation/communication and retail trade sectors. Consistent with the analysis proposed by the EU commission in 2010, it is possible to affirm that the level of internationalization and the size of the SME's home country population are not positively correlated; in other words “small” countries, such as Sweden and Slovenia, show higher level of international engagement if compared to “larger” countries, i.e. France, Poland, and Italy. This result might be explained in different ways, but what is typically considered as a fundamental element is the role of local government and its attitude toward foreign activities. For instance, the decrease of trading barriers results in an important advantage for local SMEs that in this way, are more willing to commerce with other European countries (Ratten, Dana, Han & Welpe, 2007). In fact, Europe represents the favorite destination to invest in, but some SMEs (13% of those international engaged) are also active outside their own continent; North America and Middle East are typically chosen (Wach, 2014).

However, when only foreign direct investments are considered, the European international engagement seems to suffer a reduction. For instance, the European average percentage in terms of export is about 25%, but when FDIs are examined, this percentage decreases to 17%[64]. Moreover, for what concerns the functions that foreign establishments cover, the EU statistics demonstrate that part of them are sales or representative offices, without a legal entity. Even if considered as *hard* investments, this kind of establishments do not represent independent subsidiaries.

Conversely, a new legal entity is the result of another internationalization mode, i.e. joint ventures. European data (2010) seem to confirm the idea for which small and medium enterprises benefit from the use of joint investments; maybe because of the chance to share costs and to get benefits coming from the collaboration with another company.

Within this framework, Italy does not represent an exception. Indeed, consistent with Mariotti and Mutinelli (2005) findings, Italy is among those countries with less international engagement through FDIs by small and medium enterprises, if compared to its European partners. In order to justify this result, it is common practice to associate the Italian exploitation of *softer* forms of internationalization, but their use does not necessarily exclude other forms, which could be seen as complementary (Mariotti and Mutinelli, 2005). So, to understand the reasons of this

[64] European Commission (2010)

international limitations and how SMEs face the issue, a more detailed analysis of the Italian case is needed.

3.2.1 A focus on Italian SMEs international engagement

Within the Italian context, small and medium enterprises are the backbone of the economy, accounting for the 92% of all active companies[65] and they are typically involved in sectors such as services, construction and agriculture. A peculiar question characterizing this type of Italian firms is the creation of the industrial districts, i.e. cluster of enterprises around a geographical area, typically focused on a specific sector (Campagnolo & Camuffo, 2008). The creation of clusters has always had an impact on the way in which Italian firms organize their production and distribute their products/services. Nevertheless, in recent years the pursuit of local clusters has been criticized to be an obstacle to the modern economic systems, based on global value chains rather than local ones (Campagnolo & Camuffo, 2008).

The creation of a global value chain refers to the possibility to enter in new markets; i.e. to start an internationalization process. Generally speaking, internationalization is a particularly difficult issue to deal with when Italian small and medium sized enterprises are taken into account. Among the critical aspects concerning this topic, there is for sure the low level of FDIs registered by Italian companies, together with the so-called "global-gap" (Mariotti & Mutinelli, 2005, p.22), for which the majority of investments are concentrated within the European geographic zone. The reasons usually attributed to the low level of foreign investments bring us back to the typical limits[66] deriving from the size of small and medium companies. In other words, Iacobucci and Spigarelli (2007) point out the constraints coming from limited owned resources and the difficulty to get access to new ones. Furthermore, when firms internationalize, they have to demonstrate their capabilities in dealing with larger competitors, and in particular, dynamic international capabilities[67] are needed in order to keep a position within the competitive arena and to exploit new opportunities.

Scholars have often tried to understand if Italian internationalization equity forms' propensity is correlated to the use of other forms. Final results are not homogeneous, but in general terms, it emerges that FDIs are more and more considered as a support and complementary to other forms (Iacobucci & Spigarelli, 2007), in particular to export. Nevertheless, when considering

[65] *Pmi, quanto conta in Italia il 92% delle aziende attive sul territorio?* Available at <https://www.infodata.ilsole24ore.com/2019/07/10/40229/?refresh_ce=1>.

[66] Reported in par. 1.1.2

[67] "Dynamic capability can be defined as an MNE's ability to create, deploy, and upgrade organizationally embedded and return-generating resources in pursuit of sustained competitive advantages in the global market-place" is the definition used by Luo (2000, p.355).

export an important, and seldom used, distinction has to be made between the direct and the indirect export. Even if both of them are defined as *soft* modes of internationalization, the choice of one or another is anyway representative of the commitment level a firm wants to undertake. Indirect export does not involve high levels of investment or particular characteristics to be implemented, while the direct export is riskier. In any case, export represents the most used form of internationalization among Italian enterprises, and this data seem to be even more stressed when focusing on industrial districts (Campagnolo & Camuffo, 2008). The reason of this emphasis has to be found on the underlying logic of industrial districts, typically thought as closed but highly specialized.

However, if on one hand clusters might limit international activities, on the other hand what has a positive impact is the level of investments in R&D. Italian firms confirm the typical innovation-internationalization tie, for which those with larger R&D investments are more able to establish international relationships and to enter in foreign networks (Campagnolo & Camuffo, 2008).

According to the literature, in Italy the mentioned "global gap" is confirmed, meaning that, in the majority of the cases, small and medium firms decide to invest in close markets, typically European ones. This gap is particularly strong if taking into account the absence of trade barriers within European countries (Iacobucci & Spigarelli, 2007). Although, the "most brave" enterprises typically invest in East Asian countries, where the level of Italian participation has particularly increased from 2001 to 2005 (Iacobucci & Spigarelli, 2007).

In terms of profitability[68], an exhaustive study has been conducted by Majocchi and Zucchella (2003). For what concerns this thesis, the most interesting results are those about the path SMEs follow when internationalize. Meaning that, the empirical results show negative profitability rates when firms decide to invest abroad through FDIs, and this might be attribute to the typical liability of foreignness that affects new firms in unknown countries. If internationalization is seen as a learning process, whereby firms take advantages in small steps, these results should not surprise. Always in connection with Majocchi and Zucchella (2003) findings, it has been demonstrated that the negative impact FDIs have on profitability is softened if SMEs can count on high level of exports. In this way firms can get in touch with the foreign country and their liability is reduced.

3.3 The empirical research

The studies cited so far have been able to offer a general framework about the Italian situation, but some limits and considerations have to be made. First, the main studies concerning Italian

[68] Expressed in terms of ratio, such as ROA, ROE and ROS (Majocchi & Zucchella, 2003)

SMEs and internationalization dates back to several years ago; meaning that they do not totally represent the current situation. Second, they mainly have examined the levels of internationalization and the consequent profits, but they have seldom investigated on which are the effective key factors for succeeding abroad; in other words, ‘which capabilities and skills should Italian SMEs possess to be able to invest abroad?’, it is a question that does not find an answer. Third, studies were not precise in defining the way in which SMEs increase their international commitment. Finally, scholars have usually based this kind of studies on existing database and have looked at the evolution of data over time. However, the use of direct methods, such as questionnaires, which are able to go in deep by letting companies speak for themselves, have not been used, although capable to offer interesting clues.

Having these observations in mind, the present dissertation proposes a model that tries to overcome them. Specifically, we aim to offer a study concerning how Italian small and medium enterprises go global “seriously”, i.e. through internationalization forms which involves high commitment levels. In particular, we would like to understand if associations between SMEs characteristics and mode of internationalization exist, i.e. ‘is there a relationship between choices of internationalization and organizational choices? Is it true that the bigger is the company, the more likely is the choice of investing through an FDI?’; ‘do firms belonging to the same sector behave in the same way?’.

Moreover, we would like to comprehend if SMEs’ foreign investments might be considered as dynamic ones, and so if it is possible to define them as sequential processes, which change over time in favor of harder forms of internationalization; ‘have foreign investments changed their nature over time? Are the reasons why firms hold the investment the same as those that led them to do it?’.

Thus in this section, we illustrate our empirical study, which has been conducted through the analysis of existing data, retrieved from the Italian database *Aida*, and through the use of an online survey, sent with the aim of getting new insights and reflections useful for the internationalization studies related to small and medium-sized companies. The data retrieved from *Aida* represent the basis on which we have chosen those to whom sending our online survey that in turn corresponds to the core part of our study.

3.4 Dataset description

As already anticipated, our analysis starts with a data collection through the use of the Italian database *Aida*[69], with the intention of creating a personal dataset on which building our analysis. Accordingly, a set of criteria has been applied to get that information we were interested in. For this reason, first of all it is necessary to understand which criteria have been used in *Aida*, and second of all, it is useful to propose a general overview of the dataset by looking at information such as the sectors of interest and the foreign areas where firms decide to invest.

3.4.1 Application of criteria

As a matter of fact, the main focus of our work are small and medium enterprises, and in particular we have decided to focus our attention on specific North-Italian regions' enterprises: Veneto, Lombardy, Emilia-Romagna, Friuli-Venezia Giulia and Trentino-South Tyrol. These represent both close territories and particularly representative regions with a high number of enterprises, which can provide generalizable information to the whole Italian context.

For this reason, the regional limitation is the first criterion we have applied, followed by the one concerning the legal status, i.e. our research aims to get information about active firms only, by excluding companies in a state of insolvency.

After having employed these two criteria, we have applied the benchmarks defined by the European Commission (2015) needful to identify and distinguish SMEs from micro and large companies. In other words, in order to consider small and medium enterprises in our dataset, we have used the same criteria proposed by the EU Commission (2015) in the matter of size. So, we first set a minimum of 10 and a maximum of 250 employees; in this way we are sure to exclude from our research field the micro-enterprises and to focus our attention only on small and medium ones.

Then, the EU Commission (2015) sets up other two criteria concerning the turnover and the total balance sheet respectively. Thus, we have established a minimum of EUR 2 million[70] and a maximum of EUR 50 million with respect to the total turnover and of 43 million applied to the total balance sheet. However, these financial thresholds are considered as independent of each other, meaning that in order to define a small or medium enterprise, we need to verify the employees' criteria and only one of the two financial limits. In *Aida* the application of these conditions has been possible thanks to the use of Boolean search, that is a type of search allowing to use three main keywords (*and, or, not*) to produce relevant results. In our case, we

---

[69] *Aida* is a database, realized and distributed by Bureau van Dijk, containing financial and commercial information of Italian enterprises up to ten years.

[70] The minimum limit has been established to exclude micro-enterprises.

have used the “or” keyword between the two financial criteria, as it is possible to see from Table1.

At this point, the result is a dataset containing all the active SMEs belonging to Veneto, Lombardy, Emilia-Romagna, Friuli-Venezia Giulia and Trentino-South Tyrol regions.

However, we have not established a criterion that allows us to focus on those enterprises that have invest abroad. For this reason, the sixth and last condition is fixed, and it concerns the possession of foreign subsidiaries with a percentage of direct or total ownership of at least the 10 percent. This percentage has been established in accordance with what declared by the International Monetary Fund (1993) regarding the identification of foreign direct investments.

A summary of the six criteria applied in *Aida* is offered below (Table 1) by reporting the final research strategy as it appears in the database.

Table 1 Research strategy

1.	**Regione, provincia, comune: 03 - Lombardia, 04 - Trentino-Alto Adige/Südtirol, 05 - Veneto, 06 - Friuli-Venezia Giulia, 08 - Emilia-Romagna**	**755.383**
2.	**Stato giuridico: Società attive**	**1.392.873**
3.	**Dipendenti: 2017, min=10, max=250**	**157.559**
4.	**Ricavi delle vendite (migl EUR): 2017, min=2.000, max=50.000**	**116.221**
5.	**Totale Attività (migl EUR): 2017, min=2.000, max=43.000**	**167.207**
6.	**Shareholders with foreign subsidiaries: located anywhere (including unknown countries) not ultimately owned but at least 10% owned; May have other shareholder in the foreign country; Definizione di Azionista di Riferimento min. path of 25.01%, azionista noto o sconosciuto**	**15.953**
	Ricerche Booleane: 1 E 2 E 3 E (4 O 5) E 6	
	Totale	**4.142**

As Table 1 shows, our dataset contains 4142 active small and medium enterprises, with at least 10 percent of participation owned in a foreign country.

The third, fourth and fifth criteria, they all refer to the year 2017; this choice is not random, but it has been done with the aim of getting complete results for all companies, given the risk of not having all the 2018 financial statements.

3.4.2 The dataset

After having established the research criteria, our dataset comprehended 4142 firms. In particular, 2077 enterprises (amounting to about 50.14 percent) are from Lombardy region, while the remaining 2065 (about 49.8 percent) are from North-Eastern Italy, that, by following the general practice, also comprehends Emilia Romagna. For each firm we have retrieved data concerning:

- the province;
- the region;
- the total turnover in 2017;
- the total BS assets in 2017;
- the number of employees in 2017;
- the website;
- the year of establishment;
- the number of registered participates;
- the ATECO code and its description;
- the participates' names;
- the participates' countries ISO code;
- the participates' cities;
- the participates' category;
- the participates' NACE code;
- the percentage of direct and total ownership.

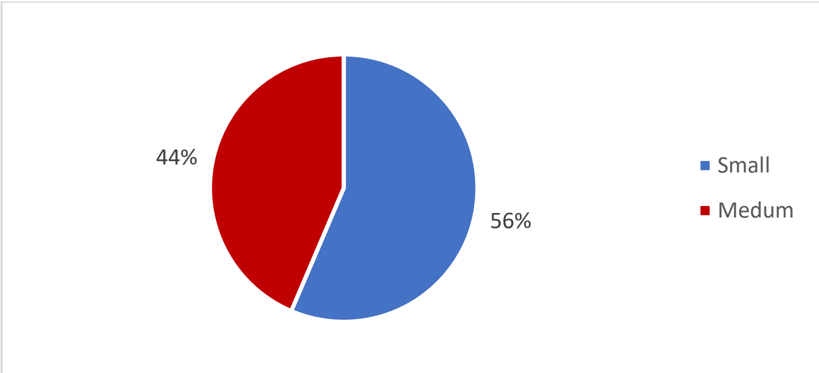
Such information has given us the possibility to draw a first overview and to reflect on topics that have usually interested the literature and more recent studies. Therefore, we have started to work on the dataset. First, we have decided to regroup companies, with the aim of having a further distinction between small and medium enterprises. The Italian L.D. April 18th, 2005 "Adeguamento alla disciplina comunitaria dei criteri di individuazione di piccole e medie imprese" has established that small enterprises are those with less than 50 employees and a turnover or total balance not higher than EUR 10 million. While medium enterprises are those with more than 50 employees, but not more than 250, with a turnover that does not exceed EUR 50 million or a total balance sheet not higher than EUR 43 million. Recognition criteria are summarized in Table 2.

Table 2 SMEs recognition criteria

Size	**Employees**		**Sales turnover**		**Total assets**
Small	< 50	And	≤ 10 mln.	Or	≤ 10 mln
Medium	< 250	And	≤ 50 mln.	Or	≤ 43 mln.

Accordingly, we have used these criteria for grouping companies and our final result shows that 2337 on 4142 enterprises are small, while 1805 are medium, as shown in the following Figure 8.

Figure 8 Dataset size analysis



Surprisingly, in the regions we considered, small enterprises are more active than medium ones when dealing with the possession of foreign participants. However, before continuing with a more detailed analysis, we have noticed that in certain cases there were some missing values concerning the participants' countries that were defined as "n.d". Consequently, since the geographical area is one of the most relevant issues, we have decided to eliminate those enterprises whose participants' countries were not registered, in order to avoid any possible distortion from our analysis. The same has been done for those companies that were repeated within the file. After this cleanliness, the number of enterprises has slightly decreased, passing from 4142 to 4092. On this number we have based our following reflections.

3.4.2.1 Economic activities

In terms of sectors, our analysis has been conducted by taking into account the ATECO codes. ATECO represents a system of coding for which any kind of economic activity is classified according to a code. This type of mechanism works by considering a set of 6 numbers, of which the first two represent the macro-economic area whose business belongs to; all the other numbers serve as a specification of the activity. In the case of the present dataset, the consideration we made is mainly based on the first two numbers, allowing us to split businesses according to their own sector. The results are shown in Table 3.

Table 3 Dataset breakdown-economic activities

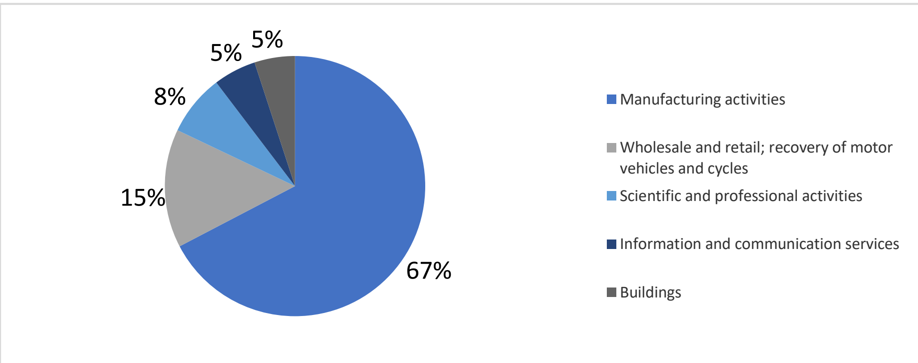
Code	Categories	Absolute Freq.	%
C 10-33	**Manufacturing activities**	2528	62%
G 45-47	**Wholesale and retail; recovery of motor vehicles and cycles**	553	14%
M 69-75	**Scientific and professional activities**	285	7%
J 58-63	**Information and communication services**	199	5%
F 41-43	**Buildings**	189	5%
K 64-66	**Financial and insurance service**	68	2%
N 77-82	**Rentals, travel agencies, business support services**	63	2%
H 49-53	**Transport and storage**	60	1%
L 68	**Real estate activities**	36	1%
I 55-56	**Accommodation and catering activities**	26	1%
A 01-03	**Agriculture, forestry and fisheries**	22	1%
E 36-39	**Water supply, sewerage, waste management activities**	17	0%
D 35	**Electricity supply, gas, air conditioning**	12	0%
R 90-93	**Arts, sports, entertainment**	9	0%
S 94-96	**Other activities and services**	8	0%
B 05-09	**Mining of minerals from quarries and mines**	6	0%
Q 86-88	**Health and social care**	6	0%
P 85	**Education**	5	0%
	Total	**4092**	**100%**

From the dataset breakdown, it is evident that some sectors have a very high number in terms of absolute frequency, with respect to others, whose ratio might also be 0 percent. Thus, this sector analysis allows us to reflect on some relevant issues.

First of all, about 62 percent of the companies in our dataset operates within the manufacturing sector, followed by a 14 percent which belongs to the wholesale and retail sector. This information is important for drafting an initial reflection concerning the fact that the majority of enterprises, owning foreign participates, belong to manufacturing; meaning that typically they are enterprises which deal with the transformation of specific materials. For instance, some of them might produce peculiar industrial machineries, or they might produce rubber items and plastic materials.

A visual representation of the first five highest rate sectors is offered in Figure 9.

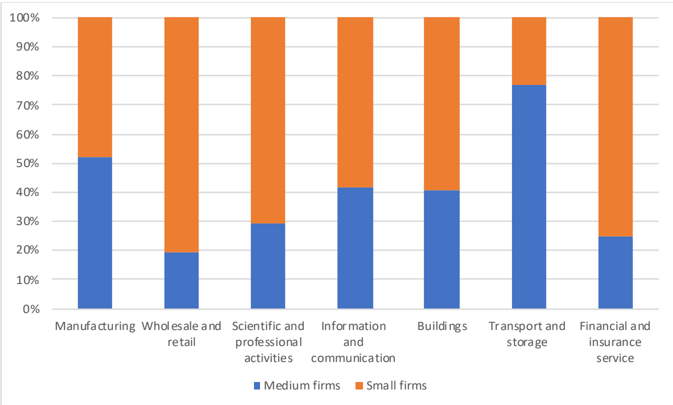
Figure 9 Sectoral breakdown: the highest rate sectors



On the other side, firms handling the offer of services seem to suffer of a lower presence of companies in our dataset. For example, companies operating in the financial and insurance sector only represent the 2 percent (corresponding to 68 enterprises). This data might be interpreted in different ways, but typically the use of FDIs is associated with the open of production plant or retail stores. Moreover, the low number of enterprises working within the service sector is also connected to the choice of only considering small and medium enterprises that are traditionally tied to the offer of products and the manufacturing sphere.

Together with this general analysis, we have decided to investigate on sectors and firms' size, in order to understand if small and medium firms in our dataset belong to different sectors or if they are equally distributed. Results are shown in Figure 10.

Figure 10 Small and Medium firms' sectors



Starting from the manufacturing sector, which is the most populated one, different sizes' firms are quite well distributed. Not very different are the results concerning buildings and information/communication sectors, where even if small firms are more than medium ones, the difference is not so high. Wholesale sector, scientific and professional activities and financial and insurance services sectors represent the ones where the presence of small firms is very high if compared to the one of medium firms. This result is very interesting if we think about the general trend according to which small firms are less involved in services. However, an exception is represented by the transportation and storage sector, where the number of medium firms is the highest one.

3.4.2.2 Geographical areas

As stated above, from *Aida* we have been able to retrieve data concerning the subsidiary's home country. This examination has been conducted with the aim of understanding if a part of Italian

SMEs follows what has been defined as "global gap" trend, or if they show a certain interest in investing in distant countries. To do this, we have used the country ISO code, representing each country all over the world.

In an initial moment, we were interested in understanding "how much" enterprises are committed to foreign markets, i.e. how many foreign participants our dataset's companies detain. By looking at data, it is possible to affirm that, for a total of 4092 companies, we have registered 10449 foreign participants; in other words, on average, each enterprise of our dataset has about 2/3 participants abroad with a minimum ownership percentage of 10 percent. Certainty, there are companies that have invested more, and so we can also find companies with five, six or even more foreign participants, but, on average, it is possible to assign a ratio of two foreign participates to one enterprise. It is relevant to notice that this ratio comes from the consideration of foreign participants only, which represent the focus of our analysis, without considering domestic investments.

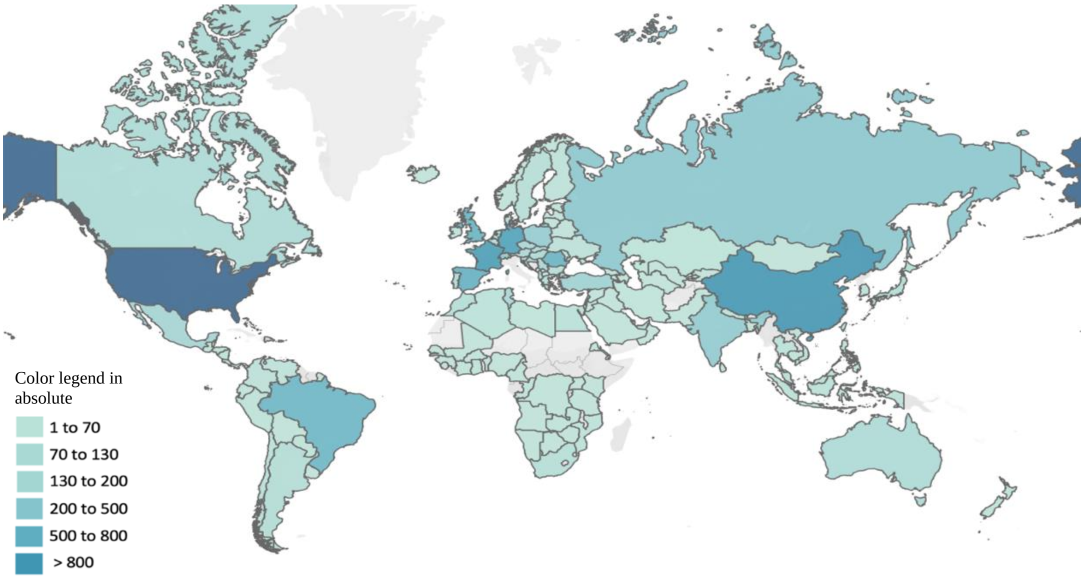
Afterwards, we have decided to focus on which geographical areas represent the favourite destination for conducting a foreign direct investment according to our dataset's enterprises.

As explained, this has been possible thanks to the use of ISO countries codes.

In order to make the analysis more intuitive and less fragmented, we have regrouped different countries according to bigger geographical areas. For instance, we have countries belonging to Europe (where Italy is not considered), Africa, Asia, North America, South America and Oceania.

As expected, the geographical area which registers the highest number of investments is Europe, followed by Asia and North America. Specifically, in order to have a better understand geographical data, we have associated each ISO code, i.e. each country, with the local number of investments made by our dataset's enterprises. Through the use of *Tableau*, a data visualization software, the result is a map, reported in Figure 11 where more intense colours are correlated to high frequency levels, and less intense ones to low investments levels.

Figure 11 Where do companies invest? A world ma



Source: Personal elaboration using *Tableau*

In the majority of cases, investments in Europe are carried out by enterprises that only have one foreign participant. We can think about the case of a SME that decides to invest abroad for reaching new customers in short time or the case of companies that look for fiscal advantage, and the close they are the easier is the management.

For what concerns Asia, enterprises are used to invest in the same countries, such as China, India and United Arab Emirates, in fact we have found 1175 investments in the cited countries, on a total amount of 1740 Asian investments. However, these areas are not “easy to manage”, given the cultural and habits differences.

Regarding the distinction between small and medium firms, they both show the same attitude toward certain destinations, as reported in the following Table 4.

Table 4 Small and medium firms' destination countries (in absolute frequencies)

COUNTRIES	N. OF SMALL FIRMS'INVESTMENTS	N. OF MEDIUM FIRMS'INVESTMENTS
EUROPE	3306	2536
USA	652	593
ASIA (BUT CHINA)	521	426
CHINA	444	349
SOUTH AMERICA	404	318
AFRICA	278	236
NORTH AMERICA (BUT USA)	136	134
OCEANIA	70	46

Nevertheless, a part of our sample has not only invested abroad, but it also has some domestic participations.
However, the limit of these observations lies in the fact that *Aida* does not contain specific information about foreign enterprises, and for this reason we cannot prove the establishment of foreign participants before or after the one of domestic country.

3.5 The questionnaire

In order to conduct a specific analysis on our dataset's enterprises, we have decided to use an online questionnaire. This method has been chosen for different reasons; first of all, it allows to get unique information that otherwise are not obtainable by using classical databases (either because they are sensitive data or because they are qualitative data); second of all, a questionnaire allows enterprises to really express their own voice, by deciding which info are more or less important; and finally, since we deal with SMEs, it might be difficult to retrieve data, because in certain cases, companies do not have to publish their financial statements and reports.
Thus, we have created our questionnaire by taking into account all the info we already have, and by trying to investigate on those factors that have affected the decision to go global "seriously" and by bearing in mind the idea of internationalization as a process.
The questionnaire is reported in the Appendix (p. 137) and it is the final result of a series of drafts, it reflects a good compromise between our research purposes and need for clarity towards the recipients. As it is possible to notice, it is divided into two parts, the first one deals with more general information about the company, and a second one examines the (possible) evolution of foreign investments, the reasons that have been considered before investing abroad and how decision making system works between the foreign unit and the company itself. The second part of the survey is linked to the first one through the use of some logical connections. So, according to the geographical area where the single enterprise detains its most relevant investment (either an FDI or a JV), the survey continues with the second part.
In presenting questions, we have used different kinds of approaching; ten questions out of twenty-one are multiple choices questions, six are open questions, three are five-point Likert Scale questions and there is one multiple choice table. The questionnaire has been sent to the company's email address that we got from each website. For those companies that do not have an email address on the website, we have filled out the online forms. However, some enterprises have neither an email address nor an online form to fill, and so we have not been able to contact them. Thus, we have sent a total of 3741 emails, of which 191 enterprises have answered and represent our participants' sample, showing an overall response rate of 5.10%.

After having collected a sufficient amount of responses, we have decided to conduct both a more descriptive analysis and to further examined results through a series of logistic regressions, thanks to the use of IBM SPSS software.

Responses have been codified as nominal variables, in order to make them analyzable from a quantitative point of view.

3.6 The participants

Before examining questionnaire's responses, it might be useful to give more information about the sample of 191 participants. In fact, certain responses are really influenced by specific factors, such as the sector in which a company operates or if we are dealing with a young or a well-established enterprise.

3.6.1 Regional breakdown

Firstly, we have divided the sample according to regional criteria, and it has emerged that the home region of the participants is mixed between those from Lombardy, from Triveneto and from Emilia-Romagna region. Specifically, the majority comes from the Triveneto, as shown in Table 5.

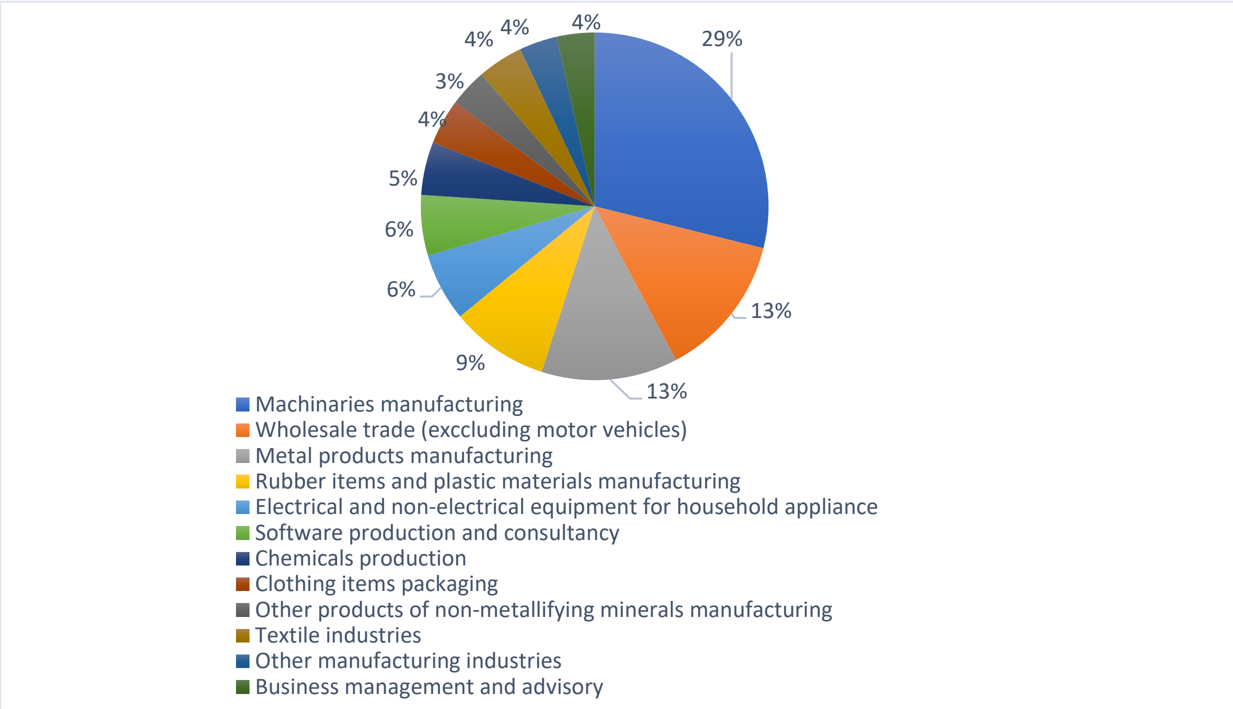
Table 5 Participants' home regions

Region	***Absolute frequency***
Triveneto	101
Lombardia	55
Emilia-Romagna	35
Tot.	**192**

3.6.2 Sectorial breakdown

As previously done for the entire dataset, a sectorial breakdown is needed. This analysis allows us to know from which industry respondents come from. This kind of information is particularly important given the fact that the questionnaire might be approached in different ways if, for example, an enterprise is a manufacturing or a consulting one. Moreover, reflecting on sectors with the highest or the lowest frequency permits to conduct an analysis by matching sectors and international activities, i.e. 'is there any association between a particular sector and the use of a specific internationalization form?'. This kind of association and analysis will be conducted in the following paragraphs, while for now, we would like to dedicate this part to a more descriptive examination of data. So, by bearing in mind the same method previously adopted for the entire dataset, we have categorized companies according to the ATECO classification, but this time by considering the first two codes. Consistent with them, 75% of respondents operates within the manufacturing and the wholesale' sector, which might be further breakdown in different and more precise categories, such as machineries manufacturing, metal or plastic and rubber products. A completely different sector is represented by 6% of the total, where we find software production companies; and also, by a 4% of firms specialized in management advisory. Therefore, it is possible to focus on four main ATECO codes with a very high absolute frequency, if compared to others that instead are represented by one company only. Specifically, this is the case of information services firms, financial services and entertainment activities enterprises. The sectors with the highest frequency are reported in Figure 12.

Figure 12 Percentage of respondents' main sector



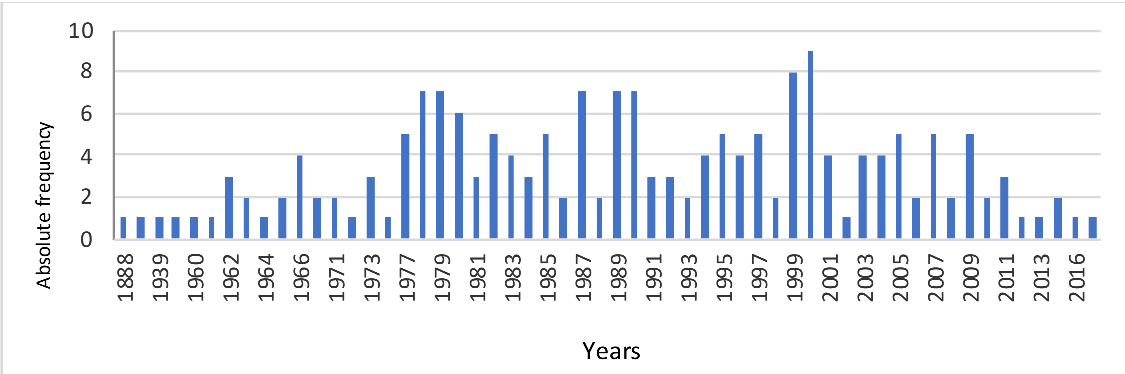
*% calculated on a total of 191 participants

3.6.3 Date of establishment

Another characteristic to consider is the age, i.e. the establishment date of the company, an information we have retrieved from *Aida*. Respondents represent a heterogenous group in terms of date of establishment, in fact the youngest one was created two years ago and on the contrary, there are companies born in the 20s. In any case, the emphasis might be put on those born in the last five years, since according to the common practice, they are examples of born global firms, they represent a sort of outsiders, since the phenomenon is still quite rare. This data is a promising indicator in terms of Italian international commitment. The following histogram, in Figure 14, shows the number of companies for each year. There are some peaks in certain dates:

in 1977, 1979, 1990, 1998 and 2000. According to the data, we know that the mean is 1988 and the standard deviation is 22, meaning that on average a company deviates from the mean of about 22 years. This high standard deviation level underlines the heterogeneity of the age element, and consequently of the dataset itself.

Figure 13 Respondents' establishment date



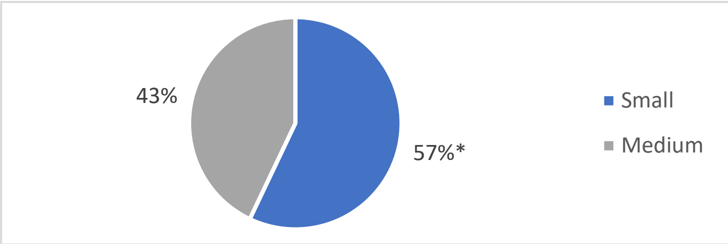
3.6.4 Size

Before examining questionnaire responses, we suppose it is really interesting to reflect on the size of companies within the considered sample. Our analysis is concentrated on small and medium enterprises; however traditional practices are used to examine them as a unique bundle, without making a distinction between small and medium sized. For this reason, we would like to know exactly which kind of companies constitute our sample; ‘are they small or medium firms?’ and ‘is there any difference in terms of internationalization modes?’. One might wonder why this information constitutes an interesting data for the analysis and why we have not limited the research in defining them simply as SMEs. The reasons behind this further investigation are essentially connected to the literature trend, according to which SMEs are less inclined to invest abroad through hard forms of internationalization, mainly because of their financial constraints (Buckley, 1989) and their limited number of workers. This one might represent a limit in terms of human resources to devote to the internationalization process. Certainty, all these limitations are even more emphasized if dealing with small firms, rather than with medium ones. However, the sample we are investigating on confirms a newer trend of thought, for which smaller firms are able to go abroad and are even increasing their international presence. Accordingly, in our sample of 191 enterprises, the majority of firms are small ones, constituting 57% of the sample, while the remaining 43% is made of medium firms[71], as shown in Figure 14. This classification

[71] The distinction between small and medium firm has been done according to the identification criteria identified by the European Commission (2010)

represents the basis on which we will build a more sophisticated analysis which aims to look at the way in which small and medium firms invest abroad.

Figure 14 Small vs Medium firms



*% calculated on a total of 191 participants

3.6.5 Organizational structure

The first part of the questionnaire allows us to learn more about the participants willing to disclose information about their organizational structure.

In particular, we are interested in knowing if enterprises are part of a group, and which position they detain in it.

Almost the half (48.7%) of the respondents has declared not to be part of a group, while 32% of them has stated to be the parent company of a group and the remaining 29.2% belongs to a group, but it is not the parent company. In a certain sense, this data is quite surprising and interesting because the common thinking tends to associate internationalized SMEs to a group or a parent need. However, these enterprises prove the possibility for smaller firms to start an internationalization process on their own.

By keeping the focus on the first part of the questionnaire, respondents are called to indicate their actual organizational structure by taking into account their international activities, i.e. export, FDI and joint venture. One can wonder how this information might contribute to an analysis which aims to investigate if SMEs rely on FDIs. Nevertheless, the association between the two concepts has to be found in the idea of commitment toward the foreign investment and on the way in which companies look at the market. This kind of association between structure and internationalization activities has been examined by different scholars, including W. G. Egelhoff (1988). For instance, an interested and more recent study is the one conducted by Nicolay Worren (2014) for Deloitte Touche Tohmatsu on the correlation between degree of internationalization and structure. He has underlined how choices in matter of structure really depend on several factors, in particular by how companies interpret the market; 'is the market willing to welcome an organization which does not differ in relation to different regions, or is it more inclined to appreciate a geographical adapted enterprise?'. Generally speaking, to be winners in a foreign market, SMEs are usually called to modify their business to a new competitive environment, by adapting to the new requests in order to be attractive, as affirmed by Antonio Acunzo, CEO of MTW Group – Foreign Market Entry Advisors[72]. Accordingly, by adopting a functional structure, enterprises may seem to be more focused on economic activities specialization rather than on a regional focus, but the contrary happens if firms adopt a divisional structure, where they may organize themselves according to different geographical areas business units and to the different final markets. Some enterprises might also choose a mix of the previous typologies which indicates a moderate commitment. Two examples of these kinds of structure by taking into account an enterprise with international activities is offered in Figure 15.

Figure 15 Functional and divisional structures-examples

13.1 Functional structure

13.2 Divisional structure by countries

Certainty, each organizational function has other strategical implications, such as the willingness to keep a certain identity or to offer a more (a less) differentiated product/service.
Thus, in order to comprehend if an association between organizational structure and different types of entry modes exists among our sample's firms, we have first developed a descriptive analysis reported in Table 6, based on 185 participants which have answered to organizational questions.

Table 6 Organizational structures and international activities- Frequencies table

	Functional structure	***Divisional structure***	***Mix***	***Total***
Only Export	33	**3**	7	43
FDI or FDI+Export	**48**	**18**	**27**	**93**
JV or JV+Export	18	3	13	34
FDI+JV	3	1	0	4
FDI+Export+JV	7	2	2	11
Total	**109(58%)**	27(14.5%)	49(26.4%)	**185(100%)**

72 Dario Vascellaro. *Le PMI alla sfida dell'internazionalizzazione*. Available at <https://www.giornaledellepmi.it/le-pmi-alla-sfida-dellinternazionalizzazione/>.

From this frequencies table, it is possible to appreciate several issues. First of all, we notice that the most used structure is for sure the functional one with a total of 109 enterprises, corresponding to about 58%, followed by a mixed structure, adopted by 26.4% and finally the divisional structure, used by 14.5% of respondents. By limiting our analysis on this data, we should conclude that the divisional structure is the less adopted one, and that enterprises in our sample are linked to a kind of structure based more on specialization. However, carefully looking at data, we recognize that the highest number of enterprises adopting a divisional structure are those committed to FDI activities; and if we also consider the mix structure, we may state that 93 enterprises dedicated to FDI activities are divided into two main groups: those with a functional structure and those with a divisional or mix structure. By following this reasoning, it seems that the choice to go abroad through FDI might be associated to the adoption of a divisional structure or a mix of divisional and functional forms.

However, we still do not if an association between structure and internationalization activities exists. So, we have breakdown the single variable *Organizational_structure* in three different dichotomic variables: *Functional_structure, Divisional_structure and Mix_structure*, each one taking either value 0, in case of absence of the phenomenon, or value 1, when instead it occurs. The same has been done for the internationalization variables, which are: *Export*, *FDI* and *Joint_venture*, with values 0-1. With these new variables, we have performed a series of contingency tables and chi-squared analysis, one for each possible association between structure and activities. The results have shown significant values for the following couples: *Export*Mix_structure, Joint_venture*Mix_structure, FDI*Functional_Structure and FDI*Divisional_structure*. The connected chi-squared analysis is reported in Appendix (Table 30, Table 31, Table 32, Table 33). While, the most interesting data according to the present dissertation, are those connected to FDI. We wonder how FDI and international activities are associated, if there is a positive or a negative relationship. So, two logistic regressions have been performed, one for the dichotomic variables *FDI* and *Functional_structure* and one for *FDI* and *Divisional_structure.* The encoding process has been reported in Appendix (Table 34, Table 35) while final results are reported in the following output tables (Table 7, Table 8).

*Table 7 Logisitc regression-FDI*Functional_struncture*

	B	S. E.	Wald	df	Sign.	Exp(B)
FDI			5,45	1	0,02	
FDI (1)	-0,71	.30	5,45	1	0,02	0,49
Constant	-0,67	.24	8,14	1	0,004	1,96

The first logistic regression reveals a very interesting data: enterprises willing to invest through an FDI have less probability to adapt a functional structure, given the negative coefficient. So, we should expect the opposite for the second regression.

*Table 8 Logisitc regression-FDI*Divisional_structure*

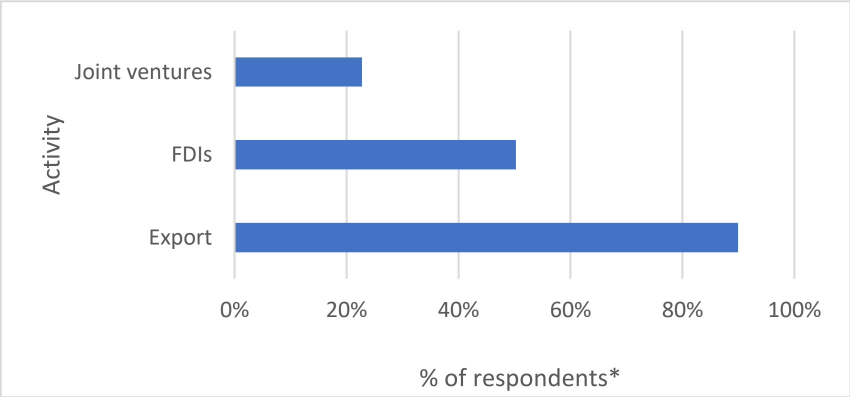
	B	S. E.	Wald	df	Sign.	Exp(B)
FDI			3,95	1	0,047	
FDI (1)	.92	.46	3,95	1	0,047	2,5
Constant	-2,34	.40	35,11	1	0	.10

Accordingly, in the second regression (Table 8), FDI and divisional structure are positively related. Therefore, it is possible to state that enterprises willing to invest in a foreign direct investment have more chance to organize themselves as a divisional structure.
In other words, the choice of investing abroad through an FDI is not an independent from the way in which a company is organized, and it is positively related to a divisional structure choice. Conversely, the same association cannot be found when we consider enterprises that have invested abroad by exporting or by establishing a joint venture. The use of FDI implies a real organizational change, that it is not needed when exporting or deciding to be partner in a JV. As affirmed so far, foreign direct investments represent "serious" ways to invest, implying a real review of how information flow and decisions are taken. As seen in Chapter 2, this kind of investment has also consequences in terms of staff management, the possibility to send expatriates abroad implies a reorganization of roles within the home country firm.

3.7 Internationalization activities

After having presented the results of the survey concerning participants' general information, it is time to pay attention to the analysis of international activities.
The dataset retrieved from *Aida* has given us information about the existence of foreign participations, but it has not offered the possibility to know more about the activities through which an enterprise deals with foreign markets. Thus, this information has been obtained thanks to the questionnaire. In fact, we have had the chance to not only know more about the foreign participation, i.e. if it is a foreign direct investment or a joint venture, but also to distinguish those companies that do export. Accordingly, it is possible to state that more than the majority of the respondents, i.e. 170 on 191 (89%), has declared to do export; half of the respondents, i.e. 95 on 191 (50%) has confirmed the presence of foreign direct investments and 43 enterprises on 191 (23%) has stated to have a foreign joint venture. These results are shown in Figure 16.

Figure 16 Respondents' international activities



*on 191 respondents

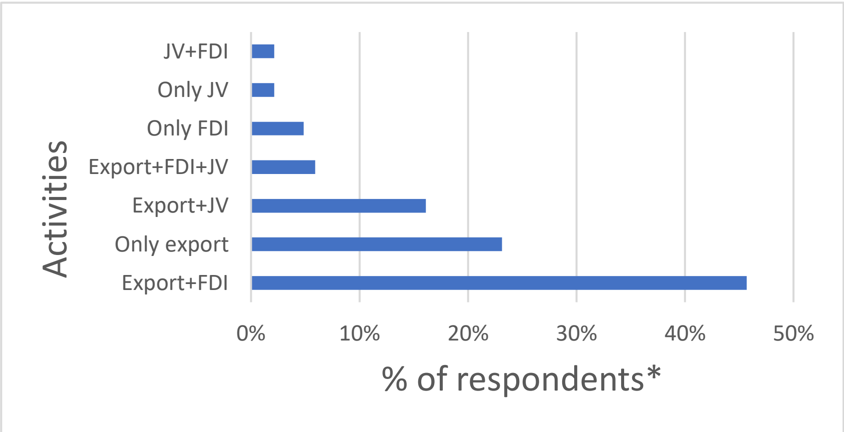
What is immediately noticeable is the high percentage of export, followed by that one for FDIs and for JVs.

However, the main limit of

Figure 16, and its analysis, lies in the fact that it shows participants' responses by not taking into consideration the relations between the different activities. For instance, the figure represents in percentage how many enterprises have invested in a precise activity, but it does not go in deep by examining if a single company has invested in both export and FDI, or only in JV, or in a combination of all the three activities.

For this reason, a further investigation is needed. So, we have breakdown responses according to different combinations of activities, and the result is presented in Figure 17.

Figure 17 Respondents' international activities: a further breakdown



*% calculated on 191 respondents

If in Figure 16 export shows the highest percentage, thanks to Figure 17 we know that the highest percentage is detained by a combination of export and FDI. Put it differently, 46% of respondents has reported to practice both export and FDI, while a combination of joint venture and export is practiced by 16% of respondents. Rarer and more difficult is the practice of JV or FDI only, 2% and 5% respectively, suggesting that export represents the most practiced international activity, in particular in combination with the other two forms.

However, it is important to pay attention on one data concerning the amount of enterprises practicing export only, which is about 23%. This data allows us to reflect on the fact that a part of the enterprises contained in our database[73] has invested abroad, but through representative offices. These ones represent weak forms of internationalization because they are not considered as a legal entity, they only have an accessory function[74].

So, our analysis will continue by considering 147 enterprises that have either an FDI or a JV, in addition, or not, to their export activities.

Given the very high percentage concerning enterprises that make both export and foreign direct investments, our attention shifts to the study of a possible association between the two variables from a statistical point of view.

Since the choices to do export or to invest abroad are both dichotomous elements, we have created two dummy variables. The first one, called *Exp*, takes on a value of 1 for exporting and 0 for non-exporting enterprises, the second one, named *FDI*, takes on a value of 3 for foreign direct investments and 0 for non-foreign direct investments[75].

Thus, we first have conducted the chi-squared test in SPSS, reported in Table 9 with the aim of comprehending if there is or not an association between the two variables.

*Table 9 Export*FDI chi-squared analysis*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	.042[a]	1	.839
Likelihood ratio	.042	1	.838
Linear by linear association	.041	1	.839
N of valid cases	191		

a.0 cells (0.0%) have an expected count of less than 5. The minimum expected count is 9.45

The circled p-value=0,839 indicates an absence of association between the two variables, which is confirmed by the χ^2 (1) = 0.042, lower than the critical value equal to 3.84.

What does it mean? The very low Pearson chi-squared and the high p-value let us think about the possibility that the choice of investing abroad through FDI is an independent choice to the one concerning the export. The two choices are independent.

[73] retrieved from *Aida*
[74] Trimarchi, D. (2016).
[75] Variables take on random values.

To be sure about it, we have decided to re-conduct the test, reported in Table 10, but this time we have not considered all the participants that both export and have a joint venture, by defining them as *missing values.*

Consequently, the variable *Exp* is now replaced with *Exp_No_Jv*, and it counts 30 missing values, representing 30 enterprises that export and have a JV.

*Table 10 Export *FDI chi-squared analysis (by not considering enterprises that both export and have a joint venture)*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	.864[a]	1	.353
Likelihood ratio	.836	1	.36
Linear by linear association	.859	1	.354
N of valid cases	161		

a. 0 cells (0.0%) have an expected count lower than 5. The minimum expected count is 7.11.

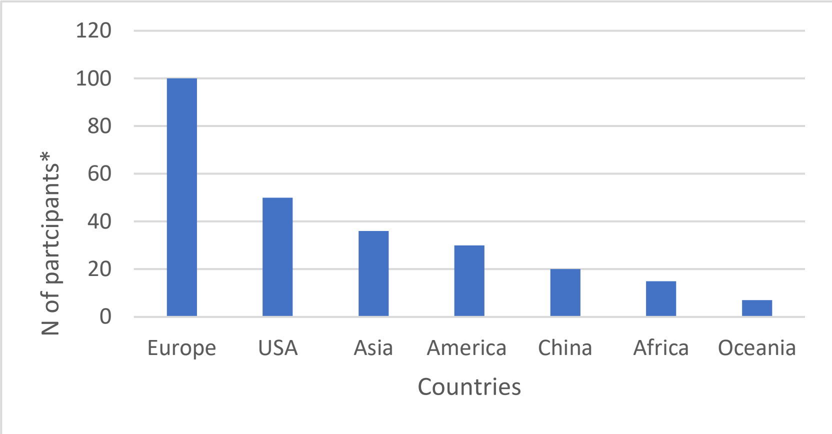
The circled p-value is still very high, but lower than the one found in Table 9. This suggests that exporting and investing through an FDI are two independent variables, whose association is slightly correlated to the presence of enterprises that both export and have a joint venture. This means that having a joint venture or investing in an FDI are two substitute choices, while exporting and investing through an FDI are two independent choices, meaning that firms may choose one, regardless of the presence/absence of the other one. However, by looking at date, we may affirm that the choice to make both is the most frequent ne, together with the possibility to inly exporting.

3.7.1 Participants investments' geographical areas

Once collected information on the way in which SMEs deal with foreign markets, we have explored the geographical areas chosen by our sample of firms for their foreign direct investments or joint ventures. Accordingly, we have focused only on those companies that have declared to practice other activities in addition or besides exporting, which amount to 147 firms. However, the mere report coming from our questionnaire is biased, since some respondents have indicated the connected geographical areas, but they are only exporting enterprises, which have been excluded from our analysis, while among the considered firms, there are some missing values. So, we have created a new sample of respondents which comprehends 140 enterprises, representing about 73% on the total participants' amount.

A graphical representation through histograms (Figure 18) may help in appreciating this data.

Figure 18 Respondents' geographical areas



*in absolute frequency

In particular, we would like to know if the considered Italian SMEs follow what has been defined as "global-gap", for which firms tend to prefer close countries rather than distant ones. The responses we have received seem to confirm the global gap intuition, but only partially. In other words, it is true that 70%, representing 100 respondents, has declared to be present in Europe, but among them there are enterprises that have invested also in other countries, meaning that respondents are committed toward more than one country only. Therefore, we have decided to offer a more detailed analysis aiming to understand the internationalization level demonstrated but our sample. A set questions we have wonder on is: 1) 'have companies invested in one country only?', 2) 'if yes, in which country?', 3) 'if not, in how many countries and where have they invested?'.

Figure 19 In how many countries have companies invested?

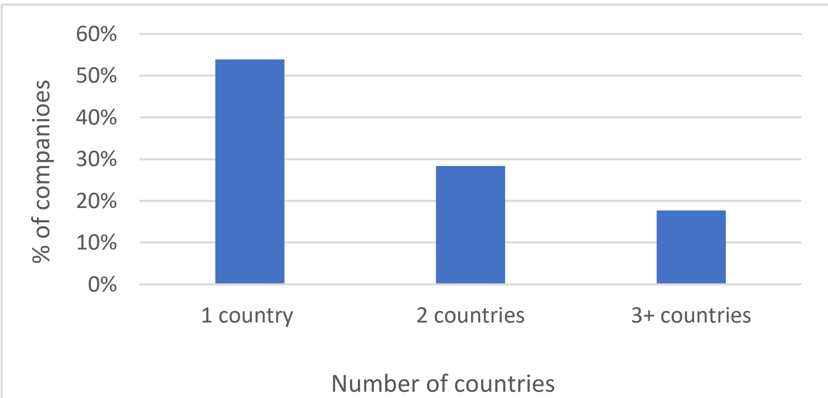
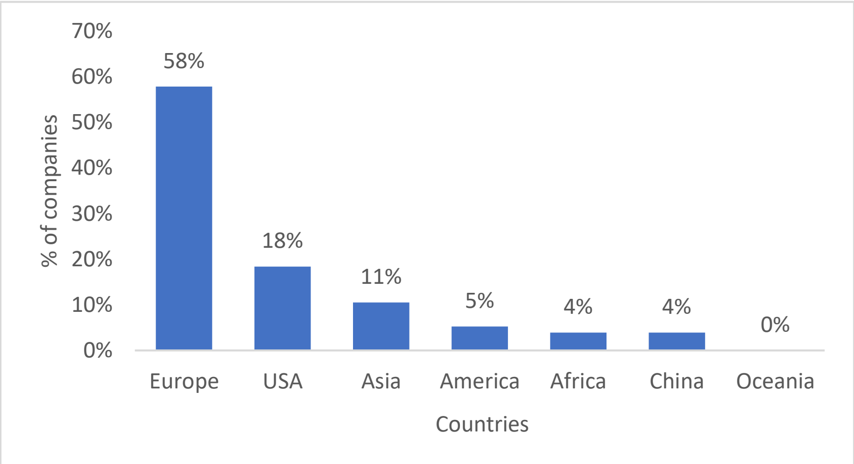


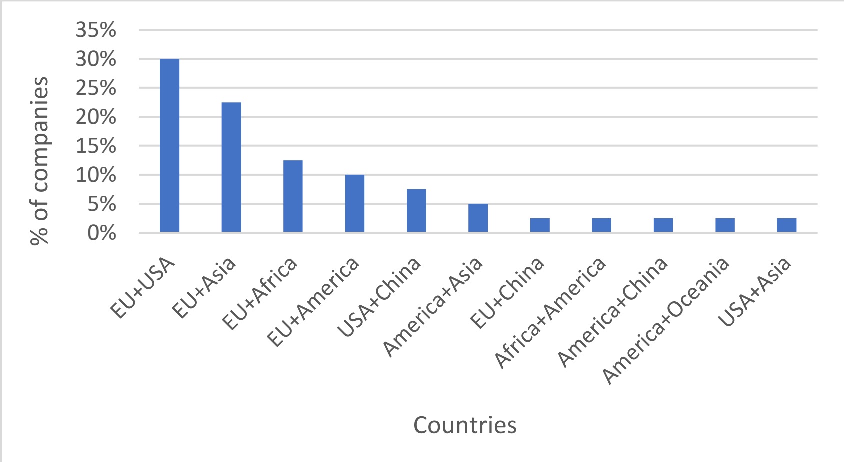
Figure 19 allows us to reflect on our first question, i.e. the number of countries companies have invested in. As the first histogram's rectangle shows, 76 enterprises (or 54%) have decided to invest in one country only, but if we combine the other two rectangles, we may comprehend that a large part of the sample, 65 (or 46%) enterprises have decided to commit toward two or more countries. This data is quite interesting if we think about the nature of sample's enterprises, which are all medium or small ones and if we consider the common literature idea for which SMEs are not seriously internationalized. Thus, we have further breakdown responses and countries in order to find an answer to the second and third question.

Figure 20 One country analysis



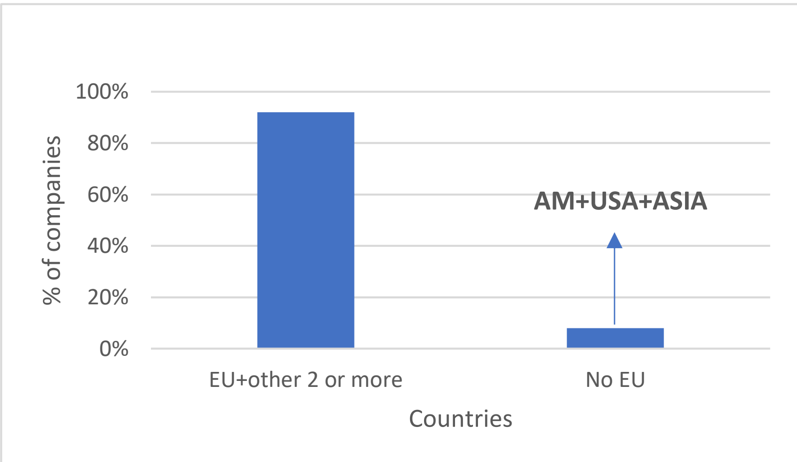
On one hand, if we only focus on the majority of responses, results coming from Figure 20 are not particularly surprising, since 58% of respondents have declared to be present only in Europe. But, the remaining 41% go against the tide, by affirming that they are present only in countries different from Europe. In particular, the majority of them have invested in USA or in Asia, without considering China. Investments in Asia from Italian SMEs confirm results performed by Iacobucci and Spigarelli (2007), but new insights are offered by the importance of USA market, which is also confirmed in the two-countries analysis.

Figure 21 Two countries analysis: a set of combinations



In Figure 21 examined data demonstrate that there are some combinations of countries which are repeated several times within the sample, to the detriment of others, which have been chosen by one company only. The first two combinations in terms of highest absolute frequency are those represented by Europe-USA and Europe-Asia. Once again, the main countries already considered in the one-country analysis, are confirmed to be the preferred ones also by companies that are present in two countries.

Figure 22 Three or more countries



Finally, in order to conclude this analysis, we have examined in Figure 22, companies which are present in three different countries or even more. Specifically, 25 enterprises have invested in more than two countries, and among them 23 have chosen a combination of Europe with other two or more countries, and the other two have considered America, USA and Asia as destinations. By focusing on the first ones, we have identified 15 different combinations of countries, but with a predominance of Europe (in all 23 combinations), USA (in 20 combinations) and America (in 17 combinations). The increasing attractiveness of Italian companies toward the American market and in particular the one of United States is a more recent phenomenon. Accordingly, nine years ago, Mariotti and Multinelli (2010) defined the American market as a more recent trend and discovery for Italian companies.

3.7.2 Participants characteristics and internationalization activities association

In par. 3.6 we have presented participants main characteristics, in particular we have put more emphasis on the role of size by dividing the sample in small and medium firms and on the importance of looking at the sector in which companies operate. However, questions about the association between size, or sector, and internationalization activities have been left unanswered. Accordingly, after having presented sample' activities, in terms of modes and area, it is time to conduct a more specific analysis by trying to answer to two main questions: 'is there any difference in terms of internationalization modes between small and medium firms?' and 'is there any association between a sector and the use of a specific internationalization form?'.

3.7.2.1 Size and modes association

When dealing with small and medium enterprises, general practice and literature do not distinguish between the two types of firms. So, if we consider all firms as equal, we risk limiting the analysis and to do not understanding if further differences among these two types exist.

From the previous examination of data, we know that the sample is made up of 57% representing small firms and 43% medium firms. Based on this information, we have created a contingency table (Table 11) where two variables are matched: the first one is *Size*, which may assume two values, either small or medium; while the second one is *International activities*, that may be divided in only export, only FDI, only JV, export and JV, JV and FDI, export and FDI, all three modes.

Table 11 Contingency table: firms' size and internationalization types

			Size		
			Small	Medium	Total
International activities	Only export	Count	28	22	50
		% in International activities	54,80%	45,20%	100,00%
		% in Size_Small_Medium	22,10%	23,80%	22,80%
	Only JV	Count	1	3	4
		% in International activities	25,00%	75,00%	100,00%
		% in Size_Small_Medium	1,00%	3,80%	2,20%
	Only FDI	Count	6	4	10
		% in International activities	60,00%	40,00%	100,00%
		% in Size_Small_Medium	5,80%	5,00%	5,40%
	Export and JV	Count	18	11	29
		% in International activities	62,10%	37,90%	100,00%
		% in Size_Small_Medium	17,30%	13,80%	15,80%
	JV and FDI	Count	2	2	4
		% in International activities	50,00%	50,00%	100,00%
		% in Size_Small_Medium	1,90%	2,50%	2,20%
	Export and FDI	Count	49	35	84
		% in International activities	58,30%	41,70%	100,00%
		% in Size_Small_Medium	**47,10%**	43,80%	45,70%
	ALL	Count	5	6	11
		% in International activities	45,50%	54,50%	100,00%
		% in Size_Small_Medium	4,80%	7,50%	6,00%
	Total	Count	104	80	184
		% in International activities	56,50%	43,50%	100,00%
		% in Size_Small_Medium	100,00%	100,00%	100,00%

In opposition to what literature suggests (e.g. Kuo and Li, 2003), our sample is made up by a high number of international committed small firms. In fact, the most surprising and interesting data is represented by 47% of small firms which make both export and foreign direct investment, meaning that they do not only practice softer forms of internationalization, typically easier and less costly, but they are also involved in harder forms of investments.

This interesting data is followed by another one that on the contrary is in line with the literature, in fact 22% of small firms only export abroad. Rarer, but still present, is the appeal to joint ventures. They represent interesting forms for smaller firms because based on sharing of both risks and benefits with the partner. For what concerns medium sized firms, it seems that they follow the same choices of small ones. In other words, also in this case we find a high percentage of 44% making both export and FDI, followed by 24% which make export only. Among medium firms, the use of joint venture is a little bit more spread, but still low if compared to the other two forms.

Thus, by looking at these numbers, it seems that small and medium firms behave in the same way when dealing with internationalization activities, and so, small firms are as able as the medium ones to use harder forms to be invest abroad.
But, ‘is there any association between size and a particular form of internationalization?’. The contingency table has demonstrated that regardless of size, enterprises use any kind of form to go abroad. To be more precise, we have conducted the chi-squared analysis (Table 12), which has confirmed the idea for which there is no an association between being a small or a medium firm and investing through a particular activity.

*Table 12 Chi-squared analysis: Size*International activity*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	2,812a	6	0,832
Likelihood ratio	2,833	6	0,829
Linear by linear association	0,061	1	0,805
N of valid cases	184		

So, we might conclude by affirming that from our samples’ analysis it emerges there are not significant differences between small and medium sized companies in terms of international engagement. Put it differently, the choice to undertake a particular type of internationalization activity is not related to the size issue.

3.7.2.2 Sectors and modes association

‘Is there a tendency to make joint ventures or foreign direct investments only in some sectors?’, ‘is there an association between sectors and modes of internationalization?’; these two questions represent the starting point of this analysis focused on sectors and modes.
In order to better display results coming from our analysis, we have developed a table (in Appendix, Table 36) with two entries, one for the modes of internationalization, and one for the sectors of belonging.
From the contingency table we can notice that the alternative called “only JV” is almost never adopted by enterprises, meaning that it is the least preferred alternative, together with the one referring to the use of JV and foreign direct investments without exporting. This negative approach is consistent with the analysis made above and with the idea that even if able to overcome constraints, small and medium enterprises in any sectors always feel the need to export, both for strategical and financial reasons.
However, it is possible to identify some outsiders, i.e. some peaks in terms of modes’ frequencies which are more underlined in certain industries.

In relation to the export, the sectors with the highest frequency is the machineries manufacturing one. This result is particularly easy to comprehend, given the fact that in this sector firms are called to produce in order to supply to other companies, so it is mainly a B2B sector. Moreover, this kind of production represents one of the "4 F's" of the "made in Italy", meaning that foreign companies are particular interested in getting what Italian ones produce[76]. The EU commission (2018) has also defined this sector as one among the highest export intensity industries, and this confirms our results. The export and FDI activities together represent the most frequent ones for five sectors out of eight. From a sectorial point of view, the wholesale trade is the one with the highest percentage in connection to the use of these two activities combination, followed by all the manufacturing industries, i.e. machineries, metal items and (non) electrical components. A different approach is the one used by software production sector. This one is the most committed industry in terms of foreign direct investments. Firms seem low interested in exporting, but they are focused on being present in other countries. For instance, we can think about subsidiaries in America, and the advantage in terms of knowledge acquisition that Italian companies might get. After this overview, we have gone deeper through the calculation of the chi-squared analysis, reported in Table 13.

*Table 13 Chi-squared analysis-Sectors*International activities*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	61,174a	42	0,028
Likelihood ratio	44,15	42	0,381
Linear by linear association	4,933	1	0,026
N of valid cases	191		

a.50 cells (89.3%) have an expected count lower than 5. The minimum expected count is, 04

The p-value is very low, indicating a very high association, but the warning message reported under the table makes us aware of a problem. In other words, since the contingency table contains 50 cells with a number lower than 5, it means that there is the risk for which the p-value is biased, and it could be due to chance alone. In order to solve this problem, we have decided to consider macro-categories of sectors, rather than more specific one. In particular, we have created four dummy variables, which may take either value 0 or 1: manufacturing, wholesale, information and communication services and others. The selection of these sectors, and the inclusion of the remaining ones under the "others" label, has been done by considering those sectors with the highest absolute frequencies in order not to obtain another warning

[76] Fortis, M. (2009)

message and so, another biased analysis. After the encoding process, chi-squared analysis has been performed for each combination between the three activities and the four macro sectors. From this analysis, three combinations out of nine have reported a significant value.
The first one, is the p-value associated to the manufacturing sector and the export activity, reported in Table 14.

*Table 14 Chi-squared analysis-Manufacturing sector*Export*

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-squared	13,33	1	0,000
Likelihood ratio	11,75	1	0,001
Linear by linear association	13,26	1	0,000
N of valid cases	191		

The p-value=0,000 suggests a really strong connection between the two variables, and so it is a very significant result. However, the only way to know which kind of association exists, it is the use of a logistic regression analysis, whose final output is summarized in Table 15. The encoding process has been reported in Appendix (Table 37).

*Table 15 Logistic regression-Manufacturing sector*Export*

	B	S.E.	Wald	df	Sig.	Exp(B)
manufacturing			11,61	1	0,001	
manufacturing (1)	**1,61**	0,47	11,61	1	0,001	4,98
Constant	1,07	0,32	11,15	1	0,001	2,92

The positive value of the coefficient B leads us to confirm the idea according to which SMEs belonging to the manufacturing sector have more chance to internationalize through export, than the other sectors.
Nevertheless, very different is the analysis concerning the association between the information and communication services sector and the export activity. Also, in this case the encoding process has been reported in Appendix (Table 38), while in this section we have decided to focus on the characteristics of the connected association, described in Table 16 and Table 17.

*Table 16 Chi-squared analysis-Information/Communication services sector*Export*

	Value	df	Asymp. Sig. (2-tailed)
Pearson Chi-Square	10,05	1	0,002
Likelihood Ratio	6,64	1	0,01
Linear-by-Linear Association	9,99	1	0,002
N of Valid Cases	191		

*Table 17 Logisitc regression-Information and communication services sector*Export*

	B	S.E.	Wald	df	Sig.	Exp(B)
info_e_com			7,71	1	0,005	
info_e_com (1)	**-1,99**	0,72	7,71	1	0,005	0,14
Constant	2,21	0,25	79,18	1	0	9,11

Differently from the manufacturing sector, the information and communication one has a negative association with the export activity (Table 17). We may affirm that enterprises operating in these sectors have a probability to export equal to 86% less than the others. This result might explain the reasons why, in terms of frequencies, this sector is the one showing the lowest number of presences.

The last significant association we have found is the one between export and all the other sectors, but given the heterogeneity of the enterprises under the “others” label, we might suppose that this finding is quite biased, and so we are not going to discuss it in the present dissertation

However, in the present analysis we have not found significant data which directly connect harder forms of internationalization to each sector.

3.8 The most relevant investment analysis

An overview on respondents’ international activities in terms of modes and geographical areas has been offered so far. However, we would like to propose a more sophisticated analysis, by looking at possible associations between the different geographical areas and the choice to go abroad through foreign direct investments.

‘Does deciding to invest in Europe, Asia, America, Africa or Oceania have any repercussions on the choice of entry modes?’; answering to this question implies the need to conduct a statistical analysis by using dichotomous variables. However, we first have created a set of contingency tables in SPSS, with the aim to better figure out the distributions of responses according to a geographical area and the presence or absence of foreign direct investments in it. A more intuitive and smaller version of the SPSS output is reported in Table 18.

*Table 18 Contingency table- FDI/JV and countries**

	JV	*FDI*	*Total*
UE	31	78	109
USA	14	41	55
Asia	13	30	43
America	14	20	34
China	8	15	23
Africa	9	8	17
Oceania	3	6	9
Total	92	198	290

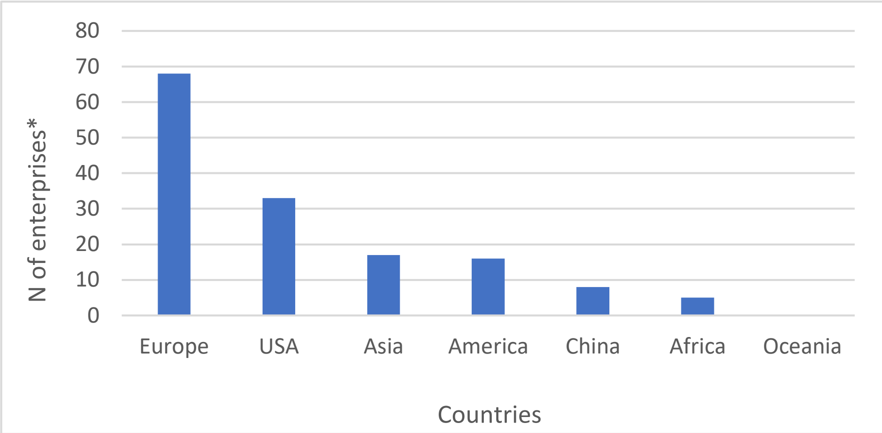
*****Listed numbers refer to how many enterprises have invested in the corresponding country through or not an FDI

From Table 18, we know that a certain number of enterprises has invested through FDIs (or JVs) and that the same number has also invested within a particular geographical area. By looking at numbers we notice a decreasing amount of FDIs passing from the first to the last listed country. Specifically, Europe and USA detain the highest number of FDIs. It is very interesting to notice that more than the double of companies has decided to invest in USA with respect to those which are present in other parts of America, and the same consideration has to be made for Asia and China. Apart from Europe, USA represents a very appealing market for Italian companies for different reasons: it is a very sophisticated market, where consumers are attracted by the "Made in Italy". Being physically present in the market allows Italian companies to defend themselves from an increasingly aggressive competition in the traditional leading sectors of the "Made in Italy" coming from Far East countries.

However, if we limit the analysis to the above table, the two considered variables are not logically linked. In other words, our respondents have only given us two different information: where they have invested and which type of investment they have undertaken. For instance, a generic company, e.g. "XY", might have affirmed to have both a JV and an FDI, and to be present in both Europe and America, but we do not know where its JV and FDI are; 'is the FDI an European or American investment?'.

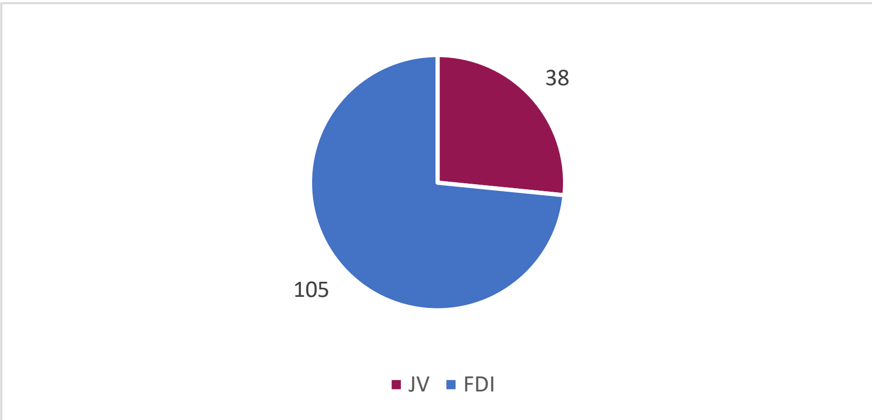
Thus, in order to have certain data, we have asked our respondents, amounting to 143, to focus on one investment only, either an FDI or a JV, which is considered the most relevant one in terms of capital commitment, and to select the area where it is. Responses concerning geographical areas are reported in Figure 23 while those about the choice between FDI-JV are in Figure 24.

Figure 23 Most relevant FDI/JV geographical area



*numbers indicate how many participants in absolute frequencies have invested through FDI/JV

Figure 24 Most relevant mode of investment-N of respondents



*numbers indicate how many participants in absolute frequencies have invested through FDI/JV

Therefore, based on this information we have performed the classical contingency table and a chi^2 analysis, by trying to comprehend if an association exists between the two variables, called *Rel_Area and Rel_Alt*, corresponding to the areas considered as relevant and to the choice between FDI or JV, i.e. the alternative considered as the relevant one.

*Table 19 Chi-squared analysis-Most relevant investment area*most relevant investment type*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	10,519[a]	5	.062
Likelihood ratio	9,97	5	.076
Linear by linear association	0,094	1	.759
N of valid cases	119		

The circled p-value indicates no association, because it is slightly higher than 0.05, meaning that the choice to invest in a certain area does not have an influence on the entry mode.

However, the set of data we are studying contains a sort of bias created by the variable *Europe*. Put it differently, the number of responses associated to Europe is too much higher if compared to those of other countries and we know that this kind of analysis in strictly linked to the numerousness of the sample. So, we have decided to exclude that participants that have chosen *Europe* as the area where to hold their most relevant investment. In this way, we have lost a part of our sample, but we have gained more statistically significant results, which allows to reflect on the way in which Italian firms invest abroad, when they move away from there "comfort zone", represented by Europe and decide to overcome the global gap trend.
Compared to outcomes shown before, in this case something has slightly changed, as demonstrated in Table 20.

*Table 20 Chi-squared analysis- Countries*Type of major investment*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	9,469[a]	4	.05
Likelihood ratio	9,347	4	.053
Linear by linear association	0,638	1	.0424
N of valid cases	73		

The low p-value indicates that an association between the types of investment considered as the most relevant one and the geographical area where it is. However, we still do not know which areas influence the entry mode choice, and how they do it.
To solve this problem, a logistic regression analysis has been conducted in SPSS on two variables called Rel_Area_NoEu and Rel_Alt_NoEu, and it is presented in Table 21.

*Table 21 Logistic Regression-Countries (excluding Europe) *Type of major investment*

	B	***S. E.***	***Wald***	***df***	***Sign.***	***Exp(B)***
Africa	-,118	1,190	,010	1	,921	,889
Asia	,134	,945	,020	1	,888	1,143
USA	**1,754**	**,888**	**3,902**	**1**	**,048**	**5,778**
Asia	1,386	,957	2,097	1	,148	4,000
Constant	-,288	,764	,142	1	,706	,750

From the logistic regression output, we notice that only the USA variable is significant, all the others are not. It means that, *ceteris paribus,* starting an internationalization process in USA increases the chance to use a foreign direct investment, given the positive value of the coefficient B. More specifically, if a firm wants to invest in the USA, the probability to make an investment through FDI increases by 477%[77]. This result confirms the preponderant role of

[77] Obtained through the following formula: (Exp(B)-1) *100

USA within the Italian SMEs internationalization scenario, already foreseen in our previous geographical analysis.

3.9 Factors influencing the internationalization process

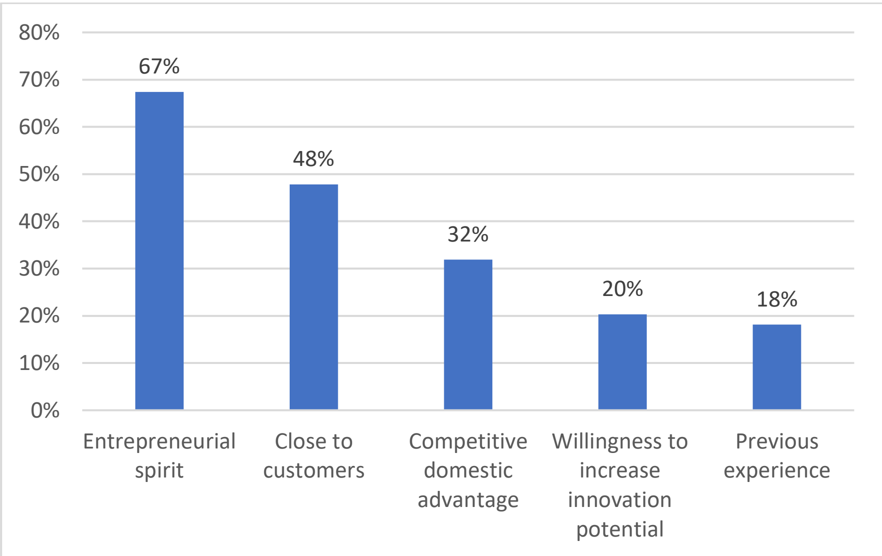
A general overview on the internationalization modes and geographical areas has been offered so far, but in this part, we would like to make a step forward by proposing another analysis based on the following question: ‘which factors and elements have covered the most significant role before and during the internationalization process through FDI or JV?’

On this question is founded our research which aims to understand if those elements, theoretically considered as fundamental for the internationalization process, find or not a confirmation in reality.

First of all, we have selected a set of factors that might have influenced the most enterprises during the process: the entrepreneurial spirit of the manager or founder, the accumulation of experience in internationalization processes, the possession of a domestic competitive advantage, the need to be close to customers and the willingness to increase innovation potential. In particular we have asked respondents to specify which of them have been considered as the most influenced factors.

By looking at responses, the results are shown in Figure 25.

Figure 25 Factors influencing the internationalization process



The entrepreneurial spirit of the manager or founder has been considered as the most relevant factor, in fact 67% (equal to 92 responses) of respondents has selected it. This result confirms the theoretical approach for which in a small or medium enterprise the human resources role is particularly crucial when dealing with an international experience. It has been defined as a crucial factor by not only small firms, but also by the medium ones. Specifically, 41% of respondents are medium firms, meaning that entrepreneurial spirit is a factor that does not lose its power when companies increase in size. However, very important, and more surprising, is also the idea of closeness to clients, with a percentage of 48% (equal to 65 responses).

Another interesting data is the low percentage attributed to the management experience. In other words, only 18% (equal to 24 responses) of respondents have affirmed that possessing experience has been an important factor. It is possible to offer two main explanations for this, the first one is the lack of experience itself, i.e. it is possible that the management team has never faced an internationalization experience, which might be connected to the fact that Italian companies are still a little adverse in committing seriously abroad,

Another explanation might lie in the fact that enterprises which constitute 18%, of those affirming the importance of experience, are enterprises which are present in more than one country. In some cases, these firms have invested in both Europe and another country, as affirmed in par. 3.7.1, so we can suppose that from a temporal point of view they first have accumulated experience in Europe, and then they have moved toward more distant countries.

This association between countries and importance of certain factors has been further analyzed. After having performed a series of chi-squared correlation in SPSS, it results that the only factor which demonstrate a kind of association with a geographical area is the closeness to clients in USA (Table 22). In fact, by only looking at frequencies reported in Table 22, we can notice that all enterprises that have invested in USA, except for 18, have all underline the importance of being close to clients, as confirmed in the contingency table.

Table 22 Association between who has (or not) invested in USA and who has (or not) invested to be close to customers

		No_USA	***USA***	***Total***
No_close_customers	Count	51	18	69
	% in Close_customers	74%	26%	100%
	% in USA	40%	25%	65%
Close_customers	Count	33	**28**	61
	% in Close_customers	54%	**46%**	100%
	% in USA	30%	**39%**	69%
Total		84	46	100%

Starting from this contingency table, we have adopted the Pearson chi-squared method to be sure about the association between the two variables: *Close_customers* and *USA*, represented in Table 23.

Table 23 Chi-squared analysis on who has (or not) invested in USA and who has (or not) invested to be close to customers

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-squared	5,560°	1	.018
Likelihood ratio	5,586	1	.019
Linear by linear association	5,517	1	.017
N of valid cases	73		

Because of the positive and significant p-value, we are sure about the fact that an association between the willingness to be close to customers and the choice of USA as destination exists. However, we wonder which kind of association it is, 'are the two variables positively related?' and 'how much one influences the occurrence of the other?'.

The only way to answer to these questions is the development of a logistic regression, where the variable "Close_customers" is the dependent one, and "USA" is the independent one.

The encoding process of the two variables is reported in Appendix (Table 40).

Final results of the logistic regression process developed in SPSS are reported in the following table.

Table 24 Logistic regression- who has (or not) invested in USA and who has (or not) invested to be close to customers

	B	*S.E.*	*Wald*	*df*	*Sig*	*Exp(B)*
USA			5,45	1	.020	
USA (1)	.88	.38	5,45	1	.020	2.40
Constant	-0,44	.22	3,8	1	0.51	.65

From the logistic regression output we notice that the value of B is positive, indicating a positive relationship between the two variables. Specifically, we can state that those who invest in USA are more likely to do it in order to be as close as possible to clients, with a probability of 140%. This model allows us to predict 6%[78] of difference between those which select USA and those which do not select USA.

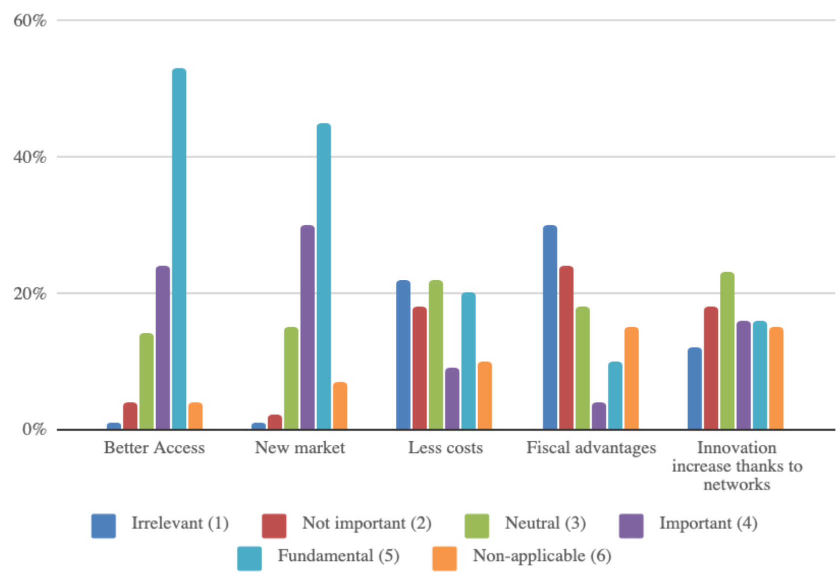
3.10 Investments reasons

One of the main topics concerning internationalization is the study of reasons why firms invest abroad. Particularly interesting is the case of small and medium enterprises, as affirmed by scholars such as Kuo and Li (2003), there are several reasons that push SMEs to invest abroad. Specifically, firms might be attracted by the willingness to look for lower labor costs, and so

[78] This percentage is the result of the logistic regression model summary. In particular, it is the Nagelkerke R square, which is essentially a pseudo R-square for logistic regression able to summarize the proportion of variance in the dependent variable associated with the predictor.

more convenient resources, by the creation of networks that might increase knowledge and potential for innovation or internationalization is the consequences of a series of strategic considerations (Kuo & Li, 2003). By bearing in mind these main clues, we have demanded to participants to indicate on a 6 points' Likert scale (where 6 represents a non-applicable reason) how much the following reasons have influenced on the decision to invest abroad: improving access in the foreign market, developing new markets, reducing operating costs, tax advantages, increasing the potential for innovation through the creation of networks with other companies. Responses have been reported into the following histogram (Figure 26).

Figure 26 The major investment reasons



Above results partially follow the general literature according to which SMEs internationalize for seeking reduction of costs. On the contrary, firms in our sample are more strategically oriented, meaning that their choice is strictly related to the possibility to get in touch with new markets and so to attract new customers or acquire particularly local-based capabilities.

However, the idea of increasing innovation through networks is a quite controversial topic, it seems that enterprises are really different on this aspects and responses are no homogeneous.

To further enrich the analysis, since respondents have given us information about their most relevant investment in terms of form (FDI or JV), our goal is to know more about the reasons that lead firms to make a foreign direct investment or to make a joint venture, 'is there any difference?'.

To answer this question, we have developed a series of analysis through the use of contingency tables and chi squared models by taking into account on one hand each reason, and the value attributed on the scale, and on the other hand the two modes. To conduct a more precise analysis, we have regrouped all the responses from 1 to 3, and 6, in a unique value "Not_important" and those from 4 to 5 in "Important". They represent the two possible values that each dummy reason may assume.

However, from the independency tests it emerges that there are not statistically significant differences in the reasons that lead firms to invest either through FDIs or to joint venture, as the following Table 25 demonstrates.

Table 25 Summary table of associations between reasons to invest and FDI or JV modes

Pearson Chi-square	Access_market * FDI/JV	New_Market * FDI/JV	Less_costs* FDI/JV	Fiscal_Adv* FDI/JV	Innovation* FDI/JV
Value	0,07	1,34	0,2	0,15	0,33
df	5	1	1	1	1
Asymp.Sign (2-tailed)	0,797	0,247	0,651	0,699	0,566

3.11 Internationalization as a sequential process

A recurring topic within the present dissertation is the idea of internationalization as a sequential process. As described in the first chapter, Johanson and Vahlne (1977, 2009) were the first to introduce this concept, by observing a series of Swedish companies' attitude according to which firms first invest through soft modes of internationalization, and then they further commit to the market by establishing a subsidiaries; i.e. they follow an establishment chain made of sequential steps. According to the authors, firms behave in this way aiming to get more knowledge of the new market and to consequently reduce the perceived and real risks, coming from an unknown environment, competition, culture and habits. Moreover, if in a first moment firms feel more assured in exploiting already existing capabilities, over time they acquire confidence and they are more willing to test and develop other capabilities.

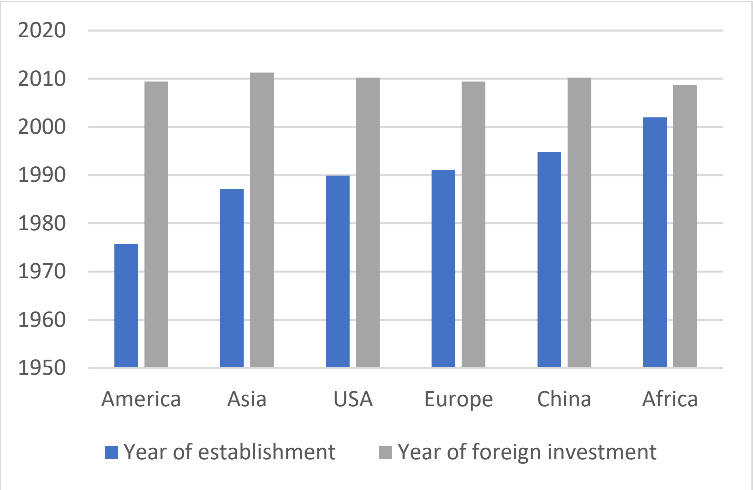
By following this classical and acclaimed theory, we have decided to investigate on our sample's enterprises and on the possibility, they have experienced this sort of process.

3.11.1 When firms have invested "seriously"

Before analyzing if and how small and medium enterprises change their foreign investment, we propose a brief reflection on the time that elapses between the establishment of the firm and the date in which firms have decide to seriously invest abroad. Specifically, we have decided to regroup firms according to the country in which they have internationalized, in order to understand if there are some differences (

Figure 27). So, we wonder if the more a country is distant, from a cultural and economic point of view, the more is the time firms need to evaluate the possibility to invest.

Figure 27 Time elapses between the firm establishment date and the foreign investment date



*Establishment/investment dates have been calculated as an average for each country group

Countries positioned on the left side of the graph are those whose time between the investment and the establishment date is higher than the ones on the right side. The years of establishment and of investment are calculated on an arithmetic mean.

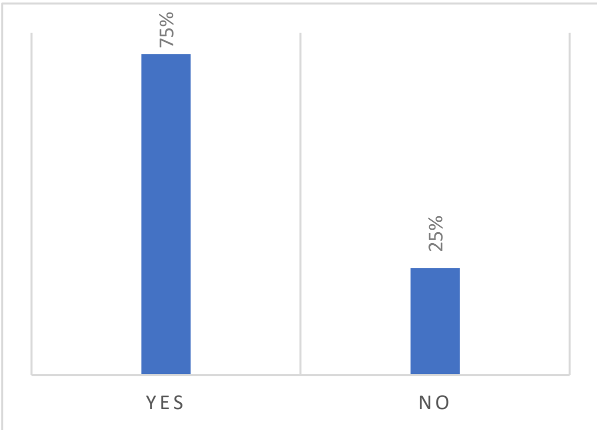
From the graph, it is possible to observe that regardless of the destination country, all firms have invested around the year 2010; so, immediately after the financial crisis that might have discouraged firms to undertake such investment. This data underlines the modernity of the phenomenon for small and medium enterprises. Furthermore, by looking at the graph, it is possible to notice that firms which have invested in America (except USA) and Asia (except China) are those which have the more distant establishment date, but they have invested abroad in recent years. By retrieving data from our previous analysis, we know that those who have invested in America are divided almost equally in the use of JV or FDI, while for enterprises in Asia, we notice that 75% have invested trough a foreign direct investment. So, the relevant amount of time (34 years in the case of America and 24 for China) is justifiable by a series of factors, such as the accumulation of required capital, that as literature suggests it is a quite difficult issue for enterprises, the time firms need to study and understand the new market, with or not the use of exporting. In fact, the use of exporting before investing, is a quite common practice, and it is possible to match the concept of time waited before invested with the one for which that time has been used for starting a softer mode of internationalization and “taste” the market (Conconi, Sapir & Zanardi,2016) .

3.11.2 Exporting before investing “seriously”

First of all, we would like to understand if a sequencing rule exists, and if before investing “seriously” small and medium firms decide to make export. According to previous studies, such as the one of Conconi, Sapir and Zanardi (2016), the only way to really get knowledge about a foreign market is to operate there, and the mode which allows to do it with lower fixed costs is export. Following this approach, we have asked respondents if, before investing seriously, they had "tested" the market by exporting.

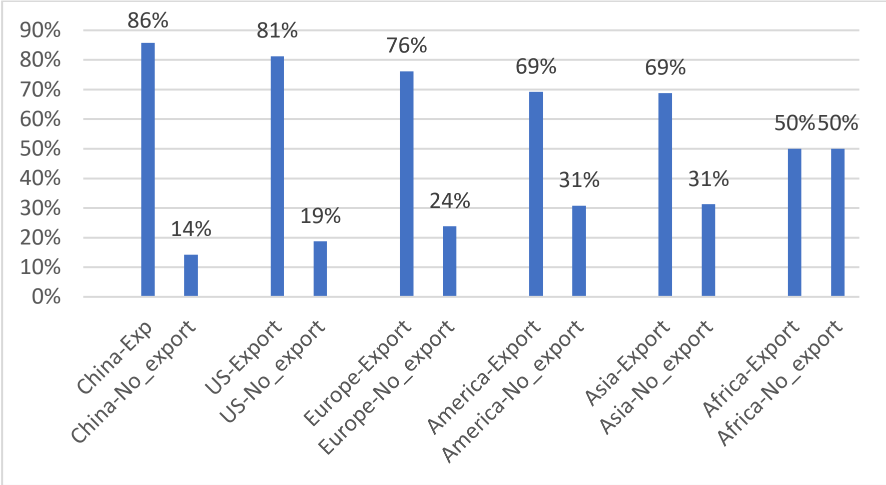
According to our questionnaire responses, a 75% of enterprises have made export before investing through a foreign direct investment or a joint venture, as shown in Figure 28.

Figure 28 % of enterprises that have/have not exported before investing seriously



However, even if on this issue responses seem to agree, we should observe that their investments are very different in terms of geographical areas. So, we can look at the dichotomous variable *Export_before* (Yes|No) in relation to each geographical area considered so far.

*Figure 29 Export/No export before*Countries*



As we can notice from the graph above, in all countries, except for Africa, enterprise have decided to first export, and then to invest seriously. Particularly high are the percentages of firms that both in China and in the USA have practiced export before other forms. The reasons behind there results might be a lot. When dealing with China, Italian enterprises face for sure a cultural gap. Moreover, it represents a very big country, full of internal discrepancies which require a deep knowledge of territorial specificities[79] . In this complexity we can find the reasons why SMEs decide to test the market before entering trough a higher fixed capital investment. As complex as the Chinese market, the Unites States represent a coveted area where to internationalize, but it is a not easy market, given the high level of competition coming from American multinational corporations.

Based on the frequencies shown by the graph, we have listed, in a contingency table (Table 26), all the absolute frequencies connected to both each country and to the possibility to have made or not export before investing.

*Table 26 Frequencies table- Export/No export before*Countries*

	Export	*No export*	*Total*
Europe	32	10	42
Africa	2	2	4
America	9	4	13
USA	26	6	32
Asia	11	5	16
China	6	1	7
	86	28	114*

*114 is the number of responses we got from the *Export before* analysis, meaning that part of our sample has decided not to disclose this information

[79] Fondazione Italia Cina, *Indicatore di attrattività delle province cinesi.* Available at <https://www.fondazioneitaliacina.it/m/cesif/ciba/>.

From this table, the chi-squared test has been performed. As expected, the resulting p-value is equal to 0.76, so it is a very high p-value. It is an expected result because even just looking at the previous table and histogram, it would be clear how the choice to export before is a very common one regardless of the destination country.

This analysis leads us to reflect on the fact that from a static point of view, export and foreign direct investments (or JVs) may be considered as substitute forms of internationalization, but if over time a more dynamic vision is assumed, we might appreciate how the two forms may be complementary to each other. In fact, the knowledge acquired through export might lead companies to further commit to the market, as our sample of SMEs has done.

3.11.3 Changes in investment forms

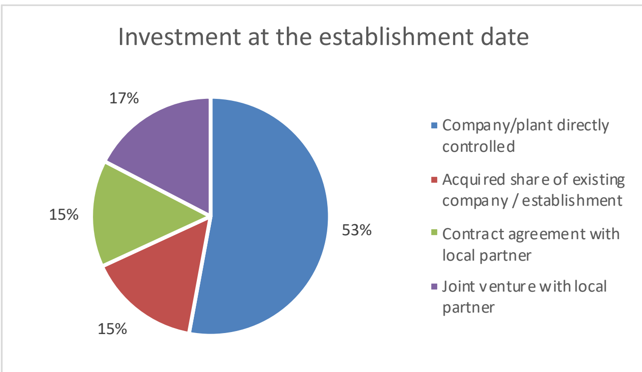
By keeping the idea of internationalization as an evolutionary process, our analysis has shifted the attention on possible evolution of the foreign investment. Therefore, after having analyzed if, before deciding to enter into a foreign market, firms have had an "export period", we now are interested in understanding if the kind of investment made at the establishment date is different from the one each enterprise detains now. If internationalization is an evolutionary process, we expect that within our sample certain enterprises have modified the initial investment in favor of a form which entails a higher level of commitment.

So, through the use of a multiple-choice question, we have asked participants to define how their most relevant investment looked like in the establishment date, and how it appears now.

The available responses to choose were the following: company/plant directly controlled, contract agreement with local partner, acquired share of existing company / establishment and joint venture with a local partner.

In a first moment, firms have indicated the form of their investment at the establishment date and all the answers are graphically shown in Figure 30.

Figure 30 Investments- Establishment date



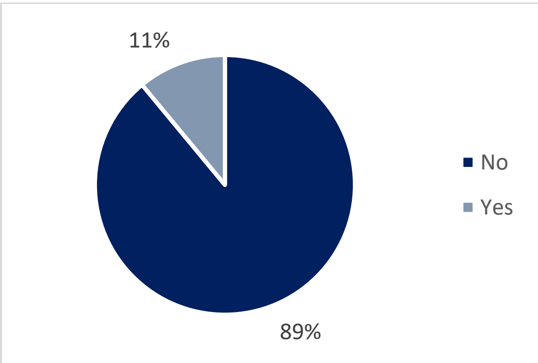
In more than the half of the cases, at the establishment date firms had invested straightforwardly into a company or plant directly controlled (or also called greenfield), which certainty represents the form with the highest level of commitment, because firms are called to create something from scratch. However, from the previous analysis on export levels, we know that probably companies feel ready to make such a relevant investment because of the knowledge acquired from the export activity. Accordingly, among the cited 53% of companies, 80% was already present in the market in the export form.

The other three forms are almost equally distributed with a level of percentage that goes from 15% to 17%.

But, 'from the establishment date until now, is the investment different?'. The most common response has been a negative one, in fact the majority of firms (89%) has affirmed to have kept the investment as it looked at the establishment date, as shown in Figure 31 How many companies have changed their investment form The main reason behind this choice might be found that by looking at the establishment dates, the foreign investments are all quite recent, born after the year 2000. Thus, we assume that firms are still assessing their first investment before considering further modifications.

Concerning those firms which have changed their investment form (amounting to 11%), in all cases, except for one, firms have substituted their first investment into another one which entails a higher level of commitment.

Figure 31 How many companies have changed their investment form



To better understand the evolution of each group of investments, graphical representations have been developed in Figure 32.

Figure 32 How different kinds of investments evolve over time

a) Focus on company/plant directly controlled

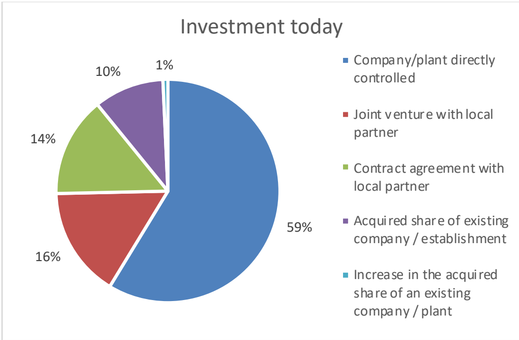
b) Focus on share of existing company/establishment

c) Focus on contract agreement with local partner

d) Focus on joint venture with local partner

So, by taking into account each investment evolution, a unique summary chart of how they appear today is represented in the following Figure 33.

Figure 33 Investments-Today



On one side, the main differences between Figure 30 and Figure 33 is the percentage connected to the number of investments in the form of company or plant directly controlled and the new percentage related to the increase in the owned share. The mentioned difference is a positive one, meaning that it reflects the choice of some enterprises to modify their investment. Since a greenfield investment represents the highest level of commitment form, it implies that those companies have not only decided to change, but to change in favor of a "more serious" form. This evolution confirms the intuition according to which over time, small and medium firms understand foreign market dynamics and acquire the right confidence to further commit toward it.

On the other side, we notice that the percentage connected to the number of joint ventures decreases; in favor of the acquisition of a plant directly controlled. Nevertheless, among firms which have invested in a joint venture, there are some firms (amounting to 17%) that have not modified the typology, but their commitment has increased in a different way. In other words, the evolution in the investment lies in the fact that the detained joint venture share has improved. Also, in this case the idea of a positive evolution is confirmed.

3.11.4 Reasons to keep the investment over time

In par. 3.10, we have presented a brief excursus over the reasons why enterprises have decided to invest abroad, and in particular, how much every reason is considered important by the companies on a scale from 1 to 5. Nevertheless, in this part of the dissertation we are trying to look at internationalization as a sequential process, and so as a dynamic phenomenon that calls both small and medium enterprises to evolve and further commit over time.

In this sense, we would like to match these two aspects into a unique analysis, aiming to look at possible changes in the reasons why firms detain their foreign investment, i.e. if the reasons that have led firms to go abroad have the same relevance today.

In order to do so, we have collected responses about the level of importance which firms attribute to the same reasons listed before, but in respect of today's company situation. Results demonstrate that 75% of our sample's firms declares to have changed the reasons why it detains the foreign unit, or better, certain reasons, related to the possession of the foreign unit, have gained or lost relevance in 75% of cases. Very interesting is the fact that within those companies whose reasons have changed, we have found the ones which have also changed their investment form; by confirming the idea for which the evolution of an investment is accompanies by an evolution in reasons and vice versa.

A comparison between the date of establishment and today's reasons has been created and displayed in Table 27a and Table 27b.

Table 27 Establishment date versus today reasons

	Irrelevant	***Not important***	***Neutral***	***Important***	***Fundamental***	***Not Applicable***
Better access	1%	4%	14%	24%	**53%**	4%
New Market	1%	2%	**15%**	30%	**45%**	7%
Less Costs	22%	18%	22%	9%	20%	10%
Fiscal advantages	30%	24%	18%	4%	10%	15%
Network Innovation	13%	18%	**23%**	16%	16%	14%

a) establishment date

	Irrelevant	***Not important***	***Neutral***	***Important***	***Fundamental***	***Not Applicable***
Better access	2%	6%	14%	20%	**45%**	5%
New Market	2%	7%	**24%**	26%	**32%**	9%
Less Costs	22%	23%	21%	9%	20%	12%
Fiscal advantage	31%	23%	16%	5%	9%	15%
Network Innovation	14%	11%	**35%**	15%	13%	11%

b) today

*Percentage in bold indicate particularly high changes in the way in which that reason has been considered by respondents

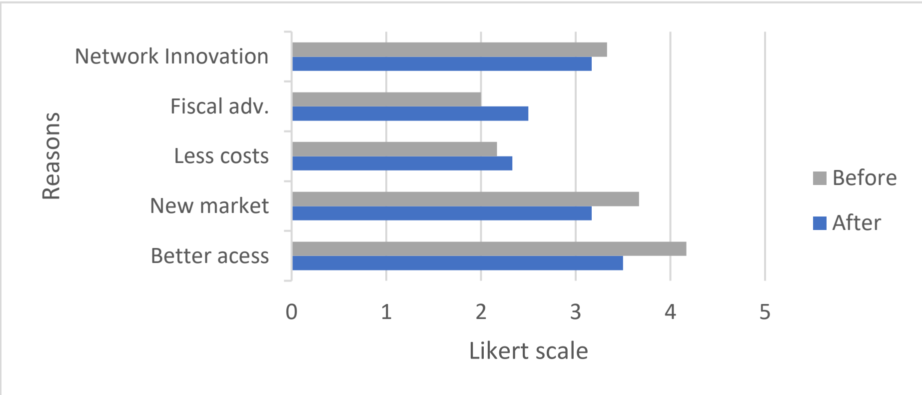
Therefore, it is noticeable that the first two reasons. i.e. the possibility to have a better access and to enter into a new market, have decreased their "fundamental percentage" in favor of a more neutral approach. This change is quite reasonable if we think that the access to a market might be though as a first reason to invest, but once entered other strategical approach becomes even more important. Accordingly, this is the case of the potential for innovation increase thanks to the use of local networks. This change in percentage has a strategic relevance and it confirms what was only theoretically introduced in the previous section. In other words, this importance increase connected to the network and its benefits is the main consequence of a natural process coming from the interaction of more enterprises. As Johanson and Mattson (1987) have affirmed. Networks are the natural result of market dynamic, and their importance comes from the chance to pool resources and benefit from the resulting synergies (Chetty & Holm, 2000).

3.11.5 Association between reasons and type evolution

In the previous paragraphs of this chapter, we have offered an overview on the way in which investments evolve over time in favor of more "committed" forms, and at the same time, we have examined which have been the reasons leading to internationalize together with those that are now important for keeping the foreign investment. However, the two concepts have been retained separated so far, while here we would like to understand how reasons and investments evolve together. So, we wonder if enterprises, which have internationalized for a reason, have then changed their investment and have found new reasons to stay in that country. Therefore, to perform this analysis, each type of initial investment has been examined together with each possible reason, that in turn, it has been considered by taking into account the arithmetic mean coming from the five points' Likert scale.

The first kind of enterprises we have looked at are those which have acquired a share of an already existing company, and then they have increased their commitment through a directly controlled business or a joint venture. By taking into account this evolution, we have examined the way in which firms have ranked the different proposed reasons, both before and after the evolution. A graphical representation is offered below in Figure 34.

Figure 34 From share acquisition to a more committed form: how reasons change before and after the investment evolution



This group of firms[80] has been pushed to invest mainly by strategic reasons, i.e. at the entrance date, their first objectives were the possibility to access to a new foreign market or to better fit in a foreign market. However, once the investment has changed into a new form, these reasons have lost importance, and have left space to other reasons such as the fiscal advantages and the importance of costs reduction. In other words, it seems that over time firms have determined their market position and have moved their focus on other aspects. Specifically, the reduction of costs might be connected to the choice of not exporting anymore, but to use the foreign

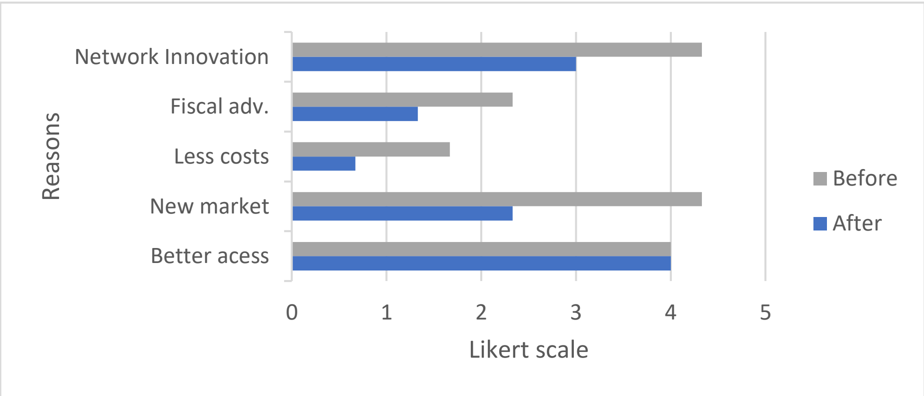
[80] Which have previously invested in an already existing company

establishment to produce on spot and to avoid typical import tariffs imposed by countries government. At the same time, fiscal advantages might derive from the possibility to benefit of local tax policies. As theoretically introduced in the first part of the present thesis (par. 1.2.1) governments are keen to attract FDIs, because of all benefits they can bring to the foreign market, and consequently, they constantly try to re-view tax policies to be as attractive as possible to other investors.

Very interesting to notice is that among this group of firms there are two enterprises which belong to that 25% of companies that have not exported before investing seriously. Since they are the only two companies (among the non-export group) to have changed the first investment form, we have decided to look at them more carefully. Specifically, we have noticed that differently from the others, these two firms have ranked the "improvement of innovation through network" as the most important reason. This choice is not random, but it is linked to the fact that they are not strategically interested to the market, i.e. the possibility to enlarge clients' bundle, but their internationalization scope is linked to the idea of innovation improvement through the share of knowledge.

For the second investment group (i.e. the one containing all firms that have first invested through the use of a contractual agreement, and then they have committed to the market by creating either a JV or a directly controlled society) we have performed the same kind of analysis and results are summarized below (Figure 35).

Figure 35 From contractual agreement to a more committed form: how reasons change before and after the investment evolution

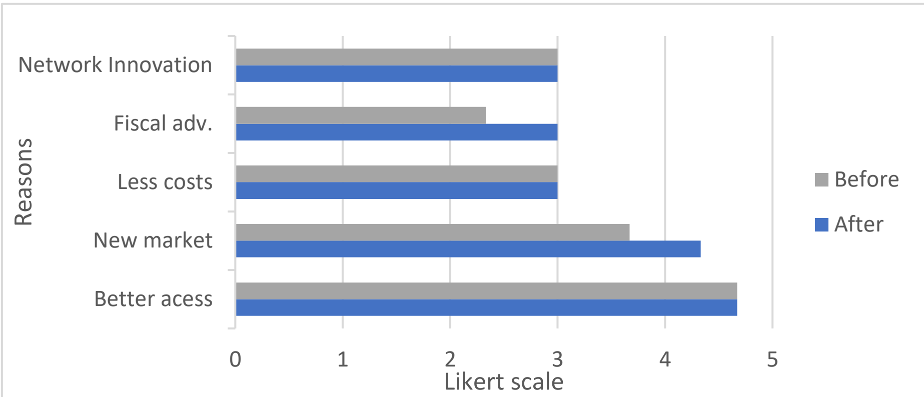


As shown, the most relevant reason at the investment date was the possibility to get access to new market together with the innovation improvement. Differently from what discussed for the previous group, in this one the importance of fiscal and costs advantages has been reduced over time. This group of firms have followed a really sequential path where their main scope, kept equal over time, is the improvement of access within the foreign market, In fact, they have first exported (par. 3.11.2), then they have make a contractual agreement and finally they have established into the foreign country. This slow and well followed path has for sure gave them the possibility to understand market dynamics, and so to pursue a commercial strategy aiming to expand their goal market.

In this group, the only outsider is a company that has left the contractual agreement form in favor of a joint venture, and not a directly controlled society. Differently from the others, the only reason for keeping the investment in the new form is the possibility to better access to market.

The third group to consider is the one composed by SMEs that have first invested in a joint venture and then they have changed it into a directly controlled firm, without partner, and in acquisition of shares in an existing company. Their evolution in terms of reasons is reported in Figure 36.

Figure 36 From joint venture to another form: how reasons change before and after the investment evolution

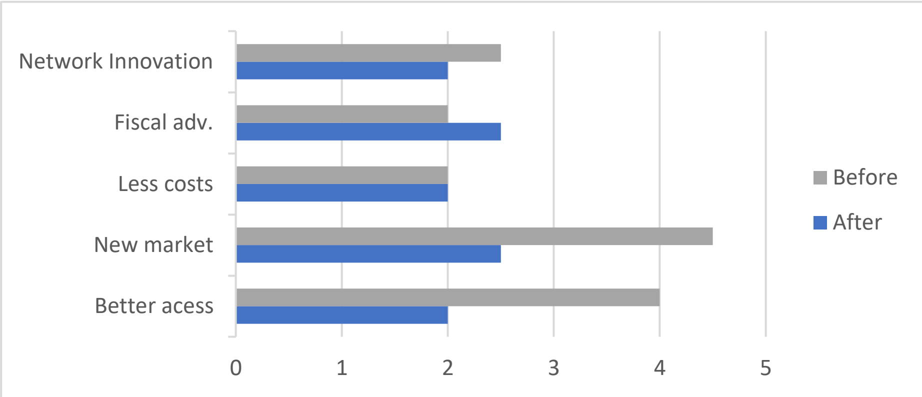


In this case, an evolution in reasons relevance is not as evident as in the other groups. However, as happened for the first group, once the firm decides to keep the investment and to further commit, it starts exploiting fiscal advantages it may benefit.

All the other reasons are kept quite stable, and this might be due to the fact that the first investment, i.e. joint venture, is considered at a high level of commitment *per se*, and so when firms change, the only thing they lose is the partnership, that until that moment has allowed them to better exploit market and share initial risks.

Finally, the last group to consider is the one composed by firms which have first invested in a directly controlled establishment and then they have changed form (Figure 37). However, this small group is the only exception in terms of reduction of commitment.

Figure 37 From directly controlled establishment to another form: how reasons change before and after the investment evolution



3.11.5.1 Statistical analysis

After having analyzed data, we have performed a statistical analysis in SPSS with the aim of understanding if different types of investments and their related reasons are statistically dependent or not. To do so, we have considered each reason and transformed it into a dummy variable, which may take two values, either 0 or 1. The first one indicates that the connected reason has been considered as not important by the respondents, i.e. it has been ranked either 0, 1 or 6. The second one indicates that the reason has been evaluated as important, and so respondents have assigned to it a value of 3, 4 or 5.

From the chi-squared analysis, it has emerged that the only significant p-value is the one coming from the association between the increase of innovation potential, as reason, and the use of a directly controlled society, as type of investment. The resulted p-value is reported in the following table.

*Table 28 Chi-square analysis-Network innovation*Directly controlled establishment*

	Value	***df***	***Asymp. Sig. (2-sided)***
Pearson chi-squared	8,94	3	0,03
Likelihood ratio	9,1	3	0,028
Linear by linear association	7,31	1	0,007
N of valid cases	133		

To know which kind of association it is, we have to perform logistic regression, which starts with the encoding process reported in Appendix (Table 41). The independent variable is the

network innovation increase reason, while the dependent one is the choice of a directly controlled establishment as type of investment.
The final output is summarized in Table 29.

*Table 29 Logistic regression-Network innovation*Directly controlled establishment*

	B	S. E.	Wald	df	Sign.	Exp(B)
Network innovation			8,58	1	0,003	
Network innovation (1)	-1,07	0,37	8,58	1	0,003	0,34
Constant	0,72	0,28	6,61	1	0,135	2,05

The negative coefficient suggests the presence of a negative relationship. So, we can state that if a firm is willing to increase its innovation potential through the use of networks, it is less likely to use a directly controlled firm, and more likely to use either a joint venture, a contractual agreement with a local partner or the acquisition of share in an already existing company.
This result is justifiable by the fact that a directly controlled firm is the only type that does not involve a sharing with other firms, either a partner or a contractual subject.
So, without sharing of knowledge, information and know how, firms are not able to develop their potential.

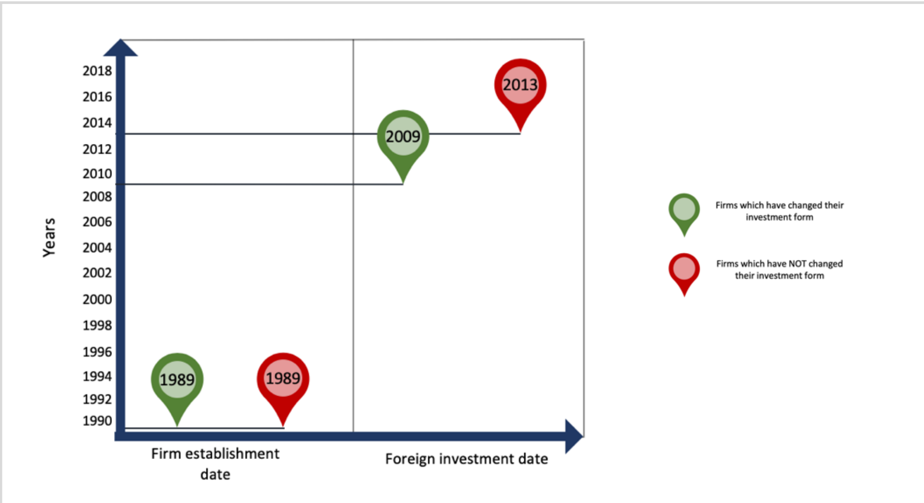
3.11.6 Time and geographical factor

In the first part of the analysis concerning the idea of internationalization as a process, we have examined after how much time, on average, firms decide to invest abroad by taking into account each possible destination country. It has emerged that those firms willing to invest in certain countries, such as America and Asia, they have waited more than those which have chosen Europe and Africa as destinations. Moreover, all investments have been carried out, on average, around the year 2010.
Nevertheless, we would like to further discuss this issue by making a temporal analysis able to compare firms which have invested abroad and have also changed investment form, and those which have never modified the original form.
This analysis may allow us to understand if the choice to do not modify the investment is related to a temporal factor or not, i.e. if the foreign unit is too recent to be modified, and the parent firm is waiting for a future change.
Thus, we have decided to conduct an investigation to see, on average, in which year companies, whose investment form has been modified, were born and invested abroad. The same has been done for those that did not modify foreign unit form.

It is important to underline that for this examination we have not included firms whose foreign unit was already a controlled company at the investment date, because we only want to focus on firms which have (or have not) increase their commitment, that is not observable in cases of high commitment level.

Results are represented in Figure 38.

Figure 38 Time differences between firms which have changed their investment and those which have not



On average, both groups of firms have been established around 1989, which essentially confirms what we have discussed in par. 3.11.1.

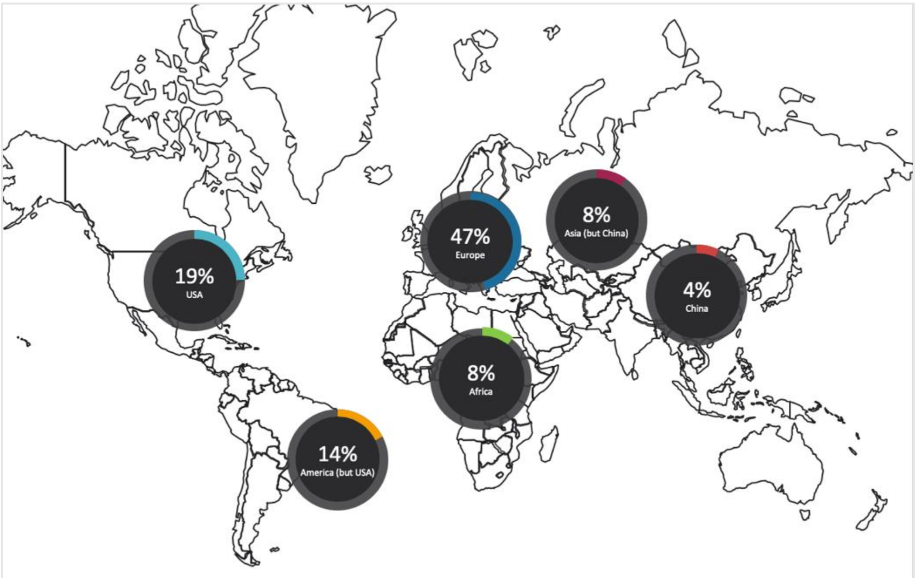
Differences arise when the attention is moved to the right part of the graph, i.e. to the date in which firms have invested abroad through the use of internationalization forms, entailing a high level of commitment. Foreign investments, whose form has been modified, are those which have been established earlier, with respect to those whose form has never changed.

From a temporal point of view, and by taking into account an average analysis, modified investments have been founded around 2009, while the others around 2013.

This time frame of about four years is what distinguishes the two groups of firms, and its implications are what we wonder about. We believe that the decision of not changing the type of investment is strictly related to two factors: time and geographical area. We suppose that once the investment is made, firms need time to change. By investing earlier, a group of firms has had enough time to know the market and then to change; conversely the other group has invested after, and maybe it is now considering how and if it is willing to change the foreign unit.

Second, by looking at geographical areas we notice that 47% of foreign investments whose form has not changed are located Europe, as shown in Figure 39.

Figure 39 Foreign investments whose form has not changed-Geographical area



Thus, the high percentage connected to Europe leads us to reflect on the fact that probably, at the European foreign unit establishment date, the Italian parent firm was more aware of this country's market dynamics, regulations and government requirements, and given its knowledge, it has invested in a form which it has considered as the right one form the beginning. While, all the other countries are more distant from both a geographical and cultural point of view and according to Figure 27, firms may wait until 34 years before investing in certain foreign countries. Since we are dealing with small and medium firms, that have to carefully ponder investments' decisions, we might suppose that changing a distant investment after this time frame is not an easy decision, firms in these countries may need more time to understand if committing to the market is the right choice. In our idea, these firms are now still wondering if keeping the investment as it is or not, and this kind of analysis might show different results if conducted in four years.

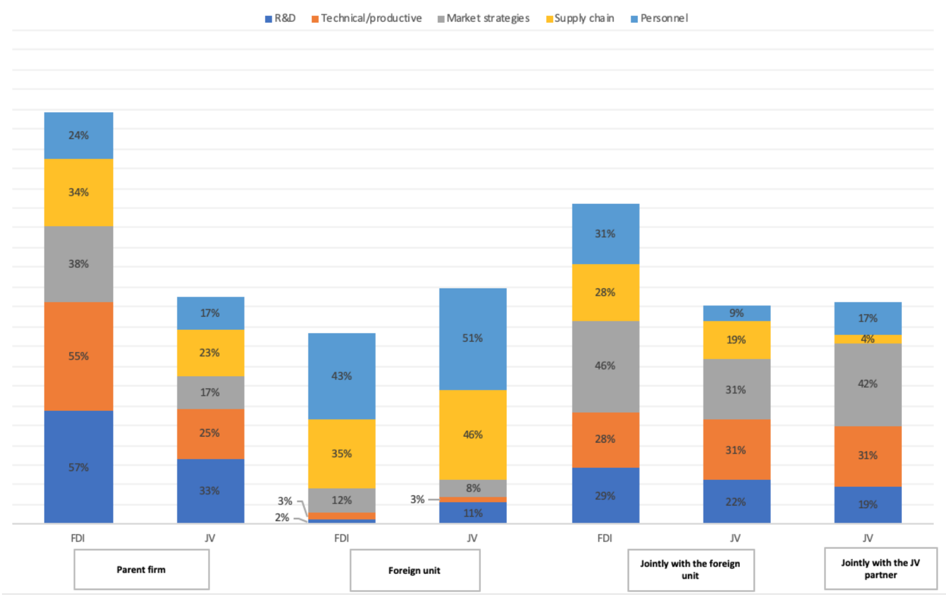
3.12 How major decisions are taken

At the end of the previous chapter, we have examined different literature points of view regarding the way in which, once invested abroad, firms manage their foreign units, by taking into account possible agency costs coming from information asymmetries and the fact that a certain level of autonomy allows foreign units to better perform.

Therefore, through the use of our questionnaire, we have asked respondents to describe how decisions, that involve both the parent and the foreign subsidiaries, are taken. We wonder if parent firms are more or less inclined to leave foreign units independent, or if they try to keep the control.

To perform this analysis, we have categorized decisions in different macro-groups which are: technical / productive investments, R&D, strategic market decisions, personnel management and supply chain management. While, for the possible responses, we have supposed that decisions might be taken either only by the parent company, or jointly with the foreign subsidiary or by the foreign subsidiary which is independent. In case of a joint venture, what changes is the fact that decisions might be taken jointly with the partner, or it is the partner that decides given its majority ownership, while the considered firm detains the minority and it does not have decision power over the venture. Final results have been regrouped in the following graph (Figure 40) with the aim of examining if firms change their decisions process perspective according to the different proposed areas. Moreover, each graph takes into account eventual discrepancies between firms that have invested into a JV or into an FDI.

Figure 40 How decisions are taken according to different business areas



As it is possible to notice, the way in which firms take decisions really depends on the decision itself.

Specifically, it is possible to observe that choices related to technical/productive investment and those regarding R&D follow the same path when firms investing in FDIs are considered. In other words, both areas of decisions are particularly connected to the role of the parent company, that assumes the whole control for half part of the sample (55% and 57% respectively).

This result confirms the literature hypothesis according to which decisions that imply high level of capital expenditure and knowledge transfer are typically controlled by the parent firm

(Gupte, Sen & Paranjape, 2013), where the foreign unit is seen as a part of it, even if in opposition with the R&D results found out by Chen and Zheng (2018).
However, a part of our sample has also declared that these two kinds of decisions are not applicable. These firms are mainly manufacturing firms, that have internationalized for commercial reasons only, so their aim is not to innovate in the foreign country, but to enlarge their bundle of clients and market.
A similar path is followed by firms which have invested into a new joint venture. In this case, technical and productive decisions are taken either by both partners of the joint venture or by the considered parent firm, which in this case may detain the majority. However, if R&D decisions are considered, our firms have declared to be the decision makers. This result is more in line with the one found for the other group (FDI), and in the case of a JV, we may suppose that the considered enterprise is the one detaining either more expertise or a larger quota within the investment.
So, these considerations allow us to reflect on the possibility that reasons and decisions process are associated, and on the fact that the importance of the foreign unit has an impact on the way in which the parent firm manages it. This concept recalls the one introduced by Chang and Taylor (1999).

Concerning the market strategies decisions, the situation is really different. In this case foreign unit assumes a more relevant role whether we consider joint venture or foreign direct investments. Nevertheless, in 46% of FDI cases parent and subsidiaries jointly take decisions, while in JV cases, even if this option accounts for 31% of responses, the most relevant one (42%) is connected to the jointly decision by the JV partners. Hence, the first percentage is justifiable because it is true that the foreign unit has more information about the market, but by leaving it the autonomy, there is the risk of agency costs increase; so, the best solution is a joint decision. The same reasoning is true for the other considered group, but in this case each firm is tied to a partner; we can think about two SMEs that bundle resources together to enter into a foreign market; both of them are looking for commercial benefits and market strategies become a relevant topic for both. In fact, no company has declared that this kind of decision is not relevant.

Finally, decisions concerning personnel and supply chain management might be examined together since they follow a similar path. By looking at firms with an FDI, the independence of the foreign subsidiary is the most common answer for both kinds of decisions.

However, the two areas take different paths when the second most used decision process is considered. Accordingly, in the case of personnel management, jointly decisions are more used than the “parent firm” option, while the contrary happens for the supply chain management.
In fact, personnel management decisions might comprehend both selection and organization of top managers and other employees, and so we might think that parent firm is more willing to decide for the first category issues, since managers are those able to deal with riskier choices (the so-called “staff control”).
While, for the supply chain management decisions, parent companies are more inclined to be independent. This result might be associated to the importance of keeping relationship with both suppliers and customers, that in certain cases is a really strategic decision, and it might be compared to the case of market strategies.
By moving the attention to the second group of companies, the most common answers are the same as those previously described. In both cases, the autonomy of the foreign unit is considered as a good strategy to follow when personnel and supply chain management decisions have to be taken. However, the second more used form in connection to the personnel management is a tie between the role of the majority parent and of the jointly decision with the other partner. We may suppose that also in this case differences may depend on the group of people firm is considering. Differently, for the supply chain management, firms in this group apply the same strategy described for the first group.

Thus, after having looked at these results, we might affirm that decision making process is complex issue that assumes different forms according to the issue. Generally, our sample has confirmed the typical literature, which is more focused on large MNEs. Therefore, small and medium enterprises in this sense seem to behave in accordance with larger firms, meaning that the idea of parent-subsidiary relationship does not depend on the size, but it is all about the reason’s firms detain a foreign unit, and the final performance it expects.

3.13 Discussion: SMEs rely on FDIs

The present chapter has offered an explorative research based on results coming from the use of an online questionnaire, addressed to a set of small and medium enterprises located in the North of Italy. Specifically, results and considerations made in this chapter are connected to the theoretical approach we have adopted in Chapter 1 and Chapter 2. For this reason, in order to better present main results, we would like to formulate a series of prepositions containing most relevant aspects coming from both theoretical and empirical parts.

-Smaller size does not necessary imply smaller foreign commitment- A more recent trend of scholars (Ruzzier et al. 2006; Kuo & Li, 2003; De Maeseneire & Claeys, 2012), has shed a light on a quieter, but increasing, phenomenon of small and medium firms that decide to invest aboard. By considering this trend, our analysis has revealed very interesting and unexpected results concerning the phenomenon of internationalization in connection to enterprises' sizes. Specifically, our results do not follow other previous findings (such as Muller *et al*. 2018) according to which the larger is the size the more likely is the use of foreign direct investments as internationalization form. On the contrary, from our sample, this size discrepancy has not emerged, rather, small firms seem really involved in both soft (export) and hard (FDIs) international activities. This data is very interesting if we consider that the general approach sustains the unfeasibility for smaller firms to rely on FDIs, while here small firms are even as engaged as the medium ones. The use of export for smaller firms does not seem to be a singularity, but it is a common practice that in 46% of cases guides and introduces firms toward more serious investments. Another interesting outcome deals with a more collaborative form, i.e. the joint venture, which results to be a less adopted typology of international investment.

Even if, from a theoretical point of view, the idea of collaboration between firms allows to overcome constraints, in practice, smaller firms might be more reluctant to start this kind of partnership, because it is difficult to manage and there are all the risks related to a lack of cooperation. It has emerged that firms prefer to expose themselves by investing alone.

Thus, we might conclude that the idea of a serious internationalization only related to large firms is outdated, in fact smaller firms demonstrate the same positive attitude toward this kind of investments. Certainty, underlined reasons and modalities might be different, given some unavoidable constraints.

-SMEs' organizational structures and sectors reveal international intentions- Another topic we have focused on it is related to the importance of looking at firms' structures. Our analysis suggests a particular positive relationship between the willingness to invest through an FDI and the use of a divisional structure, which is generally associated to the possibility of organizing firms according to specific geographical areas business units and to different final markets, as already demonstrated by Nicolay Worren (2014).

While, the idea that it exists an association between sectors and modes of internationalization has been confirmed by the present thesis. Specifically, the combined use of FDI and export seem to be particularly important for firms within the wholesale trade and manufacturing sector. Differently from what happened before, these findings are quite consistent with the general practice and knowledge concerning FDIs.

-SMEs' decision to invest abroad may require several years- When dealing with SMEs' internationalization, researchers seem more inclined to look at issues such as reasons, involved sectors, and obtained results. Less considered is the time factor, or better, this factor has been introduced for the first time by Johanson and Vahlne (1977) with their stage theory. But a less examined idea is the one concerning the amount of time which elapses between the moment in which SMEs have been established and the moment they have invested seriously abroad. From the explorative research, it has come out that our sample's firms have also waited more than thirty years before investing seriously abroad. In particular, from our study it has emerged that America and Asia, followed by United States, are the countries in which Italian firms have waited more before establishing a foreign unit. This result might not surprise if we consider that this kind of phenomenon is quite new, and smaller firms might be still reluctant in considering it. Nevertheless, investing in high-commitment internationalization forms is the final step of a process, that usually starts with a period of export.

-SMEs internationalization as a sequential process in terms of forms and reasons- Particularly interesting are the results concerning the idea of internationalization as a sequential steps approach. In the first chapter, we have presented two theories dealing with the idea of evolution of the investment and the increasing commitment toward a market: the Uppsala model and the "Gambler's earnings" theory.

The first one has given us the theoretical background for looking at internationalization as a process, while the second one has offered the right instruments to look at the phenomenon starting from the assumption that, after having obtained a sufficient return from the first investment, small and medium sized firms may prefer reinvesting into the same unit, rather than starting a new process. This idea has been confirmed by our analysis which has focused on the examination of how a single FDI or JV evolves over time. In particular, we have decided to investigate on the way in which small and medium firms change their foreign investment: 'is there an increase in commitment which is reflected in a different form?'. However, in our idea, the decision to change an investment form in favor of a more committed one is defined by a change in the reasons why firms detain that unit. This is the motive why we have performed a combined analysis of both form and reasons.

Nevertheless, before looking at results concerning the evolution of a single investment, we have dedicated a part to the examination of possible export activities before investing "seriously". The fact that firms may decide to first export and then to invest in other ways is a relevant information that adds validity to our hypothesis of a sequential model. In fact, 85% of our respondents confirmed that they had started exporting before investing. The fact that most of respondents has confirmed the export activity (before the investment) allows us to reflect also on the need of "testing" the market. This need is particularly strong for small and medium enterprises, whose associated risk is higher given their financial limitations. In fact, the destination country has not an influence on the choice of exporting before or not; so, regardless of the country, SMEs generally feel the need of testing and understanding how the market works. So, export results to be the first step of a longer process of increasing commitment.

Going back to our first goal, and so understanding if firms change their investment form, our results have demonstrated that 11% of firms within our sample have decided to modify it in favor of a harder form. This percentage might be considered as a low one, but by looking at the data concerning the investment years (on average terms), it is possible to comprehend that we are dealing with quite recent investment, i.e. all born about 10 years ago.

Regarding firms which have not changed their foreign units' form, we have tried to understand if the phenomenon is connected to their size and constraints, or if there are other related factors. Specifically, we have pointed out two issues to consider: time and geographical area. We suppose that there are firms in our sample that on average have either recently invested, and so the choice of not modifying investment form might be temporary, or they have invested in particularly complicated countries which require more time for be known. So, we may suppose that these firms are still not ready to change their form.

Accordingly, 11% seems to be a quite good percentage for the analysis we have conducted.

Our connected outcomes are in line with what we had only theoretically supposed, i.e. the idea of increasing commitment which results into a change in the investment form. Specifically, 73% of considered firms have changed their previous form into a directly controlled society, so into a greenfield investment, while the remaining part comprehends a more heterogenous group made of firms that have either established a joint venture or acquired shares of an already existing company.

Besides the mere investment analysis, we have added a second goal concerning the possibility to find an evolution also in the reasons underlying the internationalization. Outcomes in this sense seem positive, meaning that an evolution in reasons exist when an evolution in investment form is adopted. According to which form is adopted first, and which one after, different reasons assume a specific level of importance, by determining the aim of the investment.

-SMEs' serious investments are influenced by strategic factors- Another issue we have focused on regards the factors influencing the internationalization process. Since we are dealing with small and medium enterprises, we expected the role of the management or of the founder as the most relevant one. In our analysis, 67% of respondents have confirmed its importance. Even if

it is a high percentage, if we consider firms' nature, it is a quite surprising result. For instance, we have discovered a more strategic side of these firms that, regardless of an entrepreneurial spirit, aim to be close to customers and to exploit their competitive advantage, by following typical paths of larger MNEs.

-*Different business areas require different decision-making process-* The final topic we have dealt with regards the ways in which firms take decisions related to the foreign unit, and so how this latter is managed. The most interesting result concerns the idea according to which firms apply different decision-making strategies in accordance to the business area they are managing. Specifically, there are some business areas, such as R&D and the technical/productive area, which seem to be particularly sensitive, maybe because of the high capital requirement (both physical and intellectual), and so parent firms prefer to handle them independently.

On the contrary, more strategical decisions may require the foreign units know how, and so parent firms are more willing to share decisions' process with them, with the aim of exploiting their market knowledge.

About the personnel management, it might be considered as a more insidious issue, because we should distinguish between the different company's roles; but in general terms, firms seem willing to leave this kind of decision to the foreign unit.

Thus, we might conclude that, even if we are dealing with small and medium firms, their decision-making process in relation to a foreign unit is full of different options, with a high level of complexity. Very interesting is the fact that regardless of their smaller size, they feel the need to differentiate their decision-making processes, both according to the investment type and, more important, according to the nature of the decision itself.

3.14 Theoretical and managerial implications

The present thesis and its results provide a series of theoretical and managerial implications. First of all, the study gives a contribution to both the international business literature and to small and medium enterprises literature. Thus, it is possible to position it within the emerging field of studies concerning SMEs internationalization development, with a particular attention paid to a specific geographical context: the Italian one.

This study contributes to literature by proposing a research which aims, and partially succeeds, in demonstrating how the phenomenon of "hard" internationalization is spreading within small and medium enterprises. For instance, in the first chapter, a series of theories and researches about internationalization (Dunning, 2015; Rugman, 2010), foreign direct investments (Duce

& Espana, 2003); and joint ventures (Buckley & Casson, 2009) have been proposed; but, none of them has investigated on the role of smaller firms. The part of studies concerning SMEs has been concentrated on looking at post-internationalization impacts, without observing at the process itself. Hence, this work starts its analysis by looking at these theories' results and considerations, and it applies them within the new considered context. Very important is the introduction of the time dimension, not only as a factor to consider when dealing with performances' analysis, but as a strategic element, together with the presentation of results concerning the evolution of a foreign investment. This work combines different internationalization aspects together and offer a general overview over it.

Second of all, it is possible to identify a series of managerial implications. Small and medium enterprises should become aware of their internationalization potentiality, even if, when emerging risks are taken into account, they are always more limited with respect to larger ones. After having looked at how the considered sample behaves, it is possible to affirm that SMEs might consider an export period before investing seriously to better know the foreign market. The role of the management team or of the founder is relevant but it is not enough for pursuing such investments, so SMEs should internationalize motivated by strategic factors, i.e. the possibility to better reach their customers or the need to increase their innovation potential.

In matter of geographical areas, smaller firms should first rely on close countries, i.e. Europe, and then when right capabilities and returns are got, they may move to more distant ones. So, while the "global gap" is recurring and still confirmed topic, the idea of internationalization as an evolving process is still considered as an emerging one. In our research, it has been adopted by a limited number of firms, but it seems to help them in matching investments' reasons and investments' form. In the light of these considerations, our suggestion is to carefully ponder this choice, by looking at both timing and a geographical factor, and by reflecting on the difficulties that distant countries may have.

To conclude, we would like to recommend small and medium firms to do not underestimate the importance of the way in which foreign units are managed. Specifically, our suggestion is to carefully consider the fundamental role that the they may have in certain strategic decisions, where knowing market dynamics is the success key.

3.15 Limitations and future researches

It is very important to underline that the present work contains a set of limitations which might be further analyzed in future researches. First of all, the main limitation is related to the response percentage of 5% we obtained. So, it might be interesting to examine data coming from a larger sample of firms, in order to have even more solid results.

Another limitation might be related to the lack of information concerning the foreign unit itself, such as the date in which its forms has been modified, together with all the related consequences. Concerning those investments whose form has never changed, we have demonstrated that it might be a matter of time, i.e. they are too young to change; so, we suggest a further analysis in some years with the aim to comprehend if a change has occurred.

References

Acs, Z. J. (1999). Small and Medium-Sized Enterprises, Technology, and Globalization, in Z. J. Acs and B. Yeung (eds.), *Small and Medium-Sized Enterprises in the Global Economy*, the University of Michigan Press, pp. 1–11.

Aureli, S., & Demartini, P. (2010). *Internationalization of Chinese firms in Europe: the role of cultural differences in the functioning of a M&A in the automotive industry* (Vol. 13). Facoltà di Economia dell'Università di Urbino.

Axinn, C. N., & Matthyssens, P. (2001). Reframing internationalization theory: An introduction. In *Reassesing the Internationalization of the Firm* (pp. 3-11). Emerald Group Publishing Limited.

Beugelsdijk, S., Kostova, T., Kunst, V. E., Spadafora, E., & van Essen, M. (2018). Cultural distance and firm internationalization: A meta-analytical review and theoretical implications. *Journal of Management*, *44*(1), 89-130.

Bouquet, C., & Birkinshaw, J. (2008). Weight versus voice: How foreign subsidiaries gain attention from corporate headquarters. *Academy of Management journal*, *51*(3), 577-601.

Buckley, P. J. (1989). Foreign direct investment by small-and medium-sized enterprises: the theoretical background. In *the Multinational Enterprise* (pp. 24-45). Palgrave Macmillan, London.

Buckley, P. J., & Casson, M.C. (2009). The internalisation theory of the multinational enterprise: A review of the progress of a research agenda after 30 years. In *Journal of International Business Studies*, 40, 1563–1580.

Campagnolo, D., & Camuffo, A. (2008). *Going global seriously: An industry level analysis of Italian firms' internationalization*. IX Workshop dei Docenti e dei Ricercatori di Organizzazione Aziendale, Università Ca' Foscari.

Chang, E., & Taylor, M. S. (1999). Control in multinational corporations (MNCs): The case of Korean manufacturing subsidiaries. *Journal of Management*, *25*(4), 541-565.

Cheng, Y. M. (2006). Determinants of FDI mode choice: Acquisition, brownfield, and greenfield entry in foreign markets. Canadian Journal of A*dministrative Sciences/Revue Canadienne des Sciences de l'Administration*, *23*(3), 202-220.

Chen, Z., & Zheng, L. (2018). How does subsidiary autonomy influence performance? The moderating role of uncertainty. *Nankai Business Review International*, *9*(3), 348-365.

Chetty, S., & Holm, D. B. (2000). Internationalisation of small to medium-sized manufacturing firms: a network approach. *International business review*, *9*(1), 77-93.

Chitakornkijsil, P. (2009). Smes, Entrepreneurship and development strategies. *International Journal of Organizational Innovation*, *1*(4).

Conconi, P., Sapir, A., & Zanardi, M. (2016). The internationalization process of firms: From exports to FDI. *Journal of International Economics*, *99*, 16-30.

Daly, H. (1999). Globalization versus internationalization implications. *Ecological economics*, *31*(1), 31-37.

Vascellaro, D. (2019). *Le PMI alla sfida dell'internazionalizzazione*. Available at <https://www.giornaledellepmi.it/le-pmi-alla-sfida-dellinternazionalizzazione> (Accessed on June 11th, 2019)

Das, R., 1981. Impact of Host Government Regulations on MNC Operation: Learning from Third World Countries. *Columbia Journal of World Business*, 16(1), pp. 85.

De Maeseneire, W., & Claeys, T. (2012). SMEs, foreign direct investment and financial constraints: The case of Belgium. *International Business Review*, *21*(3), 408-424.

Du, Y., Deloof, M., & Jorissen, A. (2015). The roles of subsidiary boards in multinational enterprises. *Journal of International Management*, *21*(3), 169-181.

Duce, M., & Espana, D. B. (2003). Definitions of foreign direct investment (FDI*): A methodological note*. Banco de Espana.

Dunning, J. H. (1980). Toward an eclectic theory of international production: Some empirical tests. *Journal of international business studies*, 11(1), 9-31.

Dunning, J. H. (2015). The eclectic paradigm of international production: a restatement and some possible extensions. In *The Eclectic Paradigm* (pp. 50-84). Palgrave Macmillan, London.

Egelhoff, W. G. (1988). Strategy and structure in multinational corporations: A revision of the Stopford and Wells model. *Strategic Management Journal*, *9*(1), 1-14.

European Commission. (2010). Internationalisation of European SMEs*, Final Report, EIM, Brussels*.

European Commission. (2015). User guide to the SME definition. *Luxembourg: Publications Office of the European Union*.

European Commission. (2018). Annual Report on European SMEs 2017/2018.SMEs growing beyond borders. *Luxembourg: Publications Office of the European Union*.

Fondazione Italia Cina, *Indicatore di attrattività delle province cinesi.* Available at <https://www.fondazioneitaliacina.it/m/cesif/ciba/> (Accessed on October 30th, 2019).

Fortis, M. (2009). Competitiveness and export performance of Italy. *Milano: Fondazione Edison, Università Cattolica & Dipartimento del Tesoro*.

Gates, S. R., & Egelhoff, W. G. (1986). Centralization in headquarters–subsidiary relationships. *Journal of International Business Studies*, *17*(2), 71-92.

Gubitta, P., 2013. *Lepri che vincono la crisi – Storie di aziende (quasi medie) vincenti nei mercati globali*. 1° Ed. Venezia: Marsilio Editore.

Gumel, B. I. (2018). Critical Factors Influencing Opportunity Recognition and Exploitation. *International Journal of Contemporary Research and Review*, *9*(04), 20748-20759.

Gupte, A., Sen, S., & Paranjape, S. (2013). *Governance of Subsidiaries: A Survey of Global Companies*. research report, Deloitte (September), Available at <https://www2.deloitte. com/content/dam/Deloitte/in/Documents/risk/Corporate%20Governance/in-gc-governance-of-subsidiaries-a-survey-of-global-companies-noexp. pdf> (Accessed on September, 10th , 2019).

Grant, R. M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation. *California management review*, *33*(3), 114-135.

Harris, H., & Holden, L. (2001). Between autonomy and control: Expatriate managers and strategic IHRM in SMEs. *Thunderbird International Business Review*, *43*(1), 77-100.

Helfat, C. E., & Peteraf, M. A. (2009). Understanding dynamic capabilities: progress along a developmental path. *Strategic Organization*, 7(1): 91–102.

Hofstede, G. (2011). Dimensionalizing cultures: The Hofstede model in context. *Online readings in psychology and culture*, *2*(1), 8.

Hong Chung, L., Gibbons, P. T., & Schoch, H. P. (2000). The influence of subsidiary context and head office strategic management style on control of MNCs: the experience in Australia. *Accounting, Auditing & Accountability Journal*, *13*(5), 647-668.

Iacobucci, D., & Spigarelli, F. (2007). I processi di internazionalizzazione delle medie imprese italiane. *L'industria*, *28*(4), 625-652.

IMF (International Monetary Fund) 1993, Balance of Payments International Investment Position Manual–6th Edition, Washington DC.

Inkpen, A. C. (2000). Learning through joint ventures: a framework of knowledge acquisition. *Journal of management studies*, *37*(7), 1019-1044.

Jantunen, A., Puumalainen, K., Saarenketo, S., & Kyläheiko, K. (2005). Entrepreneurial orientation, dynamic capabilities and international performance. *Journal of International Entrepreneurship*, *3*(3), 223-243.

Jakobsen, S. E., & Rusten, G. (2003). The autonomy of foreign subsidiaries. An analysis of headquarter-subsidiary relations. *Norsk Geografisk Tidsskrift-Norwegian Journal of Geography*, *57*(1), 20-30.

Johanson, J., & Mattsson, L. G. (1987). Interorganizational relations in industrial systems: a network approach compared with the transaction-cost approach. *International Studies of Management & Organization*, *17*(1), 34-48.

Johanson, J., & Mattsson, L. G. (1988). Internationalization in industrial systems–a network approach. *Strategies in global competition*, 287-314.

Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of international business studies*, *8*(1), 23-32.

Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of international business studies*, *40*(9), 1411-1431.

Jones, M. V., & Coviello, N. E. (2005). Internationalisation: conceptualising an entrepreneurial process of behaviour in time. *Journal of International Business Studies*, *36*(3), 284-303.

Judge, W. Q., & Blocker, C. P. (2008). Organizational capacity for change and strategic ambidexterity: Flying the plane while rewiring it. *European Journal of Marketing*, *42*(9/10), 915-926.

Kogut B. 1985. Designing global strategies: profiting from operational flexibility. *Sloan Management Review* 26: 27–38.

Kor, Y. Y., Mahoney, J. T., Siemsen, E., & Tan, D. (2016). Penrose's the theory of the growth of the firm: An exemplar of engaged scholarship. *Production and Operations Management*, 25(10), 1727-1744.

Kunday, Ö., & Şengüler, E. P. (2015). A study on factors affecting the internationalization process of small and medium enterprises (SMEs). *Procedia-Social and Behavioral Sciences*, *195*, 972-981.

Kuo, H. C., & Li, Y. (2003). A dynamic decision model of SMEs' FDI. *Small Business Economics*, *20*(3), 219-231.

Knight, G. (2015). Born global firms: Evolution of a contemporary phenomenon. In *Entrepreneurship in international marketing* (pp. 3-19). Emerald Group Publishing Limited.

Laufs, K., & Schwens, C. (2014). Foreign market entry mode choice of small and medium-sized enterprises: A systematic review and future research agenda. *International Business Review*, *23*(6), 1109-1126.

Li, L., Li, D., Goerzen, A., & Shi, W. S. (2018). What and how do SMEs gain by going international? A longitudinal investigation of financial and intellectual resource growth. *Journal of World Business*, *53*(6), 817-834.

Lin, F. J., & Ho, C. W. (2019). The knowledge of entry mode decision for small and medium enterprises. *Journal of Innovation & Knowledge*, *4*(1), 32-37.

Lu, J. W., & Beamish, P. W. (2001). The internationalization and performance of SMEs. *Strategic management journal*, *22*(6‐7), 565-586.

Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of management Review*, *21*(1), 135-172.

Luo, Y. (2000). Dynamic capabilities in international expansion. *Journal of world business*, *35*(4), 355-378.

Luo, Y. (2002). Capability exploitation and building in a foreign market: Implications for multinational enterprises. *Organization science*, *13*(1), 48-63.

Majocchi, A., & Zucchella, A. (2003). Internationalization and performance: Findings from a set of Italian SMEs. *International Small Business Journal*, *21*(3), 249-268.

March, J. G. (1991). Exploration and exploitation in organizational learning. *Organization science*, *2*(1), 71-87.

Mariotti, S., Mutinelli, M., 2005. Italia multinazionale 2004. Le partecipazioni italiane all'estero e estere in Italia, Rubbettino Editore, Soveria Mannelli.

Makoni, P. L. (2015). An extensive exploration of theories of foreign direct investment. *Risk Governance & Control: Financial Markets and Institutions,* 5(2), 77-83.

McDougall, P. P., & Oviatt, B. M. (2000). International entrepreneurship: the intersection of two research paths. *Academy of management Journal*, *43*(5), 902-906.

Morgan, R. E., & Katsikeas, C. S. (1997). Theories of international trade, foreign direct investment and firm internationalization: a critique. *Management decision*, *35*(1), 68-78.

Muller, P., Mattes, A., Klitou, D., Lonkeu, O. K., Ramada, P., Ruiz, F. A., ... & Robin, N. (2018). Annual Report on European SMEs 2017/2018: SMEs growing beyond borders. *European Union: Publication Office*.

Multilateral investment guarantee agency (2002). Foreign direct investment survey. Washington, DC. Available at <www.ipanet.net/fdisurvey> (Accessed on September 10th, 2019).

Muzychenko, O., & Liesch, P. W. (2015). International opportunity identification in the internationalisation of the firm. *Journal of World Business*, *50*(4), 704-717.

O'grady, S., & Lane, H. W. (1996). The psychic distance paradox. Journal of international business studies, 27(2), 309-333.

Onkelinx, J., Manolova, T. S., & Edelman, L. F. (2016). The human factor: Investments in employee human capital, productivity, and SME internationalization. Journal of International Management, 22(4), 351-364.

Paik, Y., & Sohn, J. D. (2004). Expatriate managers and MNC’s ability to control international subsidiaries: The case of Japanese MNCs. *Journal of World Business*, *39*(1), 61-71.

Penrose, E. (1959). The theory of the growth of the firm. *John Wiley & Sons, New York*.

Perks, K. J. (2009). Influences on international market entry method decisions by European entrepreneurs. *International Journal of Entrepreneurship*, *13*, 1.

Perks, K. J., & Hughes, M. (2008). Entrepreneurial decision-making in internationalization: Propositions from mid-size firms. *International Business Review*, *17*(3), 310-330.

Pehrsson, T., Ghannad, N., Pehrsson, A., Abt, T., Chen, S., Erath, F., & Hammarstig, T. (2015). Dynamic capabilities and performance in foreign markets: Developments within international new ventures. *Journal of International Entrepreneurship*, *13*(1), 28-48.

Pinho, J. C., & Prange, C. (2016). The effect of social networks and dynamic internationalization capabilities on international performance. *Journal of World Business*, *51*(3), 391-403.

Pinho, J. C. M. (2011). Social capital and dynamic capabilities in international performance of SMEs. *Journal of Strategy and Management*, *4*(4), 404-421.

Prange, C., & Verdier, S. (2011). Dynamic capabilities, internationalization processes and performance. *Journal of World Business*, *46*(1), 126-133.

Rabbiosi, L., & Santangelo, G. D. (2019). Host country corruption and the organization of HQ–subsidiary relationships. *Journal of International Business Studies*, *50*(1), 111-124.

Ratajczak-Mrozek, M., Dymitrowski, A., & Malys, L. (2012). Forms of internationalisation and company performance (research results). *Zeszyty Naukowe*, (219).

Ratten, V., Dana, L. P., Han, M., & Welpe, I. (2007). Internationalisation of SMEs: European comparative studies. *International journal of entrepreneurship and small business*, *4*(3), 361-379.

Rothaermel, F. T. (2015). *Strategic management*, Second edition, New York, NY: McGraw-Hill Irwin.

Rugman, A. M. (2010). Reconciling internalization theory and the eclectic paradigm. *Multinational Business Review*, 18(2), 1-12.

Ruzzier, M., Hisrich, R. D., & Antoncic, B. (2006). SME internationalization research: past, present, and future. *Journal of small business and enterprise development*, *13*(4), 476-497.

Gubik, A.S. & Bartha, Z. (2014). SME Internalisation Index (SMINI) Based on the Sample of theVisegrad Countries (chapter 2). In: Gubik, A.S. & Wach, K. (eds), *International Entrepreneurship and Corporate Growth in Visegrad Countries*. Mickolc: University of Miskolc, pp. 23-40.

Shane, S. A. (2003). *A general theory of entrepreneurship: The individual-opportunity nexus*. Edward Elgar Publishing.

Sousa, C. M., & Bradley, F. (2006). Cultural distance and psychic distance: two peas in a pod? *Journal of International Marketing*, *14*(1), 49-70.

Speklé, R.F., 2001. Explaining management control structure variety: a transaction cost economics perspective. *Accounting, Organizations and Society*, 26(4), pp. 419-441.

Susman, G. I. (Ed.). (2007). *Small and medium-sized enterprises and the global economy*. Edward Elgar Publishing.

Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic management journal*, *18*(7), 509-533.

Teece, D. J. (2014). A dynamic capabilities-based entrepreneurial theory of the multinational enterprise. *Journal of International Business Studies*, *45*(1), 8-37.

Tihanyi, L., Griffith, D. A., & Russell, C. J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of International Business Studies*, *36*(3), 270-283.

Trimarchi, D. (2016), *Ufficio di rappresentanza, succursale e filiale: quale forma di investimento diretto scegliere?* Available at <https://www.exportiamo.it/aree-tematiche/13018/ufficio-di-rappresentanza-succursale-e-filiale-quale-forma-di-investimento-diretto-scegliere/> (Accessed on September 2nd, 2019).

Tülüce, N. S., & Doğan, İ. (2014). The impact of foreign direct investments on SMEs' development. *Procedia-Social and Behavioral Sciences*, 150, 107-115.

Urata, S., & Kawai, H. (2000). The determinants of the location of foreign direct investment by Japanese small and medium-sized enterprises. *Small Business Economics*, 15(2), 79-103.

Vachani, S. (2005). Problems of foreign subsidiaries of SMEs compared with large companies. *International Business Review*, *14*(4), 415-439.

Vahlne, J. E., & Johanson, J. (2017). From internationalization to evolution: The Uppsala model at 40 years. *Journal of International Business Studies*, *48*(9), 1087-1102.

Wach, K., & Wehrmann, C. (2014). Entrepreneurship in international business: International entrepreneurship as the intersection of two fields. *International Entrepreneurship and Corporate Growth in Visegrad Countries*, 9-22.

Wach, K. (2014). The scale of internationalisation and Europeanisation of SMEs and their functioning in the spatial systems of the European Union. *Przedsiębiorczość–Edukacja*, *10*, 136-148.

Wang, C. L., & Ahmed, P. K. (2007). Dynamic capabilities: A review and research agenda. *International journal of management reviews*, *9*(1), 31-51.

Warren, N. (2014). *Adapting the overall organizational model in step with increasing internationalization.* Deloitte Consulting. Available at <https://www2.deloitte.com> (Accessed on October 1st, 2019).

Winter, S. G. (2003). Understanding dynamic capabilities. *Strategic management journal*, *24*(10), 991-995.

Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: a configurational approach. *Journal of business venturing*, *20*(1), 71-91.

Welch, L. S., & Luostarinen, R. (1988). Internationalization: evolution of a concept. *Journal of general management*, *14*(2), 34-55.

Yalcinkaya, G., Calantone, R. J., & Griffith, D. A. (2007). An examination of exploration and exploitation capabilities: Implications for product innovation and market performance. *Journal of International Marketing*, *15*(4), 63-93.

Yiu, D., & Makino, S. (2002). The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization science*, *13*(6), 667-683.

Zain, M., & Ng, S. I. (2006). The impacts of network relationships on SMEs' internationalization process. *Thunderbird international business review*, *48*(2), 183-205.

Zahra, S. A., Sapienza, H. J., & Davidsson, P. (2006). Entrepreneurship and dynamic capabilities: A review, model and research agenda. *Journal of Management studies*, *43*(4), 917-955.

Zhou, L., Wu, W. P., & Luo, X. (2007). Internationalization and the performance of born-global SMEs: the mediating role of social networks. *Journal of international business studies*, *38*(4), 673-690.

Zhou, L., Wu, W. P., & Luo, X. (2007). Internationalization and the performance of born-global SMEs: the mediating role of social networks. *Journal of international business studies*, *38*(4), 673-690.

Zucchella, A., & Scabini, P. (2007). *International Entrepreneurship – Theoretical foundations and Practice*. New York: Palgrave Macmillan.

Żur, A. (2015). Opportunity Identification and Creation as Factors of Firm Internationalisation. *Entrepreneurial Business and Economics Review*, *3*(2), 25-39.

Appendix

Online questionnaire

Le joint ventures societarie e gli investimenti diretti all'estero

Introduzione

Gentile partecipante, grazie per il tempo dedicato alla compilazione del seguente questionario che le richiederà circa 10/15 minuti.
Le risposte rilasciate saranno trattate in forma confidenziale e per il solo scopo di ricerca accademica.

Informazioni generali

1. **Ragione sociale ***

2. **L'impresa appartiene ad un gruppo?**
   Si, l'impresa è la capogruppo

   Si, ma non è l'impresa la capogruppo

   No, l'impresa non appartiene ad un gruppo

3. **Con particolare attenzione alle attività internazionali, quale delle seguenti alternative meglio si adatta all'attuale struttura organizzativa dell'impresa?**

   Struttura Funzionale:l'impresa è suddivisa per aree di specializzazione economico/tecnica. Ciascuna area fa riferimento ad un direttore di funzione, a cui riporta anche la corrispondente attività estera

   Struttura Divisionale:l'impresa è suddivisa a seconda del tipo prodotto, mercato o area geografica. Tutte le attività fanno riferimento ad un direttore che risponde direttamente all'amministratore delegato

   Mix di struttura funzionale e divisionale. Alcune attività fanno riferimento ad un direttore di funzione,le altre ad un direttore di divisione

4. **Indicare, in percentuale, la quota di fatturato generato all'estero dall'impresa nell'anno 2017**

5. **Indicare, in percentuale, la quota di fatturato generato all'estero dall'impresa nell'anno 2018**

6. **Attraverso quali delle seguenti attività l'impresa intrattiene rapporti con i mercati esteri**

   Esportazioni

   Joint ventures societarie

   Investimenti diretti all'estero

7. **indicare le aree geografiche in cui sono presenti i corrispettivi partners e/o gli investimenti diretti**

   È possibile selezionare più risposte

Unione Europea

Africa

America (eccetto Stati Uniti) Stati Uniti

Asia (eccetto Cina)

Cina

Australia e Nuova Zelanda

8. Quale di questi fattori ha influito maggiormente nel processo di internazionalizzazione attraverso joint ventures e/o investimenti diretti?

È possibile selezionare più risposte

Spirito imprenditoriale del fondatore e/o del management

Alcuni membri del management hanno avuto precedenti esperienze di internazionalizzazione

L'azienda possedeva un forte vantaggio competitivo nel mercato domestico che poteva essere riconosciuto all'estero

La necessità di essere vicino ai propri clienti

La volontà di aumentare il potenziale di innovazione

Altro (specificare)

9. Indicare su una scala da 1 a 5 (dove 1 corrisponde a "irrilevante" e 5 a "fondamentale"), il livello di importanza che i seguenti fattori hanno avuto durante il processo di internazionalizzazione attraverso joint ventures e/o investimenti diretti

	1	2	3	4	5
Conoscere lingua e cultura locale					
Conoscere istituzioni locali					
Avere già dei contatti nel paese ospitante					
Avere esperienza in negoziazioni internazionali					

10. Indicare l'area geografica dove l'impresa ATTUALMENTE detiene la joint venture societaria o l'investimento diretto estero considerato più rilevante *

In questo sondaggio, il termine "rilevante" fa riferimento all'investimento che ha richiesto il maggior ammontare di capitale e risorse dalla data di costituzione ad oggi

Unione Europea

Africa

America (eccetto Stati Uniti) Stati Uniti

Asia (eccetto Cina)

Cina

Australia e Nuova Zelanda

Internazionalizzazione in (area geografica indicata domanda 10)

1. **Specificare quale delle seguenti alternative è stata considerata come ATTUALMENTE la più rilevante nella domanda precedente**

   Joint venture societaria

   Investimento diretto estero

2. **Se la risposta data alla domanda 1 è "joint venture societaria", indicare l'anno di stipula della stessa; se la risposta data alla domanda 1 è "investimento diretto estero", indicare l'anno di costituzione della relativa sussidiaria (fare riferimento al primo investimento nel caso siano più di uno)**

3. **Se la risposta alla domanda 1 è "joint venture societaria", indicare la percentuale di proprietà detenuta AL MOMENTO DELLA STIPULA.**

4. **Prima dell'anno indicato alla domanda 2, l'impresa effettuava già attività di export in Europa?**

   sì
   no

5. **Con riferimento all'investimento estero più rilevante ATTUALMENTE in corso (indicato nella domanda 1), specificare la tipologia di investimento effettuata ALLA DATA DI COSTITUZIONE O DI STIPULA.**
   Si trattava di:
   Società/stabilimento controllato direttamente

   Quota acquisita di società/stabilimento esistente

   Joint Venture societaria con partner locale

   Accordo contrattuale con partner locale

6. **Con riferimento alle ragioni elencate, indicare su una scala da 1 a 5 (dove 1 corrisponde a "poco importante e 5 a "fondamentale") quanto ciascuna di esse ha influito nella scelta di investire all'estero ALLA DATA DI COSTITUZIONE O DI STIPULA dell'investimento di cui alle domande precedenti**

	1	2	3	4	5
Migliorare accesso nel mercato estero					
Sviluppo nuovi mercati di sbocco					
Vantaggi fiscali					
Aumento potenziale innovazione tramite la creazione di network					

7. **Rispetto alla data di stipula o di costituzione, l'impresa ha modificato la tipologia di investimento indicata alla domanda 5?**

   sì
   no

8. **Se SÌ, indicare come ATTUALMENTE si presenta l'investimento**

   Se "NO", proseguire con il questionario

   Società/stabilimento controllato direttamente

   Aumento della quota acquisita di società/stabilimento esistente

   Joint Venture societaria con partner locale

Accordo contrattuale con partner locale

9. Se la risposta data alla domanda 1 è "joint venture societaria", indicare l'ATTUALE quota detenuta dall'impresa

10. Con riferimento alle ragioni elencate, indicare su una scala da 1 a 5 (dove 1 corrisponde a "poco importante" e 5 a "fondamentale") quanto ciascuna di esse ATTUALMENTE influisce nella scelta di mantenere l'investimento estero

	1	2	3	4	5
Migliorare accesso nel mercato estero					
Sviluppo nuovi mercati di sbocco					
Vantaggi fiscali					
Aumento potenziale innovazione tramite la creazione di network					

11. Con riferimento alla joint venture o alla sussidiaria, indicare come ATTUALMENTE vengono prese le decisioni in relazione alla tipologia elencata

	Decisioni prese da casa madre	Decisioni prese in modo congiunto da casa madre e sussidiaria	Sussidiaria è autonoma nel prendere decisioni	Decisioni prese in modo congiunto dai partners della JV	L'imprese detiene minoranza e non prende decisioni relative alla JV	La tipologia di decisione non è rilevante
Investimenti tecnico/produttivi						
Scelte di R&D						
Scelte strategiche di mercato						
Gestione del personale						
Gestione della supply chain						

*Table 30 Chi-squared analysis-Export*Mix_structure*

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-squared	23,47	2	.000
Likelihood ratio	13,41	2	.001
Linear by linear association	23,26	1	.000
N of valid cases	191		

*Table 31 Chi-squared analysis-Joint:_venture*Mix_structure*

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-squared	5,83	2	.054
Likelihood ratio	6,34	2	.042
Linear by linear association	1	1	.031
N of valid cases	191		

*Table 32 Chi-squared analysis-FDI*Functional_structure*

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-squared	5,51	1	.019
Likelihood ratio	5,57	1	.018
Linear by linear association	4,48	1	.019
N of valid cases	191		

*Table 33 Chi-squared analysis-FDI*Divisional_structure*

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-squared	4,15	1	.042
Likelihood ratio	4,37	1	.037
Linear by linear association	4,12	1	.042
N of valid cases	191		

*Table 34 Logistic regression encoding-FDI*Functional_structure*

Dependent variable codification

Original value	Logistic value
No functional	0
Functional	1

Categorical variables codification

Original value	Frequencies	Parameter coding (1)
FDI	108	1
No_FDI	80	0

*Table 35 Logistic regression encoding-FDI*Divisional_structure*

Dependent variable codification

Original value	Logistic value
No divisional	0
Divisional	1

Categorical variables codification

Original value	Frequencies	Parameter coding (1)
FDI	108	1
No_FDI	80	0

*Table 36 Contingency Table-Sectors*International activities*

		Activity							
Ateco codes		Export	JV	FDI	Exp+JV	JV+FDI	Exp+FDI	all	Tot.
Machin_manu	Count	7	1	1	4	0	25	3	41
	% in Ateco	17,1%	2,4%	2,4%	9,8%	0,00%	61%	7,3%	100%
	% in Int_activ	29,2%	100%	16,7%	22,20%	0,00%	41,7%	42,9%	35,0%
Wholesale	Count	2	0	0	3	0	13	0	18
	% in Ateco	11,1%	0,0%	0,0%	16,7%	0,0%	72,20%	0,0%	100%
	% in Int_activ	8,3%	0,0%	0,0%	16,7%	0,0%	21,7%	0.0%	15,4%
Metal_manu	Count	4	0	0	2	0	10	1	17
	% in Ateco	23,5%	0,0%	0.0%	11,8%	0,0%	58,8%	5,9%	100%
	% in Int_activ	16,7%	0,0%	0.0%	11,1%	0,0%	16,7%	14,3%	14,5%
Rubber_Plastic_ items manuf	Count	5	0	1	2	0	3	1	12
	% in Ateco	41,7%	0,0%	8,3%	16,7%	0,0%	25%	8,3%	100%
	% in Int_activ	20,8%	0,0%	16,7%	11,1%	0,0%	5%	14,3%	10,3%
Electrical_noElec_equip.	Count	2	0	0	1	9	4	2	9
	% in Ateco	22.2%	0,0%	0,0%	11,1%	0,0%	44,4%	22,2%	100%
	% in Int_activ	8.30%	0,0%	0,0%	5,6%	0,0%	6,7%	28,6%	7,7%
Software_production	Count	1	0	3	2	0	2	0	8
	% in Ateco	12,5%	0%	37,5%	25%	0%	25%	0%	100%
	% in Int_activ	4,2%	0%	50%	11,1%	0%	3,3%	0%	6,8%
Chemicals	Count	1	0	1	2	1	2	0	7
	% in Ateco	14,3%	0,0%	14,3%	28,6%	14,3%	28,6%	0%	100%
	% in Int_activ	4,20%	0,0%	16,7%	11,10%	100%	3,3%	0%	6%
Textile industry	Count	2	0	0	2	0	1	0	5
	% in Ateco	40%	0,0%	0,0%	40%	0,0%	20%	0,0%	4,3%
	% in Int_activ	8,3%	0,0%	0,0%	11,1%	0,0%	1,7%	0,0%	4,3%

*Table 37 Logistic regression-variables encoding-Manufacturing*Export*

Dependent variable codification

Original value	Logistic value
No Export	0
Export	1

Categorical variables codification

	Frequencies	Parameter coding (1)
Manufacturing	140	1
No_manufacturing	51	0

*Table 38 Logistic regression-variables encoding-Information/communication services*Export*

Dependent variable codification

Original value	Logistic value
No Export	0
Export	1

Categorical variables codification

	Frequencies	Parameter coding (1)
Inform_comun_serv	9	1
No_Inform_comun_serv	182	0

Table 39 Logistic regression-variables encoding-International activities and Area_ril-NoEu

Dependent variable codification

Original value	Logistic value
Joint venture	0
FDI	1

Categorical variables codification

		Frequencies	Parameter coding (1)	(2)	(3)	(4)
Area_ril_NoEU	Africa	5	1,000	,000	,000	,000
	America	13	,000	1,000	,000	,000
	USA	32	,000	,000	1,000	,000
	Asia	16	,000	,000	,000	1,000
	Cina	7	,000	,000	,000	,000

*Table 40 Logisitc regression-variables encoding-Customers proximity*USA*

Dependent variable codification

Original value	Logistic value
no clients	0
clients	1

Categorical variables codification

	Original value	Frequencies	Parameter coding (1)
USA	USA	46	1
	No_USA	84	0

*Table 41 Logisitc regression-variables encoding-Network innovation*Directly controlled establishment*

Dependent variable codification

Original value	Logistic value
no directly controlled	0
directly controlled	1

Categorical variables codification

	Original value	Frequencies	Parameter coding (1)
Network innovation	Important	58	1
	Not important	75	0

Acknowledgements

First of all, I would like to express my deep gratitude to Professor Campagnolo for his constant guidance and support. Without his assistance and involvement in every step, this thesis would have never been accomplished.

Then, I would like to thank my parents who have always encouraged me and left me free to choose, giving me confidence and support.
Thanks to my sister Jolanda, because she has been always able to give me love and to never make me feel alone.

I would like to thank Antonio, for having always believed in me and for having shared these hard and full of satisfaction years.

Finally, I would like to thank all my dear friends and colleagues for every moment we have lived together.