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Export Channel Choice for SMEs: A Cognitive Perspective

Abstract

Despite decades of research on SME export channel choice, we know little about the role played by managerial mindsets. Managerial mindsets are the cognitive mental model managers rely on for processing and evaluating information and making decisions. In this paper we develop and test the notion that, in addition to the influence of transaction cost factors, the global mindset of top managers has a significant impact on the export channels that SMEs use. We also suggest that this relation is sensitive to the level of political instability in the target market since such instability increases risk and uncertainty. A multinomial regression analysis was used to analyze the responses of a sample of 208 Chinese SMEs. The results provide support for our ideas. In this way we contribute to a better understanding of how managerial thinking can influence the strategic choices that are made and the boundary conditions that exist when SMEs expand abroad.

Keywords: Global Mindset; Export Channel Choice; Chinese SMEs; China FDI; Exporting; Political Stability; Target Market Risk and Uncertainty

Introduction

Small and medium sized enterprises (SMEs) tend to rely on exporting to expand operations internationally (OECD, 2012). Export channels are the structures through which firms make sales and distribute products/services to foreign buyers (Klein, Frazier & Roth, 1990) and the choice of export channel can significantly impact performance (Aulakh & Kotabe, 1997; Kalinic & Brouthers, 2022). Research on export channel choice focuses primarily on transaction cost theory (Li, He & Sousa, 2017) and indicates that because SMEs are restricted in financial, managerial, and experiential resources they tend to prefer shared control (agents and joint ventures) or market-based (distributor) export channels (Bello & Lohtia, 1995; Solberg & Nes, 2002). Although transaction cost studies have advanced our knowledge of export channel choice, they do little to help us understand how SME managers' cognitive mental mindsets affect export channel decisions (Nadkarni & Herrmann, 2010).

When it comes to international expansion managers differ in their cognitive mental models; how they think about the opportunities and threats that await them in foreign markets (Gupta & Govindarajan, 2002). Scholars have suggested that the global mindset (GM) of managers captures these differences in thinking and reflects the cognitive mental model managers rely on for processing and evaluating information and making decisions in complex international business environments (Andresen & Bergholt, 2017; Hruby, Watkins-Mathys & Hanke, 2016). GM involves the development of a cognitive mental model or way of thinking that will lead to a proactive attitude about foreign markets, a strong commitment to internationalization, and to developing an overall international vision (Levy et al., 2007; Nummela, Saarenketo & Puumalainen, 2004; Torkkeli et al., 2018). Generally, a GM cognitive mental model helps managers to deal with the complexities of international business, identify

international opportunities, and make decisions in order to capture these opportunities (He et al., 2020; Mostafiz, Sambasivan & Goh, 2019b).

Building on these ideas, we theorize and test the notion that managers' GM will influence the export channel choice, in addition to the influence of transaction costs and other institutional factors. More specifically, we theorize that firms where managers possess a higher GM will tend to use shared control export channels (agents or joint ventures) or to a lesser extent integrated full control (wholly owned) channels as they expand abroad, even after controlling for transaction costs, institutional and other firm-specific factors. Through these shared or integrated channels managers can gain access to valuable information about opportunities and cultural differences in the export market (Bello & Lohtia, 1995; Solberg & Nes, 2002) that they can use to improve exporting activities. In contrast, we theorize that firms in which managers have lower GM will tend to use market-based channels (distributors) where another firm takes full responsibility for the exporting operation, minimizing any involvement of the SME (Bello & Lohtia, 1995; Solberg & Nes, 2002). The reason for this is that managers with lower levels of GM think differently and possess cognitive biases that restrict their ability to recognize opportunities in foreign markets and find the cognitive complexity of dealing with other cultures daunting (Levy et al., 2007). These lower GM managers will therefore not want to be involved in the exporting operation and thus the firms they lead will tend to use distributors who handle all foreign market interactions.

In addition, since international expansion exposes the firm to different institutional contexts, which can influence the choices managers make (Demirbag, McGuinness & Altay, 2010), we suggest that the impact of GM on export channel choice will be moderated by the institutional environment, specifically the level of political instability in the target market.

Political instability is a critical aspect of the institutional environment and has been shown to impact the amount of foreign direct investment (FDI) and the quality of FDI a country receives (Egan, 2017). In fact, previous research has shown that political instability is the most important institutional factor in determining the levels of FDI (Baek & Qian, 2011). Research also shows that political instability can generate changes in the mental mindsets of managers (Allard, Martinez & Williams, 2012). Political instability is defined as the probability of a government experiencing the shock of large-scale social, ethnic, or civil unrest and violence or being overthrown through unconstitutional means (Baek & Qian, 2011). As such, it influences the level of risk or uncertainty that managers perceive in a target market (Jiang et al., 2015; Allard et al., 2012). We theorize that higher GM managers entering export markets with high political instability will reduce their preference for shared or integrated channels as compared with the use of distributors, and that lower GM managers facing the same situation will increase their preference for distributors. This occurs because managers believe that in politically unstable markets uncertainty, complexity, and the risk of loss is high and the rights and roles of foreign firms can change frequently making it is difficult to establish trusting relationships with potential partner organizations (Allard et al., 2012; Egan, 2017).

In this way we make several important contributions. First, we contribute to the export channel choice literature that tends to examine the impact of transaction costs and institutional issues on this decision (Li et al, 2017). Adding to this research, we focus on ‘managerial cognitions’ and develop and test theory to explain how the way managers think about international markets, their GM, has a significant impact on the export channel choices they make, in addition to the influence of transaction costs and institutional factors. Second, we contribute to the GM literature that has looked at how GM impacts the general

internationalization efforts of a firm (Levy et al., 2007; Nummela, Saarenketo & Puumalainen, 2004; Torkkeli et al., 2018). We extend this work by developing theory to understand how GM plays a role in the strategic exporting channel choice that a firm will undertake. Furthermore, our study identifies an international boundary condition to GM. We theorize that GM is sensitive to the political context in which it is employed. Overall, our study highlights the important role played by managerial cognitions, in addition to transaction costs, when making international export channel choice decisions.

Theory and Hypotheses

The cognitive perspective suggests that managerial cognitions influence a firm's strategic goals, its analysis of the external environment, and the overall strategy a firm pursues (Narayanan, Zane & Kemmerer, 2011; Schwenk, 1988). Managerial cognitions are the mental models that influence how managers think about and deal with the intricacy of the real world (Thomas et al., 1993) and how they identify, process, and categorize information coming from the environment (Daft & Weick, 1984; Thomas et al., 1993). These mental models also create cognitive biases which can impact what information is captured and how it is interpreted (Daft & Weick, 1984; Nadkarni & Herrmann, 2010; Schwenk, 1988). As such the mental models of top managers have a significant effect on the strategic decisions they make (Nadkarni & Herrmann, 2010; Thomas et al., 1993).

GM is a managerial mental model that is significantly related to internationalization activities and decisions of companies (Andersson & Evers, 2015; Mostafiz et al., 2019a, 2019b). GM reflects a manager's cognitive attitude about operating in complex international business environments (Andresen & Bergholt, 2017). It has been found to impact the international drive

of a company (Felicio, Caldeirinha & Rodrigues, 2012; Kyvik et al., 2013; Miocevic & Crnjak-Karanovic, 2012), the overall international strategy of a firm (Nadkarni & Herrmann, 2010; Torkkeli et al., 2018), and a firm's ability to capture international knowledge and identify international opportunities (He et al., 2020; Mostafiz et al., 2019a, 2019b).

The concept of GM and the recognition that managerial cognitions or mental models influence the foreign operations of a firm, originated in the pioneering works on international expansion of Aharoni (1966) and Kindleberger (1969). However, it was Perlmutter's (1969) categorization of managerial cognitive mindsets (ethnocentric, polycentric, and geocentric) that provided a taxonomy of the mindsets of top executives. Building on this foundation, a number of typologies of GM have emerged emphasizing distinct cognitive aspects of this mental model. For example, some studies focus on the cultural dimensions of a manager and their ability to understand and communicate with diverse cultures, while others try to measure a manager's international vision and acceptance of the importance of international markets for the survival and growth of a firm (Levy et al., 2007; Javidan & Teagarden, 2011; Torkkeli et al., 2018). Despite the differences in emphasis on managerial cultural characteristics or international strategic vision, these studies agree that a high GM will result in an international outlook and acceptance of the importance of foreign markets for the future growth of their firm.

Below we develop and test theory suggesting that the GM of SME top managers plays an important role in the export channel choice decision. Managers that possess a higher GM have a belief in the importance of international markets for the future growth of their companies and will therefore proactively pursue an internationally expansive strategy. We develop theory to suggest that these firms will choose export channels that provide such opportunities. But in those firms where managers have lower levels of GM, international activities will depend to a greater

extent on other, outside organizations to minimize any cognitive demands that arise from working in different cultural contexts. We suggest that these firms will tend to choose export channels that minimize managerial time and effort in the international operations.

GM and export channel choice

Exporting involves the establishment of sales and distribution activities in each foreign market and requires the adaptation of processes and procedures to match those found in these countries (Bello & Lohtia, 1995). To undertake these tasks effectively firms need to have some knowledge of the target country, its consumers and laws as well as an ability to make changes to its current processes, procedures and products/services. Prior transaction cost research suggests that firms can choose from three types of export channels to facilitate this process (Li et al., 2017). First, shared control channels involve working with a partner, like an agent or joint venture (JV) partner located in the export country that help facilitate export activities by connecting foreign sellers (the exporter) with domestic buyers. These shared channel partners do not take possession of the goods or services exported to the market but provide the firm with knowledge and information about foreign market government policies, competitors, and customers, and help sell the products to potential buyers for which they usually receive a fee or commission (Bello & Lohtia, 1995).

Second, distributors provide a market-based channel and are individuals or firms that buy the products directly from the SME and are responsible for all sales and distribution activities in the export market (Klein et al., 1990). Distributors take ownership of the goods and undertake full responsibility for the export operation (Jackson & d'Amico, 1989; Solberg & Nes, 2002), relieving the SME of any foreign market activities and the need to develop knowledge about the

foreign market. Third, firms can use integrated full control export channels. One such integrated channel, selling directly from the home market, provides a means to service a foreign market with relatively little cost. The exporting firm might send sales or service people from the home country to the foreign location on an occasional basis, but most sales and distribution are undertaken from the home market. While direct selling provides an inexpensive channel of entry because there is no target market presence, the firm does not develop much knowledge about the export market, has difficulty establishing legitimacy, and the volume of sales is normally low (Li et al., 2017). A second type of integrated export channel, a wholly owned export sales subsidiary, helps the firm gain first-hand knowledge about the foreign location, become embedded in the foreign country, and provides a means to find new customers and more accurately address their needs. Yet wholly owned sales operations require substantial financial and managerial resources to set up and operate and consequently expose the firm to increased risk of loss (Campa & Guillen, 1999; Solberg & Nes, 2002).

While prior transaction cost studies have advanced our understanding of SME export channel choice, they do not consider the influence of managerial cognitions nor address the firm-specific ability to adapt and deal with international opportunities (Li et al, 2017; Zhao, Luo & Suh, 2004). Building on a cognitive perspective we suggest that managers possessing higher GM will have the cognitive ability to obtain foreign market knowledge, recognize international opportunities (He et al., 2020; Mostafiz et al., 2019a, 2019b), and deal with the complexities presented by differences in foreign markets (Levy et al., 2007; Murtha et al., 1998; Torkkeli et al., 2018). As a result, we theorize that despite the transaction costs involved, SMEs with higher GM managers will use shared control or integrated export channels.

Working with a partner in the target market or establishing a presence in the market helps these globally oriented firms by providing market-specific information, general advice and technical support (Rosenbloom & Larsen, 1992). These resources are particularly valuable for managers possessing higher GM because these managers are committed to international markets and the development of unique products for new target markets (Miocevic & Crnjak-Karanovic, 2012). Through interactions between globally oriented managers and export partners or employees, information is exchanged, and an adaptation process is undertaken which modifies processes and procedures to align them with the demands of the host market, facilitating the legitimacy of the exporting firm in the foreign target market (Campa & Guillen, 1999). This increased legitimacy leads to higher export sales and improved export performance.

In addition, exporting firms in many cases provide products or services that are more sophisticated than those provided by firms in the local market (Pope, 2002). Yet selling more technologically advanced products requires specialized skills and knowledge. For more globally oriented firms, local partners or employees provide a valuable intermediary function in reaching potential new buyers. Managers with higher GM are willing to work with others from different cultures and adapt to cultural differences (Felicio et al., 2012; He et al., 2020; Torkkeli et al., 2018). These globally oriented firms prefer to invest in foreign partners or employees to train them in providing sophisticated products and services to foreign buyers with complicated buying needs. In many cases, this will allow the exporting firm to directly provide these products to foreign buyers that the local partner or employee has located (Bello & Lohtia, 1995). The close contact with the partner or directly through employees with the buyer of the product will benefit the SME because the firm will receive valuable feedback that allows it to improve its products and gain experience on the specific needs of foreign clients. Consequently, more globally

oriented firms will be able to customize their products to better meet the requirements of these foreign buyers resulting in improved export performance.

Furthermore, due to the lack of resources SMEs often rely on networks and alliances in both domestic and international markets (Brouthers, Nakos & Dimitratos, 2015). These social connections allow companies to overcome resource deficiencies and exploit opportunities in the business environment. Because managers possessing higher GM view international markets as essential to the growth of their firm, they will be more eager to establish international networks and alliances (Felicio et al., 2012; He et al, 2020). Using agents or JVs as the export channel can facilitate the creation of these networks/alliances and access to resources. Local partner firms offer a rich opportunity for a SME to enlarge its foreign market network in a number of ways. Basically, agents or JV partners provide a marketing channel that knows the market but costs the firm little to establish and use, until a sale is made (Jackson & D'Amico, 1989). Furthermore, agents/JV partners not only locate new customers but can also provide a source of information and links with local suppliers, government officials, and other contacts that may be useful to the SME in the future (Gao et al., 2016). For all these reasons, we maintain that SMEs having managers with higher GMs will prefer to export through shared control or integrated full control export channels.

In contrast, we theorize that for SMEs where managers possess a lower GM, distributors will be the preferred export channel. Because GM is a cognitive mindset that facilitates the identification of international opportunities (Koh et al., 2014), the capturing of international knowledge (He et al., 2020; Mostafiz et al., 2019a), and the adaptation of firm processes and procedures when internationalizing to new foreign location (Andersson & Evers, 2015; Mostafiz et al., 2019a, 2019b), the lack of such a global mindset hampers managers ability to deal with the

demands of exporting. The use of distributors allows less globally oriented firms to minimize their involvement with foreign customers (Katsikeas, Al-Khalifa & Crick, 1997). Managers with lower GM possess cognitive biases and do not tend to feel comfortable interacting with individuals or firms from different cultures (Nummela et al., 2004). The use of distributors will allow such organizations to avoid the complexities of dealing with cultural differences, since the distributor takes full responsibility for exporting the products and interacting with foreign customers, government agencies and competitors.

Managers with lower GM think about international markets differently, they usually do not understand the complexity and special characteristics of foreign markets (Levy et al., 2007) and consequently do not recognize the opportunities available in international markets (Andersson & Evers, 2015; He et al., 2020; Mostafiz et al., 2019b), nor grasp the need to customize products. Subsequently, they may decide to export products similar to the ones that they sell in their domestic or other international markets. Although, this lack of customization can significantly reduce export performance (De Chiara & Minguzzi, 2002), the use of distributors may alleviate some of these issues. Distributors tend to be a better choice for lower GM firms because the distributor takes full responsibility to locate foreign market customers that want the non-customized product (Jackson & d'Amico, 1989). In addition, the distributor can work with the SME to make changes to the product that can lead to increased foreign sales without the SME having to interact with clients from different cultures and adapt to foreign markets and customs (Felicio et al., 2012).

Moreover, while SMEs can benefit from the knowledge and resources provided by foreign market-based network members, for firms led by managers with a lower GM these benefits are not as useful. These firms do not possess the capabilities necessary to identify and capture

foreign market specific knowledge (He et al., 2020; Mostafiz et al., 2019a), nor have the interest or capabilities for developing extensive international networks (Felicio et al., 2012). Managers with lower GMs are not willing to work with others from different cultures and adapt to cultural differences (Felicio et al., 2012). They do not like interacting with people or firms from other countries and therefore have little interest in networking with foreigners (He et al., 2020; Kyvik et al., 2013). Yet the benefits of international networks for SMEs are clear (Brouthers et al., 2015). We suggest that through distributors SMEs with managers possessing lower GM can still benefit from some of these networking effects without requiring international interaction by the focal SME. Distributors often have previously established networks in foreign locations (Katsikeas et al., 1997). Relying on the distributor network can provide an effective channel for marketing and distribution as well as the possibility of an enhanced brand image for the SME by associating its products with a prestigious distributor (Gao et al., 2016). Utilizing a distributor's network provides network benefits without requiring the direct participation of lower GM managers. Thus, our first hypothesis states:

Hypothesis 1(H1): The GM of top SME managers will influence export channel choice such that as GM increases, SMEs will prefer agents, joint ventures, or integrated channels over the use of distributors.

The Moderating Role of Political Instability

The target market institutional environment also plays an important role in the export channel choice decision (Li et al., 2017). It influences the ability of foreign firms to establish export operations in the country (He, Brouthers & Filatotchev, 2013) and impacts managerial cognitions (Maitland & Sammartino, 2015). Transaction cost studies often include institutional factors like formal and informal features (Keig et al., 2015; Rodriguez et al., 2005; Sartor &

Beamish, 2018), in studies looking at international expansion issues. One aspect of the institutional environment that transaction cost studies often overlook but is particularly relevant to foreign investment decisions is the level of political instability in the country. Research has found that political instability of a country is a major determinant of the amount of FDI and the quality of FDI it receives (Egan, 2017). The stability of the political institutions that a country possesses tends to influence the type of investments and the level of comfort that firms have in locating certain activities in these nations (Egan, 2017; Jiang et al., 2015). The political stability of a nation is important because it provides guidance to managers of the general risk and uncertainty that they will face if they decide to operate there (Allard et al., 2012).

Political instability occurs because societal members are dissatisfied with the current situation. This can lead to social, ethnic, or civil unrest and violence or as an extreme, the probability of a government being overthrown through unconstitutional means (Allard et al., 2012; Williams et al., 2017). Instability is particularly troubling for potential foreign investors because unpredictable changes in government can influence the bargaining power of the firm over target market entities (like JV partners or agents) as well as change the relationship between the firm and government (Jiang et al., 2015; Williams et al., 2017). The potential changes created by a politically unstable environment can also have an adverse effect on the ability of a foreign firm to protect its investments and compete in a given market because radical changes in government policies can increase costs, especially for foreign firms (Jiang et al, 2015). Further, research suggests that political instability creates changes in the mental mindsets of managers leading to an increase in mistrust in target market individuals, in rules and regulations, and the ability of managers to predict the future (Allard et al., 2012).

We theorize that political instability can impact the export channel decision because it influences the ability of SMEs to seek and capture opportunities in the market and affects managerial cognitions about the overall risk and uncertainty in the target market (Jiang et al., 2015; Allard et al., 2012). For example, ethnic conflict within a country could be risky because it may damage a firm's sales network in that nation and diminish the value of its investments. In addition, political turmoil may result in an uncertain environment and contribute to an inability to deliver products to customers on time or at the price specified. Therefore, we suggest that the level of political instability in the target market acts as a signal of the overall risk and uncertainty of that market, and it will moderate the relation between GM and the export channel choice made by SMEs.

Political instability is important because it reflects the level of uncertainty and risk in the target market, influencing managerial cognition, and leads to mistrust of target market individuals and firms (Jiang et al., 2015; Allard et al., 2012). Possessing a GM provides managers with a cognitive style that makes them more aware of local political conditions within nations (Levy et al., 2007), offers the ability to adapt to these conditions and will lead them to simplify their decisions to minimize their risk (Felicio et al., 2012). Yet political instability means that SMEs are exposed to greater risk and uncertainty because managers cannot rely on target market partners or employees without instituting expensive monitoring procedures. Thus, working with partner organizations (agents or JV partners) or having employees based in the country will become less desirable. In these situations, higher GM firms will instead consider using market-based export channels because in market channels distributors take full possession of the goods and deal with all the uncertainties arising in the foreign market. Distributors may not be trustworthy either, but because the SME may demand payment up front for selling goods

in politically unstable nations or ask for a letter of credit from a reputable international bank before sending the merchandise (Jackson & d'Amico, 1989), it can minimize the risks and uncertainties arising from the instability of the target market and reduce the chances of loss.

The second way political instability influences the GM-export channel choice decision is through perceptions of increased uncertainty identifying and capturing opportunities. One of the main reasons higher GM firms opt for shared or integrated channels of entry is to capture location-specific knowledge that it can use to improve target market performance (Brouthers et al., 2015). But the information provided by partner organizations or local employees is less valuable in politically unstable markets because changes in rules and regulations are unpredictable (Allard et al., 2012). These changes mean any knowledge obtained might become obsolete before it can be used, or rules and regulations might change after the SME has invested in product modifications, based on now outdated knowledge. This lack of reliable target market knowledge increases perceptions of risk and uncertainty. Of course, exporting SMEs do not face the risk of losing expensive production facilities if a foreign nation faces political turmoil and a sudden change of government, as larger MNEs do, but they still have to worry about the level of involvement in locations with a high degree of political instability. For a SME the loss of an expensive shipment of merchandise may be crucial to its long-term growth and profitability. By selecting a market-based export channel in an unstable foreign market, a SME can minimize its exposure to these political changes, especially if it demands payment prior to the delivery of the merchandise. For these reasons, we suggest that higher GM firms entering more politically unstable countries will reduce their preference for shared or integrated export channels.

On the other hand, managers with lower GM tend not to possess the intellectual adaptability and strategic commitment to international expansion needed to navigate different

political environments (Nummela et al., 2004). These managers already dislike dealing with the complexities involved in foreign operations (Levy et al., 2007) and the presence of political instability just adds to their aversion. The cognitive impact of political instability increases the mistrust in target market individuals and firms that these lower GM managers already have (Allard et al., 2012; Nummela et al., 2004). Political instability reinforces existing perceptions about cultural differences and fear of dealing with complex and dynamic business environments. This increase in mistrust of foreigners means that lower GM firms (managers) are even more reluctant to get involved with international operations where they are confronted with such differences (Kyvik et al., 2013; Levy et al., 2007).

Political instability also has an impact on the GM-export channel decision for lower GM managers because it increases perceptions of uncertainty and risk. Lower GM managers already perceive international operations as risky and uncertain (Levy et al., 2007). Political instability generates additional uncertainties as rules and regulations can change without notice impacting a firm's ability to respond (Williams et al., 2017). Ethnic, social and political unrest can make the safeguarding of firm investments difficult and can shift the bargaining power away from SME managers (Jiang et al., 2015). This increases a firm's perceptions of uncertainty in international investments thus reinforcing lower GM manager's reluctance to participate in foreign operations. In the end political instability moderates the relation between GM and export channel choice such that it accentuates the preference for market-based (distributors) export channels, where the SME can minimize or avoid interactions with businesses and individuals from other cultures.

Hence our second hypothesis suggests:

Hypothesis 2 (H2): Target market political instability will moderate the relation between GM and export channel choice such that as political instability increases, no matter the level of GM, SMEs decrease their preference for shared or integrated channels and increase their preference for distributors.

Methods

In SMEs, the main decision-maker is the CEO or founder of the firm and research has shown that attitudes or mindsets of these individuals affect strategic decisions (Herrmann & Nadkarni, 2014; Nadkarni & Herrmann, 2010). We test our hypotheses using data collected from the main decision-maker (CEO or founder) of Chinese SMEs. China has recently emerged as one of the biggest players in the international marketplace (OECD, 2015). As the Chinese government has tried to promote economic development across the nation, Chinese firms both large and small have begun participating in international trade (Zhou, We & Luo, 2007). For Chinese companies the main method of international participation has been through exporting (OECD, 2015), with the number of companies engaging in foreign direct investment remaining extremely small (Morck, Yeung & Zhao, 2008). This makes China an ideal research setting to test theories focusing on the exporting decisions of SMEs.

Our sample of Chinese exporting SMEs came from the eastern more economically developed region of China: Anhui Province, Fujian Province, Jiangsu Province, Jiangxi Province, Shandong Province, Zhejiang Province and Shanghai City. There is some variation in the way SMEs have been defined, with the United States (Small Business Administration, 2023) and China classifying SMEs as companies with up to 500 employees (International Finance Corporation, 2012), while the European Union uses a lower limit of 250 employees (European Commission, 2023). To be consistent with the Chinese definition and previous Chinese SME research (e.g., Zhang, Knight, & Tansuhaj, 2014), and international SME research (Lu & Beamish, 2001), we employ the higher limit and restrict our sample to companies employing no more than 500 employees. The sample was drawn from the ORBIS database and a number of

steps were taken to select eligible companies. First only Chinese owned firms were included; we excluded foreign owned companies and joint ventures with foreign entities. Second, the firm had to be headquartered in China. Third, only privately owned firms were selected. Fourth, the firm had to be involved in the field of manufacturing of fabricated metal products, manufacturing of machinery and equipment, the manufacturing of computers, electronics, and optical products. These industries were selected because they represent approximately 61 percent of Chinese exports and are projected to grow further in the future as traditional labor-intensive industries are shifting production to lower labor cost countries (Trading economics.com, 2016). A total of 11,143 Chinese exporting SMEs met our criteria from which we randomly selected a sample of 1000 firms for our study.

Data were collected through a survey undertaken from the beginning of April to the end of May 2013. Companies were notified by e-mail about the purpose of the study and then were contacted by phone and asked to participate in the study. This method was followed because Chinese entrepreneurs tend to be unwilling to answer unsolicited questionnaires. The CEOs of the companies, if available, were asked if they preferred to answer the questions over the phone or would like to receive an electronic version of the survey. After several follow-up calls and emails, 245 questionnaires were received. Due to incomplete answers, only 208 questionnaires could be used in the study for a usable response rate of 21 percent. Since we were dealing with Chinese SMEs, we asked about ownership and noted that 2 out of the original 208 usable responses came from state owned enterprises. These two firms were excluded from our final dataset.

Dependent Variable

The dependent variable in this study was the *export channel* – merchant distributor, agent, joint venture, or wholly owned/home country - used by the Chinese SME in its most important international market (Bello & Lohtia, 1995). Consistent with previous research (e.g., He et al. 2013; Kalinic & Brouthers, 2022), we focused on the most important market because key informants tend to be very familiar with their operations in this country and strategies used in a large market may be repeated in other smaller countries. Although most SMEs tend to use distributors or agents (Bello & Lohtia, 1995; Solberg & Nes, 2002), we also included additional channels found in the export channel literature: wholly owned sales subsidiary, served the foreign market directly from China using company personnel, or are involved in a joint venture with another company to handle sales in this market (Li et al., 2017; Klein et al., 1990). Our data indicates that the majority of respondent firms used shared control channels, either commission agents (81) or joint ventures (21); while distributors, a market-based channel, were used by 94 companies; and only 10 SMEs used integrated full control channels - establishing a wholly owned subsidiary or servicing foreign buyers from the home market.

Independent and Moderating Variables

We included one independent variable and one moderating variable. Table 1 details how the dependent, independent, and moderating variables were measured and their reliability. Our independent variable was *global mindset* (GM). Although previous research recognizes the importance of a GM, different and in some cases, contradictory conceptualizations of the construct have led to conflicting results (Levy et al., 2007). For this study, we used a previously tested multi-item instrument that looked at a manager's proactive thinking on foreign markets, their commitment to internationalization, and the presence of an international vision (Mostafiz et

al., 2019a, 2019b; Nummela et al., 2004; Torkkeli et al., 2018). More precisely our measure of GM was captured with a multi-item construct based on seven questions, rated on a five-point Likert scale as used in previous studies (Mostafiz et al., 2019a, 2019b; Nummela et al., 2004; Torkkeli et al., 2018). The seven questions asked about (1) a manager's willingness to take a company into international markets; (2) a manager's perception that the future growth for a company will emerge from international markets; (3) the importance of a rapid internationalization; (4) whether managers of the company spend a lot of time in planning international operations; (5) the perception that internationalization is the only way to achieve growth objectives; (6) whether the manager believes that the world is one big marketplace; and (7) if the manager believes that a company has to internationalize in order to succeed in the future. All seven questions loaded into one factor with a Cronbach's alpha of 0.90.

Our moderating variable was the *political stability* of the target market. To measure political stability, we utilized part of the political risk score developed by the PRS group. The PRS group publishes the International Country Risk Guide (ICRG) which has been produced monthly for the last 3 decades. This tool covers more than 140 countries and is often used in international mode choice research (e.g., Gaba, Pan & Ungson, 2002; Ulenbruck et al, 2006). ICRG country experts assign risk points to a preset group of 12 factors, termed political risk components, by collecting information on each component in each country and converting these into risk points. The ICRG calculates a political stability measure by combining risk measures of four important factors: a country's government stability, the level of internal conflict, the potential for external conflict, and ethnic tensions within a nation (International Country Risk Guide, 2013). We used this measure of political stability in our study.

Insert Tables 1 and 2 about here

Control Variables

We also included numerous control variables that previous research has shown as important determinants of export channel choice (Li et al., 2017). Table 2 details how each control variable was measured and its reliability. The first group of control variables investigated the role that transaction cost factors play (Bello & Lohtia, 1995; Klein & Roth, 1990), then we looked at the institutional environment of the target market – other than political instability (He et al., 2013), and we examined the impact of several firm-specific variables (Campa & Guillen, 1999).

Transaction costs (asset specificity, external uncertainty, internal uncertainty, and frequency) have been found in past studies to influence a company's export channel choice (Bello & Lohtia, 1995; Li et al., 2017). Our measure of *Asset specificity* was taken from Brouthers and Nakos (2004) and used a multi-item scale of four seven-point Likert-type questions. These questions asked about (1) the specificity of firm-specific training programs, (2) the time it takes to successfully learn a company's products, (3) the effort needed to know the competition, and (4) the extent of sales specialization needed to market the firm's products effectively (Cronbach's alpha = 0.79). *External uncertainty* was measured with three questions taken from Brouthers and Brouthers (2003) which asked about (1) the target market's social, political, and economic stability, (2) the risk of repatriating profits, and (3) the potential for adverse government actions (Cronbach's alpha = 0.86), *Internal uncertainty* was measured by one five point Lickert scale question taken from Zhao, Luo and Suh (2004) inquiring about the ease of measuring the collective performance of individuals performing the exporting function in

the most important market. Similar to He et al. (2013) we measured *frequency of transactions* as the firm's export concentration and asked respondents to indicate the percentage of total exports derived from the most important export market.

In addition to the level of political stability, countries differ in other formal and informal ways (North, 1990). To capture both these formal and informal institutional differences we followed recent research (Keig et al., 2015; Rodriguez et al., 2005; Sartor & Beamish, 2018) and explored two dimensions of corruption in foreign environments: the formal and informal corruption environments. We measure the *formal corruption environment (FCE)* using both direct and indirect elements (Keig et al., 2015). Transparency International's Corruption Perception Index (CPI) was used to measure the direct part of our construct (Transparency International, 2013). The 2013 CPI used in this study aggregated information from thirteen independent international institutions focusing on the quality of governance and business environments around the world. Three indirect measures of *FCE* were also used in this study (Kaufmann, Kraay & Mastruzzi, 2006; World Bank, 2016). Control of corruption measures whether public power is used for private purposes, both in large and small cases of corruption. Government effectiveness measures the quality of public services, the quality of a country's civil service, its independence from political pressure, and the quality of a government's policy formulation and implementation. Finally, regulatory quality indicates a government's ability to plan and implement policies that promote and allow the development of the private sector. These three factors do not directly measure corruption but provide useful information on whether corrupt behavior may occur in a country (Kaufmann et al., 2006). We used the 2013 dataset which corresponds with our data collection time frame.

Our *FCE* construct combined the three World Bank indirect measures of corruption and the Transparency International CPI measure. Because the CPI data are reported with high scores indicating low-corrupt country environments and low scores indicating high corruption, these scores were reversed in order to enhance the interpretation of our data. The three World Bank institutional factors are reported from a range of -2.5 to +2.5, with the lower negative numbers indicating weak institutions and the high positive numbers showing strong institutional structures. As in Keig et al (2015) in order to improve clarity, the three measures were transformed to a new scale from 0 to 5 and were reversed. Factor analysis showed that the four adjusted components loaded on one factor exhibiting high reliability (Cronbach's alpha=0.98). The four items were then standardized and combined to create our *FCE* construct.

The *informal corruption environment (ICE)* captures the normative aspect of the institutional environment. As in Keig et al (2015) *ICE* was measured by looking at citizens' views of corruption in a nation. The Transparency International *Global Corruption Barometer (GCB)* dataset was utilized to measure *ICE*. This dataset is based on surveys of 114, 000 individuals from 107 countries from around the globe and is different from the CPI measure. The GCB utilizes a 5-point Likert-style scale with 1 signifying absence of corruption and 5 displaying high levels of corruption. The 5-point Likert-style scale measured citizens' perceptions in 11 different areas: political parties, parliament/legislature, police, private/business sector, public officials/civil servants, judiciary, non-governmental organizations, media, religious bodies, military, and educational system (Global Corruption Barometer, 2013). The GCB represents the opinions of citizens about the pervasiveness of corruption in a wide variety of institutions that they interact with in their everyday lives (Keig et al., 2015). The scores of the

11 items in the GCB were added and then divided by 11 to create our informal corruption construct in each export market (Cronbach's alpha = 0.87).

Five other institutional variables were initially included in our study but were dropped due to high correlations with our measures of informal and formal corruption. Four of these variables looked at the cultural environment of the export country using Hofstede's (1984) power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance. The fifth variable looked at the country's level of GDP.

Finally, several firm-specific control variables were added. We included firm size because size can have a significant impact on the export channel decision (Li et al., 2017). *Firm size* was measured as the number of employees worldwide (Brouthers et al., 2009). Although all the companies in our sample were manufacturers, they tended to manufacture different products. Approximately half were classified as high technology products, corresponding to the US NAICS code 33 and the other half represented other manufacturing sectors. Thus we added a control for high-tech firms called *Industry 33* where NAICS code 33 firms were coded 1 and other firms were coded as 0. Previous research also has shown that more internationally experienced firms can learn to operate in foreign markets and therefore might change the export channel they use in subsequent entries (Klein & Roth, 1990). As in previous studies, we measured *international experience* as the number of years exporting (Brouthers et al., 2009). A firm's experience of using a specific export channel can influence future channel decisions because firms learn from past experience which reduces the costs of implementing that same structure in the future (Schwens et al, 2018). *Similar export channel* was measured as the number of other countries in which the firm used the same export channel.

Response and common methods bias

To investigate potential response bias, we examined differences between the first and last 10% of respondent firms (Hair et al., 1995). We noted no significant differences in firm size ($t=-.253$, $p=.82$), experience ($t=.14$, $p=.16$), or GM ($t=.28$, $p=.77$). Thus, it appears that response bias is not a problem with our data.

To make sure our data do not suffer from common methods bias we used several techniques. Following Chang, van Witteloostuijn and Eden (2010) we designed our data collection effort so that we used a variety of scales and formats for our variables. Further, some of our variables were fact-based (like export channel) instead of an opinion. More importantly, our moderating variable (political instability) and the formal and informal corruption control variables, were obtained from secondary sources. We used CFA with a model that included all variables used in the regression analysis to see if they explain one factor (Chang et al., 2010). The CFA analysis revealed a poor model fit (χ^2 (df) = 569.09, $\chi^2/df = 6.16$, RMSEA index = 0.15), which indicates a lack of common methods variance. Thus, it appears that our data do not suffer from common methods variance.

FINDINGS

Because our dependent variable has four values, we used multinomial regression to test our hypotheses, merchant distributors were the reference group. Correlations and descriptive statistics for the variables in our study are summarized in Table 3. Although some of the variables are correlated, none of these correlations were high enough to warrant concern about multicollinearity (Hair et al., 1995). On average our firms had 249 employees and 10 years of international experience.

Insert Tables 3 and 4 about here

Table 4 presents the results of the multinomial regression using distributors as the reference group. Model 1 contains only the control variables of our study. The control model is significant ($p=.01$) with a chi-square of 160.3 and an estimated R-square of 0.607. Of the control variables, *firm size*, *industry*, *international experience*, *similar export channel* and three transaction cost variables – *asset specificity*, *external uncertainty* and *internal uncertainty* – were significant for at least one of the export channels. This is consistent with previous research that has found several firm-specific and transaction cost variables influence the export channel choice of firms (Bello & Lohtia, 1995; Li et al., 2017).

Model 2 (Table 4) includes all the control variables and our independent variable *GM*. This model is also significant ($p=.01$) with a chi-square of 187.2. The R-square value increased to 0.671. The *GM* variable was significant and positively related to the use of agents ($p<.01$), joint ventures ($p<.01$), and integrated channels ($p<.05$) versus distributors, as suggested by Hypothesis 1.

In Model 3 we explored the impact of political instability, in addition to the control variables and *GM*. Model 3 was significant ($p<.01$) with a chi-square of 195.7 and a R-square of 0.689. In this model, *GM* remained significant, political instability was significant ($p<.05$) and negatively related to the use of agents and joint ventures, but not integrated channels. Most importantly, we found the interaction between *GM* and political instability was significant ($p<.05$) and negatively related to the use of agents over distributors, but there was no moderation for joint ventures or integrated export channels. Therefore, our results provide only partial

support for our moderation theory and Hypothesis 2, since political instability in the target market appears to moderate only the relation between GM and the use of agents over distributors.

To gain a better understanding of the significant interaction (for firms using agents/distributors), we plotted it. Figure 1 shows the interaction between *GM* and target market political instability (Model 3 - Agents). The figure indicates that when political instability is high firms shift their export channel preference significantly (top line compared to bottom line) increasing the preference for distributors over other forms. As suggested in Hypothesis 2, this figure provides some support for the idea that higher GM firms dramatically shift their preference of export channel away from shared channels (agents) to distributors when political instability is high, and lower GM firms increase their preference for distributors when political instability is high.

Insert Figure 1 about here

As an additional test of the differences in export channel choice between firms with higher/lower GM managers we undertook a chi-square analysis. We split our data based on the median value of GM and then compared the two groups. As noted in Table 5 this analysis indicates that there is a significant difference in the export channel choices for firms with higher and lower GM managers. In firms with higher GM managers export channels were mostly integrated or shared (agents/JVs) while the lower GM firm group tended to prefer distributors. This analysis provides additional support for hypothesis 1.

Insert Table 5 about here

DISCUSSION, LIMITATIONS, AND CONCLUSION

One of the most important strategic decisions that an internationalizing SME will make is the selection of an export channel since export channel choice impacts export performance (Aulakh & Kotabe, 1997; Kalinic & Brouthers, 2022). Numerous studies have looked at factors (mainly transaction costs) influencing the export channel choice of SMEs (Li et al., 2017), tending to ignore the role played by managerial mindsets. But previous research suggests that SME managerial cognitions have a significant influence on the strategic decisions they make (Herrmann & Nadkarni, 2014). Managerial GM is an important cognitive mindset that can be used by firms as they try to navigate the complexities of the international marketplace (Andersson & Evers, 2015; Hruby et al., 2016; Levy et al., 2007; Mostafiz et al., 2019a, 2019b). Based on this we developed and tested the idea that in addition to transaction costs, an SME's top manager's GM would also influence the export channel that the firm uses.

Our results indicate that lower GM firms tend to prefer distributors as the export channel. This minimizes any involvement that the firm has with customers or governments in foreign locations, avoiding cultural differences. In contrast, we found that as GM increases firms tend to use agents, joint ventures or integrated export channels. These channels allow firms to be involved in the export operation, learning from their experience to improve export outcomes. Finally, we noted that the level of political instability in the target market impacted some of these outcomes (except integrated channels), at least directly, motivating most firms to use distributors when instability is high, no matter the level of GM. In this way we advance our understanding of export channel choice, which mainly relies on a transaction costs explanation. We take the

position that managers matter and suggest that since managers do not all think alike adding insights about managerial cognition, specifically GM, to a transaction cost based model of export channel choice will advance our understanding of this important decision. Our results support this perspective.

Theoretical Implications

This study makes several important contributions to the export channel and GM literatures. First, we add to the SME export channel literature that has mainly focused on transaction cost factors (Li et al, 2017) while virtually ignoring the impact of managers. Yet as Maitland and Sammartino (2015) suggest, managerial heuristics act as powerful cognitive tools that influence a manager's ability to make decisions in uncertain international situations. By adding insights from the GM literature to existing transaction cost export channel choice research, we extend our understanding of this important strategic decision and help identify the vital role played by managers in making such decisions, especially in SMEs. We found strong support for our idea that SMEs will tend to use agents or joint ventures rather than distributors when expanding abroad if they possess higher GM. We also found some SMEs used integrated full control channels when they possessed a higher GM. Yet research suggests that because SMEs lack resources they will avoid integrated channels, but our results tell a different story. These results could have occurred because we only had 10 firms using integrated channels. When we examined these firms we found that SMEs using integrated export channels tended to be much larger than average (411 employees versus our average 249) and have much more international experience (14 years versus our 10 year average). It appears that theory is correct, SMEs with less (either people or experience based) resources do not use integrated channels but

larger SMEs possessing more (people/experience-based) resources do use integrated export channels. In summary, we make an important contribution to the export channel choice literature by adding insights about managerial cognitions to a traditional transaction cost model, expanding our knowledge of this critical decision and how managers matter.

We also make an important contribution by expanding on previous GM research (Hruby et al., 2016; Levy et al., 2007). We develop a unique theory to explain how managerial GM will influence SME export channel choice. Previous studies have tended to link GM to firm level internationalization (e.g., number of partners or customers) or international performance (Nummela et al., 2004). More recent studies have looked at how GM influences international knowledge acquisition, international opportunity identification, and performance (Andersson & Evers, 2015; Mostafiz et al., 2019a, 2019b). But studies have tended not to examine the role that managerial cognitions like GM play in the export channel selection of SMEs. Therefore, our theory and research extends this literature by suggesting that GM plays a critical role, in addition to transaction costs and other factors, in determining an SME's export channel choice. In this way, we help improve our understanding of GM and how it influences a specific strategic decision, that can impact international performance.

In addition, we contribute by exploring the boundaries of GM. Prior GM studies tend to indicate that managerial decisions are dependent on managerial cognition irrespective of the situation (Hruby et al., 2016). We question this stance and theorize that GM might be more (or less) important depending on the institutional setting in the target market. More specifically by exploring the impact of foreign market political instability on the relation between GM and export channel choice we help to show that there is a variation in impact. GM does not lead to the same decision in all situations. While we found that entering more politically unstable

environments leads to a decreased preference for agents, as we had theorized, our results relating to joint ventures and integrated channels were more confusing. It appears that political instability in the export market does not moderate the relation between GM and the use of joint ventures or integrated channels. This might be the case because the number of firms using export JVs (21 firms) and integrated channels (10 firms) was fairly small in our sample. Before we can reach solid conclusions about the impact of political instability on the GM-channel choice relation larger samples of SMEs using export JVs and integrated channels should be examined.

Managerial Implications

Our study has important implications for SME managers and policymakers. Our results show that managerial cognitions, especially the level of GM a manager possesses, influence the export channel the firm uses. This is important for several reasons. First, research tends to show that export channel choice is related to export performance (He et al, 2013; Kalinic & Brouthers, 2022). In addition, other studies tend to find that having a GM leads to better international performance outcomes (Felício et al 2012; He et al., 2020; Torkkeli et al., 2018). Taken together this implies that SMEs wanting to generate better performing international operations should first concentrate on improving their GM. They can improve their GM by either hiring managers that possess a high GM (Gupta & Govindarajan, 2002) or by providing training to their existing managers to be more GM oriented. Research has shown that training techniques can be used to increase managerial GM (Koh et al., 2014; Paul, 2000). Building a high GM culture among managers, can help SMEs create more successful international operations through the selection of appropriate export channels.

Policymakers can also play an important role by understanding the impact and importance of a GM in both promoting overall internationalization and selecting appropriate export channels. Managers are not born with a GM, it takes time and training to develop such a cognitive style (Paul, 2000). There is a growing literature on how managers and firms can improve their GM (Felício et al 2012; Gupta & Govindarajan, 2002; Nummela et al., 2004), and our study suggests that doing so will help these managers make better export channel decisions. Policymakers can play a critically important role in this task by establishing educational training opportunities to improve SME managers' GM. They can also provide incentives for these managers to participate, such as funding. Helping a country's SME managers improve their GM will have multiple benefits for the country. It can lead to increased internationalization which helps create jobs at home. It also can help these firms select export channels that are more stable and profitable. Countries such as Taiwan, South Korea, Singapore, and Germany that emphasized the importance of international markets for the future growth of their companies, are very successful in creating an export-led growth economy. In the long-term, policymakers can foster a GM in their population by making changes in the national educational system to train future generations about the importance of cultural differences and understanding of foreign markets for the future well-being of a nation's economic prosperity. In addition, promotion of gradual changes in the informal institutions of a nation by encouraging greater global integration, fostering the growth of entrepreneurship, and focusing on an individualistic culture, will assist in cultivating a thriving global mindset (Gaffney et al., 2014). Overall, improving the GM of SME managers and others in society will be good for the firm and for the country.

Limitations

Although our study offers some interesting results it suffers from certain limitations. First, we only examined SMEs from China and subsequently the results may not apply to firms originating in other parts of the world or to larger firms. Researchers can look at the generalizability of this study by exploring firms in other countries or firms of a larger size. Second, although we had a fairly large sample of over 200 firms, few of these firms used joint ventures or integrated export channels. This issue could be distorting our results for these two channel types. Prior research suggests that SMEs tend to use merchant distributors or agents, and our results support this idea. But to strengthen and confirm the results of our study a sample of SMEs using more joint ventures and integrated export channels would be helpful.

Third, many of our measures, except the moderating variable and some controls, came directly from respondents. Although we followed accepted steps to minimize any impact of common methods bias, future research might use other techniques to lessen the likelihood of common methods bias. One such technique would be to have two respondents per firm, or to collect data in two waves. While this was not possible with our sample, these methods could improve the reliability of the results.

Fourth, we examined the cross-sectional relation between GM and export channel use. Because of this we cannot make inferences about causality. Future research using longitudinal data can add to our knowledge by exploring the impact of GM on export channel choice and any potential impact of exporting experience on managerial GM.

Fifth, although we explore how managerial GMs influence the export channel decision, managers also have other cognitions that could influence this choice. Risk propensity is one important mindset that could come into play when investigating GM and export channel choice. Therefore, future research might combine cognitive models of GM and risk propensity to

determine how these could interact with each other and influence important aspects of international business such as export channel choice.

Sixth, our company sample originated in one country, China. As a result, we were not able to investigate whether variations in home country export policies may influence the export channel decisions of companies. In the future, researchers may want to study companies originating from multiple home countries that employ different export promotion strategies to investigate whether these home country tactics influence GM based export channel choice decisions.

Finally, researchers have yet to agree on how exactly to measure GM. We utilized a strategic measure of GM that has been used in past research and found to be valid and reliable. Yet other researchers have measured GM using constructs that explore the cultural-cosmopolitanism of managers. As a result, we do not know if our findings would be the same if different measurements for GM were used. This suggests that scholars should work toward developing a common measure of GM for international business studies which will make the results of future studies comparable.

Conclusion

Despite these potential limitations, our study makes several important contributions to knowledge. Our theory and findings highlight the need to include managerial mindsets in decision-making models. We found that managerial GM had a significant impact on the export channel decision, even after controlling for transaction cost, firm-specific and institutional variables. Furthermore, we start to define some boundary conditions for GM. We theorized and found that host country political instability had a moderating influence on one important GM

decision. Yet our results were not totally consistent with our theory. Overall, our study adds to knowledge about GM and SME export channel choice but raises a number of interesting new issues that future research might want to explore.

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Table 1
Dependent, Independent and Moderating Variables

Variables	Questions/Source	Factor Loading	Cronbach's Alpha
Dependent Variable: Export Channel	<p>Your company's exports to this market are structured as: (Please circle only 1 type)</p> <ol style="list-style-type: none"> 1. We have a wholly owned sales subsidiary in the market. 2. We serve it directly from China, using company personnel. 3. We are involved in a joint venture with another company to handle sales in this market. 4. We use commission agents. 5. We sell to a merchant distributor who takes title to our product and contacts buyers directly. 6. Other (please specify). _____ <p>(Li et al., 2017; Klein et al., 1990)</p>	A single item	
Independent Variable: Global Mindset	<p>All seven questions were on a 5-point Likert scale.</p> <ol style="list-style-type: none"> 1. The founder/owner/manager of the company is willing to take the company into international markets 2. The growth we are aiming can be achieved mainly through internationalization. 3. It is important for our company to internationalize rapidly 4. The company's management uses a lot of time in planning international operations 5. Internationalization is the only way to achieve our growth objectives 6. The company's management sees the whole world as one big marketplace 7. We will have to internationalize in order to succeed in the future <p>(Mostafiz et al., 2019a, 2019b; Nummela et al., 2004; Torkkeli et al., 2018)</p>	One component extracted 67.54 variance	0.90
Political Stability	<p>International Country Risk Guide assessing a country's government stability, the level of internal conflict, the potential for external conflict, and ethnic tensions within a nation.</p> <p>(International Country Risk Guide, 2013)</p>	One score is provided for all 4 measures, it is not possible to calculate a factor analysis.	One score is provided for all 4 components it is not possible to determine reliability.

Table 2
Control Variables Operationalization

Variables	Questions/Source	Factor Loading	Cronbach's Alpha
Asset Specificity	<p>All four questions were on a 7-point Likert scale.</p> <ol style="list-style-type: none"> 1. To be effective, a salesperson, whether our own or an intermediary's, has to take a lot of time to get to know the customers. 2. It takes a long time for a salesperson, whether our own or third party, to learn about our products thoroughly. 3. A specialized sales effort is needed to market this product line. 4. To be effective, a salesperson, whether our own or third party, has to take a lot of time to get to know our competitors and their products. <p>(Brouthers & Nakos, 2004)</p>	1 component extracted 62.82 variance	0.79
External Uncertainty	<p>All three questions were on a 7-point Likert scale.</p> <ol style="list-style-type: none"> 1. the target market has a stable social, political, and economic environment 2. the risk of repatriating profits it is very low 3. the potential for adverse government actions it is very low <p>(Brouthers & Brouthers, 2003)</p>	1 component extracted 78.15 variance	0.86
Internal Uncertainty	<p>One question on a 7-point Likert scale.</p> <p>How easy is it to measure the collective performance of the individuals who perform the exporting function in your most important market?</p> <p>(Zhao, Luo & Suh, 2004)</p>	A single item	
Export Concentration	<p>Respondents were asked to indicate the percentage of total exports derived from the most important export market.</p> <p>(He et al., 2013)</p>	A single item	
Firm Size	<p>Number of Employees</p> <p>(Brouthers et al., 2009)</p>	A single item	
International Experience	<p>Number of Years Exporting</p> <p>(Brouthers et al., 2009)</p>	A single item	
Similar Export Chanel	<p>Number of other countries that similar export mode is used</p> <p>(Schwens et al, 2018)</p>	A single item	
Industry 33	<p>NACIS 33 high tech firms coded 1, all others 0</p>	A single item	
Formal Corruption	<p>Transparency International Corruption Perception Index</p> <p>Three indirect measures of corruption generated by World Bank measuring quality of public services, the independence of a country's civil service from political pressure, and the quality of a government's policy formulation and implementation</p> <p>(Keig et al., 2015)</p>	All 3 items were used to compose the construct as in previous studies	0.98
Informal Corruption	<p>Transparency International Global Corruption Barometer measuring political parties, parliament/legislature, police, private/business sector, public officials/civil servants, judiciary, non-governmental organizations, media, religious bodies, military, and educational system</p> <p>(Keig et al., 2015)</p>	All 11 items were used to compose the construct as in previous studies	0.87

Table 3
Correlation Matrix of Variables

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Firm Size	249	201											
2. Industry 33	0.64	0.48	-0.05										
3. Intern'l Experience	10.3	5.3	0.18	0.09									
4. Similar export channel	8.9	9.7	0.11	-0.04	0.12								
5. Export Concentration	27.5	13.7	0.05	-0.12	0.01	-0.28							
6. Asset Specificity	5.7	0.57	0.10	0.08	0.01	-0.07	0.01						
7. External Uncertainty	3.5	0.95	-0.11	-0.08	-0.00	0.01	0.21	-0.28					
8. Internal Uncertainty	4.9	0.90	0.04	-0.06	0.07	-0.11	0.05	0.03	-0.31				
9. Political Instability	0.74	0.05	-0.08	-0.06	0.09	-0.04	0.04	0.01	-0.01	0.14			
10. Global Mindset	5.3	0.88	0.06	-0.03	0.25	0.16	-0.06	0.44	-0.47	0.11	-0.03		
11. Formal corruption	0.006	0.96	0.01	0.12	-0.16	-0.06	-0.03	0.05	-0.03	-0.07	-0.62	-0.09	
12. Informal corruption	3.3	0.24	0.03	-0.12	-0.05	0.07	-0.01	-0.13	-0.01	-0.06	-0.33	0.03	-0.04

Note. Correlations greater than 0.17 or smaller than -0.17 are significant at $p < .01$, while correlations greater than 0.13 or smaller than -0.13 are significant at $p < .05$

Table 4
Multinomial Regression of Export Channel Choice:
Using merchant distributors as the reference group

	Model 1			Model 2			Model 3		
	A	INT	JV	A	INT	JV	A	INT	JV
Firm Size	.01* (.01)	.01* (.01)	.01* (.01)	.01* (.01)	.01* (.01)	.01* (.01)	.01** (.01)	.01* (.01)	.01* (.01)
Industry 33	.94* (.43)	-.94 (1.0)	.96 (.74)	1.1* (.48)	-.37 (1.1)	1.2 (.79)	1.2* (.50)	-.14 (1.2)	1.3 (.81)
International Experience	.06 (.04)	.27* (.09)	.07 (.06)	.02 (.05)	.24* (.10)	.02 (.07)	.04 (.05)	.25* (.10)	.03 (.07)
Similar export channel	-.10** (.03)	-.14* (.06)	-.35** (.10)	-.14** (.04)	-.22** (.07)	-.38** (.10)	-.15** (.04)	-.24** (.08)	-.40** (.10)
Export Concentration	-.01 (.02)	-.03 (.04)	-.04 (.03)	-.02 (.02)	-.03 (.04)	-.05 (.03)	-.02 (.02)	-.03 (.04)	-.05 (.03)
Asset Specificity	1.7** (.41)	3.2** (.95)	2.9** (.68)	1.2* (.47)	2.2 (1.1)	2.3** (.75)	1.2* (.49)	2.1 (1.2)	2.3** (.78)
External Uncertainty	-1.5** (.29)	-2.9** (.81)	-1.8** (.51)	1.2** (.32)	-2.3* (.88)	-1.4** (.54)	-1.2** (.33)	-2.2* (.91)	-1.5** (.55)
Internal Uncertainty	-.62* (.26)	.40 (.78)	-.84* (.40)	-.77** (.29)	.28 (.81)	-.98* (.44)	-.72* (.29)	.35 (.81)	-.93* (.44)
Formal Corruption	-.26 (.21)	.36 (.51)	-.29 (.36)	-.22 (.24)	.41 (.53)	-.24 (.39)	-.54 (.33)	.10 (.62)	-.65 (.52)
Informal corruption	-.31 (.80)	.39 (2.2)	.55 (1.3)	-.23 (.92)	.38 (2.4)	-.53 (1.4)	-1.2 (1.1)	-.55 (2.6)	-1.8 (1.6)
Global Mindset				1.4** (.32)	2.5* (1.1)	1.6** (.56)	1.5** (.35)	2.7* (1.2)	1.7** (.58)
Political instability							-.97* (.40)	-.32 (1.2)	-1.1* (.54)
Political Ins. X GM							-.68* (.34)	-1.4 (1.1)	-.58 (.40)
Constant	-1.6	-18.2	-5.2	-5.5	-26.9*	-10.1	-2.9	-24.9	-6.5
χ^2		160.3**			187.2**			195.7**	
Nagelkerke R ²		.607			.671			.689	

Note: A-agents, JV-joint venture, INT-integrated modes (wholly owned/from home base).
Standard errors in parentheses; * p<.05, **p<.01; n=206.
Merchant distributors are the reference group.

Table 5
Low versus High GM Export Channel Choice

	Wholly Owned	Joint Venture	Agent	Merchant Distributor
Low GM	0	5	25	74
High GM	10	16	56	20
Total	10	21	81	94

Pearson Chi-Square 58.6, $p < .001$, $n=206$

Figure 1

Political Instability Interaction

