

Institutional pressures and initiation of internationalization: Evidence from Taiwanese small- and medium-sized enterprises

Hsiang-Lin Cheng^{a,*}, Chow-Ming Joseph Yu^b

^a*Department of International Trade, Feng-Chia University, 100, Wen-Hwa Road, Seatwen, Taichung City, Taiwan, ROC*

^b*Department of Business Administration, National Cheng-Chi University, Taiwan, ROC*

Received 28 June 2006; received in revised form 1 August 2007, 26 November 2007; accepted 14 January 2008

Abstract

This study attempts to reveal the pressure aspect of small- and medium-sized enterprises' (SME) internationalization. We suggest that the decision by an SME to initiate its internationalization can be regarded as an institutional change to respond to its external pressures within the home country. We empirically test our hypotheses regarding three types of institutional isomorphic pressure (i.e., coercive, mimetic and normative pressures), as identified by CEOs of 165 Taiwanese SMEs investing in Southeast Asia and China. The results show that for those SMEs under greater institutional pressures, they are not only tending to expand abroad earlier but also adopting their initial international activities in a more radical style. The results suggest that SMEs are very sensitive to their external environments and will respond to institutional pressures from the home country by moving aggressively to internationalize.

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Keywords: Institutional change; Internationalization; SMEs

1. Introduction

For small- and medium-sized enterprises (SMEs), internationalization is an entrepreneurial activity, and entering new geographic markets can be regarded as, on a large scale, the act of adopting new practices. The growing interest in this phenomenon—known as international entrepreneurship (IE)—has produced a substantial stream of research, although an understanding of the subject is still in its infancy.

One weakness in the development of theories concerned with SMEs' IE behaviors may be the lack of a holistic and synergistic perspective (Coviello & Jones, 2004; Rialp, Rialp, & Knight, 2005). Numerous studies, in keeping with the contention of McDougall and Oviatt (2000) that IE represents innovative, proactive and risk-seeking behaviors across borders, have focused largely on the so-called 'international opportunity perception' rather than examining other issues (Zahra, Korri, & Yu, 2005).

Although internationalization can indeed be regarded as an opportunity-seeking choice on the part of firms, it may also represent a critical decision due to the costs and risks involved. Firms expanding abroad should

*Corresponding author. Tel.: +886 9 20364282; fax: +886 7 5322686.

E-mail address: francois@alumni.nccu.edu.tw (H.-L. Cheng).

have strong ownership advantages if they are to successfully overcome the disadvantages of operating in host countries (Hymer, 1976). We argue that SMEs with less robust ownership advantages may be less willing to expand abroad, and the pressures that exist in external environments may act as another factor pushing them into internationalization.

As institutional theory suggests (Zucker, 1987), the adoption of new practices by firms is influenced by institutional pressures, which are in turn related to various sociological conditions within firms' external environments. Indeed, the pressures that exist within external environments may be a critical factor for SMEs; SMEs are generally regarded as more easily influenced by external forces than are larger firms (Kraatz, 1998). From early on, studies (e.g. Reid, 1981; Wiedersheim-Paul, Olson, & Welch, 1978) have already noted the impact of the external environments on SME managers' decisions regarding the internationalization of their firms.

Since firms in similar environments tend to behave in similar ways, 'institutional change' may be said to occur when the majority of firms in such similar environments try to substitute their existing practices with new ones. Institutionalism suggests that when the most important person (i.e., the CEO) in a firm recognizes and reacts to pressures, rather than proactively seeking opportunities, he/she would initiate 'institutional change'. In this study, we follow this line of thought. Our position is rooted in the theory that IE behaviors of SMEs can also be treated as a sort of institutional change by which SMEs cope with recognized institutional pressures.

In seeking to put forth the above idea, we have two research objectives in this study. First, we investigate the concerns underlying SMEs' decisions to go abroad as well as how the timing (early or late) of initiating internationalization relates to institutional change. Second, we examine the idea that the style of SMEs' internationalization, reflected by the pace, scale and content of institutional change, would tend to be more radical if SMEs are more acutely aware of institutional pressures. Depending on the results of these two investigations, we may be able to demonstrate that the internationalization of SMEs can be classified as a form of 'institutional change' and is associated with a number of firms' sociological concerns.

Hannan and Freeman (1989) suggested that the first emergence of a specific organizational form, such as the initiation of firms' internationalization, is a good occasion for observing institutional change. Accordingly, we chose the initial commitment to a foreign market by a Taiwanese SME as the research subject in this study. We made this decision for the following two reasons. First, although SMEs are generally considered to be more risk-averse than their larger counterparts to adopt the new practice, which makes them less willing to go abroad, they also tend to react to the quests from external parties easily, which induces in them the need to go abroad. This inconsistency in theory, thus, makes an examination of the factors leading to SMEs' decisions to start internationalization appropriate and may also help to uncover the role that social factors play in firms' decision-making process.

Second, because organizations are far more heavily influenced by the context in which they are set up (Scott, 1995), the institutional pressures existing in the home country—rather than those in a host country (Meyer, 2001)—should, it seems, be regarded as the environmental context most likely to push SMEs to initiate internationalization (Johanson & Vahlne, 1977, 1990; Luostarinen, 1970). According to Newman (2000), firms, especially those in newly developed economies, are more likely to undergo institutional change when their home countries' environments are in the process of deregulation. Taiwan is noted for its thriving SMEs and for a massive shift in its social, economic and political environments in 1980 and 2000. These shifts, mainly caused by the deregulation policies of the government, compelled many SMEs to expand into Southeast Asia and China.

In the following section we introduce the theoretical background and derive our research hypotheses. We then describe the research design. Finally, after presenting the empirical results, we discuss the findings and provide the concluding remarks.

2. Literature review and hypotheses

As an early attempt to introduce the concept of institutional change into the existing theories of SMEs' internationalization, we begin with a discussion of why we feel it is important to include institutional change in

the analysis. We then provide a brief review of institutional theory and isomorphism. The last part of this section provides a discussion of the research hypotheses.

2.1. *Internationalization of SMEs*

Internationalization is the process by which firms increase their awareness of the direct and indirect influence of international transactions on their future, and begin to engage in transactions with firms in other countries (Lu & Beamish, 2001). It is also an important growth strategy for SMEs when the scope of their business is geographically restricted (Bilkey & Tesar, 1977). Although SMEs have been increasingly active in international markets, existing theories of internationalization have tended to focus on large MNEs and argued that firms must have strength either in resources or knowledge if they are to fully overcome the transaction costs—both pecuniary and non-pecuniary—in integrating across borders (Hennart, 1988).

Extending earlier findings, some researchers have asserted that when SMEs initiate internationalization, they will tend, due to lack of resources and advantages, to export goods as their mode of foreign market entry (Calof, 1994). In addition, researchers have asserted that such firms will typically increase their international involvement through a series of carefully planned stages (Johanson & Vahlne, 1977). Following this stage-by-stage model¹ (Dalli, 1995; Gankema, Snuit, & van Dijken, 1997; Lau, 1992), an SME will engage in internationalization by gradually increasing its commitments in a host country. Through this process, it can cultivate firm-specific advantages in a particular host country, including in emerging economies.

In contrast, other researchers have argued that the internationalization of SMEs can be quite radical in some instances. Zahra et al. (2005) asserted that SMEs will go abroad for the cognition of pursuing new opportunities that allow them to leverage their core competencies across markets. Given today's shorter product life-cycles, an innovative SME must maximize its sales in several markets as quickly as possible. Thus, it may utilize different entry modes, even though some of them entail high levels of risk. Researchers holding such opportunity-based theories have argued that the staged model is of limited value (Oviatt & McDougall, 1994).

The sociological view, in sharp contrast to the two economics-based views presented above, has begun to emerge only recently. One school of thought referred to as the 'network perspective' draws from sociological theories and asserts that SMEs' decisions to go abroad are influenced by the networks of inter-organizational and inter-personal relationships in which firms are embedded.

As suggested by Coviello and McAuley (1999), different perspectives can be viewed as complementary in explaining SMEs' motives to internationalize. Indeed, smaller firms' decision-making styles tend to differ significantly from those of larger firms—a result, in part, of the unique way in which SMEs interact with their external environments to overcome the liability of smallness (Calof, 1994). It may be said, then, that the way in which an SME internationalizes is the result of the combination of its actual internal abilities and its leader's cognition of its external environments. Thus, by gathering and interpreting information from its external environments, an SME is able to pursue particular internationalization alternatives.

In sum, we suggest that SMEs' internationalization is entrepreneurial but risky. When SMEs make their initial entry into international markets, they are especially prone to problems associated with the liabilities of foreignness and smallness, which may lead to poor financial performance and a variety of other concerns for managers (Bell, 1995; Lu & Beamish, 2001). For firms with limited resources, the decision to go abroad for the first time may have more to do with sociological factors that have been espoused by institutional theory than with the economic concerns.

2.2. *Institutional theory and isomorphism*

Institution is a rule-like, social fact of an organized pattern of actions (Zucker, 1987). Institutional theorists hold that regulated organizational behaviors are products of the ideas, values and beliefs that originate in the context of institutional environments, and to which organizations conform. Institutional pressures lead

¹That is, an SME might start out only as an exporter, then move on to hire a local agent in a host country, to set up a sales subsidiary, and, finally, to have a production subsidiary.

organizations to adopt similar practices—hence the so-called isomorphism²—and firms must conform to institutional pressures if they are to gain legitimacy³ within an organizational field.⁴ These institutional pressures typically originate from within two types of institutions. To highlight, it is the cognitive rather than the visible power of these two institutions that may constrain, control or enable firms' behaviors, although they may in fact do little to aid performance (Greenwood & Hinings, 1996).

First, the macro-social environment is comprised of the regulatory pressures from agencies, laws, courts, professional associations and interest groups. These constituents, together with public opinion, help to establish 'the rules of the game'. Second, inter-organizational relationships represent a more extended definition of institutions (Kostova, 1999). That is, suppliers, customers and competitors will also affect a particular firm's choice of action. These relationships are regarded as the collective social construction processes of each firm, such as the partnerships into which it enters. As Aldrich (1979) argued, 'the major factors organizations must take into accounts are other organizations.'

2.3. Institutional change within organizations

There is more than one feasible organizational form (i.e., a 'template'⁵) in the context of concurrent institutions and institutional change occurs when the prevailing template becomes outdated.⁶ Greenwood and Hinings (1996) argued that shifts in institutional interests lead to changes in *value commitments*⁷ within organizations. After *value commitments* changes, an established *status quo* is replaced by a preference for an *articulated alternative*. In every organization, powerful members act to ensure individual benefits as well as to confederate as many groups as possible to protect the collective interests. When the dominant interest group recognizes institutional pressures and attempts to adopt the *articulated template* so as to change the *status quo*, the phenomenon of institutional change may be said to occur. The tendency of the dominant interest group toward isomorphism may be identified as a central force in bringing forth institutional change.

It has been argued that SMEs are less hierarchical and are characterized by simpler management systems than their larger counterparts (Carson, Cromie, McGowan, & Hill, 1995; Chetty & Blankenburg-Holm, 2000); it is also often commonly assumed that the most powerful person in an SME is likely to be its CEO. Previous studies have shown that SMEs' entrepreneurial and internationalization decisions are highly correlated with their founders' personal traits (Preece, Miles, & Baetz, 1999). For example, after reviewing the literature of born global firms, Madsen and Servais (1997) asserted that a CEO's cognition, ambitions and experience, along with other factors presented in an SME's home country environment, will greatly influence an SME's internationalization.

Three types of institutional pressures contributing to isomorphism are examined as follows: (a) *coercive*, representing a firm's sensitivity to both informal and formal pressures exerted by others whom a firm is dependent on or in some way tied to; (b) *mimetic* or *imitative*, representing a firm's tendency to adopt the successful elements of other firms' actions in the face of uncertainty; and (c) *normative*, representing the

²Isomorphism also refers to the constraining process that forces one unit in a population to resemble other units that face the same conditions.

³Legitimacy is defined as the generalized assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions.

⁴DiMaggio and Powell (1983) define organizational fields as the organizations that, in the aggregate, constitute a recognized area of institutional life and the organizations include key suppliers, customers, regulatory agencies and other organizations that produce similar services or products.

⁵The idea of a 'template' connects to the research of configuration research. It represents the identified archetype of an organizing pattern of an organization's structures and systems. Each template represents a different underpinning idea and value, i.e., the interpretive scheme.

⁶That is, when environments change, an extant template lacking the endorsement of dominant actors will, over time, come to be questioned and challenged by other non-dominant actors. After some period of trial and error, a (likely) better alternative template—or at least, a more contextually appropriate template—will emerge and replace the old one.

⁷There are four kinds of value commitments in an organization: (1) status quo commitment, in which all groups are committed to the prevailing institutionalized template-in-use; (2) indifferent commitment, in which groups are neither committed nor opposed to the template-in-use; (3) competitive commitment, in which some groups support the template-in-use, whereas others prefer an articulated alternative; and (4) reformative commitment, in which all groups are opposed to the template-in-use and prefer an articulated alternative. When an organization shifts from status quo commitment to a reformative one, the institutional change occurs.

transmission of social facts, generally from external sources such as the professional history and knowledge carried by a manager into a firm.

2.3.1. *Coercive pressure*

Coercive pressure is the result of both informal and formal pressures exerted by the outside parties on which a firm depends. A firm's survival—and the degree to which it is able to meet the expectations of important members of society—depends on the resources it is able to gain from other organizations. Coercive pressure may be experienced as force, control or authority. For example, a given legal restriction, whether originating in the home country or the host country, can jointly act to affect a firm's international expansion (Davis, Desai, & Francis, 2000) and to limit (or not limit) a firm's choices with regard to internationalization.

The direct imposition of standardized rules may also occur beyond the scope of the legal or the political arena. As Pfeffer and Salancik (1978) have pointed out, a firm needs to satisfy the requirements of various partners. Partners such as powerful suppliers and customers then become de facto key institutions. Along these lines, Ellis (2000) showed that a smaller firm might be induced to initiate export activities by unsolicited orders from customers. Chen, Chen, and Ku (2004) also found that network ties with suppliers and customers influence SMEs' location choices.

2.3.2. *Mimetic pressure*

Mimetic pressure is the dominant visible cause of isomorphism (Lu, 2002). Since organizational fields are spheres of activity within which actors mutually recognize each other's presence and actions, firms in the same field will tend to engage in 'collective sense-making,' and to similarly characterize environments (Huff, 1982). Imitation will begin to take place among competitors and other peers during times of uncertainty, such as firms following competitors to invest in a particular country (Yu & Ito, 1988). Along these lines, institutional researchers have proposed that when a firm follows the emerging practices in its organizational field, this not only reduces its uncertainty about what might be the best course of action given a certain set of external realities but also enhances the firm's legitimacy by rendering its actions appropriate in the eyes of its stakeholders (Scott, 1995).

Firms have been found to imitate one another's patterns of internationalization, with respect to such actions as the sequence of entry, entry timing and entry mode (Guillén, 2002; Meyer, 2001). We contend that SMEs are more sensitive than large firms in their susceptibility to the pressures of mimetic isomorphism. As has been suggested in the literature, a firm's resistance to the current trends in its environment may lead to fears of failure in a competitive context; thus, SMEs will tend to mimic the new practices in which their peer firms are engaging in (Kraatz, 1998).

2.3.3. *Normative pressure*

Normative pressure stems primarily from professionalization, which can be interpreted as the collective struggle of those having a given occupation to define the conditions and methods of their work (Larson, 1991). There are two sources of normative isomorphic pressure: formal education and the growth of managers' inter-personal networks. As stated earlier, a firm's adoption of a new practice is related to some aspects of its managers' personal traits. The informal inter-personal networks of its top managers, then, may also hold the seeds of a firm's entrepreneurial actions (Young, Charns, & Shortell, 2001). For CEOs of SMEs, professional background and personal contact with other CEOs, whether through boards or social outlets, offer another means of gathering information about changing environments. As such, these factors may play a role in CEOs' decisions as to whether or not to expand abroad.

2.4. *The timing of SMEs' internationalization as an institutional change*

In this study, we propose that SMEs' initial international activities exhibit high degrees of conformity with the prevailing practices in a dramatically changing environment. By adhering to a 'rule-like' practice in the face of totally new conditions, firms add to their legitimacy within their organizational fields and improve their chances of survival. Therefore, the first-time adoption of a new practice is more closely related to institutional concerns. Westphal, Gulati, and Shortell (1997) found that early adopters will experience greater benefits of

legitimacy and will, furthermore, face fewer change-associated costs than will their late-adopter counterparts. Accordingly, timing is a critical signal for institutional change. Firms that recognize these three types of institutional pressures tend to react earlier in their first foreign entry. In short, when an SME's CEO perceives a higher degree of institutional pressure, regardless of the style, the SME will tend to engage in international activities earlier.

Hypothesis 1a. The higher the cognition of coercive pressures by an SME's CEO, the earlier the SME will initiate internationalization.

Hypothesis 1b. The higher the cognition of mimetic pressures by an SME's CEO, the earlier the SME will initiate internationalization.

Hypothesis 1c. The higher the cognition of normative pressures by an SME's CEO, the earlier the SME will initiate internationalization.

2.5. *The style of SMEs' internationalization as institutional change*

In addition to the *timing*, the *style* by which a firm reacts to institutional pressures can represent a deeper and more extended signal of institutional change. Two firms may adopt the same new practice at the same time, but may, in practice, adopt it to varying degrees. The superficiality or depth with which such a new practice is adopted will be determined by the conformity this new practice had. Accordingly, different styles of institutional change may be practiced by different firms. Depending on its pace, scale and content, institutional change may be classified as *incremental* or *radical* in style (Chapman, 2002; Gersick, 1991; Miller & Friesen, 1984).

Incremental change is convergent and evolutionary and occurs within the parameters of an existing template, helping firms to maintain internal reliability. As such, it may involve the fine-tuning of some policies, but not requiring large-scale or dramatic changes to core strategies. Rather, it will serve to improve the fit and consistency between an organization and its external environments, while remaining within the bounds of a firm's existing capabilities (Haveman, 1993).

Radical change, on the other hand—because it is transformational and revolutionary—will act to fundamentally alter the organization at its core and occurs when an organization moves abruptly from the use of one template to another. Such change moves organizations beyond the bounds of their familiar domains and causes strategic reorientations (Tushman & Romanelli, 1985). Not surprisingly, radical change is difficult and risky, and—since it requires a firm to stray far from its core capabilities—its outcomes are not certain.

Greenwood and Hinings (1996) asserted that the *intra-dynamics* will affect whether or not alternatives to a firm's action are seen as a viable option. Such *intra-dynamics* occur when many members within an organization act as different interest groups to compete for the authority to interpret the institutional environments. If the decisions made by dominant interest groups are in fact closely linked to the information provided by external parties, the firm is then solidly embedded within the context of its institutional environment. The more deeply embedded a firm is in its external environments, the more radically the firm will change in response to a dramatic change in the environments. Accordingly, when the leader of a firm's most dominant interest group recognizes strong institutional pressures, the likelihood that a firm will change radically increases. We propose that when the CEO of an SME is acutely aware of institutional pressures, a more radical approach to internationalize—reflected in the *pace*, *scale* and *content* of institutional change—can be expected.

By definition, "*pace*" refers to the time frame in which institutional change occurs. Although either 'timing' or 'pace' similarly related the concept of 'time', each of them represents a different aspect. In short, the timing depicts the question of 'when (i.e., early or late) would an SME start to change after recognizing institutional pressures?' whereas the 'pace' depicts the question of 'how fast an SME would be to fully accomplish institutional change since it has started engaging in institutional change?' which may also reflect an SME's style to engage in institutional change (i.e., radical or incremental) (Vermeulen & Barkema, 2002).

In situations of radical change, the sequence of isomorphism will not be incremental, and firms will tend to adopt new practices over a very short period of time. We suggest that, in the face of intense isomorphic

pressures, an SME will not go abroad in stages but is more likely to establish a production subsidiary in a host country. By setting up a production subsidiary in a host country, an SME rapidly commits itself to international engagement, thereby allowing it to speedily handle intense isomorphic pressures.

Hypothesis 2a. The higher the cognition of coercive pressures by an SME's CEO, the more likely the SME is to set up a production subsidiary in a host country at the initiation of its internationalization process.

Hypothesis 2b. The higher the cognition of mimetic pressures by an SME's CEO, the more likely the SME is to set up a production subsidiary in a host country at the initiation of its internationalization process.

Hypothesis 2c. The higher the cognition of normative pressures by an SME's CEO, the more likely the SME is to set up a production subsidiary in a host country at the initiation of its internationalization process.

'Scale' refers to the scope and size of institutional change. In situations of radical change, such as fundamental changes to existing structures, a firm will typically invest considerable resources in doing all that they can to ensure the success of their enormous and risky undertaking. In keeping with the staged model of internationalization, a firm will typically *not* add many new employees at the start of its internationalization process, nor will it assign these tasks to certain numbers of current members. We suggest, however, that an SME facing considerable isomorphic pressure will immediately recruit more employees to help out with the initial challenges associated with internationalization. This suggestion stands in contrast to that of the staged model, according to which SMEs increase the number of employees gradually throughout the internationalization process.

Hypothesis 3a. The higher the cognition of coercive pressures by an SME's CEO, the more likely the SME is to hire additional employees to assist with the challenges associated with the initiation of internationalization.

Hypothesis 3b. The higher the cognition of mimetic pressures by an SME's CEO, the more likely the SME is to hire additional employees to assist with the challenges associated with the initiation of internationalization.

Hypothesis 3c. The higher the cognition of normative pressures by an SME's CEO, the more likely the SME is to hire additional employees to assist with the challenges associated with the initiation of internationalization.

We define '*content*' as the degree to which a firm's important members feel that they are able or have the needs to understand a pending organizational change. Because it so significantly alters a firm's core, radical change increases the need for managers to be able to fully understand the rationale behind such framework-altering actions; only through such an understanding will they be able to effectively control the change process. In instances of radical change, we postulate that an SME's CEO will tend to adopt a wholly owned rather than a joint-venture model for the firm's initial internationalization. Since radical change is associated with higher levels of risk, CEOs will tend to prefer modes of entry characterized by a higher degree of control, which should in turn allow them to effectively monitor the early stages of the internationalization process.

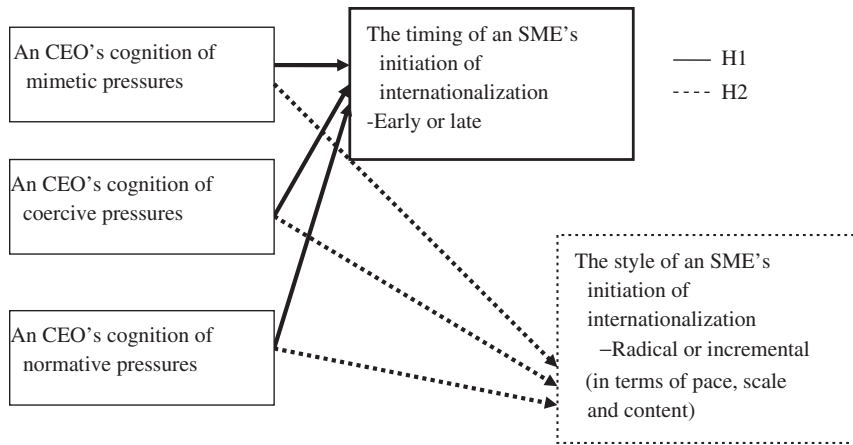
Hypothesis 4a. The higher the cognition of coercive pressures by an SME's CEO, the more likely the SME is to set up a wholly owned subsidiary in a host country at the initiation of its internationalization process.

Hypothesis 4b. The higher the cognition of mimetic pressures by an SME's CEO, the more likely the SME is to set up a wholly owned subsidiary in a host country at the initiation of its internationalization process.

Hypothesis 4c. The higher the cognition of normative pressures by its CEO, the more likely the SME is to set up a wholly owned subsidiary in a host country at the initiation of its internationalization process.

3. Methodology

We collected the data to test our research hypotheses by means of a mailed survey. Fig. 1 shows our research framework and Fig. 2 represents the process of our research methodology. Below, we describe the measurement of our variables as well as how we collected the data.



Notes:

Hypothesis 1 depicts our basic argument: *Does an SME which recognizes more institutional change pressures go abroad earlier?*

Hypothesis 2 depicts our extended argument: *Does an SME which recognizes more institutional change pressures go abroad in a more radical style?*

Fig. 1. Research framework.

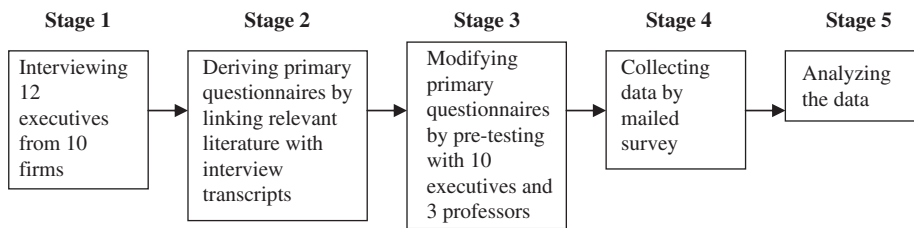


Fig. 2. Research process.

3.1. Measurements

3.1.1. Independent variables

One of the challenges of this study may lie in the scale developments of the measurements of the independent variables. As one of the suggestions for the future development of institutional theory, [Dacin, Goodstein, and Scott \(2002\)](#) encouraged more researchers to make use of qualitative methodologies, since the drivers of institutional pressures, as well as the ways in which firms perceive such pressures, may well differ according to specific organizational fields—such as the home country where a firm roots ([Brouthers, Brouthers, & Werner, 2002](#)). The difficulty in unveiling the nature of these different institutions may explain why previous studies had attempted to utilize secondary data to measure the ‘ex-post’ physical isomorphic evidence ([Slack & Hinings, 1994](#)) rather than to examine the ‘ex-ante’ perceived isomorphic pressures of firms’ decision makers. This tendency, thus, may also result in the insufficiently operationalized scales of major constructs. Accordingly, [Kostova and Roth \(2002\)](#) have noted that an alternative could be to develop more objective measures of institutional pressures.

Thus, to measure how institutional environments of Taiwan were perceived by its SMEs, we developed our questionnaire in three stages. First, we interviewed 12 executives from eight SMEs regarding the initial steps of their internationalization. To ensure that we could truly understand the context of their initial decisions to enter foreign markets, we conducted our interviews in a largely unstructured manner, and transcribed the executives’ responses word for word. Second, based on our review of the literature and analysis of the

transcripts, we derived some tentative indicators for measuring the key constructs of interest. Content validity was achieved by pilot-testing the questionnaire with 10 executives from five SMEs. Modifications to the questionnaire were made on the basis of the executives' responses and comments. As a final refinement, the revised questionnaire was reviewed by three professors, all specialists in business administration, at two universities in Taiwan.

For the formal questionnaire, we had five items for each type of institutional pressure. Each item was measured on a five-point Likert scale, with 1 indicating 'total disagreement' and 5 indicating 'total agreement.' Because all of our variables had *Average Variance Extracted Values* higher than 0.5, and because the correlation coefficient between any two variables was significantly lower than 1 in the *Confirmatory Factor Analysis*, we felt confident in asserting that the scales we developed have some convergent and discriminate validity (Bagozzi & Yi, 1988; Fornell & Larcker, 1981).

For *coercive pressure*, the categories of interest include pressures from suppliers, current customers, potential customers, home government and stockholders (reliability = 0.860). Most of the items included within this construct are consistent with the conceptual definition of *coercive pressure* suggested by DiMaggio and Powell (1983), although we chose to separate 'pressure from customers' by differentiating between pressures from current customers in existing markets and those from potential customers in not-yet-entered markets according to our interviews. 'I recognize a certain degree of pressure originating from the company's stockholders when deciding upon my companies' first entry into international markets' is an example suggesting this set of questions for CEOs.

For *mimetic pressure*, the categories of consideration include uncertainty in the home country (3 items), imitating successful peers and the pressure to act in response to competitors (reliability = 0.868). Pressure from peers and that from competitors are referred to by Westphal et al. (1997), while uncertainty in the home country is a consideration that was generated from our field study. According to the SME executives we interviewed, the uncertainty caused by insufficient labor supply, a shortage of large parcel of land and the dramatic changes in Taiwanese culture and society are three main sources of the recognition of institutional pressure.

For *normative pressure*, the categories of interest include pressures from the union, inter-personal contacts with other CEOs, suggestions from board members, the CEO's international work experience and the CEO's international educational experience (reliability = 0.623). With the exception of the experience-related items, which are referred to by Zucker (1987), all categories emerged from our interviews. This reveals that, for CEOs in Taiwan, it is the experiences after their formal education, such as contacts with unions or boards, which most markedly shape their professional norms.

3.1.2. Control variables

To avoid the confounding effect of related variables, we controlled two kinds of variables: the variables relating to firms' advantages and the variables relating to industry effect. First, Dunning's 'eclectic paradigm' suggests that when foreign direct investment is undertaken by a firm, it is often associated with ownership-specific advantages, motivations for internalization and location advantages (Dunning, 2000). Referring to Agarwal and Ramaswami (1992), we derived eight variables to measure the advantages of Taiwanese SMEs: the size of the parent firm, in terms of both capital and the numbers of employees; the age of the parent firm; the experience of the parent firm in diversification efforts; whether the CEO had visited the target foreign market(s) prior to initiation of the internationalization effort; the risk of knowledge leakage; the market potential of a host country; the resource endowment of a host country; and the entry restrictions of a host country. Exploratory factor analysis showed that: (1) *ownership-specific asset advantages* could be measured by a firm's age and size; (2) firm experience and overall risk were related, and host country-related items could be converged into two factors, which we termed *ownership-specific transaction advantages* (reliability = 0.706) and *location advantages* (reliability = 0.739).

Second, different industries have institutional pressures at different levels (Henisz, 2004) and we classified the firms in our study into four industries, following the typical groupings by the Taiwanese government in its statistical publications: electronics and machinery (EM); textiles (TX); shoe-making (SM); and food, chemicals and other industries (FCO). We used FCO as the reference group, and used three dummy variables to distinguish the industry effects on the decision to go abroad.

3.1.3. Dependent variables

Two different dependent variables were examined in this study: *timing* and the *style* in which internationalization is initiated. For *timing* (i.e., early or late entry) (Buckley & Casson, 1981), we asked firms to indicate the time period during which they initiated internationalization, measured as follows: 1 for between 1985 and 1987; 2 for 1988–1991; 3 for 1992–1995; 4 for 1996–1999; and 5 for 2000–2002.

We looked at *style* of internationalization by examining three variables. When we examined the *pace*, we followed the staged model by asking firms to indicate the entry mode they chose to employ at the initiation of their internationalization efforts. Possible modes of entry included through: (1) exporting only; (2) local agents; (3) a sales subsidiary; and (4) a subsidiary with a production function (Gankema et al., 1997). In examining *scale*, we asked the firm to report the number of personnel working at the home office who dealt exclusively with international activities, as well as the number of personnel working in a host country⁸ since human resources are considered as one of the crucial proxies for firms' commitments to internationalize (Johanson & Vahlne, 1977). When we examined *content*, we measured the share of ownership of the operating unit in a host country of an SME. The various levels of ownership were represented by the following scales: 5 represented 95% and above, 4 represented between 94% and 61%, 3 represented between 60% and 41%, 2 represented between 40% and 6% and 1 represented less than 5% (Anderson & Gatignon, 1986)⁹.

3.2. Data collection

We selected Taiwanese SMEs serving or operating in Southeast Asia and China as our samples. In Taiwan, SMEs are defined as firms having fewer than 200 employees or with capital less than US\$2,400,000 (US\$1 = NT\$33) by the government. The firms were randomly selected from the *Member Directory*, published by the China External Trade and Development Council (CETDC), a semi-governmental organization providing assistance to SMEs in their efforts to penetrate international markets. In hopes of gaining supports from the organization as well as international exposures, many SMEs register in the *Member Directory* after they decide to seek out foreign clients. In 2002, there were 852 firms listed in the directory. After confirming the names of the firms' executives, as well as the firms' addresses, we mailed our questionnaires to 538 firms. We asked each firm to have two key persons fill out the questionnaire: the manager in charge of international operations was asked to answer the questions regarding the firm's initial entry into a foreign market, and the CEO or general manager was asked to answer the questions regarding the *cognition of institutional pressures and advantages* at the time that the firm first decided to internationalize. In hopes of improving our response rate, we made sure to point out in our cover letter that the study was endorsed by the chairman of the CETDC.

A total of 196 completed questionnaires were returned and the total usable sample was 165. All of the respondents were manufacturers who had begun to engage in international activities between 1985 and 2002. We performed a test to check for non-response bias by comparing some of the different characteristics of the top-third and late-third groups of respondents. A one-way ANOVA test revealed no significant difference in the characteristics (i.e., capital, age, size, etc.) of the firms in the two groups (Armstrong & Overton, 1977).

4. Results and discussion

Table 1 shows the descriptive statistics and correlations between variables. Because none of the VIF values in each regression model were greater than 1.89, we felt that multicollinearity was not a serious problem (Hair, Rolph, Ronald, & William, 1998). It should be noted that significantly negative relationships exist between coercive pressure and the other two types of pressures ($\gamma = -0.247$ and -0.159 , respectively), and that mimetic and normative pressures are positively related to each other ($\gamma = 0.509$). These relationships imply that an SME *either* reacts to institutional pressures from the dominant agents (for example,

⁸Two things are highlighted below. First, the expatriates working in a host country are counted as part of the personnel working from the home country. Second, the personnel working in a host country might be the staff working in a subsidiary or working for a local agent.

⁹For equity ownership, a firm exporting only is coded as 5 because the firm is usually owned by the founders and a firm relying on local agents is coded as 1 because of the independence of the agents.

Table 1
Means, standard deviations and correlation coefficients

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. CP	2.70	1.01	1.00	-.247**	-.159*	-.126	.024	-.108	-.084	-.097	.153*	.455**	.179*	.209**
2. MP	3.03	.86		1.00	.509**	-.045	.201**	-.083	.087	-.350**	.204*	.050	.079	.168*
3. NP	3.36	.62			1.00	-.024	.138	-.066	.114	-.312**	.089	.137	.114	.053
4. OA	1.32	.63				1.00	-.041	-.107	.108	.009	.056	-.110	.004	.002
5. LA	3.84	.87					1.00	.007	.019	.022	.169	.091	-.027	.018
6. FA	3.08	.60						1.00	.012	.059	-.282**	-.104	-.135	-.316**
7. FS	2.33	.66							1.00	-.010	-.168*	-.112	-.133	-.090
8. Timing	1.96	.96								1.00	-.049	-.129	.049	-.034
9. Pace	3.52	.51									1.00	.227*	.192*	.172*
10. Scale-hq	2.07	.87										1.00	.271**	.157*
11. Scale-sub	2.53	.68											1.00	.285**
12. Content	4.43	.64												1.00

Note: * $p < .05$; ** $p < .01$.

CP: the cognition of coercive pressure by an SME's CEO.

MP: the cognition of mimetic coercive pressure by an SME's CEO.

NP: the cognition of normative pressure by an SME's CEO.

OA: the cognition of ownership-specific transaction advantages by an SME's CEO.

LA: the cognition of location advantages by a SME's CEO.

FA: Firm age; FS: Firm size.

Timing: the time starting internationalization, with 1 for 1985–1987; 2 for 1988–1991; 3 for 1992–1995; 4 for 1996–1999; and 5 for 2000–2002.

Pace: the entry mode in initiating internationalization.

Scale-hq: the number of personnel working at the home office dealing with international activities.

Scale-sub: the number of personnel working in a subsidiary.

Content: the equity share of ownership of the initial entry mode.

the customers) or the peers in their inter-organizational and inter-personal networks. Although the implications of this finding are beyond the scope of this study, we feel that they merit exploration by other researchers.

Tables 2–5 present the results of all of our regression models. In our analysis, a model including only control variables was treated as the base model. In models 2 and 4—depending on whether the dependent variable is on a continuous scale or a dichotomous variable—we ran either a linear or a logistic regression model. In model 3, two measurements of scale were used as the dependent variable. In all of our linear/logistic regressions, the adjusted R^2 or model χ^2 of the full model were always higher than those of the base model. The Hosmer & Lemeshow tests also indicated that all of our logistic models reach acceptable levels of fitness.

In model 1, the *timing* with which internationalization was initiated was the dependent variable. Since coercive ($\beta = -0.174$, $p < 0.05$), mimetic ($\beta = -0.251$, $p < 0.01$) and normative pressures ($\beta = -0.152$, $p < 0.1$) emerged as being significantly negatively related to the dependent variable, H1a–H1c were accepted. Resource dependency on other important agents (coercive), goal ambiguity and technical uncertainty with regard to imitating other peers (mimetic) and the presence of relevant information from CEOs' inter-personal links (normative) can jointly influence SMEs' readiness to enter into the prevailing trends with regard to internationalization and may, accordingly, act to force SMEs to expand abroad as soon as possible.

In models 2–4, we tested the factors that affect SMEs' *styles* of entry strategy. The dependent variables, in these examinations, were *pace*, *scale* and *content*, respectively. In model 2–2, it was shown that an SME whose CEO perceives higher levels of coercive ($\beta = 0.161$, $p < 0.05$) and mimetic pressures ($\beta = 0.169$, $p < 0.05$) will tend to adopt a more rapidly paced entry mode at the beginning of internationalization. However, normative pressure appears to bear no significant impact ($\beta = -0.044$, $p > 0.1$).

Our findings were very similar in the case of the logistic model. As shown in model 2–4, coercive ($\beta = 0.438$, $p < 0.05$, $Wald = 4.755$) and mimetic pressures ($\beta = 0.499$, $p < 0.1$, $Wald = 3.612$) exert a positive impact on the establishment of a production subsidiary. Accordingly, H2a and H2b were accepted and H2c was rejected.

Table 2
Regression model 1: timing as the dependent variable

Variables	Model 1-1	Model 1-2	
Constant	(3.843)**	(5.833)**	
<i>Control variables</i>	β (<i>t</i> -ratios)		
1. FA	-.022 (-.295)	-.060 (-.860)	
2. FS	-.045 (-.622)	-.012 (-.167)	
3. OA	-.015 (-.209)	-.051 (-.730)	
4. LA	.051 (.708)	.118 (1.709) ⁺	
5. EM	.187 (1.948) ⁺	.152 (1.664) ⁺	
6. TX	-.303 (-3.159)**	-.237 (-2.582)*	
7. SM	-.230 (-2.481)*	-.176 (-1.976)*	
<i>Independent variables</i>			
1. CP		-.174 (-2.411)*	H1a
2. MP		-.251(-3.048)**	H1b
3. NP		-.152 (-1.920) ⁺	H1c
R^2	.205	.331	
Adjusted R^2	.170	.266	
<i>F</i> value	5.788	6.944	
Significance (<i>p</i>)	<.001**	<.001**	

⁺ $p < .1$; * $p < .05$; ** $p < .01$ (two-tailed tests).

Table 3
Regression model 2: pace as the dependent variable

Variables	Model 2-1 ^a	Model 2-2	Model 2-3	Model 2-4	
Constant	/12.803**	/8.845**	1.759/1.281	-.327/.025	
<i>Control variables</i>	β / <i>t</i> -ratios	β / <i>t</i> -ratios	β /Wald	β /Wald	
1. FA	-.230/-3.188**	-.205/-2.851**	-1.030/9.499**	-.982/7.885**	
2. FS	-.145/-2.026*	-.144/-2.013*	-.576/4.275*	-.557/3.859*	
3. OA	.080/1.103	.106/1.454	.354/1.429	.467/2.317	
4. LA	.157/2.202*	.126/1.755 ⁺	.478/4.714*	.411/3.255 ⁺	
5. EM	-.033/-.347	-.006/-.068	-.188/.138	-.015/.001	
6. TX	.259/2.735**	.241/2.530*	1.404 /6.850**	1.390/6.107*	
7. SM	.208/2.278*	.211/2.282*	1.153/4.695*	1.312/5.268*	
<i>Independent variables</i>					
1. CP		.161/2.159*		.438/4.755*	H2a
2. MP		.169/1.971*		.499 /3.612 ⁺	H2b
3. NP		-.044/-.542		-.225/.405	H2c
R^2 /Cox and Snell R^2	.224	.257	.221	.255	
Adjusted R^2 /					
Model χ^2	.189	.209	41.286	48.283	
<i>F</i> value/log-likelihood	6.460	5.334	187.155	179.979	
% of model prediction			74.4%	76.7%	
Significance (<i>p</i>)	<.001**	<.001**	<.001**	<.001**	

⁺ $p < .1$; * $p < .05$; ** $p < .01$ (two-tailed tests for models 2-1 and 2-2; one-tailed tests for models 2-3 and 2-4).

^aIn models 2-1 and 2-2, entry mode was treated as a continuous variable to reflect the incremental nature of commitment. In models 2-3 and 2-4, entry mode was treated as a dichotomous variable, with 1 representing a subsidiary with a production function and 0 otherwise.

With regard to *scale*, the number of personnel working at the home office whose role was to handle international activities was used in models 3-1 and 3-2, and the number of personnel working in a subsidiary was used in models 3-3 and 3-4. Our findings suggested that an SME whose CEO experiences higher levels of coercive pressure ($\beta = 0.205$, $p < 0.05$) will hire more personnel at home when the firm initiates its operations

Table 4
Regression model 3: scale as the dependent variable

Variables	Model 3-1 ^a	Model 3-2	Model 3-3	Model 3-4	
Constant	(7.021)**	(3.593)**	(4.162)**	(-.034)	
<i>Control variables</i>	$\beta(t\text{-ratios})$				
1. FA	-.133(-1.674) ⁺	-.102(-1.294)	-.085(-1.082)	-.025(-.355)	
2. FS	-.108(-1.372)	-.115(-1.475)	-.076(-.977)	-.057(-.823)	
3. OA	.038(.479)	.071(.900)	-.080(-1.012)	-.011(-.156)	
4. LA	-.014(-.178)	-.049(-.621)	.079(1.027)	.038(.555)	
5. EM	.104(.994)	.143(1.387)	.000(.001)	.088(.965)	
6. TX	.204(1.963) ⁺	.185(1.783) ⁺	.224(2.179)*	.235(2.545)*	
7. SM	.025(.251)	.021(.204)	.139(1.405)	.190(2.123)*	
<i>Independent variables</i>					
1. CP		.205(2.516)**		.484 (6.707)**	H3a
2. MP		.074(.797)		.034 (.409)	H3b
3. NP		.130(1.452)		.157 (1.981)*	H3c
R ²	.065	.117	.090	.306	
Adjusted R ² /	.023	.059	.049	.261	
F value	1.563	2.037	2.313	6.787	
Significance (p)	.150	.033 *	.036 *	<.001 **	

⁺ $p < .1$; * $p < .05$; ** $p < .01$ (two-tailed tests).

^aScale-hg for models 3-1 and 3-2 and scale-sub for models 3-3 and 3-4.

Table 5
Regression model 4: content as the dependent variable

Variables	Model 4-1 ^a	Model 4-2	Model 4-3	Model 4-4	
Constant	/11.385**	/7.466**	4.327/8.112**	1.357/.462	
<i>Control variables</i>	$\beta/t\text{-ratios}$		$\beta/Wald$	$\beta/Wald$	
1. FA	-.298/-3.910**	-.263/-3.514**	-1.229/13.812**	-1.173/11.710**	
2. FS	-.078/-1.038	-.075/-1.011	-.439/2.728 ⁺	-.444/2.627	
3. OA	-.027/-.355	.009/.123	-.121/.187	-.001/.000	
4. LA	-.001/-.016	-.042/-.565	.086/.180	-.009/.002	
5. EM	-.015/-.149	.024/.248	-.005/.001	.212/.168	
6. TX	.055/.548	.033/.338	.356/498	.243/.201	
7. SM	.168/1.741*	.177/1.838 ⁺	1.252/5.435*	1.415/5.889*	
<i>Independent variables</i>					
1. CP		.237/3.056**		.568/8.137**	H4a
2. MP		.217/2.443*		.609/5.120*	H4b
3. NP		-.053/-.627		-.127/.129	H4c
R ² /Cox and Snell R ²	.135	.200	.167	.224	
Adjusted R ² /model χ^2	.096	.148	30.084	41.843	
F value/log-likelihood	3.501	3.857	198.600	186.844	
% of model prediction			64.3%	73.8%	
Significance (p)	.002**	<.001**	<.001**	<.001**	

⁺ $p < .1$; * $p < .05$; ** $p < .01$ (two-tailed tests for models 4-1 and 4-2; one-tailed tests for models 4-3 and 4-4).

^aIn models 4-1 and 4-2, the share of ownership of the first entry was treated as a continuous variable. In models 4-3 and 4-4, the share of ownership was treated as a dichotomous variable, with 1 representing a wholly owned subsidiary and 0 otherwise.

abroad; similarly, an SME that perceives a greater degree of coercive ($\beta = 0.484$, $p < 0.01$) and normative pressures ($\beta = 0.157$, $p < 0.05$) will hire more local workers. Thus, H3a was supported, H3c was partially supported and H3b was not supported.

We used both linear (models 4-1 and 4-2) and logistic regression (models 4-3 and 4-4) to test the impact of institutional pressures on *content* (i.e., share of ownership). In the linear models, our results showed that an SME experiencing higher coercive ($\beta = 0.237, p < 0.01$) and mimetic ($\beta = 0.217, p < 0.05$) pressures will take more equity as it begins to internationalize. However, normative pressure appears to have no impact on equity ownership ($\beta = -0.053, p > 0.1$). The results of the logistic model (model 4-4) showed that high coercive ($\beta = 0.568, p < 0.01, Wald = 8.137$) and mimetic ($\beta = 0.609, p < 0.05, Wald = 5.160$) pressures led to the use of wholly owned subsidiaries. Thus, H4a and H4b were supported, and H4c was not supported.

Our results regarding *style* then revealed that coercive pressure has the strongest impact on the characters of a firm's internationalization—that is, on how radically or incrementally a firm plans for internationalization (H2a, H3a and H4a were supported). When internationalization requests are made by resource providers of primary importance, SMEs tend not simply to honor such requests, but do so in a radical fashion. In such cases, SMEs are more likely to pursue more risky entry strategies (such as foreign direct investment) than less risky ones (such as exporting). That is, they tend to hire more employees both at home and abroad, as well as to set up a wholly owned production subsidiary to start serving foreign clients. Our findings augment the arguments of previous studies, which have concluded that firms may invest abroad by following their customers (Martin, Swaminathan, & Mitchell, 1998).

Regarding the isomorphic impact from other peers, our results showed that the cognition of mimetic pressure affects an SME's commitment to and ownership of foreign subsidiaries when it starts to internationalize (H2b and H3b were accepted). This reminds us that firms not only cope with uncertainty by accumulating experiences over time but also by relating to other firms in their respective environments, especially in those cases of SMEs with few international experiences. SMEs may not readily realize, in isolation, that foreign opportunities exist or that they can take advantage of such opportunities. But in situations of uncertainty, the pressures to imitate other firms may force them to take more aggressive actions.

We were surprised by the insignificance of normative pressure on SMEs' initial modes of internationalization. We offer one reason for such an insignificance here, which we believe to be plausible. CEOs' previous experience and inter-personal contacts may have an impact on the timing according to which they engage in internationalization. The style with which they internationalize, however, is another story. According to Young et al. (2001), factors related to top managers (i.e., normative pressures) are more important than network factors (i.e., coercive or mimetic pressures) in influencing the early phases of the adoption of new practices. In the latter phases, however, network factors assume relatively greater importance than those associated with top management. Therefore, we suspect that in leading their firms into foreign markets, most CEOs will refer to the formal requests of important agents or peers rather than depending on the information gathered through personal networks.

With regard to our control variables, we also obtained some interesting findings. For example, our research showed that older and larger SMEs tend to follow the incremental staged model in their move to foreign markets, and most of them prefer a more conservative entry mode—i.e., pure exporting. This result is consistent with the findings of Guillén (2002), which showed that the structure inertia of older and larger firms reduces their readiness to engage in radical methods of international expansion.

5. Conclusion and limitations

The conclusions of this study should be evaluated in light of the following limitations. To recall, as an early attempt to introduce the concept of institutional change into the existing theories of SME's internationalization, our exploratory arguments in this study may be primary and less generalized to the contexts of MNEs. By suggesting some directions for future research, we hoped that more grounded empirical studies should be conducted before any possible general theory is advanced.

5.1. Conclusion

Organizational theory emphasizes that firms are responsive to the signals they receive from other parties within their organizational fields. Our results confirm this argument, which has shown that even those actions which seem to be driven largely by the desire for efficiency, such as IE, have roots in a set of sociological

factors including those being considered in institutional theory. Examining organizational actions only through the lens of economics (i.e. the leveraging of opportunities) may in fact obscure the true motivations behind these actions.

This study thus makes a significant contribution to integrate internationalization and institutional theories. Our findings show that for SMEs, the institutional-rooted concerns that affect their CEOs really act to influence their international activities. Firms' early internationalization decisions are thus, in part, the consequences of their recognitions to cope with the institutional pressures in the home country. Combing this 'pressure' perspective with the 'advantage or efficiency' aspects in internationalization theories can help scholars in international business to effectively examine, predict and provide advices for a firm's potential international expansion. Knowledge of such a combination can also help to extend the usefulness of institutional theory in examining a firm's various behaviors. Specifically, we have shown that, in addition to institutional pressures at host countries, the pressures at home countries can also affect a firm's (i.e., an SME) entry modes. Therefore, institutional theory can be another theoretical lens in examining the international operations of SMEs.

Accordingly, we postulate that SMEs' awareness of the potential opportunities of internationalization is mixed with their awareness of external pressures to internationalize. For example, the initiation of internationalization, especially for an SME, may not simply be the result of the pursuit of opportunities in other new markets, but may also represent a response to the home market environment characterized by institutional pressures.

Such responsiveness, however, will vary greatly from firm to firm (Newman, 2000). Our empirical findings suggest that the cognition of coercive, mimetic and normative pressures by SMEs' CEOs will, jointly, determine the degree to which firms respond to their home environments. When a CEO is more acutely aware of institutional pressures, the SME he/she leads will tend to react in a more radical manner. In a home country environment characterized by dramatic change, an SME will likely perceive institutional pressure as greater in degree, leading it to pursue risky and radical international activities such as setting up a wholly owned production subsidiary in a host country. For SMEs operating in rapidly changing environments, 'learn-by-doing' strategies such as exporting or initiating joint ventures are not feasible alternatives, given the likelihood of failure within their domestic organizational field. Therefore, we suggest that the impact of the home country environments on SMEs' IE actions is worthy of further attention.

Our findings, therefore, are able to provide some insight into the 'black box' of managerial decision-making when it comes to risky ventures into new fields (Guillén, 2002). We would argue that in addition to other personal characteristics such as the experiences and ages of CEOs (Madsen & Servais, 1997), the importance of decision makers' cognition with regard to firms' internationalization may be a topic worthy of exploration. For example, Manolova, Brush, Edelman, and Greene (2002) showed that neither demographic measures nor international orientation distinguishes between internationalized and non-internationalized firms, but that the perception of markets is significant. Nummela, Sami, and Puumalainen (2004) also found that managers' mindsets regarding the prospects for new international markets also affect firms' performances.

These studies, however, in spite of their findings regarding managers' environmentally based perceptions of their firms' need to internationalize, are still looking at it almost strictly through the lens of economics. Our study suggests that the perception of environments by decision makers within a firm may reflect the impermanent nature of a 'fit' between a firm and its environment. Such a fit, in addition to helping firms adapt to new markets, would also include consideration of the pressures faced by firms. It may be that, even facing similar prospective markets, an SME will choose to adopt a more radical style of internationalization when operating under pressures of time, but will choose to make use of a more incremental style (such as exporting or joint-venture strategies) when the pressures of time are felt less acutely. We hope that this notion may capture the interest of future researchers.

5.2. *Limitations and suggestions for future research*

Firstly, as we have noted, the results of our regression analyses, although significant and having defensible adjusted R^2 , are not able to provide an overall picture to explain the motivations behind SMEs' IE behaviors. Our analysis reveals the fact that institutional theory alone may not be enough to explain the motivations for

an SME's IE behavior, because various types of pressures may drive firms to exhibit certain passive modes of behavior, which may not reflect the actively entrepreneurial nature of SMEs' international expansion. We suggest that a more comprehensive perspective, combining both firms' reactive and proactive behaviors, may more fully explain SMEs' motivations for initiating internationalization.

Secondly, our findings are based on the contexts of SMEs which are considered as reacting to external environments more easily and the findings may not be generalized for the decision-making nature of MNEs. Future studies should also test the validity of our arguments in less dynamic environments, such as in developed countries, rather than the changing environment of Taiwan between 1980 and 2000.

Thirdly, as pointed out by Scott (1995), institutional theory may explain firms' behaviors in only a general way. We have proven that organizations must cope with the pressures presented in their external environments, but the detailed mechanisms of what and how particular sociological institutions cause firms to initiate internationalization still need to be clarified. To overcome the deficiencies of institutional theory, this study tested and examined institutional pressures in terms of three distinctive drivers of isomorphism, i.e., coercive, mimetic and normative pressures, respectively. Our results have revealed some preliminary evidence that a focal firm has its own mechanisms for responding to institutional pressures selectively and consciously. Future researchers might try to explore these mechanisms.

Fourthly, another limitation is related to the definition of an SME. For example, in the US less than 500 employees is defined as an SME, which is far greater than that of an SME in Taiwan. The applicability of our findings about "smaller" SMEs to large ones, such as those in the US, warrants further investigation.

Finally, this study only investigates the initial stages of SMEs' internationalization processes. However, the ability of an institution to objectively examine its own institutional memory of international experiences, as well as various host countries' institutional environments, will also, as a firm's international experience starts to accumulate, influence the firm's choice of internationalization strategy (Lu, 2002). Accordingly, the impact of the home country's institutions on an SME's follow-up entry modes in other new markets is another issue that merits examination.

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Hsiang-Lin Cheng is an assistant professor of international trade at Feng-Chia University, Taiwan. He received his Ph.D. in business administration from National Cheng-Chi University. His research focuses on international entrepreneurship of SMEs and inter-organizational social networks.

Chow-Ming Joseph Yu teaches at National Cheng-Chi University. His areas of research include entry strategy, multinational business strategy and the management of small and medium enterprises. Dr. Yu has published papers in the *International Business Review*, the *International Journal of Research in Marketing*, the *Journal of International Business Studies*, *Industrial Marketing Management*, *Management International Review* and *Management Science*, among others.