LIABILITIES OF FOREIGNNESS:
MITIGATION STRATEGIES AND INTERNATIONAL PERFORMANCE AMONG INDIAN SMES

By

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ABSTRACT

Small and medium-sized enterprises represent the backbone of national economies around the world. However, little is known about liabilities of foreignness (LOF) confronted by SMEs in foreign markets. This study identifies the LOF encountered by Indian SMEs in foreign markets, how they cope with foreignness related uncertainties, and how LOF affects SMEs' international performance. Grounded in multiple theoretical lenses, such as resource-based view (RBV), knowledge-based view (KBV), institutional theory and network perspective on internationalization, the study develops an integrated conceptual model, which is examined using a mixed methods research design. It includes exploratory interviews followed by a web-based questionnaire. Drawing on literature strands such as international business, international entrepreneurship and strategic management, the study conducts in-depth exploratory interviews with 15 Indian SMEs. The research hypotheses developed are tested on a sample of 68 Indian SMEs. For the quantitative portion of the thesis, the study adopts a comparative perspective between SMEs that had business experience within Indian states and SMEs without interstate experience. The key findings suggest that sample SMEs in this study encountered disadvantages in foreign markets, such as challenges due to unfamiliarity and uncertainties associated with the host markets environment and discriminatory behavior from foreign customers. The results indicated that SMEs employed traditional approaches to mitigate LOF, such as leveraging managers' international experiences, knowledge, and networks to tackle LOF. However, one of the crucial findings was the discovery of intra-country liabilities that SMEs encountered due to subnational differences within India. A key finding from the quantitative part of the study indicated that, unlike SMEs without interstate experience, LOF did not appear to weaken the international performance of SMEs with interstate experience. The study offers several contributions to the literature. Due to the lack of an agreed-upon operationalization of the LOF construct, there is inconsistency in how LOF is measured in the extant literature. A key contribution of this thesis lies in the operationalization and examination of LOF in the context of emerging market SMEs. The LOF literature has also tended to downplay the impact of home country experiences, in terms of influencing emerging market firms' international activities. This study contributes to this gap by conceptualizing and exploring the role of intra-country variations on SMEs' internationalization. Additionally, the study adopts a comparative perspective to examine how SMEs with and without interstate experience tackle LOF and perform internationally. Furthermore, the extant LOF studies have generally used a single methodological approach (quantitative or qualitative); this thesis contributes by using a sequential mixed methods design for a deeper and richer examination of LOF. Lastly, as LOF comprises of several disadvantages that foreign firms encounter, the study adopts a multi-theoretic approach to understand this composite concept.

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CHAPTER 1

INTRODUCTION

This chapter provides a background to the topic of study. In addition, the research objectives and questions are discussed, and the contribution of this study is outlined. The chapter concludes with an overview of the organization of the thesis.

1.1 Background and Rationale of Study

Small and medium-sized enterprises (SMEs) have become increasingly important players in international trade (Steinhäuser et al., 2021), now accounting for 20-40% of world export manufacturers and a small but growing share of foreign direct investment (FDI) (OECD, 2018). Furthermore, globalization processes and advances in technology, communication, transport, reduced trade barriers, and changes in the global value chains have led to new classifications of the world, such as the "borderless world" (Knight & Cavusgil, 2004). This has led to a number of firms expanding their activities in international markets. Less than two decades ago, studies observed how competition in global markets was limited to large enterprises, with smaller businesses remaining local or regional (Dabić et al., 2020). However, this is no longer accurate because many SMEs choose to look beyond their national borders to survive amidst increased competition and rapid globalization (Lee et al., 2012). As a result, studies examining SMEs may continue to grow to provide new insights into the internationalization of SMEs.

Internationalizing SMEs can encounter hazards in foreign markets, conceptualized as liabilities of foreignness (LOF) (Hymer, 1976; Zaheer; 1995). The LOF typically emerges because of the uncertainties associated with doing business in foreign markets (Hymer, 1976; Lu & Beamish, 2001). Hymer (1976) was the first to introduce the term "costs of doing business abroad," arguing that local firms have better access to market information as they are deeply embedded in the home market and do not face substantial foreign exchange risks when operating domestically. Zaheer (1995) introduced this phenomenon as LOF, asserting that foreign companies face additional costs because of lack of information, spatial distance, discrimination, foreign exchange rates, and home-country institutional constraints. Based on the LOF concept, studies have asserted that, compared to local firms, foreign firms face relational/structural and institutional costs (Sethi & Judge, 2009; Zaheer, 2002). Eden and Miller (2004) further categorized LOF as unfamiliarity, discriminatory and relational hazards. Calhoun (2002) discussed how relational hazards increase internal organization costs due to difficulty in managing employees from a distance and working with different cultures. Furthermore, studies have indicated that foreign firms incur costs to develop trust and relationships with the locals in the host markets (Kostova & Zaheer, 1999; Zaheer, 2002). Denk et al.'s (2012) review showed how LOF studies have grown by examining the drivers of LOF (culture, institutional, and linguistic differences), home-host country distances, industry, and firm characteristics. The review also suggests that studies published in top journals have mainly investigated the disadvantages experienced by firms from developed economies, rather than emerging markets. Furthermore, the LOF literature has mainly investigated the LOF encountered by MNEs (Denk et al., 2012). Therefore, we have a limited understanding of the disadvantages experienced by SMEs in foreign markets (Child & Rodrigues, 2005; Mathews, 2006; Tung, 2005; Yamakawa et al., 2008), particularly LOF experienced by emerging market small ventures. Moreover, despite the progress of the LOF literature, very few studies have operationalized a construct for LOF (e.g., Qian, Li & Rugman, 2013). As such, there is inconsistency in how LOF is measured in each study.

The rationale for this PhD research is to contribute to the knowledge regarding the LOF encountered by SMEs in foreign markets, explore strategies used by these firms to mitigate the LOF, and understand the influence of LOF on their international performance. The study identified different challenges encountered by SMEs in foreign environments and examined firms' approaches to mitigate LOF. The thesis also provides a comprehensive understanding of LOF's influence on SMEs' international performance. In doing so, the study draws on several strands of the literature, including international business (IB), international entrepreneurship (IE), and strategic management. The implications of the findings of the thesis should be of interest to academics, managers, and policymakers. Academics should find relevance in advancing theoretical understanding of SMEs' LOF, mitigation approaches, and performance implications. Moreover, the LOF construct, which has been operationalized in this study, should help researchers to study different contexts. Managers should also benefit by understanding the approaches needed to offset LOF, which could improve their international performance. Finally, policymakers may have the opportunity to adjust their policies to support the internationalization and growth of SMEs in global markets.

1.2 Research Objectives and Research Questions

The last several decades saw a spur of interest in investigating the internationalization of small and medium-sized ventures (Dimitratos, Johnson, Plakoyiannaki, & Young, 2016; Jones, 1999; Knight, 2001; Lu & Beamish, 2001), leading to the formation of a new stream of research: international entrepreneurship (McDougall & Oviatt, 2000). This stream combined the international business and entrepreneurship literatures (McDougall & Oviatt, 2000). Numerous studies from this field have examined internationalization of SMEs (Lu & Beamish, 2001), barriers to SMEs' internationalization (e.g., Hutchison et al., 2006), drivers and determinants of SMEs' internationalization (e.g., Evers et al., 2008; Miocevic & Crnjak-karanovic, 2012), channels and modes of entry into international markets (Plakoyiannaki et al., 2014), and the process and pattern of SME internationalization (e.g., Kuivalainen et al., 2012). Considering small internationalizing ventures, studies have also examined the emergence of early and rapidly internationalizing firms, known (*inter alia*) as born global and international new ventures (Aspelund, Madsen, & Moen, 2007; Crick & Jones, 2000; Chetty & Campbell-Hunt, 2004; Knight, Madsen, & Servais, 2004; Liesch, Steen, Middleton, & Weerawardena, 2007). However, studies examining smaller firms have paid limited attention to the LOF literature. As a result, the LOF literature has been predominantly focused on examining the disadvantages experienced by large firms, as opposed to SMEs.

Although extensive research on the LOF experienced by large firms from developed markets has provided deeper insights into foreignness (Denk et al. 2012), exploring the LOF faced by smaller enterprises can push this stream of research in new directions. As SMEs are presumed to be resource-constrained and may have limited experience in foreign markets, these firms can experience more severe disadvantages in foreign markets, relative to large firms. Recent studies have highlighted the need to conduct research showing how SMEs cope with uncertain and unfamiliar situations in foreign markets (Fornes & Cardoza, 2019; Morais & Ferreira, 2020). Moreover, as emerging market firms internationalize from complex home markets (Dash & Ranjan, 2019; Cuervo-Cazurra & Genc, 2008), investigating how SMEs from these countries deal with hindrances in the foreign markets could provide new directions to the LOF literature.

Therefore, the key research objectives of this thesis are to examine the LOF of Indian SMEs, understand their approaches to offsetting LOF, and examine the influence of LOF on their international performance. The study adopts an integrated approach (see Chapter 3) and incorporates various literature strands. In addition, the study uses multiple theoretical lenses. The overarching theories underpinning the study are the resource-based view (e.g., Barney, 1991; Wernerfelt, 1984), knowledge-based view (e.g., Kogut & Zander, 1992), institutional theory (e.g., Delios & Henisz, 2003; North, 1990) and the network perspective on internationalization (e.g., Johanson & Mattsson, 1988). This thesis is guided by the following research questions:

1. What is the nature of the LOF encountered by SMEs in foreign markets?
2. How do SMEs deal with LOF in foreign markets?
3. How does LOF affect SMEs' international performance?

The study uses a comparative perspective in the quantitative analysis to show the differences between the approaches to tackling LOF used by SMEs with interstate experience and those without interstate experience. The interstate experience is expected to give SMEs experiences that might prepare them more effectively to deal with the international environments. Especially, in a home market such as India, where institutional and cultural environments vary considerable between Indian states, interstate experiences could help firms to tackle LOF. Moreover, the study also investigates how LOF affects the international performance among these two groups of SMEs. The goal is to develop a more integrated understanding of the LOF in the context of emerging market SMEs.

1.3 Research Methodology

Systematic literature reviews conducted on LOF showed that prior studies have predominantly used quantitative methods to study this topic (Denk et al., 2012; Lu et al., 2021; An, Zagelmeyer & Rygh). However, some recent LOF studies have employed qualitative approaches (An et al., 2022). Almost a decade ago, Denk et al. (2012) suggested that studies should incorporate mixed method designs to improve the validity and robustness of the findings. However, only a few studies have implemented mixed methods research designs to study LOF (e.g., Crilly et al., 2016; Tupper, Guldiken & Benischke, 2018). To address this methodological gap in LOF literature, this thesis adopts a sequential mixed methods approach, with exploratory interviews and a subsequent web-based survey, to facilitate an in-depth understanding of the LOF phenomenon. By combining qualitative and quantitative methods, the study offers insights that would be otherwise difficult to achieve through a single methodological approach.

The first step involved conducting semi-structured, in-depth interviews with CEO/founders/managers of Indian SMEs, both face-to-face and by phone. The purpose of the interviews was (1) to deeply understand SMEs' LOF, (2) to inform the development of the survey instrument (e.g., to operationalize LOF and the model constructs) (3) to seek initial confirmation of the conceptual model. The insights gained from the interviews were invaluable in refining the conceptual model and guiding the development of the survey instrument. Specifically, the interviews revealed that SME managers were facing significant challenges in crossing state borders in India, which was similar to the concept of LOF. The second step involved the development of a web-based questionnaire to collect primary data to test the model. The survey was distributed to Indian SMEs across various industries and sectors (e.g., manufacturing, services, exporters). The study used independent sample *t*-tests to test the research hypotheses and answer the research questions. Finally, the qualitative and quantitative findings were integrated and discussed to provide a comprehensive analysis of SMEs' LOF, strategies used to overcome LOF, and the effect of LOF on SMEs' international performance.

As recommended by Creswell et al. (2003) and Stahl et al. (2019), the integration of both types of data enables more comprehensive analysis and interpretation of the findings. Therefore, the purpose of using mixed methods research design is to provide a richer understanding of the complex LOF phenomenon by combining the strengths of both qualitative and quantitative research methods.

1.4 Research Contribution

An important contribution of this study pertains to the operationalization of the LOF construct. Despite the widespread use of the LOF concept in the IB and IE literatures, it has not been adequately operationalized (Lu et al., 2021). Although there have been attempts to measure LOF (e.g., Qian, Li & Rugman; 2013), the inconsistency in how it is operationalized remains a persistent issue in this literature (Lu et al., 2021; Denk et al., 2012). For instance, some studies have used poor performance as an indication of LOF, while others have used proxies such as costs, non-monetary measures, survival, owners' nationality, and the number of expatriates in the organization (Denk et al., 2012). This variation is an outcome of the challenges that researchers have faced with respect to developing a measure that represents, broadly, the many disadvantages foreign firms face internationally (Sethi & Guisinger, 2002). Due to these measurement discrepancies, studies have frequently called on researchers to work on operationalizing LOF (Denk et al., 2012; Lu et al., 2021; Zaheer, 2002). Tackling the challenges of developing a measure for LOF, this thesis responds to these calls by operationalizing LOF using key finding from both the literature and interviews (see Chapter 4). As LOF is a multifaceted concept, its operationalization requires considerable nuance, relative to the usual utilization of a single composite measure. By developing such a measure for LOF, this study contributes to the IB and IE literatures. A more detailed measure will enable more accurate and comparable research on this topic, leading to a better understanding of the LOF phenomenon.

Another key contribution of the thesis is the consideration of intra-country liabilities that SMEs encounter while doing business within India, because of the dissimilarities among Indian states with respect to laws, rules, culture and language. The study identifies that the challenges emerging from these subnational variations are quite similar to the disadvantages experienced by foreign firms in international markets. Due to intra-country liabilities within the home market, the interviewed SMEs often felt like 'strangers in their own land', akin to LOF, due to which foreign firms feel like 'strangers in a strange land'. This within-country heterogeneity challenges the conventional assumption of nation-level homogeneity and suggests that subnational differences can create difficulties for businesses (Hutzschenreuter et al., 2020). Quantitatively, the study uncovered evidence of the influence of intra-country experiences on firms' LOF-mitigation strategies and performance (see Chapters 6 and 7). Many studies have pointed out that more research is needed to understand how subnational variations, especially in emerging markets, affect international business activities and performance (e.g., Chan et al., 2010; Hutzschenreuter, 2020; Ma & Delios, 2010). Due to the very diverse subnational variations within India, it was considered as an excellent context for studying this issue. Therefore, this study contributes to this nascent stream of literature by suggesting that intra-country experiences help SMEs to develop capabilities that can translate into sustainable competitive advantages that assist them in tackling LOF.

As noted earlier, the interview findings informed the development of the survey instrument, which incorporated questions aimed at providing a deeper understanding of intra-country liabilities and how within-country experiences help internationalizing SMEs to deal with LOF. A comparative perspective between SMEs that did not have interstate experience and those that did was adopted, in order to tease out the influence of home country experiences (Cuervo-Cazurra & Genc, 2008). By comparing the two groups of SMEs, the study contributes to offering a better understanding of how home-country learning can facilitate firms in overcoming challenges and helping them to succeed in foreign markets (see Chapters 6 and 7).

Another key contribution pertains to the use of a different context, specifically an emerging home market and smaller firm size, to study LOF; most LOF-focused studies have examined the disadvantages experienced by developed market MNEs (An et al., 2022; Denk et al., 2012; Lu et al., 2021). As a result, the LOF encountered by emerging market firms has not been investigated extensively (Lu et al., 2021; Pant & Ramachandran, 2012), although reviews on foreignness have encouraged researchers to study LOF as experienced by firms from emerging markets (An et al., 2022; Lu et al., 2021; Denk et al., 2012). There is also a lack of studies attempting to understand LOF as it affects smaller firms. Therefore, by studying the LOF encountered by emerging market small firms, this thesis contributes to the literature and provides a fertile ground for extending and adding new insights into the phenomenon.

Moreover, the study contributes by developing an integrated model to explain the factors that help offset LOF and explore the influence of LOF on the sample SMEs' international performance. Considering the relative lack of research attempting to understand the role of home country experiences on firms' LOF mitigation strategies and performance (Cuervo-Cazurra et al., 2007; Cuervo-Cazurra & Genc, 2008; Lu et al., 2021) and the findings from the interviews, the model incorporates the moderating effect of intra-country liabilities on each of the hypothesized relationships. The conceptual model involves two steps. First, it considers the determinants of LOF. The second step addresses the impact of LOF on performance. While prior LOF research has been grounded in the RBV, the KBV and institutional theory (Denk et al., 2012; An et al., 2022), this study includes a network perspective on internationalization, for a more holistic examination of LOF. Therefore, a key contribution of the thesis lies in developing an integrated model that allows for a comprehensive analysis of the interrelationships among firms' approaches to mitigate LOF, their international performance and the influence of their home country experiences.

The LOF literature has been predominantly characterized by studies that have used either purely quantitative or purely qualitative research designs (see An et al., 2022; Denk et al., 2012). An extensive review by An et al. (2022) indicated that only two LOF-related papers used mixed methods (i.e., Balabanis & Diamantopoulos, 2016; Crilly et al., 2016). As such, this study contributes to the extant literature by using a sequential mixed methods design to operationalize LOF and provide a rigorous examination of the concept. By using this methodology (Tashakkori & Teddlie, 1998), the study utilized the findings from the exploratory interviews to inform the development of a web-based survey. The interviews were instrumental for identifying both intra-country liabilities and LOF faced by SMEs. These findings also helped to refine key constructs for operationalizing LOF. By comparing the qualitative and quantitative findings, the study offers the potential for drawing more robust conclusions regarding LOF. Therefore, the study's methodological contribution lies in adding depth and breadth to the conventional research designs followed in the LOF literature by employing a mixed methods research design, while enhancing rigor and validity.

Lastly, existing studies addressing the concept of LOF have tended to use a limited number of theoretical perspectives (An et al., 2022; Denk et al., 2012; Lu et al., 2021; Luo & Mezias, 2002). The thesis contributes to the literature by employing multiple theoretical lenses, including the resource-based view (RBV), the knowledge-based view (KBV), institutional theory, and the network perspective on internationalization. The rationale for using a multi-theoretic approach is that LOF is a complex concept, encompassing tangible (e.g., costs) and intangible (e.g., uncertainty, discrimination, relational hazards) elements. Moreover, LOF can stem from various factors, such as unfamiliarity with foreign markets, legitimacy issues, resource shortages, regulatory obstacles, and limited networks. Thus, relying on a single theoretical lens may only partially capture the complexity and heterogeneity of the LOF phenomenon. Therefore, addressing the call of Zaheer (2002), Luo and Mezias (2002) and Denk et al. (2012), the study adopts a muti-theoretic approach to offer new insights into emerging market SMEs' experiences with LOF.

To conclude, the key contributions of the thesis are as follows:

- Operationalization and examination of LOF measures in the context of SMEs
- Exploring LOF in different context and identification of the role of intra-country experience in assisting SMEs' internationalization
- Comparative analysis between SMEs with and without interstate experience in terms of their approaches to mitigating LOF and their overall international performance.
- Development and testing of an integrated LOF model for SMEs
- Adoption of mixed methods research design for studying LOF

- Incorporation of multiple theoretical perspectives to enhance our understanding of LOF and its components.

1.5 Outline of the Thesis

The thesis is organized into eight chapters. A brief description of each chapter is provided below.

Chapter 1: Introduction
The first chapter provides a background of the study and outlines the research questions and objectives. In addition, it highlights the contribution of the thesis.

Chapter 2: Literature Review
The chapter reviews the literature that provides the foundation of the thesis. It focuses on discussing the state of the LOF literature in terms of the challenges and approaches of foreign firms in international markets. It also highlights the state of the LOF literature in the context of emerging markets by conducting a systematic review of 75 articles. The chapter concludes by outlining the literature pertaining to SMEs' performance.

Chapter 3: Conceptual Model and Hypothesis Development
This chapter discusses the theoretical underpinnings of the study. The conceptual model is developed by incorporating the resource based-view, knowledge based-view, institutional theory, and network perspective on internationalization.

Chapter 4: Research Methodology
This chapter discusses the research paradigm and design of the study. The rationale for using mixed methods approach is also highlighted. The chapter also discusses the qualitative and quantitative components used in the study, including the research instruments, the sample selection, and measurements of the dependent and independent variables. In addition, the chapter outlines the statistical technique used to test the hypotheses and address the research question of this study.

Chapter 5: Qualitative Analysis
Being the first step in the mixed methods design, this chapter outlines the findings from the exploratory interviews, which provide rich insights into the SMEs' LOF, and the approaches

used to mitigate the LOF. It also highlights the discovery of intra-country liabilities that interviewed SMEs experienced within India.

Chapter 6: Quantitative Analysis

This chapter describes the findings from the web-based survey study. It presents the results of the hypothesis testing to answer the research questions.

Chapter 7: Discussion

In this chapter, the findings from the qualitative interviews and quantitative surveys are integrated and jointly discussed. It also outlines the implications of the findings.

Chapter 8: Conclusion

In the final chapter, the key contributions of the study, in terms of literature, managerial and policy implications, are discussed. In addition, the limitations of the study are acknowledged, and avenues for future research are recommended.

CHAPTER 2

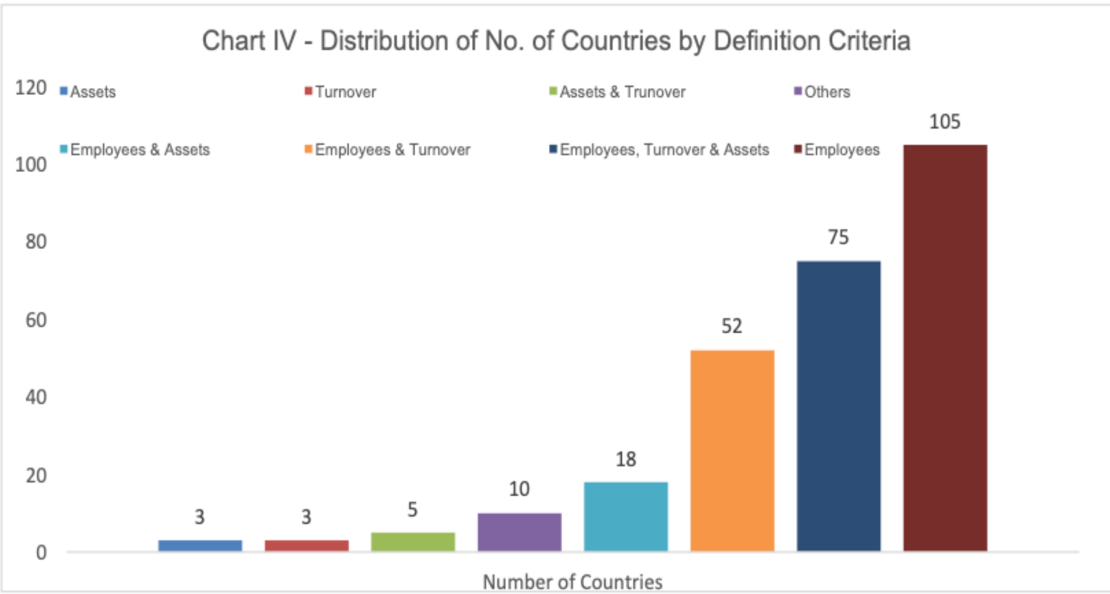
LITERATURE REVIEW

This chapter reviews the literature that is pertinent to this study. It includes definitions of small and medium-sized enterprises (SMEs) and describes the factors constraining the growth and internationalization of emerging market SMEs. In addition, this chapter reviews the extant literature on liabilities of foreignness (LOF) and discusses the LOF faced by small and medium-sized firms in foreign markets. It also discusses the approaches used by foreign firms to mitigate LOF. Furthermore, the chapter highlights the state of LOF literature on emerging market firms by conducting a systematic review of 75 articles published in leading management journals. Additionally, key theoretical frameworks underpinning the extant LOF studies, and the present study are outlined. The chapter concludes by discussing the international performance of SMEs.

2.1 Definitions of Micro Small and Medium Sized Enterprises

There are many different definitions used to describe Micro, Small, and Medium Enterprises (MSME), and the definitions vary from country to country. Among the 267 definitions used by different institutions in 155 economies, the most widely used variable for defining an MSME is the number of employees (IFC, 2014). Other commonly used criteria to define and characterize MSMEs include turnover, asset value, the volume of output or sales, initial investment amount, and size of manufacturing space (IFC, 2014). The European Commission defines MSMEs as enterprises with less than 250 employees and an annual turnover of less than 50 million Euros are SMEs (European Commission, 2020). It is the most common threshold for defining the MSMEs in Europe and Central Asia (IFC, 2014). The UK, too, follows the standard definition set out by the European Union (EU, 2009). In an emerging market such as China, SMEs are companies with sales between RMB30 million and RMB400 million with a workforce ranging from 400 to 3,000 employees (Hilgers, 2009). India, however, defines SMEs by the level of investment and annual turnover criteria (see Table 2.2). As numerous definitions characterize MSMEs, Figure 2.1 indicates the criteria used by many countries. Additionally, Table 2.1 provides an overview of the various definitions adopted by the countries.

Figure 2.1: Criteria to Define SMEs by the Number of Countries



Source: MSME Country Indicators, IFC

Table 2.1: Definitions of SMEs in Most Asian and Other Countries

Country	Industry category	Criteria or definition
Australia	Small Medium	<20 employees ≤200 employees
Canada	Manufacturing	Independent firms having <200 employees
European Union	SME	<250 employees and annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million
Indonesia	SME	<100 employees
Japan	Manufacturing, mining and transportation Wholesale trade Retail trade and service	<300 employees or invested capital <£0.42 million construction industries <100 employees or capitalization <£0.13 million <50 employees or capitalization <£41, 920.843
Korea	Manufacturing Mining and transportation	<300 employees, £10.89 - £43.57 million of capital or assets <300 employees in construction; <200 employees in commerce and <20 employees other service business
Malaysia	Small and medium industries	≤150 full-time workers or with a shareholder fund of <£3.64 million
Philippines	SME	<200 employees, asset size<£0.63 million
Singapore	Manufacturing Services	Fixed assets < £9 million <200 employees and fixed assets <£4.98 million
Taiwan	Manufacturing, mining and construction industries Services industries and others	<£0.93 million and <200 employees <£1.24 million sale and <50 employees
Thailand	SME	≤200 employees or fixed assets <£1.49 million
The UK	Micro Small Medium	≤£1.7 million turnover and <10 employees ≤£8.6 million turnover and <50 employees ≤£43.5 million turnover or having balance sheet total up to £37.4 million, and <250 employees
The USA	Very small enterprises Small enterprises Medium enterprises	<20 employees 20-99 employees 100-499 employees
Vietnam	SME	No fixed definition, generally <500 employees

Adapted from Cunningham and Rowley (2007)

Recently, the Indian government revised the definition of MSMEs. The new definition does not distinguish between manufacturing and service enterprises. The government has also revised the investment criteria and annual turnover to define MSMEs (see Table 2.2).

Table 2.2: Definition & Classification of Indian SMEs

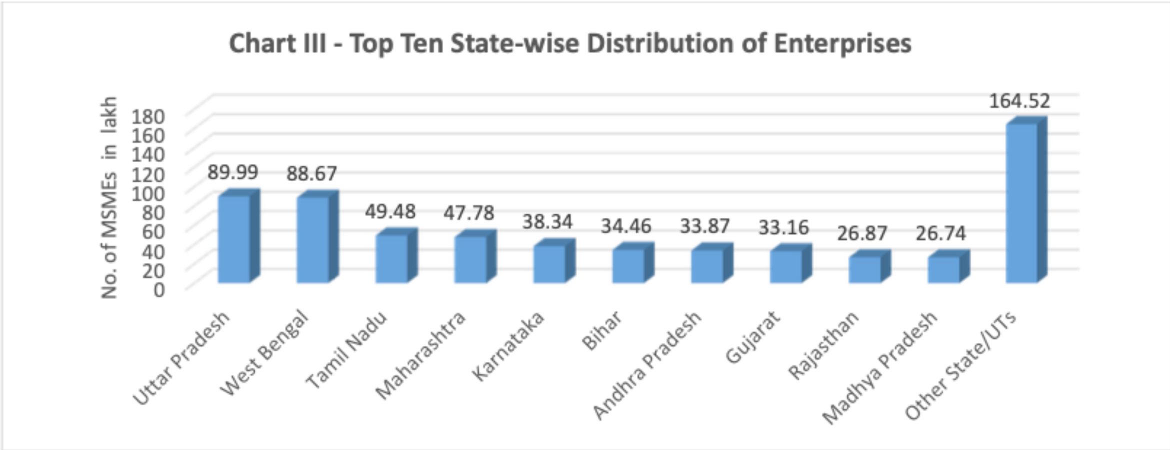
MSME Classification Based on Investment and Annual Turnover Criteria			
Classification	Micro	Small	Medium
Manufacturing or Services	Investment < INR 1 crore and turnover < INR 5 crore	Investment < INR 10 crore and turnover < INR 50 crore	Investment < INR 20 crore and turnover < INR 100 crore

Although the new definition enables Indian MSMEs to carry out their business without worrying about growing in size and losing benefits, the new classification has pros and cons. For example, firms that exceed their investment or turnover will lose the status of MSME and will no longer be able to take advantage of the benefits such as collateral-free loans and other financial support available for MSMEs. This definition, therefore, creates challenges for small exporters with higher turnover. For instance, a small diamond exporter having a turnover of more than INR 50 crore (equal to) will fall out of this definition's purview. Therefore, the new definition overlooks many small firms having a high turnover because they export precious metals.

2.2 SMEs as a Driving Force in India

After independence, the Indian government promoted the MSMEs' development to generate employment opportunities, ensure equal distribution of the national income, train youth in various skills, promote entrepreneurial ventures, and diversify MSMEs across various industries (Barki & Vibhuti, 2015). Over the years, India's MSME sector has continued to be an important contributor to the GDP, especially after the economic reforms of 1991, also known as the post-liberalization period. The MSMEs are the engines of the economy and are gradually replacing multinationals. The number of MSMEs in India has significantly increased in recent years. According to the MSME Ministry's 2020 annual report, registered MSME units have increased by 18.49% since 2019 (IBEF, 2022). As of 2019, there are 63.38 million MSMEs in India. The report also suggested that most firms are micro-enterprises. About 45% of the enterprises are manufacturing units, of which many are involved in exports (RBI, 2019). According to the Reserve Bank of India 2019 report, the share of MSME exports has increased from 43% (2012-2013) to 49% (2017-2018). These firms contributed about 30% towards India's GDP and have created employment for about 111 million people (RBI, 2019). MSMEs are the second largest employer after the agricultural sector (RBI, 2019). Furthermore, 93% of the MSMEs are concentrated in the top ten Indian states (see Figure 2.2).

Figure 2.2: State-wise Distribution of MSMEs in India



Source: Annual Report 2017-18 Ministry of MSME

There are over 6000 products ranging from traditional to high-tech items manufactured by the MSMEs in India (RBI, 2019). MSMEs are active in various sectors and help the economy by producing a diversified portfolio of products. Some of the products produced by MSMEs include engineering products, electrical equipment, electronics, chemicals, plastic, steel, cement, textile, paper, matches, and ready-made garments (MSME Report, 2021). As per the survey conducted by the National Sample Survey Office (India), Ministry of Statistics & Program Implementation in 2015-16, many MSMEs were from rural areas (MSME Report 2019).

2.3 Factors Constraining the Growth of the Indian MSMEs

Despite the Ministry of MSMEs and other independent bodies' supportive functions and services, the MSMEs confronts several challenges. These challenges are associated with the high costs of credit borrowings, limited access to new technology, poor adaptability to the changing trends in business, poor assistance in connecting to international markets, inadequate infrastructure facilities including power, water, roads and regulatory issues related to taxation, labor laws and environmental issues (Grant Thornton Report, 2011). There is also limited support for promoting public-private partnerships with MSMEs. Additionally, the MSMEs tend to receive limited support to promote their business in the domestic and international markets, due to which their growth remains stagnant. The linkages between academia and industry also tend to be weak. The government could improve the link between academia and industry by allocating funds for research and start-ups emerging from colleges or universities, which could benefit the MSME sector. Discussed below are the four major constraints that Indian MSMEs are facing:

2.3.1 Financial Dilemma

The first challenge that the Indian MSMEs face is the lack of availability of capital. Access to financial capital is essential for a firm to start, operate or grow (Bygrave, 1992). Despite decades of economic development and government introduction of schemes to support small businesses, SMEs in India still struggle to obtain financial capital (Gupta et al., 2005). Regardless of the size, location, or type of industry, SMEs face inadequate and timely access to credit (Mukherjee, 2018). Apart from a few well-performing SMEs and those with financial sponsorships from investors, most small business owners do not own sufficient funds to meet their business needs. Obtaining loans is challenging because bankers perceive lending to SMEs as risky due to poor repayment records, lack of collateral, and low market credibility (Gupta et al., 2005). Moreover, there is a lack of clear information on how MSMEs access funds offered by state and national governments. Besides financial constraints, other problems, such as lack of transparent credit systems, bureaucracy, and corruption, hinder the allocation of funds and MSMEs' internationalization.

Although the government is taking steps to ensure MSMEs have better access to credit, Grant Thornton's (2011) report suggests that MSMEs received only 15 percent of funding from internal sources, 25 percent from banks and financial institutions, and 10 percent from capital markets. It was found that the funding offered to small firms is lower than those offered to large firms. The report also suggested that MSMEs accessed around 50 percent of the funding through alternative sources, such as friends and family. This implies that MSMEs do not receive adequate capital from the government for their business activities and have to rely on funding from personal contacts to support their venture. As MSMEs can be fragile and encounter credit crunch during a crisis such as a pandemic and recession (The Wire, 2020), building a proper credit system can help MSMEs survive.

2.3.2 Access to Technological Capabilities

Although MSMEs are focusing on adopting affordable and appropriate technologies to innovate and build competitiveness, many are still operating traditionally, i.e., using cheap labor as their competitive advantage. This is because MSMEs may not afford to invest in expensive technologies due to a shortage of financial resources and a long return cycle (Carpenter & Petersen, 2002). Developing nations' small firms rely on outdated technologies and opt for cheap human labor to lower costs than employing advanced technologies (Shi, 2001). As a result, it can be difficult for small emerging market firms to compete and grow without appropriate technologies (Arinaitwe, 2006). India scored low in developing and adapting to the latest technologies in the MSME sector (Grant Thornton Report, 2011) due to the absence of a thriving ecosystem for facilitating MSMEs to adapt to the latest technologies. Although India is one of the largest and fastest-growing markets for digital adoption (McKinsey & Co, 2019), the adoption of technologies used by the MSMEs is uneven (Financial Express, 2019). In addition to the reluctance of MSMEs to adopt technologies due to the costs involved, the lack of awareness about the right technology to scale up production and revenues has been constraining the growth of MSMEs (Financial Express, 2022).

2.3.3 Governments' Outlook Towards SMEs

As MSMEs created 11 crore job opportunities in India while contributing to the GDP by 30% and 48% to exports in 2020 (The Economic Times, 2020), these firms are the heart of the Indian economy. After the liberalization, privatization and globalization initiative (also known as the open market initiative) in 1991, it was necessary to protect and look after smaller firms' growth. In the face of increased competition from foreign firms, the Indian government started paying more attention to enhancing the MSMEs' overall competitiveness between 1991-1999. Since then, the central and the state governments have concentrated on improving the infrastructure, introduced various policies to improve financial assistance, and embraced technology by introducing research and testing centers to enhance the MSMEs' growth. The government's introduction of the Small Industry Development Bank of India (SIDBI) in the late 90s and numerous policies to address the credit problems, collateral-free loans, and relief from central excise duties in the early 2000s had a positive impact on the development of MSMEs. The Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006 established a legal framework for small and medium-sized enterprises. It proposed to alleviate the difficulties of MSMEs by introducing progressive credit policies and programs, launching effective mechanisms to deal with delayed payments, and enhancing the schemes and programs to develop MSMEs' competencies. Over the years, the Ministry of MSME has also taken several initiatives to enhance SMEs' access to opportunities within and outside India. Various organizations under the Ministry of MSME regularly organize exhibitions, trade fairs, and buyer-seller meetings across the country, allowing firms to display their products and capabilities in national and international markets.

Despite the available assistance, MSMEs are less informed about the support available to them. There are many reasons for MSMEs' unawareness, such as red tape, corruption, and bureaucratic processes embedded in the institutional environment. Due to these deeply rooted constraints, firms miss out on receiving crucial information about the available provisions. There are 28 states in India, 718 districts and 1500 municipal corporations individually responsible for framing policies, providing benefits, and looking after small firms' development. When state and central government policies co-exist, there is a need for simplified and unified legal and regulatory frameworks and good governance for the MSMEs to thrive (Mukherjee, 2018). However, there is a gap between the policies or programs launched by the central government for small businesses and their implementation at the state level. As a result, MSMEs are unable to enjoy the full benefits of supportive policies. Although the government has introduced new schemes and programs such as Make-In India, Skill India and Digital India, it still has not made it easier for SMEs to do business within and outside India. India generally needs a long-term, systematic, unified development strategy and policy system to support small ventures.

2.4 Internationalization of Small and Medium Sized Enterprises

Small and medium-sized enterprises (SMEs) across economies have become crucial international trade players. They now account for 20-40% of world exports and have an increasing share in foreign direct investment activities (OECD, 2019). The growing importance of SMEs' role in international trade has increased interest in understanding SMEs' internationalization. Numerous studies have investigated SMEs' internationalization processes, market entry mode, export activities, and their international performance (Ruzzier et al., 2006; Lu & Beamish, 2001). The entrepreneurial nature of internationalizing SMEs has spurred interest amongst entrepreneurship researchers. Over the years, international entrepreneurship scholars have researched foreign market-entry modes of SMEs', such as FDI (Coviello & McAuley, 1999) and alliances (Lee et al., 2012). Researchers have also discovered and studied internationalizing SMEs, such as internationalizing new ventures (McDougall, Shane & Oviatt, 1994; Oviatt & McDougall, 1994), and the born global firms (Knight & Cavusgil, 1996; Madsen, Rasmussen & Servais, 2000; Madsen & Servais, 1997; Rennie, 1993).

Additionally, extant literature examined internationalizing SMEs' growth, profitability and performance (Lu & Beamish, 2001; Paul et al., 2017). Over the years, researchers have helped us understand various factors influencing SMEs' internationalization, growth, and performance (Andersson, Gabrielsson & Wictor, 2004; Autio, Sapienza & Almeida, 2000; Cardoza, Fornes, Farber, Duarte & Gutierrez, 2016; Harms & Schiele, 2012; Lu & Beamish, 2001, 2006; Oura, Zilber & Lopes, 2015; Ruzzier, Hiscrich & Antoncic, 2006). For instance, studies have found that internationalization allows SMEs to perform better and succeed in the long run; however, internationalization barriers such as competition and trade restrictions in foreign markets can affect SMEs' performance in the short run (Lu & Beamish, 2001, 2006; Pangarkar, 2008). Many studies have also discussed internal constraints, such as poor knowledge of foreign market characteristics and lack of skilled human resources, adversely impacting the international success of SMEs' (Qian, 2002; Yip, Biscarri & Monti, 2000). Furthermore, extant literature has also examined the difficulties encountered by export-oriented SMEs and their export performance (Paul, Parthasarathy & Gupta, 2017).

Although it is presumed that internationalization can be challenging for resource-constrained SMEs, studies have found the opposite to be true. According to Autio, Sapienza, and Almeida (2000), the small size of SMEs can actually be an advantage rather than a limitation, as these firms may be often skilled at resource allocation (due to presumed resource limitations) and adept at navigating uncertain and challenging business environments. SMEs also tend to be more agile and flexible, compared to large firms (e.g., Knight & Liesch, 2016; Lu & Beamish, 2001). Due to flexibility in their routines, they can quickly learn and adapt to new foreign environments, potentially providing them with some competitive advantages over larger firms (Yu, 2001). Moreover, flexible managerial attitudes and practices may help these firms to surmount internationalization challenges (Knight & Liesch, 2016).

Furthermore, compared to large firms, SMEs can be endowed with distinctive capabilities, such as the flexibility to respond to market changes (e.g., Knight & Liesch, 2016; Lu & Beamish, 2001). Small firms that have substantial international business from soon after inception (e.g., international new ventures) may often overcome challenges by relying on the experiences and knowledge of their founders or managers (Knight & Liesch, 2016). If the managerial team has prior international business experience, then this could be used to facilitate the SME's internationalization. Additionally, smaller firms may have the advantage of being able to provide very personalized service to their customers, which can lead to increased customer loyalty and satisfaction (De Chiara & Minguzzi, 2002). Given SMEs' flexible attributes, they may be more innovative than large firms, because they are less bound by the bureaucracy and red tape that can hinder large corporations (Spithoven, Vanhaverbeke & Roijakkers, 2013). This characteristic enables SMEs to take risks and try new approaches, which may provide them with sustainable competitive advantages over larger competitors (Spithoven et al., 2013; Knight & Liesch, 2016). Moreover, emerging and developing markets often have complex and unstable institutional environments. SMEs internationalizing from these countries are often equipped with the skills and experience necessary to navigate complexities in their home market, enabling them to tackle similar problems and better access opportunities in foreign markets (Wu & Deng, 2020).

Broadly, the academic literature has gradually progressed from merely examining the SMEs' internationalization to investigating the problems encountered by smaller firms due to the dearth of social capital, regulatory barriers, economic and political environment, lack of legitimacy, and the risks stemming from foreignness, smallness and newness. Researchers increased interest in understanding small firms indicated that SMEs are not simply smaller versions of traditional firms because they exhibit differences in ownership, resources, organizational structures and management systems (Knight & Liesch, 2016; Lu & Beamish, 2001). Therefore, internationalization and its associated challenges can differ for SMEs due to internal and external factors affecting them differently than large firms.

2.4.1 Emerging Market SMEs' Internationalization

Most studies examined developed market SMEs. Developed markets have relatively homogenous institutional, regulatory and cultural environments; however, emerging markets differ in their business practices, institutional environment, infrastructure development, culture and languages (Cuervo-Cazurra et al., 2007). Given the attention to developed market firms, we still have not fully explored how complex features of emerging markets influence their firms. Although studies have examined the internationalization of emerging market multinationals, research on internationalizing SMEs from emerging markets is limited. Perhaps, inadequate studies on emerging market SMEs could be due to incorrect data, data unavailability, problems associated with research due to language barriers, or risky research conditions (e.g., terrorism and political uncertainty). Alternately, emerging market SMEs might be unwilling to participate in research studies (Piekkari & Welch, 2004) could also be one of the reasons.

Based on the above reasons, researchers tend to study large multinational firms from emerging markets (e.g., Brazil's AmBev, China's Lenovo, India's Tata, and Mexico's Cemex). It is easy to approach these firms, and the data is widely available for researchers. Therefore, given the difficulties associated with researching on emerging market SMEs and despite their presence in international markets and trade, there is a clear gap in our understanding of small and medium-sized firms from these economies (Yamakawa et al., 2008; Child & Rodrigues, 2005; Mathews, 2006; Tung, 2005). So far, studies examining emerging market SMEs have only scratched the surface. A more in-depth examination of these firms can reveal interesting facts about these enterprises. For example, we are not yet fully aware of how emerging market SMEs manage their international expansion despite their home country's complexities.

The limited research on emerging market SMEs overlooked the factors conditioning the internationalization of these firms until recently. As emerging markets have a complex institutional environment, the internationalization of emerging market SMEs can result from either being forced or pushed by their less munificent home country institutions - a phenomenon called institutional escapism (Wu & Deng, 2020; Yamakawa et al., 2008). A recent study by Cardoza et al. (2016) reported that Latin American SMEs encountered difficulties such as poor domestic regulations, an unstable economic environment, lack of funds, and information about business opportunities in the domestic market. As a result of these difficulties, SMEs choose to operate overseas (Cardoza et al., 2016). Furthermore, intense competition in emerging markets pushes small firms to explore business opportunities beyond national borders (Wu & Deng, 2020). Therefore, internationalizing SMEs might be escaping from the difficulties persisting in their home country (Wu & Deng, 2020; Zhou & Guillen, 2015).

Conversely, studies have shown that home country constraints can be advantageous for internationalizing firms. For example, Lu (2007) found that small emerging market firms successfully migrate to overseas markets (including developed economies) because they can leverage their home-country experiences in host markets. Research has also indicated that emerging market SMEs internationalize because of entrepreneur-friendly regulations, better protection of intellectual property rights, less corruption, and more transparent and better functioning capital markets (Lee et al., 2007; Peng, 2003; Puffer & McCarthy, 2001). Furthermore, doing business in sophisticated markets could be attributed to SMEs' motive to develop legitimacy, enhance their reputation, and credibility amongst investors, consumers, and home country government (Matlay et al., 2006). In many instances, SMEs' internationalization could reflect the global ambitions of the entrepreneur or manager (Oviatt & McDougall, 1994), who have acquired work or education overseas (Hutchinson, Quinn & Alexander, 2006). Additionally, emerging market SMEs' internationalization can be attributed to their high-technology and innovation capabilities (Booltink & Saka-Helmhout, 2018). For such firms, internationalization is no longer a matter of choice but a necessity (Gassmann & Keupp, 2007; Knight & Cavusgil, 2004). Lastly, studies pointed out that SMEs can venture overseas due to assistance from their partners, networks, or strategic alliances (Lee, Lee & Pennings, 2001; Matlay et al., 2006).

2.5 Introducing and Defining Liabilities of Foreignness

The international business literature has long held that all else being equal, foreign firms are expected to be at a disadvantage compared to the domestic firms of the local market (Hymer, 1960/76; Zaheer, 1995). The notion that foreignness is a disadvantage stems from Hymer's (1960/76) writings, who suggested that foreign firms are treated and viewed differently from national firms. As a result, a firm operating in a market overseas incurs additional costs that a local firm would not incur (Zaheer, 1995). For instance, foreign firms face additional costs to acquire market information than local firms. Hennart (1982), in turn, noted that foreign firms (originally referred to as MNEs), are given 'alien status'. Later, Zaheer (1995) expanded upon Hymer's views, and the cost of doing business abroad was collectively represented as the liability of foreignness, which she defines as "the additional costs overseas firms incur while operating in international markets" (Zaheer, 1995, p.343). Calhoun (2002) argued that foreignness is identical to "…cultural variation…" between home and host market (p.31). Meanwhile, Brannen (2004) defined foreignness to be the result of "dissimilarities…in operating contexts of an MNE's home and host environments" (p.596). Conversely, differences in regulative, normative, cultural, and cognitive institutions of home and host countries are constituted as foreignness (see, for example, Eden & Miller, 2004). Thus, the liability of foreignness results from heterogeneity and differences between the operating environment at home and host countries, and stems from contrasts in institutions, culture and market.

Expanding the views on foreignness, Zaheer (1995) related the extra costs of doing business abroad to spatial distance (e.g., travel, transportation, and coordination and monitoring over larger distances and different time zones), lack of experience in the local environment (e.g., higher learning costs), a perceived lack of legitimacy in the host country (higher reputation-building costs), and domestic restrictions (e.g., limitations on sales of technology to certain countries, legal restrictions). Soon after, Zaheer and Mosakowski (1997) explored the impact of foreignness on firm survival, and found that LOF tends to diminish, or even disappear, as the foreign firms gain more legitimacy, thus identifying that LOF changes over time. Several studies since then have documented empirical evidence for the existence of LOF. In a study conducted by Mezias (2002a, 2002b), foreign subsidiaries operating in the United States faced disadvantages due to the labor lawsuit judgments in federal and state courts compared to a matched sample of US-owned firms, showing their weak understanding of local legal processes. Sofka (2006) demonstrated that foreign firms were often excluded from inter-firm networks to reduce knowledge spillovers. Zaheer and Mosakowski (1997) examined the foreign currency trading room and found lower profitability and higher failure rate by foreign-owned trading room, confirming that foreign firms experience reduced profits due to LOF. Furthermore, Miller and Parkhe's (2002) findings indicated that the foreign banks were less efficient than the domestic banks in various foreign markets, confirming the existence of liability of foreignness. Other studies confirmed that foreign firms face challenges due to their 'foreign' or 'outsider' status in host countries (Johanson & Vahlne, 2015; Panibratov, 2015; Moeller et al., 2013).

Given the existence of LOF, scholars working on this topic have offered their views on the sources of LOF (e.g., Eden & Miller, 2004; Mezias, 2002a) and suggestions to mitigate LOF (e.g., Barnard, 2010; Elango, 2009; Luo, Shenkar & Nyaw, 2002; Sethi & Guisinger, 2002; Zimmerman & Zeitz, 2002). Using case studies of Taiwanese firms operating in Europe, Chen (2006) showed that they preferred wholly owned subsidiaries (WOS) over joint ventures as their market entry mode to control their local response, manage local relationships and lower the costs. Luo, Shenkar, and Nyaw (2002) report that foreign firms in China use a combination of offensive (e.g., networking) and defensive (e.g., contracts, guanxi) to mitigate LOF. Nachum's (2003) findings demonstrate how resources can be effectively used to outperform local firms in the financial service industries. Garg and Delios (2007) highlight the importance of obtaining business group affiliations to overcome legitimacy constraints for developing market firms. Similarly, Bae (2013) validates the role of credit rating agencies and certifications in mitigating emerging market firms' (EMFs) LOF. Another recommended approach to reducing LOF is to engage in continuous learning and adaptation when doing business in international markets. Petersen and Pedersen (2002) found that foreign firms' willingness to learn and adapt enhances their ability to overcome LOF.

As indicated previously, studies have established that foreign firms are likely to experience greater challenges (especially at first), vis-à-vis domestic competitors, and are often subject to biases in the host country (Zaheer & Mosakowski, 1997). While, collectively, these burdens represent challenges associated with doing business internationally, they are loosely connected under the umbrella of 'LOF' (Dash & Ranjan, 2019). As the broad conceptualization of LOF does not explain all the disadvantages (Sethi & Guisinger, 2002) that firms encounter in foreign markets, it has led to the introduction of interrelated concepts such as the liabilities of origin, emergingness, outsidership, and multinationality, in the effort to better explain the challenges associated with undertaking international business. Each of these liabilities addresses a particular aspect, but each is also a part of the broader LOF. Internationalizing firms can encounter a confluence of challenges – some overlapping – that are associated with several of these more specific liabilities; Table 2.3 summarizes the definitions of the various liabilities and their features. Although liabilities of newness and smallness are distinct relative to LOF due to not dealing specifically with international activity, the table includes their definitions to provide clarity on the concepts surrounding liabilities.

Table 2.3: Types of Liabilities Faced by Foreign Firms

Concepts	Definitions	Explanations
Liabilities of foreignness	"… the costs of doing business abroad that result in a competitive disadvantage… [That is,] all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer 1995, p. 342-343).	The liability of foreignness arises "from information asymmetries, transaction costs (Hymer, 1960), decision making impeded by distance from the head office (Kindleberger, 1969), and local biases (Vernon & Vernon, 1977) such as local laws, the language, and the general competitive situation" (Li, 2008b, p. 877).
Liabilities of emergingness	Additional disadvantage that EMFs face (relative to DMFs[1]) by virtue of being from emerging economies (Madhok & Keyhani, 2012).	Lack of legitimacy and social acceptance from local constituents in host markets (government, customers, and suppliers), leading EMFs to be discriminated against, compared to DMFs (Madhok & Keyhani, 2012).
Liabilities of outsidership	Challenges arising from the fact that a firm lacks a position in a network and is an outsider (Johanson & Vahlne, 2015).	Liabilities of outsidership limit access to the benefits and opportunities emanating from network relationships, such as learning and building trust and commitment, which facilitate international expansion.
Liabilities of origin	Discrimination against firms "by host country consumers and governments because of where they are from (i.e., their specific country of origin)", as opposed to LOF's focus on ''where they are not from'' (Ramachandran & Pant, 2010, p. 243).	These are liabilities that stem from the home country's underdeveloped financial systems and institutions, poor corporate governance, and negative country and product images, which affect the reputation of firms from that home country in a particular host country.
Liabilities of multinationality	The complexity and coordination costs inherent in multinational operations and incurred from the initiation of cross-border activities (Ramachandran & Pant, 2010).	This concept denotes the difficulties of managing the parent-subsidiary relationship, the multinational network of subsidiaries and affiliates, and interactions with transnational institutions (Eden & Miller, 2001; Sethi & Judge, 2009; Ramachandran & Pant, 2010) along with the inability to transfer firm-specific advantages to subsidiaries (Cuervo-Cazurra et al., 2007). For example, foreign exchange risk is a liability of multinationality, and not foreignness (Ramachandran & Pant, 2010).
Liabilities of newness	Younger or newer organizations tend to have higher failure rates, compared to older organizations (Stinchcombe, 1965).	Liability of newness occurs when young firms lack resources, slack, and the legitimacy of older firms, and struggle to develop business relationships with suppliers and customers. This pertains to both domestic and internationalizing new firms (Sethi & Guisinger, 2002).
Liabilities of smallness	Emerges from lack of financial resources, due to lack of creditor support, difficulty in attracting skilled workers, and financial challenges such as high interest rate rates and administrative costs of regulatory compliance (Aldrich & Auster, 1986; Abatecola, Cafferata & Poggesi, 2012).	While liabilities of newness suggest that new organizations face survival challenges, liability of smallness assumes that larger size can reduce the effects of liability of newness (Freeman et al., 1983).
Liabilities of localness	Added costs of doing business at home (Jiang, Liu & Stening, 2014) and additional socio-political and relational costs imposed by regulatory punctuations in the domestic market (Perez-Batres & Eden, 2008).	Domestic firms in emerging markets often lack resources, relative to domestic firms in developed markets, and are also more likely to be affected by changes in their economy, institutional frameworks, and the local presence of foreign firms.
Liability of expansion	The liability of expansion [is the] lack of complementary resources needed to operate at a larger scale (Cuervo-Cazurra et al., 2007; p. 717).	To manage international operations, firms need to have spare resource capacity, and if firms lack this capacity, it may have to stretch its existing resources that may prove to be ineffective or a liability. Liability of expansion is not exclusive to internationalization and can also affect those firms that expand with limited resources, knowledge or experience.

[1] DMFs refer to developed market firms.

Although the concept of liabilities of foreignness was initially associated with any and all additional costs faced by MNE subsidiaries in host countries, scholars have further refined the concept. Geographic distance can create coordination and transportation costs, national and local governments in host markets can impose entry and license fees, and firms can incur information gathering costs specially to understand the local laws and regulations by retaining lawyers and consultants (Calhoun, 2002). As a result, the extra layer of costs is difficult to quantify; however, these costs can be easily anticipated and will be finite (Calhoun, 2002). Overall, what lies at the heart of every discussion on LOF – are the costs that cannot be easily anticipated, can affect foreign firms differently in different countries and can continue for an undeterminable amount of time (Calhoun, 2002). Although, Zaheer and Mosakowski (1997) argued that the costs associated with the LOF reduce, or even disappear, as the foreign firms gain more legitimacy (Zaheer & Mosakowski, 1997).

In order to provide clarity on the LOF, Zaheer's (2002) commentary draws a line between the cost of doing business abroad (CDBA) and the LOF (Eden & Miller, 2004). She argues that the LOF relates specifically to costs arising from the foreign firms' position in the host country.

> What I mean by *structural/relational costs* are the costs associated with a foreign firm's *network position* in the host country and its linkages to important local actors, which are both likely to be less developed relative to those of a local firm... One could think of *institutional costs* as costs associated with a foreign firm's distance from the cognitive, normative and regulatory domains of the local institutional environment...
>
> (p. 351-352)

While the costs of doing business abroad focus on market-driven economic costs, Zaheer (2002) sees LOF as focusing more on the institutional and social costs of access and acceptance. For instance, she says:

> ...while the events of 9/11 increased the CDBA of all firm, they may have increased the LOF (by affecting the access and legitimacy) of only certain firms from specific home countries… in specific host countries. (p. 352)

Overall, LOF is a dynamic concept, and it can increase with the changes in the environment or can decrease as firms develop linkages and align its actions to the host country environment (Zaheer, 2002)

2.6 Sources of LOF

Following Zaheer (1995, 2002), this section categorizes the sources of LOF into three hazards: unfamiliarity, discriminatory and relational hazards, which affect foreign firms more than the local firms of the host country. The next sections discuss LOF hazards in detail.

2.6.1 Unfamiliarity Hazards

Unfamiliarity hazards are the costs arising due to foreign firms' lack of knowledge, information or experience in the foreign market. If firms have inadequate information about the foreign market, it places them at a disadvantage compared to the local firms in that market (Zaheer, 1995). Zaheer (1995) explains the unfamiliarity hazards with a good example:

> German banks in Germany might have a better feel for whether the Bundesbank is going to lower Deutsche Mark interest rates within the next 24 hours than might British banks located in Germany. (p. 344).

The above example demonstrates that foreign firms are at an informational disadvantage compared to local firms. If foreign firms want to achieve the same level of host-market knowledge as local firms, they will require longevity of experience in the host country. Their inexperience due to less time in the host market will cause unfamiliarity hazards resulting in additional costs to gather information. There have been different opinions on whether these costs are cyclical in nature or disappear over time (Zaheer & Mosakowski, 1997; Calhoun, 2002). Caves (1971) argued that the additional costs of gathering information were fixed. In contrast, Petersen and Pedersen (2002) show that they can persist in the long run if foreign firms follow a standardized global strategy and do not engage in local learning. Their view is consistent with Johanson and Vahlne (1977), who argued that foreign firms might have to continuously overcome internationalization related barriers while conducting business overseas.

Furthermore, foreign firms face unfamiliarity hazards because the host country institutions lack information about them and develop unfavorable perceptions about the foreign firms (Kostova & Zaheer, 1999). As a result, foreign firms are stereotyped and judged on a different criterion than local firms merely due to the host country's lack of knowledge about them. Thus, to overcome unfamiliarity issues, foreign firms engage in legitimacy-building activities (Denk et al., 2012; Yildiz & Fey, 2012) to introduce themselves to host market customers and government institutions.

2.6.1.1 Social and Cultural Unfamiliarity

LOF is "a function of social and cultural barriers" (Zaheer & Mosakowski, p. 444) faced by firms in foreign markets. The disadvantages faced by foreign firms go deeper than mere lack of factual information about foreign markets (Calhoun, 2002). The disadvantages foreign firms experience depends on their familiarity with informal or unwritten cultural values, norms, and ideologies. Cultural hazards could arise due to the external environment (societal level) and internal factors (within the firm level). Foreign firms' unfamiliarity with the host market's culture and social attributes can make them susceptible to costs and affect their performance. Although foreign firms can predict, observe, learn, and adapt to societal differences, their inability to fully understand employees' cultures will cause hindrance (Anderson & Gatignon, 1986). For instance, a firm's inability to understand the culture and social values will affect its employees' performance, such that their performance will not be as expected (Calhoun, 2002). Additionally, managers' goals and motivations differ across cultures, and foreign firms will require knowledge and understanding of the influence of cultural differences within the firm (Calhoun, 2002). Therefore, foreign firms incur increased governance costs due to social and cultural unfamiliarity.

The cultural and social unfamiliarity between countries also directly impacts the behavior of the host market investors (Bell, Filatotchev & Rasheed, 2012). Investors prefer to invest in firms near them, communicate in the same native tongue, or share the same cultural background (Anderson, Fedenia, Hirschey & Skiba, 2011; Bell et al., 2012). Additionally, alliances between local and foreign firms may be short-lived if there is a vast cultural gap (Barkema, et al., 1996).

2.6.1.2 Institutional Unfamiliarity

In addition to the LOF arising due to cultural variations, disadvantages can also stem from the host market's formal and informal governance structures. Corruption, which is off the books, is an example of informal practices. For instance, offering bribes and side payments to government officials is a common practice in emerging and less developed countries with high corruption levels (Calhoun, 2002). Dealing with government institutions, stakeholders and distributors can be detrimental for foreign firms unfamiliar with the country's bureaucratic practices. A discretionary understanding of when and how to deal with bureaucratic environments requires tactic knowledge. Without appropriate knowledge, foreign firms face increased unfamiliarity costs and uncertainty compared to the native firms of the host country. Institutional hazards can also emerge due to political and economic uncertainty in the host markets (Gaur et al., 2014). Given such challenges, foreign firms may take time to adjust to uncertain and unfamiliar institutional environments (Delios & Heinz, 2000).

Additionally, unfamiliarity with the formal rules and regulations of the host market can cause disadvantages to firms' operations in the host market. Institutions are "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (North, 1990, p. 3). The institutions differ between home and host markets, and there can be differences or similarities between countries' regulatory, cognitive, and normative institutions. Due to the differences, foreign firms are expected to conform to the institutional policies, structures and practices of the host market. Foreign firms are subject to different rules than local firms of the host market. In order to overcome firms' lack of understanding of the institutional features of the host market, they tend to engage in partnerships and joint ventures with local firms (Yu & Sharma, 2016). By collaborating with local firms, foreign firms can accumulate knowledge regarding the foreign environment (e.g., rules and regulations) and build their reputation (Aguilera & Grøgaard, 2019; Eden & Miller, 2004). Involving local investors that are familiar with the idiosyncrasies of the host-country environment, specifically in terms of understanding how to deal with corruption helps mitigate LOF (Jiménez, Russo, Kraak, & Jiang, 2017).

2.6.2 Discriminatory Hazards

The second type of LOF arises from the discriminatory treatment foreign firms receive from governments, consumers, or the general public in the host country. The unfavorable treatment could be in the form of the governments imposing restrictive policies that favor domestic firms over foreign firms (Hymer, 1960; Vernon & Vernon, 1977; Edman, 2016). Such discriminatory treatment occurs when foreign firms' motive is to acquire natural resources (e.g., minerals, oil) or technology (Meschi, 2009; Zhou & Gullien, 2016). Kostova and Zaheer (1999) suggest that discriminatory treatment could also arise due to the host country's unfamiliarity with the foreign firm. Additionally, the unfavorable treatment received by foreign firms reflects the political hazards and strong consumer ethnocentrism prevalent in the host market.

Foreign firms are often stereotyped as outsiders and face more stringent standards than native firms (Kostova & Zaheer, 1999). The extent of stereotyping will depend on the level of consumer ethnocentrism in the host country (Balabanis et al., 2001). Generally, strong consumer ethnocentrism can be seen in the form of unfavorable perceptions of outsiders and favoritism towards the insiders (Eden & Miller, 2004). For example, consumers exhibiting local purchasing behavior (Nachum, 2011; Sharma, 2015). The consequences of ethnocentric patriotism in the host market can be detrimental to foreign firms' operations as it alters individuals' preferences. Even renowned MNEs are often subject to discriminatory treatment in the foreign environment because of individual preferences and the tendency to support local firms. For instance, one of the reasons Starbucks struggled to thrive in the Australian market is because the Australian consumers supported the local coffee brew shops more than the foreign giant. Another example is Al-Baik, a fast-food giant from Jeddah that is hailed and favored by locals over KFC, McDonalds, Kudu, and Herfy (Arab News, 2019), demonstrating consumers' loyalty towards a local firm than foreign-owned firms.

Furthermore, the host country's government and general public commonly associate foreign firms with negative images, which reduces their legitimacy in the foreign market (Bangara, Freeman, & Schroder, 2012; Kostova & Zaheer, 1999; Zaheer & Mosakowski, 1997). Foreign firms, especially EMFs, face unfavorable consequences because of the lack of legitimacy. For instance, a host country's government may be reluctant to allow investments from EMFs in their country and may set different rules for them (Zhou & Guillen, 2016). Therefore, discriminatory hazards primarily pertain to the disadvantages, such as additional costs foreign firms may incur to obtain external legitimacy (Eden & Miller, 2004).

2.6.3 Relational Hazards

Managing relationships across borders can be challenging and may create relational hazards in the form of higher administrative costs for foreign firms (Buckley & Casson, 1998; Eden & Miller, 2004; Henisz & Williamson, 1999). As the geographic distance increases, it can be difficult to supervise, manage the employees and deal with clients across borders. Managing relationships between firms can be even more challenging when firms operate in multiple countries. For instance, a foreign manager will spend more time and effort communicating with the host market employees when they do not share the same language, thus increasing the governance and administrative costs (Zhou & Guillen, 2016; Ghemawat, 2001). The administrative and governance-related costs incurred when managing the operations at a distance are also called intra-relational hazards (Eden & Miller, 2004). Thus, operating in foreign environments can increase relationship hazards, i.e., the extra costs of managing negotiations and disputes, and building trust (Eden & Miller, 2004).

Although ethnocentrism is related to discriminatory hazards, strong consumer ethnocentrism in the host market can create difficulties in building relationships in foreign markets. In an environment with a high level of consumer ethnocentrism, foreign firms could struggle to build trust and relationships with consumers or institutional entities. Therefore, foreign firms can experience weak structural and relational embeddedness due to relational hazards associated with LOF (Eden & Miller, 2004).

2.7 Emerging Market Firms and their Liabilities of Foreignness

Emerging markets are characterized by two key features. First, there are substantial institutional voids in emerging markets, which emanate from weak formal institutional structures (Khanna & Palepu, 2010). Second, these economies have undergone radical transformations in their business landscapes and home institutional environment due to massive waves of deregulation, privatization, and liberalization (e.g., Cuervo-Cazurra, Gaur & Singh, 2019; Hoskisson et al., 2000). These transformations in their home markets have changed the landscape for EMFs. For instance, EMFs are quickly catching up to developed-country competitors in international markets, and there are estimates that, by 2025, nearly half of the Fortune Global 500 companies will hail from emerging economies (Dobbs et al., 2014). Despite EMFs' critical force in shaping the global business landscape, we still have limited knowledge about EMFs. The literature on EMFs' widespread international activities has generally addressed their experiences, global strategies, and behaviors in host markets (e.g., Buckley, 2002; Cuervo-Cazurra, 2007, 2012; Ramamurti & Singh, 2009; Williamson, Ramamurti, Fleury & Fleury, 2013). In comparison, there is limited information on EMFs' facing and tackling liability of foreignness.

This study conducted a systematic review of the extant studies examining EMFs' LOF. Till date, there are 75 articles that consider the LOF faced by EMFs. The thesis identified these studies using a multi-stage literature search strategy; to facilitate replicability for future researchers. Appendix A (see Table A) outlines the search process along with the count of articles identified at each of the filtering stages. In order to identify specific articles that focused on EMFs' LOF, the study limited its search to double-blind reviewed articles published in journals in the fields of management, international business, strategy, and entrepreneurship (Keupp, Palmié & Gassmann, 2012; Rialp, Rialp & Knight, 2005). Moreover, only those journals with two-year impact factors greater than 1, according to the 2020 journal citation report (Clarivate Analytics, 2020), were selected to search for articles. The study did not consider book chapters, conference proceedings, and reports, as journal articles are considered to represent more validated information (Podsakoff, MacKenzie, Bachrach & Podsakoff, 2005). Each article was read to check its relevance for inclusion in the review, using the following criteria:

a. The main focus of the paper had to be on EMFs. We used the MSCI emerging market index of 2021 (MSCI, 2021) to identify emerging markets[2]. The EMFs could be multinational enterprises (MNEs), which are generally considered to be large or small/medium enterprises (SMEs), including new ventures.
b. The paper needed to be examining the liabilities of foreignness, origin, outsidership, and/or emergingness faced by EMFs in a foreign market, which could be developed, emerging, developing, or less-developed.

[2] Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Estonia, Greece, Hungary, India, Indonesia, Korea, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

This process resulted in the elimination of several articles, including some that focused on liabilities of smallness and newness, as opposed to liabilities of foreignness (see Table A in Appendix A). The study excluded these articles on the basis that smallness and newness were conceptualized as stand-alone concepts prior to the 1995 conceptualization of LOF and may not be related to internationalization. Finally, the filtering and screening process led to a final database of 75 articles relevant to this review. The study did detailed coding for each article, including the journal in which it was published, the theoretical perspective(s) used, home and host markets, sample size, firm type(s), measures used to identify LOF, main research questions, methodologies used, and key findings are provided in Appendix A (see Table B and C). Appendix A includes Table D and E, which summarizes, respectively, the distributions of the main theoretical frameworks employed in the articles and the methodological approaches. The count of articles by journal is also provided in Appendix A (see Table F). Appendix A (see Figure 1) shows the cumulative count of articles over the period of our review.

The limited studies on EMFs' LOF show that we have yet to fully understand EMFs' LOF and the strategies employed by these firms to offset the LOF. The following section presents analysis of the limited yet growing body of literature examining EMFs' LOF.

2.7.1 EMFs' Discriminatory Hazards

Compared to DMFs, EMFs are often discriminated in foreign markets due to being from developing economies (Estrin et al., 2018; Panibratov, 2015). As indicated previously, discrimination could result from stereotypical views, consumer ethnocentrism, and the host country's unfamiliarity with the foreign firm. Due to such issues, EMFs find difficulties attracting local talent in foreign markets (Barnard, 2010; Cuervo-Cazurra & Genc, 2008). Held and Bader's (2018) study shows that job applicants are less attracted to firms from China and Russia, confirming that EMFs suffer from liabilities of emergingness while recruiting employees in host-country. Also focusing on employee recruitment, Newburry, Gardberg, and Sanchez (2014) find that Latin American firms tend to be viewed as less attractive employers by respondents in five Latin American countries, compared to US, Canadian, and non-Spanish EU firms. Attitudes toward "foreignness" (in this case, represented by larger cultural difference) are related to specific individual characteristics; while individuals with more education and expecting higher income, are likely to express a preference for working for US, Canadian, and EU firms, other individuals who are denied local opportunities view the "foreign" firms as offering social advancement.

Retaining host-market employees can also be challenging due to employees' preconceived notions about EMFs. Alkire and Meschi (2018) find evidence that western managers are more likely to leave an organization when the acquiring firm is from India and China, rather than a developed country. The employees' preconceived, stereotypical views toward the emerging market nation, unpleasant previous experiences, and lack of awareness about the acquiring EMF's culture or management techniques instigate severe liabilities for the acquiring EMFs, over-riding the potential for positive outcomes associated with the acquisition. It also highlights the challenges EMFs face in handling employee-management relationships in cross-border acquisitions.

Moreover, acquisitions are considered risky because of high failure rates (Chittor et al., 2015). Alkire & Meschi (2018) also found that employees expressed a stronger desire to leave an organization (post-acquisition) when the acquiring firm was from China, as opposed to India, because of the higher failure rate of Chinese acquisitions in the EU and the USA (Alkire & Meschi, 2018). Extending the prejudice towards EMFs, Kolk and Curran (2017) illustrate that Chinese firms were subject to discriminatory hazards that were more severe because of their home nationality. They faced not only liabilities of foreignness and emergingness, but also liabilities of Chineseness (Cooke, Wu, Zhou, Zhong & Wang, 2018). These findings show that EMFs encounter adverse effects of discriminatory hazards, mainly due to liability of foreignness, emergingness, and origin.

2.7.2 EMFs' Unfamiliarity Hazards

Unfamiliarity hazards are the costs arising due to foreign firms' lack of knowledge, information, or experience in the foreign market. EMFs' limited knowledge, familiarity, and experience in international markets environments make firms susceptible to unfamiliarity-related LOF. For instance, Marques, Lupina-Wegener, and Schneider (2017) compared the challenges faced by Chinese and Brazilian banks in the Swiss market. They found that Brazilian and Chinese banks faced difficulties adjusting to the sophisticated banking system in Switzerland. This was mainly due to their lack of experience in developed markets. Compared to Brazilian firms, Chinese banks struggled more because of their inadequate understanding of the local environment, unclear plans, and negative home-country image. The study indicated that unfamiliarity hazards could emerge due to firms' unawareness of the host market environment and negative perceptions of host market locals towards EMFs.

Furthermore, compared to emerging markets, developed economies have competitive industries comprising domestic and foreign firms (Guar, Kumar & Sarathy, 2011). Dealing with intense competitive pressures might be easier for DMFs (Guar et al., 2011) than EMFs due to their home-country experiences. The competition in emerging markets may not be as intense as in developed markets. Therefore, EMFs venturing to developed economies can encounter increased unfamiliarity in dealing with competition in developed markets, mainly due to their inexperience in dealing with competition at home (Gaur et al., 2011).

Unfamiliarity hazards also arise due to the host market's unacquaintedness with the EMFs. In international capital markets, EMFs are often disadvantaged relative to local firms due to their limited credibility and poor history. The inadequate quality and quantity of information available to the intermediaries and investors about EMFs make them skeptical towards EMFs (Bell, Filatotchev & Rasheed, 2012). The 'legitimacy deficit' can hinder EMFs from raising capital in host markets (Schmidt & Sofka, 2009). Therefore, attaining a legitimate status will increase the host market's familiarity with the EMFs, which is critical for long- and short-term success in the host country's capital markets.

EMFs' LOF may also exaggerate due to their unfamiliarity with the foreign market's rules, regulations, and requirements. The regulations towards foreign firms are subject to changes. For instance, the industry standards and certifications that foreign firms have to adhere to in host markets may frequently change. As such, EMFs may find it challenging to adjust to the host market's changes. Montiel, Christmann, and Zink (2019) examine how uncertainty surrounding global standard certifications poses challenges to Mexican food exporters. Constrained by limited resources and capabilities, EMFs find it difficult to obtain and comply with multiple changes to international food safety rules, sustainability standards and certifications. As the requirements from foreign clients can change due to the changes in international rules, it can be difficult for EMFs to predict whether they should invest in acquiring certifications. Based on this, Montiel et al. (2019) discuss that acquiring certification to adhere to customers' short-term requirements may become a liability to EMFs operating in the food industry.

2.7.3 EMFs' Network Hazards

Networks are complex and have invisible patterns (Schweizer, 2013). Much of the liabilities encountered by foreign firms arise due to firms' weak network connections (business, ethnic, social or personal). Johanson and Vahlne (2015) argued that the root of uncertainty is outsidership to relevant networks. The lack of embeddedness in local networks instigates the LOF for EMFs by missing out on critical information and opportunities in the host markets (Boehe, 2011; Hilmersson & Jansson, 2012; Eden & Miller, 2004; Schweizer, 2013). Given that emerging market managers and entrepreneurs have limited international experience, local networks can be valuable for receiving up-to-date insider information, reducing foreign market uncertainties (Johanson & Vahlne, 2015; Musteen et al., 2014) and overcoming the liability of outsidership (Schweizer, 2013; Vahlne, Schweizer & Johanson, 2012). EMFs that are disconnected from the local networks remain unaware of the opportunities and are susceptible to uncertainties. In addition to local networks, the dearth of business, institutional, ethnic, social or personal networks increases EMFs' disadvantages in foreign markets.

As small firms may lack appropriate networks, they actively try to establish relationships with groups of individuals and businesses having the social capital resources (Ahuja, 2000). Studies have found that weak ties assist firms in overcoming the liabilities of outsidership than strong ties because they offer access to more novel knowledge and widen firms' sources of receiving information about foreign markets. (Sharma & Blomstermo, 2003; Hilmersson & Jansson, 2012). Therefore, EMFs can leverage their weaker contacts to become an insider of networks and deal with broader macro-environment dynamics (Gulati, 2007; Lavie, 2007; Zaheer & Bell, 2005). Though networks play a crucial role in assisting EMFs, studies examining how emerging market SMEs' networks help them in foreign markets have been sparse.

2.7.4 EMFs' Home Country Disadvantages

Recent studies have shown that home country institutions negatively influence internationalizing firms (e.g., Estrin, Meyer & Pelletier, 2018; Stevens & Shenkar, 2012). The liability of home (LOH) is a construct that reflects the friction generated by firms' home country institutions as they collide with the host country's cognitive, normative and regulatory pillars (Stevens & Shenkar, 2012). One such friction emerges from the governance structure existing in emerging market economies. While DMFs have dispersed ownership structures, EMFs, on the contrary, have high government involvement (Eden & Miller, 2004). Although government involvement, to a certain extent, provides EMFs access to resources, tax breaks, and political connections, which can be helpful to reduce LOF, conversely, it can increase EMFs' challenges. Increased government interference makes foreign investors, host country governments, and consumers nervous about the firms' intentions.

A recent example is Huawei. The billions of dollars invested by the Chinese government in the company raised alarms about Huawei in the USA and India (Forbes, 2019). The risks surrounding Huawei involved cybersecurity issues that could allow the Chinese government access to data, control over telecommunications infrastructure and capacity to conduct espionage. The close ties between Huawei and the Chinese Communist Party led many US firms to back away from their business with Huawei (Vox, 2019). Zhang (2021) study also assert that EMNEs face liabilities of emergingness which poses legitimacy challenges when firms engage in cross-border acquisition (CBA) process and impedes CBA completion. Therefore, the firm's home country gives a strong indication of the institutional 'baggage' the foreign firm brings with it i.e., the laws that govern it, the norms that guide its actions and/or the cognitive frames through which its constituent actors perceive reality – and the reaction of others to it (Stevens & Shenkar, 2012).

Moreover, the subnational regions in the home country may differ in terms of economic, political and legal, and social institutions, which govern business transactions and affect the performance of firms embedded within the local context (Meyer et al., 2009; Peng et al., 2008; Peng et al., 2009). These subnational variations can also hinder the firm's internationalization (Ma, Ding & Yuan, 2016). For instance, liabilities can arise from within-country variations (e.g., state-level differences), such as state-level policies hindering EMFs' foreign business activities. The differences in subnational regions' policies (e.g., taxes, subsidies, exemptions) can also create uncertainties for firms doing business in international markets (Wan & Hoskisson, 2003).

In emerging and underdeveloped markets, there are frequent changes in the policies, rules, and regulations that govern EMFs' operations (Child & Tse, 2001; Meyer & Nguyen, 2005) Constant institutional changes and reforms in emerging markets can make the business environment uncertain, and EMFs can encounter disadvantages due to home market institutions. As such, EMFs venture overseas to avoid the home country's disadvantages (Yamakawa et al., 2008). This tendency of EMFs is known as institutional escapism (Wu & Deng, 2020). Similarly, Perez-Batres and Eden (2008) introduced the notion of liability of localness to reflect the additional costs and challenges EMFs incur due to radical changes in the home country's industry and institutional structure. Their study specifically highlighted the challenges of Mexican banking firms as a consequence of trade liberalization that intensified the competition from foreign players.

2.7.5 EMFs' Resource Constraints

The resource-based view (RBV) and knowledge-based view (KBV) postulate that firms are a collection of tangible and intangible resources (Roy, Sekhar, & Vyas, 2016). Lack of tangible (e.g., financial, human resources) and intangible (e.g., know-how, reputation) resources can obstruct a firm's international business. Unlike DMFs, EMFs lack the necessary resources, capabilities and knowledge required for foreign market operations (Gaur, Kumar, & Sarathy, 2011). The inferred absence of critical intangible resources can contribute to the EMFs' LOF. For example, Ranbaxy – the Indian pharmaceutical giant, faced difficulties in developed markets as it primarily developed generic (copy-cat) drugs. Their copy-cat competency was more suitable for emerging markets than developed markets that required firms to produce research-based and patent-protected drugs. Thus, Ranbaxy was acquired by Japanese drug firm Daiichi Sankyo, and through them, it gained the tactic knowledge required for developing new patent-protected drugs for developed markets. The acquisition deal also enabled Daiichi Sankyo to obtain the know-how of emerging markets' generic drug industry. This example shows the unconventional approaches EMFs undertake to deal with the lack of critical intangible resources.

In addition to tactical knowledge, EMFs also lack tangible assets such as human resources (Lee et al., 2012) and financial capital (e.g., Gupta et al., 2005; Suarez-Ortega, 2003) that are essential for firms' international business activities. Profound knowledge, skills, tactics, personal contacts, relations, judgment, intelligence, and the reputation of individuals (Roy et al., 2016) can be a crucial resource for dealing with unfamiliarity and predicting uncertainties in the foreign market. Thus, EMFs lacking human resources are confronted with LOF and find it challenging to survive in foreign markets (Lee et al., 2012).

Foreign market knowledge is also a necessary element for firms to succeed (Johanson & Vahlne, 1977; 1990; 2015). Firms that lack international experience and knowledge face increased uncertainty when they enter international markets, causing them to proceed cautiously (Carlsson, Nordegren & Sjöholm, 2005). Though there are exceptions, many EMFs, particularly small EMFs, typically have managers with little international experience (Musteen et al., 2014; Oviatt & McDougal, 1994; Zahra, 2005; Fletcher & Harris, 2012). EMFs' lack of institutional knowledge (e.g., government, institutional frameworks, rules and norms), knowledge of local conditions or opportunities (Chetty & Holm, 2000; Schweizer, Vahlne, & Johanson, 2010), and limited understanding of the market behaviors, suppliers, distributors, competitors, local clients and their customers (Blomstermo, Eriksson, Lindstrand, & Sharma, 2004; Coviello & Munro, 1995; Johanson & Mattsson, 1988; Johanson & Vahlne, 2003, 2015) can magnify LOF and increase the costs of operating in foreign markets. Additionally, firms with weak technological knowledge face the risk of stagnation if they fail to develop and adapt their products (Autio, Sapienza, & Almeida, 2000).

Thus, if EMFs incorporate human resources that have profound knowledge, skills, tactics, personal contacts, relations, judgment, intelligence, and reputation (Roy et al., 2016), it can help firms deal with unfamiliarity and predict uncertainties in foreign markets. Although the costs of acquiring the knowledge required to deal with LOF should diminish over time, Petersen and Pedersen (2002) indicated that firms face increased costs and unfamiliarity hazards if they follow a standardized global strategy without adapting to the foreign environment dynamics.

2.7.6 Institutional Hazards Encountered by EMFs

In addition to the resource and knowledge deficiencies, liabilities also stem from the differences in the institutional environments (see De Beule, Elia & Piscitello, 2014; Salomon & Wu, 2012). As stated by North (1990), institutions are "humanly devised constraints that structure political, economic, and social interaction" (p.97). Institutions represent the 'rules of the game' (North, 1990) and consist of formal (e.g., economic, legal, regulatory, and political) and informal (societal norms and values that form the basis of culture) institutions (Wu & Salomon, 2017). Emerging market firms enter host markets from a position of disadvantage because they are inferred to be less familiar and inexperienced with the institutional features of the foreign environments (Zaheer, 1995; Nachum, 2010). As such, EMFs are more likely to misread or misinterpret the local regulations that could instigate more errors. Due to EMFs' institutional unfamiliarity, they find difficulties coping with economic, legal, regulatory, political and cultural environments in foreign markets (Wu & Salomon, 2017). The institutional challenges can be excessively felt by EMFs internationalizing to highly regulated institutional environments of developed markets than in markets with weak institutions. For instance, Holburn and Zelner (2010) show that EMFs can protect their market position in a weak institutional environment by harnessing their experiences at home (e.g., bureaucracy). However, EMFs internationalizing in developed markets can find it challenging to cope with a stringent institutional environment (Gaur & Kumar, 2010). Continuing the discussion of institutional liabilities, He and Lyles (2008) showed that Chinese firms faced political liabilities due to lack of in-depth knowledge of US market, its culture and politics.

Moreover, as the institutional distance increases, EMFs may be subject to acute institutional LOF. EMFs internationalizing to developed markets are more likely to be perceived as less legitimate and face heightened cognitive pressures to appear isomorphic (Gaur et al., 2011). The host market individuals may perceive EMFs differently due to the associated stereotypical views, national symbols, consumer ethnocentrism or due to cultural unawareness. As a result, EMFs may be compelled to achieve legitimacy by mimicking the local firms to improve their international performance (Bell et al., 2012; Miller & Eden, 2006). Moreover, EMFs can be expected to do more to build their reputation and goodwill than the native firms in host markets. For example, supporting the local communities, working with NGOs, looking after the community's welfare and harmonizing themselves with the local environments (Newenham-Kahindi & Stevens, 2018). Similarly, Korean subsidiaries with less experience in China engaged in corporate community involvement (CCI) to improve legitimacy, suggesting community network building and social philanthropy may be a useful coping mechanism for reducing LOF (Baik & Park, 2019). The additional approaches to establishing and maintaining legitimacy in the host market (Eden & Miller, 2004) can lead to higher operating costs for a resource-constrained EMF. However, despite EMFs' efforts to overcome institutional hazards, host markets might view EMFs actions as inadequate (Bangara et al., 2012; Pant & Ramachandra, 2012).

2.8 Mitigating Liability of Foreignness

LOF studies have expanded their theoretical boundaries over the last two decades. Simply identifying the LOF provides a partial picture. As such, Luo et al. (2002) pointed out that "finding effective mechanisms that can overcome the liabilities of foreignness…is the central study of LOF" (p.283). Similarly, Cantwell et. al. (2010) also urged scholars to find how firms "adjust their strategies and structures to counter uncertainty and complexity…" (p.567). As the previous section outlined different liabilities encountered by the EMFs in foreign markets, this section discusses EMFs' approaches to mitigate LOF. This section reviews studies that have broadly answered the question – what do EMFs do to overcome the LOF?

2.8.1 Using Resources to Mitigate LOF

When a foreign firm operates in an alien environment, its ability to succeed in an unfamiliar foreign market will depend on its resources that can be used to mitigate LOF. Thus, a central tenet in the LOF literature is that foreign firms can overcome LOF by relying on firm-specific resources and capabilities. Firms that own critical resources (tangible and intangible) can be crucial in overcoming the LOF (Denk et al., 2012). Tangible resources tend to lose their value over time due to changes in consumer preferences and business environments (Fernándeź et al., 2000). EMFs' intangible assets, such as the capability to learn, develop knowledge and create innovations, will be the critical competencies that enable firms to mitigate LOF (Kotabe & Kothari, 2016; Luo, 2000; Nair, Demirbag & Mellahi, 2015). For example, technological expertise will be vital for a technology-intensive firm to establish a foothold and deal with experienced native firms in foreign markets (Li & Fleury, 2020).

Many foreign firms also prefer to establish strategic alliances to access other companies' resources and capabilities (Fernándeź, Montes & Vázquez, 2000). Small EMFs enter into alliances, partnerships or joint ventures to access the resources that would otherwise take years to build, buffering them from LOF hazards (Lee et al., 2012). Liao's (2015) study shows that Taiwanese firms operating in China engage in partnerships with local firms to gain resources and knowledge, which also benefits their international performance. Given the benefits of local collaboration, EMFs establish wholly owned subsidiaries overseas because it enables firms to establish stronger alliances and local relationships to overcome the LOF (Chen, 2006).

In addition to EMFs' dependency on strategic alliances to access other companies' resources, they also rely on ethnic ties to achieve competitive parity in foreign markets (Miller, Thomas, Eden & Hitt, 2008). Ethnic communities prefer to share information about the local market with firms that share the same identity helping EMFs to overcome foreign market unfamiliarity. As EMFs are more likely to develop trust and close relationships within the ethnic community, it enables information sharing (allowing EMFs to overcome informational disadvantages) and joint problem-solving (Uzzi, 1997). Moreover, ethnically related competitors could also help by providing EMFs with resources they lack (Miller et al., 2008).

EMFs also agglomerate (also known as clustering and co-locating) in communities sharing the same culture and values (Lamin & Livanis, 2013; Shen & Puig, 2018). Agglomeration enables EMFs to acquire information about the host country's sensitive cultural and institutional aspects, access the ethnic diaspora's social capital resources, overcome resource and capability voids, develop legitimacy and mitigate country-level disadvantages. Subsequently, EMFs' ethnic resources can provide firms with a pool of skilled ethnic labor (individuals who share and understand the same culture) (Miller et al., 2008), which benefits EMFs to lessen foreignness related disadvantages. Mata and Alves (2018) also demonstrate that by starting business in large native/diaspora communities firms mitigate LOF.

Investigating the human resource recruitment process by Indian IT firms in Australia, Patel, Sinha, Bhanugopan, Boyle and Bray (2018) showed that Indian firms preferred to hire skilled Indian expatriates to maintain internal security. Contrary to other LOF studies that show foreign firms hire locals to acquire local informational resources and establish a foothold in a foreign market (Barnard, 2010; Cuervo-Cazurra & Genc, 2008), this study found that EMFs prefer to hire individuals sharing the same country-of-origin, to protect their technological resources. Such a hiring approach reduces the liabilities (e.g., information leaks) originating from the host-country locals.

Other studies examining EMFs in foreign markets show that firms hire individuals with previous international experiences, skills, and networks to reduce the time and costs required to learn about foreign environments (Sapienza, Autio, George & Zahra, 2006). The purpose of employing skilled and experienced personnel to manage foreign business activities is to familiarize themselves with host-country norms and plan effective strategies to deal with LOF. Hiring returnee independent directors is also seen as a legitimacy building strategy for EMFs seeking initial public offerings (IPOs) in overseas markets where firms may not have much reputation and encounter LOFs (Li, Bruton, & Filatotchev, 2016). Thus, employing human resources can be a feasible option to mitigate LOF (Barnard, 2010).

2.8.2 Achieving Legitimacy to Mitigate Foreignness

EMFs often face liabilities based on the status of their home country. As such, EMFs have to engage in legitimacy building activities in host markets. There are several approaches EMFs use to establish legitimacy in foreign environments. For instance, Chinese firms organized media presentations to increase trust and enhance their legitimacy in foreign markets (see Kolk & Curran, 2017). These firms also worked to distance themselves from the Chinese government, changed their credentials as private enterprises to present themselves as insiders and overcome the issues associated with their home-country image (Kolk & Curran, 2017). Similar views are presented by Tan and Yang (2021) regarding the strategies used by Chinese firms to avoid the home government's direct involvement in international business. For example, Chinese firms preferred distancing themselves from their home government to maintain clear boundaries between geopolitically sensitive and non-sensitive business matters to mitigate LOR (Tan & Yang, 2021). Alternately, Wang, Luo, Lu, Sun & Maksimov (2014) demonstrate that subsidiary autonomy allowed Chinese MNE subsidiaries to overcome home-country liabilities by reducing discriminatory hazards. Other studies indicate that EMFs engage in CSR and sustainability activities to build legitimacy (e.g., Husted et al., 2016; Perez-Batres & Eden, 2008). EMFs' involvement in CSR and sustainability activities improves trust, reputation demonstrates transparency, enables insidership, and reduces LOF (e.g., Ellimäki et al. 2021; Fiaschi, Giuliani & Nieri, 2017; Marano, Tashman & Kostova, 2017; Perez-Batres, Miller, Pisani, Henriques & Renau-Sepulveda, 2012; Tashman, Marano & Kostova, 2018).

Furthermore, EMFs are often disadvantaged in international capital markets relative to local firms because the price at which the capital can be raised is affected by the quantity and quality of available information that investors can access (Bell, Filatotchev & Rasheed, 2012). As such, EMFs' limited credibility and poor history can be less favorable when firms try to attract funding via capital markets (Bell et al., 2012). One approach to reducing such disadvantages is to obtain credit ratings and certifications from internationally recognized agencies, such as Standard and Poor's (S&P), which can facilitate the raising of capital from foreign debt markets (Bae, Purda, Welker & Zhong, 2013). In a similar vein, Luo and Tung (2007) suggest that EMFs can align themselves with well-regarded information intermediaries such as S&P to overcome perceptions of opacity and poor governance that often plague emerging countries. Tupper et. al. (2018) suggest that liability starts to turn into advantage when foreign firms offering IPO on host markets' capital markets develops trading history, consistently releases performance information and develops good media/public relations. Additionally, Demirbag, McGuinness, Akin, Bayyurt and Basti (2016) find evidence that Turkish securities firms with bank affiliations achieved greater legitimacy in foreign markets because it signals efficiency. Obtaining international certifications can also demonstrate that EMFs are capable of meeting international standards. Such certifications can be vital for EMFs in the food industry and obtaining them can provide firms access to international markets and reduce uncertainties surrounding their credibility and legitimacy (Montiel et al., 2019).

Another approach undertaken by Indian SMEs involved internationalization to sophisticated developed markets to establish a legitimate profile and attract funding from leading venture capitalists (Bangara, Freeman & Schroder, 2012). Similarly, Estrin, Meyer, and Pelletier (2018) find that EMFs tend to opt for markets with stronger protection of intellectual property rights to overcome the LOF emerging due to their less legitimate status. However, conducting business in technologically and economically sophisticated developed markets can be challenging for EMFs that have honed their capabilities in very different institutional contexts

(Cuervo-Cazurra & Genc, 2008). In order to lessen LOF in developed markets, EMFs used investment promotion agencies (IPAs) to overcome their unacquaintance with sophisticated foreign markets and establish legitimacy with the host market investors, suppliers, and local firms (Anderson & Sutherland, 2015).

As EMFs are latecomers in the global markets, they overcome this disadvantage by becoming similar to other organizations. They attain legitimacy by mimicking or appearing isomorphic relative to the local firms in the foreign markets (Miller & Eden, 2006). Zaheer (1995) highlighted the importance of local isomorphism by suggesting that, in the absence of firm-specific advantages, foreign firms need to mimic successful local firms (Bell et al., 2012). In line with EMFs' isomorphic behavior, Wu and Salomon (2017) found that although appearing isomorphic provides legitimacy, mitigates LOF, and improves the performance of inexperienced firms, the benefit of isomorphism eventually decreases as firms gain experience in foreign markets. Furthermore, a recent study finds evidence that EMFs increase the inclusion of women in top management teams (TMT) as a legitimacy-building strategy (Saeed, Riaz, & Baloch, 2021). By increasing the presence of women in the upper echelons, EMFs promote gender equality and escape from the disadvantages of liability of origin (Saeed et al., 2021) and emergingness in foreign markets.

2.8.3 Assistance from Business Groups to Overcome LOF

Diversified business groups are an important feature of the emerging economies' organizational landscape (Garg & Delios, 2007; Gaur et al., 2011; Yiu et al., 2005). EMFs develop new connections in foreign environments through business groups, which helps them overcome the liabilities of foreign market unfamiliarity (Elango, 2009). Firms that are part of business groups can find assistance with products, capital and human resource allocation, which can lessen the challenges of acquiring them in foreign markets (Ghemawat & Khanna, 1998; Khanna & Palepu, 1997). Business group affiliated firms also enjoy the benefits of group-wide advertising strategies, tactic knowledge, group member's experience, and information about changes in the host market environment, which helps EMFs to refine and optimize their business activities in foreign markets (Chang, 2000; Elango, 2009; Garg & Delios, 2007). Moreover, EMFs gain from legitimacy spillovers, giving them greater credibility when dealing with external stakeholders (Elango, 2009).

2.8.4 Networks to Overcome LOF

Like business group connections, EMFs also draw on broader network relationships (personal or professional) to overcome LOF and LOO (Johanson & Vahlne, 2015; Gaur et al., 2011). Extant studies have asserted that networks help foreign firms to lower their internationalization costs (Chetty & Patterson, 2002; Coviello & Munro, 1995; Ellis & Pecotich, 2001), obtain credibility, and minimize the risks of internationalization (Chetty & Patterson, 2002; Coviello & Munro, 1995; Turnbull et al., 1996). These network relationships can be formal or informal; for example, Chinese firms often utilize *guanxi*-related social and business networks to overcome unfamiliarity related liabilities (Deng, 2013). Similarly, the Brazilian *jeitinho*, the Russian *blat* or *sviazi*, and the Indian *jaan-pehchaan* practices play an important role in establishing connections with the suppliers, distributors, consumers, or even ethnic communities (Li & Fleury, 2020). The knowledge residing in these networks can be beneficial for large and small EMFs, thus benefiting the EMF from becoming insiders of such networks. Although insidership is considered a necessary condition for successful internationalization, there could be liability of insidership or costs of being an insider (Li & Fluery, 2020), and remedies to address this liability are largely unknown.

Hilmersson and Jansson (2012) highlight three types of host-market network building strategies utilized by emerging-market SMEs:

- exposure (forging links to specific networks of interest)
- formation (positioning the firm to have strong ties with few networks)
- sustenance (strong ties retained in order to reach a higher degree of insidership)

The progressive nature of these strategies suggests that EMFs engage with networks differently during different internationalization stages. On many occasions, EMFs use their personal contacts to overcome the bureaucratic hurdles (Khanna & Yafeh, 2007) associated with internationalization. Specifically, political contacts (Kolk & Curran, 2017; Chen, Li & Fan, 2017) and connections with high-status partners are used to outweigh the downsides of foreignness (Yu & Sharma, 2016). Similarly, Chen, Li, and Fan (2017) show that Chinese high-technology manufacturers rely on their connections with home-country government officials and institutions to access funding, raw materials, infrastructure, and operational licenses, to offset disadvantages arising in geographically distant locations.

Extending the importance of networks to overcome LOF, Oetzel and Doh (2009) discuss the value of EMFs' developing networks with NGOs in the host country to build legitimacy and create social impact on the local community. Ties with NGOs also help EMFs to better understand the host market's norms, culture, and societal needs. Other EMF-specific LOF studies have addressed the importance of networking with trade associations (Brache & Felzensztein, 2019), business networks to overcome institutional distance and LOR (Bai, Johanson, Oliveira, Ratajczak-Mrozek, & Francioni, 2021), diaspora owners' network connections (Rabbiosi, Gregorič, & Stucchi, 2019), partnerships with local firms (Cao & Alon, 2021), and the use of long-term agreements with distributors or suppliers (Bangara et al., 2012; Garg & Delios, 2007), demonstrated the importance of networks for dealing with LOF.

2.8.5 EMFs' Learning Approaches to Mitigate LOF

It is inferred that EMFs with little or no international experience will face higher LOF. As such, learning about the foreign environment will eventually reduce LOF. There are several approaches EMFs undertake to learn about the foreign market environment. For instance, EMFs learn about the host market from their international business partners possessing exclusive knowledge, professionals educated overseas and local customers of the host market (Li & Fleury, 2020). This facilitates knowledge transfer that could be useful for developing novel ideas about operating in foreign markets. For EMFs, learning from local customers about their market, products, and services can be helpful in mitigating the LOF (Xie & Li, 2015; Zhang, Xie, Li & Cheng, 2019). For instance, Xiaomi – a Chinese smartphone company- opened its stores in India where customers could try their products, provide feedback, and receive assistance for their issues. Learning about their product from local customers allowed the firm to understand consumers' preferences and adapt to match the consumer requirement to reduce risks (Li & Fleury, 2020). Similarly, Chinese internationalizing new firms offset their liabilities by engaging in learning activities such as knowledge upgradation by obtaining up-to-date information and by engaging in new opportunities (Zhou, Barnes & Lu, 2010; Zhou, Wu & Barnes; 2012; Deng, 2013).

To improve their familiarity with the foreign environment, EMFs hire locals. The local market information obtained by hiring natives and expatriates can assist EMFs in overcoming the challenges associated with foreignness (Cao & Alon, 2021). Newenham-Kahindi and Stevens (2018) reflect that foreign firms overcame LOF by actively investing in employees' development. For instance, they invested if employees had ideas to start their venture and launched skill-development programs to address unemployment in the local society. These initiatives helped EMFs to harmonize their business with the broader community, demonstrate firms' commitment towards the local environment, obtain trust and overcome challenges pertaining to foreignness.

Additionally, using the case study of Alpha tech – a Brazilian software firm, Moraes and da Rocha (2014) show that they used local accounting firms to learn the legal and taxation differences between Brazil and host locations. The same study reflected that the software firm developed unique practices, such as offering informal credit-giving practices for their services to resource-constrained SMEs. The firm also offered customized software to firms where the global giants (e.g., Oracle and SAP) were unwilling to amend their products and services. The initiatives show EMF's ability to learn and adapt their business to reduce the LOF arising from intense industry competition. Although LOF makes EMFs more vulnerable to shocks and surprises, they learn to transform foreign-market challenges into opportunities. For example, Marico, an Indian consumer goods company, engaged in R&D to develop suitable products for African consumers, and redesigned their communications to relate to preferred local sports (Dash & Ranjan, 2019). A recent study by Alyadi, Buck, and Tang (2021) analyzes strategies used by an emerging market MNE to tackle issues such as institutional voids, barriers, violence, LOF, and the uncertainties persisting in Palestine. The study found that the MNE accepted the persisting conditions in Palestine, complied and adapted with the prevailing situations to achieve growth and profitability (Alayadi et al. 2021).

2.8.5.1 EMFs' Learning from International Experiences

The strategies employed by the EMFs to mitigate LOF will also be influenced by their learnings from prior international experience (Zhou & Guillen, 2015). Numerous studies have suggested that managers' learning from international experiences helps firms to offset the disadvantages in foreign markets (Petersen & Pedersen, 2002). Moreover, studies indicated that foreign firms reduce foreign market uncertainties using a variety of knowledge acquisition processes, such as congenital learning, vicarious learning, experiential learning, grafting, and search and noticing (Pellegrino & McNaughton, 2017).

Managers' previous employment in foreign markets can be useful for cross-border activities as they can provide a deeper understanding of foreign markets by reflecting on their experiences (Sapienza et al. 2006). Chittoor, Aulakh and Ray (2015) examined overseas acquisition deals of Indian firms and found that CEO's previous international experience helped the firm to offset challenges associated with overseas acquisitions. Similarly, Khan and Lew (2018) found that entrepreneurs' learning through prior international experiences (along with individual social ties) helped the software service firms from Pakistan to tackle LOF-related issues. Observing the foreign banks operating in the USA, Wu and Salomon (2017) further provide evidence that regulatory liabilities can be mitigated using the firm's prior experience (within and across countries) and experiences of highly skilled human capital. The implications of international experiences on firms' performance are highlighted in Thomas's (2006) study that shows the performance of Mexican exporters declines initially due to LOF-related challenges but improves after gaining international experience and knowledge. Wood et al. (2011) also explores why new ventures internationalize early in their life cycle attribute overseas work experience or experience of founding a business as important factors. For Chinese firms investing in Germany through greenfield investments or via acquisitions, previous working experiences with developed market firms were useful to overcome institutional and competitive hurdles (Klossek, Linke, & Nippa, 2012). Thus, like other foreign firms, EMFs' difficulties due to their lack of experience in the foreign country will diminish over time as firms learn and acquire knowledge.

2.8.6 EMFs' Home Country Experiences to Mitigate LOF

Studies have highlighted the importance of home country experiences to offset challenges in similar foreign markets (Bhaumik, Driffield & Ying, 2016; Gaur, Kumar & Singh, 2014; Gubbi, 2015; Khan & Lew, 2018; Marques et al., 2017). By operating in difficult governance conditions, an underdeveloped institutional environment, and uncertain economic and political systems (see Khan & Lew, 2014), EMFs develop capabilities necessary to deal with complex foreign markets (Cazurra & Genc, 2008; Guar et al., 2014). For example, Marques et al. (2017) argues that the Brazilian bank's ability to operate well in the Swiss market stemmed from their resilient systems at home. Buckley et al. (2007) explain that Chinese outward FDI initiatives are attracted, rather than deterred, by political risk, which explains why there are substantial Chinese investments in many African nations and how they confront the political instability by relying on their home country's experiences. Operating in the home country's complex institutional environment forces EMFs to develop routines and processes that help them deal with institutional challenges in other markets (Stoian & Mohr, 2016) and facilitate their international performance. EMFs capability to cope with home-country institutional voids can, therefore, be beneficial in other emerging and less-developed markets (Cuervo-Cazurra & Genc, 2008) to reduce the LOF. Another aspect of EMFs' home-country environment that can ease LOF pertains to their culture and history. Buckley (2014) notes that EMFs may find that historical links (including past colonization) serve to reduce the cultural and institutional distance in developed markets (e.g., Indian firms entering the UK), thereby minimizing EMFs' LOF.

In some emerging markets, such as China, governments have long supported large and established state-owned firms over small firms (Voss, Buckley & Cross, 2010; Yamakawa et al., 2008). Direct help from the home government in terms of obtaining resources, receiving financial aids, and leveraging political connections have been useful in assisting firms in managing and overcoming foreign market uncertainties (see Ma et al., 2016; Luo, Xue & Han, 2010; Cardoza & Fornes, 2011; Chen et al., 2017). As a result, internationally active EMFs face fewer barriers due to their home government's involvement and support (Cardoza & Fornes, 2011). While politically connected foreign firms may be viewed as a threat to the economy (e.g., the case of Huawei in the USA), investors can perceive these firms as having credibility, legitimacy and low bankruptcy risks. It could enable EMF to access capital in foreign markets and offset financial uncertainties (Ma et al., 2016) and hindrances due to emergingness.

2.9 Limits to Overcoming Foreignness

Although foreign firms adopt a combination of mitigation strategies stated above to offset and overcome the LOF, the negative effects of being a foreign firm are often enduring. Zaheer and Mosakowaski (1997) have shown that the effects of foreignness are sustained over time even as foreign firms learn about the host market. This is because there is a limit to the foreign firms' mitigation approaches. For instance, foreign firms will be constantly forced to respond to the pressures for conformity from the local environment. Similarly, foreign firms may be frequently urged to appear legitimate, act in harmony with society, and invest in local employees' development. Even as foreign firms understand the nature of norms and cognitive institutions, foreign firms will be seen as outsiders by the local government, suppliers, customers, and competitors. Their alien status will persist due to the differences between the home and host country institutional settings and the host country constituents' perceptions and assumptions.

Although learning and networking are viewed as mutually reinforcing, researchers have shown that it can entail negative transfers defined as negative effects of learning the wrong lessons (Li & Fluery, 2020) that amplify LOF. Moreover, despite the potential value of co-location for gaining resources and overcoming liabilities, it is not without challenges (e.g., Miller & Eden, 2006). Studying Taiwanese EMFs in China, Hsu et al. (2017) note the risk of increased competition with more firms in a particular location, making access to resources more difficult. As a result, there might be a limit to EMFs' strategies or approaches to mitigate LOF.

2.10 Evolution of the EM-LOF literature

As seen in the previous sections, the LOF topic has received considerable attention in the literature since its conceptualization in Zaheer's (1995) study. This section maps the evolution of the LOF literature, focusing on key developments in understanding EMFs' LOF.

Over the years, the LOF literature has focused on various research objectives. Early studies between 1995 and 2006 have taken a relatively broad approach and mainly attempted to explain the LOF phenomenon. Broadly, the studies attempted to describe, understand and confirm the existence of LOF. Some studies pointed out the underlying reasons for foreign firms experiencing LOF. Some of the key scholarly works extended our understanding of LOF by examining the effects of LOF on foreign firms' performance. Although early studies empirically validated the LOF concept by examining DMFs' LOF, later (between 2007-2012), the focus shifted towards predominantly identifying the strategies used by foreign firms to offset the LOF. It was a nascent stage where LOF researchers started focusing on the EMFs' challenges as they entered developed foreign markets. Only limited studies until 2007-2012 examined the LOF of emerging market SMEs, showing that the LOF stream largely examined multinationals. During this time, studies established that the EMFs' liabilities differed from those experienced by the DMFs, which gave rise to different terminologies (such as emergingness) associated with LOF.

The advancement of the LOF literature occurred between 2013-2018. Researchers broadly examined the challenges experienced by the EMFs in developed markets and less developed markets. Several studies investigated the role of EMFs' unique network connections, such as diaspora communities, to offset the disadvantages. Prominent roles of NGOs (Oetzel & Doh, 2009), business groups (Chang, 2000; Elango, 2009; Garg & Delios, 2007), affiliations (Bell et al., 2012; Demirbag et al., 2016; Montiel et al., 2019), IPAs (Anderson & Sutherland, 2015), and foreign firms using political connections (Cardoza & Fornes, 2011; Chen et al., 2017; Ma et al., 2016; Luo, Xue & Han, 2010) and colonial ties (Buckley, 2014) to reduce their LOF, were some of the key developments during this time. Table 2.4 maps the evolution of the LOF literature with a specific focus on the EMF.

Table 2.4: Mapping the Evolution of the LOF Literature (Specific Focus on EMFs Studies After 2007)

Time scale	1995-2006	2007-2012	2013-2021
Stage of literature	Theoretical conceptualization and empirical validation of LOF concept (focus on DMFs)	Nascent stage of LOF research focusing on EMFs	Growth stage of LOF research focusing on EMFs
Key developments	- Conceptualization of LOF - Confirmation of existence of LOF - Understanding LOF for DMFs - Firm strategies to offset LOF - Effects of LOF on performance	- LOF challenges faced by EMFs, predominantly in developed markets - Strategies of EMFs to overcome LOF in developed markets - EMF approaches to achieving legitimacy in developed country markets - Minor focus on LOFs from the perspective of emerging-market SMEs	- Focus on LOF challenges of EMFs in developed, other emerging, and less-developed markets - Understanding EMFs' LOF at an individual level (e.g., employees, consumers, local community) in host markets - Role of host-market characteristics and firm structure for overcoming LOF - Role of diaspora in overcoming EMFs' LOF
Key outcomes	- Definition of LOF - Characteristics of LOF - LOF categorized into three specific hazards: unfamiliarity, relational, discriminatory - LOF reduce over time - Empirical validation of LOF based on DMFs	- Liabilities experienced by EMFs as different from those of DMFs in developed markets: relational hazards, lack of trust, liabilities of emergingness - EMF strategies to overcome LOF: home-market support (e.g., political connections, government resource support), advantages emanating from firm characteristics (e.g., business group affiliation) - Acquiring legitimacy by gaining globally recognized certifications	- Liabilities of EMFs in other emerging and less-developed markets are different from those of DMFs in similar markets, owing to institutional similarities and EMF capabilities (e.g., dealing with government) - Host-market characteristics aid in overcoming LOF: diaspora communities, co-locating in clusters, historical ties between countries - Modifications to firm structure help to overcome LOF: autonomy of subsidiaries, varied HRM practices, inclusiveness of women in management teams - Legitimacy through closer integration in host market: greater use of host-country employees, interaction with media, partnering with local NGOs, disclosing environmental performance, avoiding home government's involvement

2.11 Measuring Liability of Foreignness

Despite the general agreement on the primary sources of LOF, identifying and measuring foreignness's specific liability remains a daunting task. This is due to the problems stemming from the methodological and research design challenges. Mezias (2002a) postulates that the challenge is to find a measure that exclusively measures the disadvantages. Despite the popularity of the LOF in the IB field, empirical studies have not attempted to develop a LOF measure. For instance, Zaheer (1995) confirmed the existence of LOF because profitability measures were lower for foreign firms in the currency trading industry. In another study, Zaheer and Mosakowski (1997) concluded that LOF existed because the survival rates were lower for foreign firms. Scholars have also recommended that LOF should be studied with different cost and performance indicators such as efficiency (Miller & Parkhe, 2002), profitability, survival and non-monetary measures such as incidence of lawsuits (Mezias, 2002a, 2002b) and legitimacy (Dhanraj, 2000) while controlling for other liabilities such as newness, smallness, the industry, and firm's advantages (Zaheer, 2002; Mezias, 2002a).

To determine the extent of LOF encountered by firms, Miller and Richards (2002) link LOF to home and host country competitive conditions across a range of developed countries. Using X-efficiency measures, they highlight the advantages of firms originating from competitive and rich home countries that engage in FDI activities in less competitive host countries. A recent study by (Joardar & Wu, 2017) examined LOF of entrepreneurial ventures. They used entrepreneurs' country of birth and nationality of their parents to examine the foreignness felt by different individuals and its effect on the ventures' performance. Given the significance of people in entrepreneurial ventures, their study looked at individual-level LOF; however, their findings offered mixed results indicating dual effects of foreignness (as benefit & liability) on the entrepreneur's performance. Matsuo (2000) examined the Japanese firms in the USA and determined firms' approaches to mitigate LOF by observing their expatriates. Although this study did not measure the LOF directly, it investigated that the Japanese firms used numerous expatriates to overcome the LOF. However, Mezias (2002b) raises an important question of whether expatriates mitigate or contribute to the LOF and highlights the need to integrate international human resources and strategy literature to study individuals' role when examining LOF.

Although studies examining LOF indicate different approaches that foreign firms use to offset the disadvantages, they do not attempt to develop sophisticated measures to examine the LOF. Lack of reliable and operational measure that identifies and captures the elements of LOF has been pointed out by Zaheer (2002) in her commentary, which is as follows:

> Researchers interested in the LOF… need to strive for greater clarity in levels of analysis, in addressing the dynamics involved in the processes of learning and legitimation, in addressing the sources of firm heterogeneity in LOF and in developing more sophisticated measures and empirical rigor while simultaneously striving for a deeper comprehension of what it really means to be foreign or alien in a particular environment. (p. 537)

Primarily, comparing the profits of the domestic and foreign-owned firm as measures to prove that LOF exists might be acceptable; however, there are other elements of LOF that need to be considered. For instance, studies could examine the decline in the employees' performance because of the unfamiliarity associated with the LOF. Another way is to look at foreign firms' failure to adhere to the host market institutional regimes, policies or difficulties in understanding the foreign market's institutional norms, which could provide a better reflection of the LOF faced by foreign firms. Though operationalizing LOF with these elements might be difficult, conversely, if studies have successfully developed measures to identify cultural and institutional distance, then perhaps it could be possible to construct and operationalize a measure for the LOF.

2.12 Theories Underpinning this Topic and Thesis – Institutional, RBV, KBV and Network Perspective on Internationalization

This section presents a brief discussion of the key conceptual frameworks and theories commonly used in the studies examining EMFs' LOF. The systematic review of articles conducted in this thesis observed a similar trend to that of the Denk et al. (2012) review. Studies investigating EMFs' LOF have mostly used institutional theory, the knowledge-based view (KBV), the resource-based view (RBV), and organizational learning theory to understand this phenomenon (see Table D in Appendix A); these are discussed in this section, along with the network perspective on internationalization, which was incorporated after the exploratory interviews (see Chapters 3 and 4). Multi-theoretic approaches can be used to examine complex strategic choices, such as those related to EMFs' internationalization (Yamakawa et al., 2008;

Gaur et al., 2014). When examining large and complex contexts such as that of India, it is often difficult to compartmentalize the effects of institutions, resources, networks and firms' knowledge to overcome the LOF. Moreover, by using RBV, KBV, institutional and network perspective on internationalization, the study addresses the calls by Luo and Mezias (2002), Zaheer (2002), and Lu et al. (2021) to offer new insights on emerging market SMEs' LOF using theoretical pluralism.

The following sections address the key theories and frameworks that underpin this research.

2.12.1 Institutional Theory

As researchers probe more into emerging economies, whose institutions differ significantly from those in developed economies, there is increasing inquisitiveness to understand the formal and informal institutions. Commonly known as the "rules of the game" (North, 1990), they significantly shape the strategy and performance of firms – in both domestic and foreign markets (Peng et al., 2008). Nevertheless, what exactly are these institutions? And why do these institutions matter when examining the LOF?

Based on the metaphor that institutions are 'the rules of the game', it has also been defined as "the humanly devised constraints that structure human interaction" (North 1990, p.3). Similarly, Scott (1995, p.33) defines institutions as "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behavior". Regulative or legal aspects of institutions most commonly take the form of formal institutions as they guide organizations' actions by force or threat of legal sanction (Ma et al., 2016). On the contrary, the normative and cognitive institutions generally take the form of informal institutions as they guide organizations' actions to conform with the social, professional, and cognitive-cultural aspects of the host market (Chao & Kumar, 2010; Scott, 2013). Thus, institutions are categorized into formal and informal ones that govern the areas such as politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship) (Peng et al., 2008).

According to Scott (1995), three factors affect the firms: the regulative, normative, and cognitive factors. The regulative factor is based on legislation, regulations, agreements and standards. It provides 'rules of the game' to guide firms' behavior. The normative factor is based on both organizational and individual behavior. It is usually determined by what is appropriate or expected within the institutional framework. The last factor is the cognitive factor, and it only focuses on individual behavior based on subjectivity and constructed rules. Decisions are then made on the appropriate beliefs and actions. The cognitive construct is useful at the individual level because it focuses on the cultural and language aspects.

Over the years, studies have documented the increasing importance of institutions as constraints and facilitators of firms' strategy across borders (Doh, Luthans, & Slocum, 2016; Hitt, Ahlstrom, Dacin, Levitas & Svobodina, 2004). Propelled by the growing importance of emerging markets, institutional theory has been influential in studying their internationalization and LOF. The institutional frameworks in emerging and developed economies can vary substantially (Acemoglu & Johnson, 2005; Acemoglu & Robinson, 2013; Ahlstrom et al., 2003). Emerging market institutions are typically characterized by poorer governance and weaker and less efficient formal institutions (Cuervo-Cazurra & Genc, 2008). The profound differences in the institutional frameworks in developed and developing economies have led to an increase in studies examining how emerging market institutions impose challenges on internationalizing firms and how it shapes their strategies and performance (Adomako et al., 2020; Estrin et al., 2018; Jonsson & Lindbergh, 2010; Peng et al., 2008). In recent years, economies such as India and China have been in a state of institutional transition that involved easing the bottlenecks and providing the needed infrastructure. The process of institutional transition, however, has not been smooth. For example, India's capital and product markets saw major improvement, but the labor market has yet to witness a change even years after the liberalization in the 1990s (Gaur et al., 2014). Thus, due to uneven institutional reforms in emerging markets, studies have been examining the level of institutional development affecting EMFs' tendency to internationalize and its effect on EMFs' performance (e.g., Wan & Hoskisson, 2003; Yamakawa et al., 2008).

According to the systematic literature review conducted in this thesis, studies that examine EMFs' LOF have commonly used the institutional theory to understand the dynamics and complexities between the home and host country institutional environment. This theory is also consistently used to understand the influence of the institutional environment on firms' behavior, such as pressures to appear isomorphic, attain legitimacy and adapt to the institutional environment (Bangara et al., 2012; Husted et al., 2016; Pant & Ramachandran, 2012; Zhou & Guillen, 2015). The institutional theory is also usually combined with other theories such as transactions costs perspectives, organizational learning theory, and social network theory to explore the relationship between institutional liabilities (e.g., political constraints, regulatory, cognitive and normative barriers), firm's learnings and performance (see Demirbag et al., 2016). Furthermore, studies employing the institution theory have been vital to understanding how EMFs harness the political connections at home and host markets to overcome the uncertainty intertwined with unfamiliarity hazards (see Chen et al., 2017). Other studies that used institutional theory investigated EMF's ability to overcome challenges stemming from the host country's weak institutions, such as by engaging in business groups and CSR or sustainable activities (Fiaschi et al., 2017; Garg & Delios, 2007; Montiel et al., 2019; Newenham-Kahindi & Stevens, 2018; Perez-Batres et al., 2012; Tashman, 2018). Institutional theory has also been used in studies to determine the extent to which the home country institutions create challenges for internationalizing EMFs (e.g., Cuervo-Cazurra et al., 2018).

Another line of research has recently started examining the role of sub-national level institutions and their impact on the EMFs' internationalization and performance (Chan et al., 2010; Ma et al., 2013; Meyer & Nguyen, 2005). Given that emerging markets differ substantially from developed markets, their subnational regions and institutions exhibit heterogeneity in developing the outward foreign direct investment (OFDI) policies, with some economically developed regions launching policies more successfully than others (Ma et al., 2016). In situations where institutional reforms make some industries intensely competitive, EMFs are pushed to go abroad in search of better opportunities and avoid competition at home (Yamakawa et al., 2008). Therefore, the multifaceted institutional environment in emerging markets can offer EMFs practice and the opportunity to learn from their home market complexities to overcome the foreign market disadvantages.

As firms cannot be immune from institutional challenges stemming from the institutional environment in which it is embedded (Peng, 2002), it is important to understand how SMEs deal with institutions in foreign markets. Therefore, the institutional theory appears insightful when probing to understand the institutional liabilities (home and host country institutional constraints) encountered by SMEs and their approaches to overcoming the institutional disadvantages.

2.12.2 Resource Based View

Over the past three decades, RBV has become one of the most influential and widely accepted perspectives in the management literature, aiming to postulate how firms achieve and sustain their competitive advantage (Barney, 2001). The RBV assumes that the resources are heterogeneously distributed in organizations (Barney, 1991), and because of the uneven distribution of resources, some organizations possess more strategic resources than others. These strategic resources are valuable, rare and cannot be easily replicated (Barney, 1991). As a result, the key resources are responsible for shaping firms' competitive advantage, strategy and performance. Firms with strategic resources have sustained competitive advantage over competitors that lack such resources (Barney, 1991). However, it is not easy to sustain the competitive advantage because a competitor can enter a market with a resource that may invalidate the firm's competitive advantage. As a result, resources can provide a temporary competitive advantage by reducing firms' costs (Crook et al., 2008).

Firms can possess resources and capabilities (Amit & Schoemaker, 1993). The difference between the two is that resources are tradable and not specific to the firm, whereas capabilities are unique and non-transferable (e.g., knowledge or innovation). According to Makadok (2001), capabilities are "a special type of resource, specifically and organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm" (p.389). If competitors fail to imitate firms' capabilities, it is identified as a sustainable competitive advantage (Crook et al., 2008).

Over the years, the RBV has become an influential perspective (Peng, 2001) for investigating SMEs' resources that enable them to internationalize (Westhead, Wright & Ucbasaran, 2001; Zahra, Matherne & Carleton, 2003). For instance, Hessels & Parker (2013) note that small firms develop a competitive advantage by leveraging the resources of external networks (e.g., alliance partners, diaspora resources). They observed that SMEs used the resources of external connections to strengthen their existing collection of resources, build necessary capabilities and improve their international performance. Similarly, when firms face a dearth of complementary resources required to operate in a new country, they consider collaborating or engaging with the allies to access their resources and offset challenges arising from resource shortages (Nakos, Brouthers & Dimitratos, 2014). On the contrary, firms may rely on others' resources when their resources unexpectedly lose the ability to provide an advantage to the firm. For instance, a resource may become a source of disadvantage in another country (Cuervo-Cazurra et al., 2007). This may mostly occur when SMEs' domestically honed resources may not be entirely appropriate for their operations in foreign markets. Despite studies that infer SMEs suffer from a dearth of essential resources, recent literature reviews have highlighted that limited studies use the RBV perspective to evaluate SMEs' bundle of resources assisting their internationalization (Laufs & Schwens, 2014; Hollender, Zapkau & Schwens, 2017).

Highlighting the importance of resources, LOF studies have asserted that EMFs lacking resources will find it challenging to operate in foreign environments and face additional disadvantages (Denk et al., 2012). The reviewed EMF-specific studies have mainly used RBV to underline the resources used to overcome LOF. For example, Cao and Alon (2021) found that subsidiaries of Chinese MNCs access local resources through acquisition or collaboration to mitigate LOF. They also use expatriates and local employees as resources to adapt to the host country's environment. Moreover, Liu and Yu (2018) use RBV to assert that prior international experience can be a valuable resource to mitigate LOF. In addition to RBV, LOF studies have also used resource dependence theory (e.g., Gubbi, 2015) (see Table B and C in Appendix A).

Although RBV framework has been influential, there are some criticisms of this theory. The first critique is that RBV seems to tell managers to obtain VRIN resources (Value, Rareness, Imitability and Non-substitutable) but is silent on how this should be done (Connor, 2002; Miller, 2003; Kraaijenbrink et al., 2010). Another critique concerns the generalizability and the applicability of the RBV to various types of firms. The RBV applies to firms striving to achieve sustained competitive advantage. Thus, for firms that are satisfied with their competitive position, the RBV does not bring much insight (Kraaijenbrink et al., 2010). Furthermore, the RBV does not recognize how different types of resources - for example, physical capital, human capital, and organizational capital - contribute to firms' competitive advantage.

Given that emerging market SMEs are typically short of resources, the study incorporates the RBV perspective to examine SMEs' resources (internal or externally obtained) that help them offset the LOF.

2.12.3 Knowledge Based View

Polanyi first proposed the concept of tacit knowledge in 1966, suggesting that 'tacit' knowledge refers to the reasonable and critically explicit knowledge held by individuals. Polyani (1966) says that "we know more than we can tell" (p.4), suggesting that tactic knowledge may not necessarily be verbalized as it is embedded within individuals. As such, knowledge is people-embedded, requiring time to gather knowledge from others who share information and develop knowledge through experiences.

The knowledge-based view (KBV) emerged from the RBV by focusing on intangible resources rather than physical assets (Gassmann & Keupp, 2007). While various perspectives inform the KBV, it draws heavily on Penrose's (1959) theory of the growth of the firm. Penrose posited that a firm's knowledge of how to productively integrate resources into higher-level capabilities determines its growth. Agreeing strongly with Penrose's views, Spender (1994) argued that the firm's competitive advantage is not merely explained by the resources it possesses but rather different types of resources it owns, such as knowledge. Similar views are presented by scholars who view firms as repositories of specialized knowledge (Demsetz, 1991; Kogut & Zander, 1992; Liebeskind, 1996). Grant (2002) identifies knowledge as a productive resource as it is more challenging to create than replicate. Thus, competitive advantage is often based on knowledge rather than tangible assets or raw materials. Furthermore, knowledge is considered vital to deal with the environmental uncertainties associated with internationalization (Liesch & Knight, 1999) and for making informed decisions and choices.

SMEs are inferred to suffer from resource deficiencies. The primary resource that SMEs rely on is only one - knowledge (Chetty & Wilson, 2003; Prashantham, 2005). SMEs use the knowledge gathered via operating in domestic and international markets to deal with foreign markets' uncertainty and unfamiliarity (Blomstermo, Eriksson, Lindstrand & Sharma, 2004; Blomstermo, Eriksson & Sharma, 2004). Research shows that SMEs can transform their accumulated knowledge into a competitive advantage to internationalize quickly (Gassmann & Keupp, 2007). Born globals and internationalizing new ventures are new generation firms that use their accumulated knowledge to internationalize faster than other firms (Knudsen, Madsen, Rasmussen & Servais, 2002).

Different types of knowledge help SMEs in various ways. For example, knowledge-based assets consist of explicit knowledge such as patents, trademarks and trade secrets, and tacit knowledge that resides in individual employees or is embedded in organizational routines and processes (Zaheer, Hernandez & Banerjee, 2010). Individuals' knowledge of foreign business environments, institutions and internationalization can help alleviate the costs associated with internationalization and the perceived LOF (Eriksson, Johanson, Majkgard & Sharma, 1997). Such individual-specific knowledge can be vital when firms try to integrate into culturally unfamiliar foreign environments (Madsen & Servais, 1997; Sambharya, 1996). Moreover, managers with prior international knowledge can greatly accelerate the pace of a firm's learning and internationalization, which is often observed in young and small firms that internationalize rapidly (Oviatt & McDougall, 1997).

Additionally, individuals' experience of living, working and studying overseas can be vital for internationalizing firms (Madsen & Servais, 1997). Such experiences expose individuals to two types of knowledge, i.e., foreign business knowledge and institutional knowledge (Eriksson et al., 1997). The knowledge absorbed through experience allows individuals to be more aware of global operations' complexities, characteristics of foreign markets, and cultural diversities (Downes & Thomas, 1999). Thus, individuals' knowledge and awareness about foreign environments can be utilized to not only diminish the risks and uncertainties but also reduce the psychic distance to a specific market (Johanson & Vahlne, 1977; Nielsen & Nielsen, 2011).

The reviewed articles applying KBV conclude that EMFs use their overseas and home country knowledge or experience to deal with LOF. For example, Kotabe and Kothari (2016) show that emerging market MNCs build competitive advantages by learning from home and the host market, engaging in breakthrough innovations, and simultaneously managing their knowledge as they compete in and out of the emerging markets to achieve better performance and overcome the LOF. Lately, researchers have acknowledged that EMFs learn and implement the knowledge acquired from their home country's sub-national variations to deal with uncertainties in foreign markets (Cuervo-Cazurra et al., 2018). Therefore, using KBV perspective in this thesis is crucial as it sheds light on how emerging market SMEs leverage their knowledge and experience to deal with LOF.

2.12.4 Network Perspective on Internationalization

The network perspective on internationalization contends that the firm's internationalization follows a behavioral pattern influenced by the firm's networks. Research on business networks can be divided into two main streams. The first stream evolved from the researchers in Industrial Marketing and Purchasing Group that applied the idea of Cook and Emerson (1984) and Emerson (1972) on social networks to business networks (Schweizer, 2013). Thus, business networks are the relationships a firm has with its customers, distributors, suppliers, and competitors (Anderson et al., 1994; Johanson & Mattsson, 1988). Studies commonly view these networks as evolving gradually and becoming informal, like interpersonal relationships due to unintentional phenomena or circumstances (Chetty & Patterson, 2002; Wilkinson & Young, 2002). The network perspective is vital because it determines firms' performance due to their embeddedness in the networks. It views network relationships as a key influence on the firm's performance than the other firm attributes (e.g., size, managerial capability). It also suggests that successful internationalization is more dependent on the firm's network in the foreign market than on the firm-specific advantages proposed by the internalization theory (Rugman, 1980).

Firms form relationships that provide them access to the resources held by other firms or individuals. These relationships are commonly based on mutual trust and common interests and are dependent on each other's resources to adapt their business activities (Håkansson et al., 2009). Particularly for small internationalizing firms, networks provide complementary assets necessary for internationalization (Oviatt & McDougall, 1994). Firms suffering from liability of outsidership in foreign markets become insiders to the relevant foreign networks through bridgehead-relationships to gain knowledge about the business opportunities in the foreign markets (Holm & Eriksson, 2000). Thus, the ability to access information and knowledge is dependent on the firm's position in relevant networks, such that the firm will be able to position itself better by engaging in quality network relationships.

The second stream evolves from the resource-based view of the firm (Barney, 1991). It determines that the companies engage in networks and exchange resources with complementing firms to minimize their threats from other firms and to increase their competitive advantage (Ahuja, 2000; Gulati, 2007; Lavie, 2007; Ring & Van de Ven, 1992; Zaheer & Bell 2005). To put it another way, lack of resources enables firms to form relationships with companies having complementary resources (Ahuja, 2000). Therefore, firms are aware with whom they want to build relationships and which companies will affect or benefit their business because of other firms'-controlled resources. A firm that realizes that it suffers from a dearth of resources can encounter challenges. As a result, they actively work towards creating ties to access resources needed to deal with the challenges. These ties could be either weak or strong. Firms with a large number of weak ties will find it relatively easier to overcome their deficiencies and liabilities than firms with strong ties (Sharma & Blomstermo, 2003). It is because weak ties do not require a high degree of financial and emotional investment and offer access to more novel knowledge (Schweizer, 2013). Studies on SMEs' networks show that in their early stages, small businesses rely on dyadic social ties with friends, families and previous personal contacts (Larson & Starr, 1993). At a later stage, SMEs consciously get involved in developing network strategies for their business (Hite & Hesterly, 2001).

Even the revised Uppsala model (Johanson & Vahlne, 2015) corroborates that insidership in relevant business networks is necessary for successful internationalization. It offers the potential to access resources and engage in relationship-specific learning or knowledge exchange, build trust and increase market commitment. All firms, in some way, are insiders in a network (formal and informal networks); however, achieving insidership in relevant business networks is necessary for successful internationalization and to overcome the outsider status resulting from the liability of foreignness (Johanson & Vahlne, 2015; Forsgren, 2016). Some of the EMFs' LOF studies reviewed in this thesis that apply the network perspective demonstrated that different networks (diaspora, political, professional and personal networks) help the firms to overcome the liability of network outsidership and become an insider (Boehe, 2011; Hilmersson & Jansson, 2012; Brache & Felzensztein, 2019) (see Table B and C in Appendix A). Therefore, the network perspective is vital to explore how small firms function differently due to their embeddedness in different networks.

2.12.5 Other Theories and Frameworks

The aforementioned four theories are the primary theories underpinning this research. However, it is important to note that studies investigating LOF of EMFs have applied other theories and frameworks. This section provides a brief overview of these additional theories and frameworks.

The organizational learning theory has been used in recent studies examining EMFs' LOF. This theory considers the firm's capacity to learn, process, and assimilate knowledge to reduce its challenges overseas. Thus, by using the organizational learning theory, the studies explain the EMFs' ability to learn from both home and host markets and use the knowledge developed via learning to deal with challenges in uncertain foreign markets (Cuervo-Cazurra et al., 2018; Kotabe & Kothari, 2016; Thomas, 2006; Zhou et al., 2012; Zhou & Guillen, 2015). Some authors have combined several theoretical perspectives to understand the EMFs' LOF. For example, Boehe (2011) used the resource-based view and network perspective to show that EMFs overcome LOF by engaging with the networks that help them gain access to resources and information about the foreign environment, reducing their unfamiliarity and offsetting LOF. Bhaumik et al. (2016) combines internalization and country-specific advantages frameworks noting that EMFs can cope better than DMFs in other emerging markets using their CSAs. Table D in Appendix A summarizes the theoretical frameworks adopted by the reviewed EMF-LOF studies.

2.13 International Performance of the SMEs

Firms from developed and emerging markets are diversifying their functions across national borders. An increased degree of internationalization amplifies the importance of examining the performance of internationally active firms. As many emerging market firms have moved towards export-oriented internationalization, studies frequently measured SMEs' export performance (Chen, Sousa & He, 2016; Paul et al., 2017). International performance reflects the extent to which the firm's performance objectives are attained in international markets (Knight & Cavusgil, 2005). Firms' performance is indicated in total sales, profitability and market shares (O'Cass & Weerawardena, 2009). International performance can also be viewed as the perceived success of firms' foreign operations across various functions, including export operations, foreign joint ventures, and subsidiary operations. Perceived success is an essential measure to determine the overall success of internationalized firms.

Although the topic of international performance has attracted a lot of attention from researchers, there is no common operationalization of the concept. A review of the IB literature suggests that there are two approaches to measuring the firms' performance – subjective and objective measures (e.g., Cavusgil & Zou, 1994; Katsikeas, Leonidou & Morgan, 2000). While it would be preferable to employ both types to measure SMEs' performance, as a cautionary note, researchers suggest that subjective performance measures can be appropriate when objective financial data are unavailable (Covin et al., 1990). Additionally, extant literature suggests using subjective measures as they are easier to collect and examine than objective measures (Jantunen et al., 2008). Compared to larger firms, SMEs may not have hard financial data. SMEs may also maintain their records casually or on a day-to-day basis. Furthermore, SME managers may often be hesitant to provide objective performance data on their operations (Robertson & Chetty, 2000). As such, research suggests employing subjective measures when the financial data can be misleading (Covin et al., 1990). Additionally, research suggests that the management's evaluation of firm performance seems to be guided more by their subjective perceptions than objective measurement (Madsen, 1989). In line with the suggestions, the study uses the perceived financial performance and perceived success measures to capture the SMEs' performance (see Chapters 3 and 4 for further details).

As noted in Chapter 1, one of the key research objectives of this thesis is to observe LOF's influence on SMEs' international performance. There are several approaches to examining firm performance that have their roots in economics, sociology, industrial organization and management. Over the years, studies have used financial performance (profitability and growth), degree of internationalization, export performance, perceived firm performance and innovation, amongst many others, to determine the firm's performance. Many studies have examined the relationship between internationalization and the performance of firms (Berry & Kaul, 2016; Capar & Kotabe, 2003; Contractor et al., 2003; Gomes & Ramaswamy, 1999; Hitt et al., 1997; Lu & Beamish, 2004; Marano et al., 2017; Ruigrok et al., 2007; Sullivan, 1994). Though the firm's international performance has received much attention in the literature, the findings on SMEs' international performance remain inconsistent. Quantitatively, the SMEs' performance is measured through its – efficiency, financials, production levels, number of customers, market share, profitability, productivity, costs and liquidity (Gupta & Batra, 2016; Zimon, 2018; Cicea et al., 2019); whereas qualitatively, the SMEs' goal achievement, leadership style, customer satisfaction, innovation (Cicea et al., 2019) and entrepreneurial orientation (Keh, Nguyen & Ng, 2007; Gupta & Batra, 2016) are frequently examined to understand its performance. This study uses perceived financial and non-financial measures to observe SMEs' performance (please see Chapter 4).

2.13.1 Determinants of SMEs Performance

In addition to assessing firms' international performance, studies have assessed the determinants of firms' performance. Some of the determinants of firms' performance include environmental conditions (industry, institutions and macro environment), firms' strategies, social capital, and organizations' behavior (e.g., entrepreneurial orientation). However, the factors affecting SMEs' performance are less clear due to concerns about their internal constraints and ability to compete in the international markets (Lu & Beamish 2001; Pangarkar, 2008). Moreover, studies demonstrating LOFs' influence on SMEs' international performance are even more sparse. Several studies have contemplated that we know very little about emerging market SMEs' international performance and have highlighted the need to explore the factors affecting their performance (e.g., Hollender et al., 2017; Sui & Baum, 2014). The following section briefly discusses the factors affecting the SMEs' international performance.

In the SME literature, studies have highlighted several determinants affecting firms' performance. Although a firm's size and age are primary factors affecting its performance (Arend, 2014; Nicolini, 2001), firms' product, process and marketing innovation (Wolff & Pett, 2006), planning and strategy (Aragón-Sánchez & Sánchez-Marín, 2005; Leitner & Güldenberg, 2010), organizational orientations (market, entrepreneurial, and learning orientations) (Gupta & Batra, 2016; Lomberg, Urbig, Stöckmann, Marino & Dickson, 2017), export orientation (Filatotchev, Liu, Buck & Mike, 2009), extent of international activities (Chiao, Yang & Yu, 2006; Majocchi & Zucchella, 2003), ownership and family involvement (Lien & Li, 2017) and entrepreneurial networks (Lee, Lee & Pennings, 2001) affect its performance. Additionally, broader macro-economic or contextual factors also influence SMEs' performance (Sopha, Jie & Himadhani, 2020). For instance, state governments' support in training SMEs and providing market information elevated Malaysian SMEs' performance (Rasiah, 2002). Furthermore, firms' innovative products and capabilities also improve performance (Foreman-Peck, 2013; Sui & Baum, 2014). Other studies have highlighted SMEs' network relationships as a critical determinant influencing small firms' performance (Kenny & Fahy, 2011; Lin & Lin, 2016; Musteen et al., 2010; Zhou, Wu & Luo, 2007).

Extant literature has acknowledged that SMEs perform poorly in international markets because they lack the necessary information for exploiting international opportunities, do not perform global scanning and suffer from inadequate resources (Lu & Beamish, 2001; Ruzzier et al., 2006; Pangarkar, 2008). LOF is the additional challenge that firms face in foreign markets. As a result, internationalizing SMEs are more likely to have lower performance due to internal inefficiencies and lack of legitimacy than large established firms (Sui & Baum 2014; Zhou et al., 2007). The reversal in SMEs' performance could also be due to a shortage of managerial resources with international experience (Qian, 2002), information scarcity, and a lack of operational experience in the foreign market (Cho & Lee, 2018). Nevertheless, the added costs (associated with uncertainty, unfamiliarity, relational and institutional hazards), and resources required for internationalization can hamper SMEs' performance. As the added costs associated with foreignness may outweigh the benefits of internationalization, SMEs can perform poorly as a consequence of LOF (Lu & Beamish, 2006; Schwens et al., 2017).

2.14 Chapter Summary

This chapter reviewed the extant literature on liabilities of foreignness and LOF emerging market firms encounter in foreign markets. In doing so, the approaches undertaken to mitigate LOF and its effect on firms' performance are discussed. An overview of the state-of-the-art of LOF literature is given, and the definitions of different types of liabilities are outlined. Besides, the chapter discussed frequently applied theoretical frameworks in LOF studies. The chapter also systematically reviewed the studies examining the LOF of EMFs. Tables in Appendix A summarize each paper reviewed (e.g., research questions, sample size, methods, LOF measurement and key findings). Lastly, the chapter reviewed the literature studying the international performance of SMEs.

CHAPTER 3

CONCEPTUAL MODEL AND HYPOTHESIS DEVELOPMENT

In this chapter, the study's theoretical basis is outlined, and the conceptual model of the thesis is presented. Building on the literature review and drawing on various literature strands, such as international business, international entrepreneurship and strategic management, research hypotheses are advanced to develop the model. The conceptual model involves several constructs such as SMEs' foreign market knowledge, technological and distributors' capabilities, personal and external networks, foreign institutional support, liabilities of foreignness and perceived international performance. Amongst these, liabilities of foreignness and international performance are the two dependent variables of this study. Based on multiple theoretical lenses, such as RBV, KBV, institutional theory and the network perspective on internationalization, the conceptual model is developed.

3.1 Overview of the Conceptual Model and Theoretical Basis

As noted in Chapter 1, this study's overall objective is to understand the LOF experienced by Indian small and medium-sized firms, comprehend SMEs' approaches to mitigate LOF, and observe the influence of LOF on firms' international performance – using qualitative and quantitative approaches. Given that the study is very exploratory in nature, the qualitative interview findings played an important role in shaping the conceptual model. The interviews indicated that SMEs encountered issues while doing business across different states in Indian market. These intra-country liabilities were similar to the LOF that foreign firms encounter while doing business beyond their national border. Thus, the conceptual model has been modified to incorporate and align the interview findings with the overall objectives of this study. Due to unexpected interview findings that SMEs faced intra-country liabilities; the study adopts a comparative approach. The sample is divided into two groups:

(1) *No interstate experience SMEs* (firms that do not have experience of conducting business in other Indian states)

(2) *Interstate experience SMEs* (firms that have experience of conducting business in Indian states other than the firm's home base)

By considering the two groups, the study examines differences between the LOF mitigation approaches and international performance of SMEs with and without interstate experience.

The study incorporates two dependent variables: LOF and international performance. Chapter 4 provides information about their operationalization. The key theoretical frameworks of the study are a combination of the resource-based view, knowledge-based view, network perspective on internationalization, and institutional theory. The literature review and qualitative interview findings indicate the suitability of these theoretical perspectives. Moreover, by using these overarching frameworks, the thesis responds to the recent calls to consider the interplay among different theories and frameworks to understand LOF's effect on firms (Denk et al., 2012; Lu et al., 2021; Luo & Mezias, 2002; Newbert, 2007; O'Cass & Sok, 2012; Zaheer, 2002). In the next sections, the application of theoretical perspectives is discussed, followed by the presentation of the conceptual model and the development of the research hypotheses.

3.2 Integration of Theories

3.2.1 Resource Based View

The resource-based view (RBV) of the firm is one of the widely employed theoretical perspectives in the strategic management field and has also emerged as a dominant perspective in the area of international entrepreneurship (Newbert, 2007; Young, Dimitratos, & Dana, 2003). It is considered a useful framework for explaining the international activities of young and small internationalizing firms (Kellermanns et al., 2016) and has been used to understand the determinants of entrepreneurial venture's performance (e.g., Alvarez & Busenitz, 2001; Chandler & Hanks, 1994; Chrisman, Bauerschmidt, & Hofer, 1998; Wiklund & Shepherd, 2003). The RBV emphasizes firms' internal resources and capabilities (Barney, 1991; Grant, 1991; Wernerfelt, 1984), and assumes that firms' resources are heterogeneously distributed and immobile (Barney, 1991). One of the key tenets of the RBV is that the differences in the resource endowments can lead to competitive advantage and superior performance. However, a resource can be a firm's competitive advantage if it meets the four conditions, i.e., valuable, rare, inimitable, and organization (Barney, 1995). Inimitability has been argued to be one of the important attributes of a resource, which contributes to a firm's competitive advantage (Newbert, 2007).

Broadly, resources are classified into organizational, human and physical capital (Barney, 1991). However, not all resources are necessarily and equally important to create competitive advantage (Barney, 1991). Likewise, not all resources can be useful to mitigate the liabilities arising due to foreignness. As tangible resources are generally easier to be imitated by competitors, relative to intangible resources, they are regarded as a rather weak source of competitive advantage (Newbert, 2007; Grant, 1991). On the other hand, intangible resources act as a relatively more robust source of sustained competitive advantage, have a lower tendency to be duplicated by the competitors, and offer superior firm performance, relative to tangible assets (Hall, 1993; Barney, 1991). Thus, intangible resources held by the firms can be especially helpful while dealing with the LOF.

According to the literature, small ventures tend to lack physical capital, such as extensive property holdings, equipment, plants and other physical assets (Lu & Beamish, 2001). However, they may possess intangible resources such as employee know-how, organizational culture, patents, trademarks, copyrights, reputation (Hall, 1992; 1993), and network resources (Lavie, 2006). These intangible resources can become SMEs' competitive advantage and assist them in overcoming the LOF. Therefore, using the RBV perspective, the study examines if resources, such as SMEs' managerial and technological capabilities, can offset the LOF.

3.2.2 Knowledge Based View

The second theoretical framework incorporated in this study is the knowledge-based view (Kogut & Zander, 1992), which emerges from the RBV. Researchers in international business have long recognized that intangible assets are crucial for a firm to expand into foreign markets (Buckley & Casson, 1976). Internalization theorists have also suggested that a firm should establish its operations overseas only if it possesses intangible assets, such as managerial knowledge, as it provides a competitive advantage that cannot be transferred through licensing across firm boundaries (Hennart, 1982). In combination with other organizational resources, knowledge can be a critical resource capable of influencing the international performance of not only large multinational companies (Kogut & Zander, 1996) but also of SMEs (Kyläheiko, Jantunen, Puumalainen, Saarenketo, & Tuppura, 2011) and born global firms (Gassmann & Keupp, 2007; Prashantham & Birkinshaw, 2008). In particular, the knowledge accumulated by managers and founders can help firms to deal with LOF-related uncertainties and improve firms' performance (Petersen, Pedersen & Lyles, 2008). For instance, the knowledge of the managers and founders can help firms to develop new technologies, capabilities and competitive strategies, and alter approaches to, and identify opportunities in, foreign markets. Managers or founders possessing valuable knowledge assets can thus assist firms in mitigating the liabilities of foreignness faced by small entrepreneurial firms (Musteen et al., 2014). As managers who have a sound understanding and awareness of conducting business in foreign markets can enable SMEs to navigate the perils of foreignness, the study uses the knowledge-based view (KBV) as a theoretical framework.

3.2.3 Institutional Theory

The third theory incorporated in this study is the institutional theory. From an institutional perspective, firms operate in a social framework of norms, values, and assumptions about what constitutes appropriate or acceptable behavior in the host market environment (Oliver, 1997). The basic premise of institutional theory is that firms have to conform to the set institutional rules, norms, traditions, and societal influences (Delios & Henisz, 2003; North, 1990). The three institutional pillars - regulatory, cognitive, and normative (Scott, 1995) - are responsible for firms' experiencing unfamiliarity, relational and discriminatory hazards in a foreign institutional environment (Eden & Miller, 2004). As a result, it can be challenging to deal with different foreign institutional frameworks because it requires firms to structure their activities as per the rules and regulations of the foreign institutions.

Emerging market firms (EMFs) may internationalize from an advantageous position because their home country's complex institutional environment induces them to develop capabilities, including flexibility, that may make it easier to deal with foreign institutional environments. However, internationalizing EMFs can encounter issues in understanding different institutional environments due to the lack of knowledge, experience and social capital that are essential to deal with the complexities emerging from other institutional environments (Cuervo-Cazurra et al., 2007). The larger the institutional distance between home and host countries, the greater the expected LOF and the institutional pressures exerted upon EMFs (Eden & Miller, 2004). Furthermore, foreign firms may experience coercive, mimetic and normative pressures in other institutional environments (Gaur et al., 2014). For instance, foreign firms are often compelled to conform to local institutional norms to achieve legitimacy in a host country (Davis, Desai, & Francis, 2000). Those that appear isomorphic may be rewarded with increased legitimacy and resources required to sustain their presence in the host market (Kostova & Zaheer, 1999).

Compared to foreign firms from developed markets, EMFs face greater legitimacy challenges in foreign markets due to institutional hazards, such as country of origin effects. The challenges mainly arise due to stereotyping, such as associating EMFs' products with inferior quality (Gaur et al., 2014). Due to negative perceptions towards EMFs, these firms are often required to do more by building legitimacy, reputation, and goodwill, to gain support and survive in institutionally distant and dissimilar foreign markets (Gaur et al., 2014). SMEs are presumed to have limited resources, foreign knowledge and experience. As a result, these firms can find it challenging to deal with and comply with different host markets' institutional standards. Conversely, the institutional challenges and isomorphic pressures should reduce when firms internationalize to institutionally similar environments (Gaur, Kumar, & Sarathy, 2011). As foreign market institutions can either help or create challenges for SMEs, the study incorporates institutional theory as an overarching framework in the conceptual model to learn more about its role and influence.

3.2.4 Network Perspective on Internationalization

The network model of internationalization was developed in the 1980s when researchers observed that many firms used various networks to facilitate their internationalization activities (Johanson & Mattsson, 1988). Johnsen and Johnsen (1999) view networks as a collection of people, departments, businesses and their links with others, such as family, community and organizations (Senik et al., 2011). According to the network view of internationalization (Johanson & Mattsson, 1988; Mattson & Johanson, 1992), firms invest in strengthening and monitoring their positions in international networks. This is because networks can assist firms, particularly SMEs, to venture into international markets by providing them knowledge pertaining to internationalization, conducting business overseas, and the condition of institutional environments. Such information from networks can be crucial to support firms' international business. However, building networks that provide access to appropriate knowledge can be a time-consuming process and can reduce the pace of internationalization instead of being the driving force (Sasi & Arenius, 2008). Chetty and Holm (2000) point out that Johanson and Mattsson's (1988) network model fails to address the importance of the individual network ties of the decision-maker. As such, the model needs bear re-examination to include the entrepreneur's social networks.

Social capital relates to the resources a firm acquires from its network of relationships and has been defined as the:

> … sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through the network. (Nahapiet & Ghoshal, 1998, p. 243)

The above definition implies the importance of the resources embedded within the network and receiving access to other sources through networks. However, in a recent study, a comprehensive and fresh definition highlighting the importance of networks is given by Zain and Ng (2006). They define it as:

> ... relationships between a firm's management team and employees with customers, suppliers, competitors, government agencies, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities. (Zain & Ng, 2006, p. 184).

Among the actors listed in Zain and Ng's (2006) description of internationalization networks, the term 'friends and families' is loosely used to represent various forms of personal networks that can be utilized for firms' international business activities. Broadly, social capital has been classified into internal and external aspects (Yli-Renko, Autio, & Tontti, 2002). Internal social capital relates to the extent and quality of relationships between individuals or units within a firm. In contrast, external social capital refers to the relationships between the firm and customers, distributors and suppliers. Emphasizing the importance of social capital, Yli-Renko et al. (2002) find that firms' knowledge intensity was positively related to internal and external social capital. Furthermore, they discovered a positive association between external social capital and foreign market knowledge. Studying the importance of social capital on firms' market entry modes, Chetty and Agndal (2007) argued that social capital can act as a trigger and an enabler in a firm's internationalization process related to entry mode.

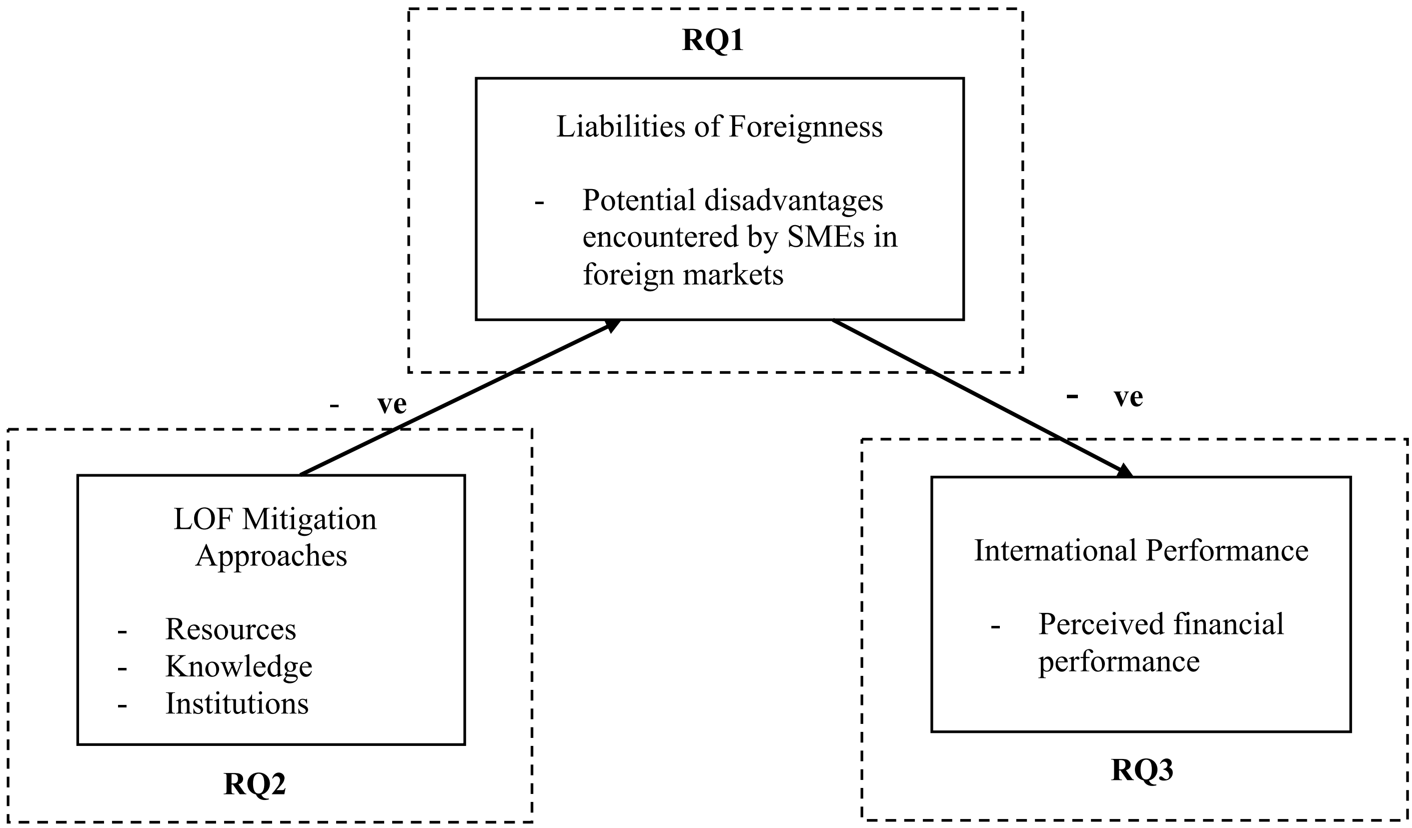
The network view suggests that successful internationalization is more dependent on firms' networks than on firm-specific advantages, as proposed by internalization theory (e.g., Rugman,1980). As SMEs are assumed to have a shortage of resources and knowledge, they are likely to rely on their network relationships to overcome their deficiencies. Networks may reduce SMEs' risks and assist them in reducing entry barriers when entering new markets (Chen, 2003; Coviello & Munro, 1995; Coviello & McAuley, 1999; Johanson & Mattsson, 1988). The knowledge about foreign marketplaces allows SMEs to identify opportunities and develop strategies for their internationalization and long-term survival in foreign markets (Senik et al., 2011). Notably, personal networks can allow firms to quickly learn about the foreign markets, business opportunities, and the existing hurdles in host markets (Xie & Amine, 2009). These personal networks comprise family, friends, relatives, and contacts of the company staff. For instance, Chinese firms tend to use the *guanxi* network system, i.e., personal and informal relationships (Lovett, Simmons, & Kali, 1999), to do business overseas. The existing personal ties of EMFs can provide legitimacy, increase firms' familiarity with the host market environment, and reduce the liabilities of outsidership, emergingness and foreignness. Emphasizing the importance of personal contacts, the born global literature indicates that managers utilize personal network relationships in a firm's development to rapidly internationalize and expand in foreign markets (Freeman et al., 2006; McDougall et al., 1994). The importance of network connections is discussed in detail later in this chapter.

Besides personal networks, the network perspective highlights that professional or business networks can provide firms with valuable information about the host market environment (Yli-Renko, Autio, & Tonti, 2002). For instance, business relationships provide benefits such as access to foreign markets, knowledge of host market environments, resources (e.g., finance, technology, R&D), and distribution channels (Chetty & Campbell-Hunt, 2003). Additionally, maintaining relationships with foreign partners can help firms to overcome constraints associated with internationalization, such as lack of economies of scale and financial, physical, and knowledge resources (Freeman et al., 2006). Networks also comprise external relationships such as those with institutions. Studies have indicated that institutional networks, governmental or non-governmental, such as contacts with export promotion councils and trade associations, can provide essential resources such as market information, financial support, and business contacts, which are useful to reduce firms' LOF (Garg & Delios, 2007; Gaur et al., 2014; Yiu et al., 2005). Thus, insider of networks can be important to reduce LOF (Johanson & Vahlne, 2015). The role of institutional networks is discussed later in this chapter.

The empirical evidence discussed above suggests that the network perspective offers a particularly relevant explanation of SMEs' internationalization. Additionally, in-depth interviews with managers/founders of SMEs (see Chapter 5) indicated that their networks (personal, professional and institutional networks) were vital to mitigating LOF. Therefore, the thesis incorporates a network perspective for studying SMEs' LOF.

As indicated previously, the thesis adopts a mixed methods approach to address the research objectives. As the study is very exploratory in nature, the goal of the qualitative interviews was to inform and develop the quantitative part of the survey. During the preliminary stage of the thesis development, an overall conceptual model was developed, which was aligned with the overall research objectives. Figure 3.1 displays the general conceptual framework based on the study's research questions and is considered a guide for the thesis. Initially, three overarching frameworks were incorporated into the conceptual model – RBV, KBV and institutional theory. These theories/frameworks were selected based on the literature review and their appropriateness to the research objectives.

Figure 3. 1: Overall Conceptual Framework



The general conceptual model displayed above was shaped and refined after the qualitative interviews. The insights obtained from the interviews helped to amend the conceptual model. For instance, most of the interviewed SMEs indicated their reliance on personal and external networks, to assist them in foreign markets (e.g., to obtain information on the host country). Therefore, the network perspective on internationalization was incorporated in addition to the three original theoretical frameworks (RBV, KBV and institutional theory). Drawing on the network perspective, the revised conceptual model included a construct for the role of personal and external networks (please see Chapter 4 for further details).

One of the highlights of the interviews was the discovery of intra-country liabilities encountered by the SMEs. The interviewees also indicated that the experience gathered by tackling a variety of situations within India helped them internationally. Based on the interviewees' comments, it became clear that the intra-country liabilities encountered by the SMEs resembled the LOF faced by foreign firms in international markets. In order to understand whether the intra-country experiences have any influence on the LOF encountered by the SMEs in foreign markets, the study incorporated an intermediate variable to understand the effect of intra-country liabilities on each of the hypothesized relationships (H1-H4) (see Figure 3.2). Furthermore, the findings from the interviews were used to adapt the constructs for the questionnaire-based survey. Detailed information on how each construct was developed and adapted can be found in Chapter 4. Figure 3.2 shows a comprehensive model developed based on the literature review, complemented by the qualitative interview findings.

Figure 3.2: Comprehensive Conceptual Model

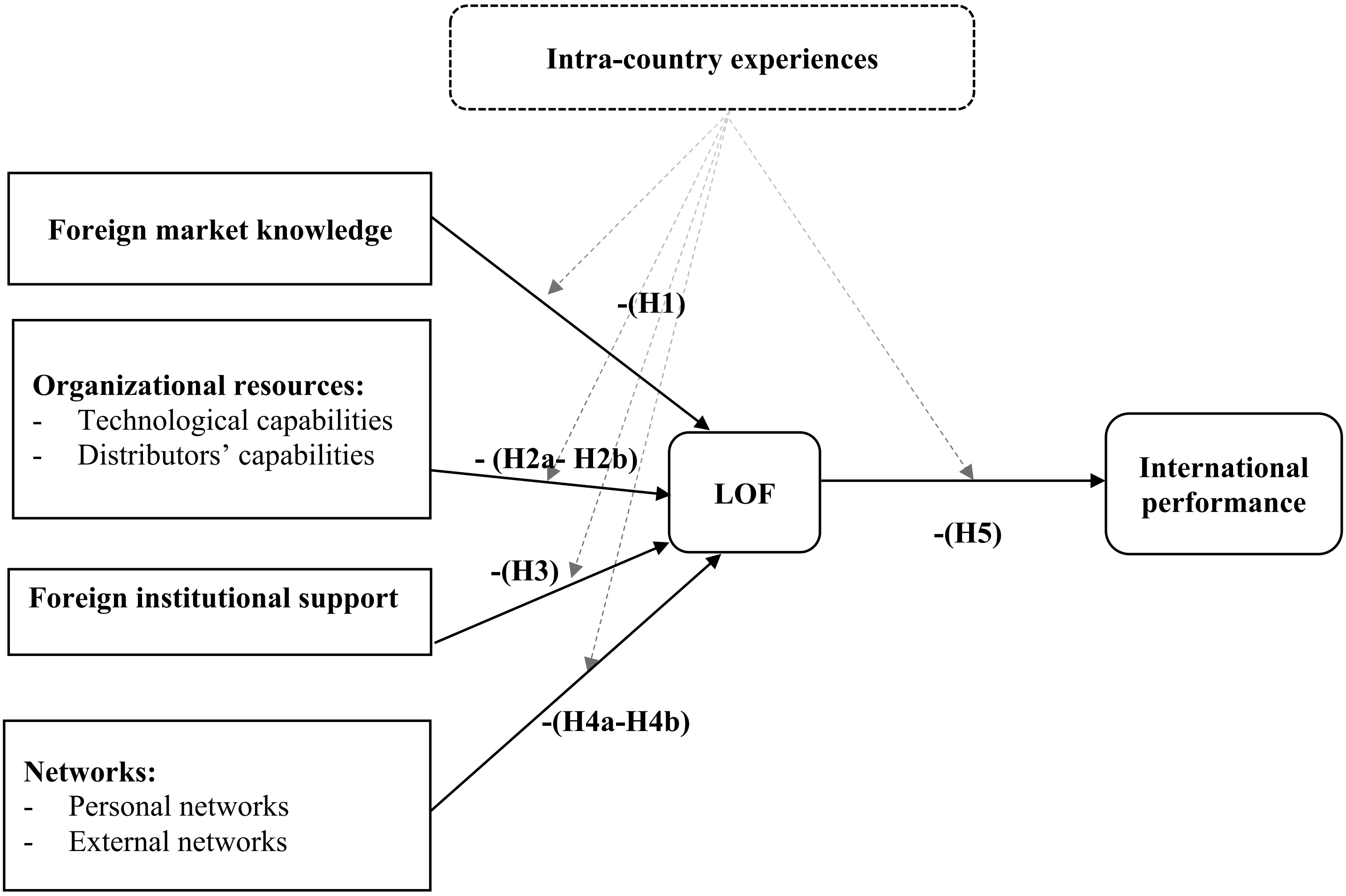


Figure 3.2 shows that the model consists of several key constructs, used as independent (explanatory) variables. These are foreign market knowledge, organizational resources (technological and distributor's capabilities), foreign institutional support, liability of foreignness, and international performance. The LOF and international performance are the two dependent variables incorporated in the model. The expected relationships between the independent and dependent variables are highlighted in Figure 3.2. The conceptual model examines the proposed relationships to understand (1) different mitigation approaches of SMEs and (2) the consequence of LOF on SMEs' international performance.

As explained later in this chapter, each construct incorporated in the conceptual model is derived from the extant IB and IE literature, with some alterations based on the interview findings (see Chapter 5). The constructs underpinning the model are briefly outlined below, followed by a detailed analysis from sections 3.3 to 3.10.

Grounded in the KBV, the model incorporates the perceived foreign market knowledge of the managers as the first construct. Scholars such as Oviatt and McDougall (1994) and Zahra (2005) have argued that foreign market knowledge is necessary for SMEs to succeed at internationalization. Liesch and Knight (1999) specifically stated that "an SME's readiness for involvement in international markets can be interpreted as being a function of its state of informedness on targeted foreign market(s)" (p.386). Their view is especially relevant in the context of emerging economy SME managers, who are assumed to typically have limited international knowledge and experience (Pollard & Jemicz, 2006). From the point of view of such firms, managers' foreign market knowledge can be critical in overcoming the liability of foreignness. Studies have also shown that a lack of foreign market knowledge hinders internationalization by increasing firms' LOF (Musteen et al., 2014; Petersen & Pedersen, 2002). Thus, the conceptual model incorporates the foreign market knowledge dimension developed across six domains, i.e., knowledge relating to customers, competitors, regulatory and normative environment, business opportunities, and distribution channels in host markets (Musteen et al., 2014). When key decision-makers in the firm have a broad array of foreign market knowledge, it is expected to enable SMEs to anticipate better and address the challenges they may likely encounter in foreign markets.

Next, grounded in the RBV, the model incorporates organizational resources, including the firms' technological strength relative to the cohort of the firms in its industry (Knight &

Cavusgil, 2004). The firms' technological competence facilitates the creation of superior products and improves existing products, providing greater efficiency in the production process (Knight & Cavusgil, 2004). Owning this competence enables firms to serve the specialized or niche needs of customers and adapt their products to different foreign markets. Next, organizational resources include the capabilities of the firm's distributors. As small firms lack the necessary capabilities, they often rely on distributors' capabilities to deal with a range of foreign market complexities. For instance, born globals depend on independent distributors' competencies to enhance their overseas performance (Knight & Cavusgil, 2004). Such firms often prefer to deal with uncertainty, risks and unique challenges present in the overseas markets by leveraging the knowledge and competencies of foreign intermediaries (Knight & Cavusgil, 2004; Bowersox & Cooper, 1992; Rosson & Ford, 1982). As such, the model includes the distributors' capabilities as an important organizational resource.

Based on institutional theory, the model incorporates the foreign institutional support received by SMEs. The rationale for including this construct is that some of the host market's government and regulatory institutions exist to provide the necessary support to foreign firms operating in their country. For instance, their assistance can be in the form of providing market information, training, financial incentives, and introducing favorable regulatory policies, which can be useful to offset operational challenges and lowering foreign firms' LOF (Zhang et al., 2017). Therefore, although host market institutions can create a challenging environment for outsider businesses to operate, they can also support foreign firms to function smoothly. As such, the study investigates if foreign government support enables SMEs to mitigate LOF.

As indicated previously, the network perspective was incorporated in the conceptual model after the interview findings revealed its important role in assisting SMEs to reduce their LOF. Research has shown that firms, especially small ventures, are frequently involved in different, close, and lasting relationships, and that a firm that does not have a position in a network is considered an outsider (Johanson & Vahlne, 2015). Moreover, as foreignness complicates the process of becoming an insider (Johanson & Vahlne, 2015), it becomes crucial for firms to rely on their network connections to deal with foreign market challenges. The extant literature and the interview findings revealed that firms' personal and external network ties help them acquire information, knowledge, resources, capabilities, and develop strategies. As networks act as enablers to overcome LOF, the study incorporates the network perspective.

Developed from the LOF literature is the construct that is utilized to examine the liabilities of foreignness. So far, very few studies have operationalized LOF (e.g., Qian, Li & Rugman, 2013). Drawing from the literature's conceptualization of the LOF (Calhoun, 2002; Eden & Miller, 2004, 2001; Hymer, 1976; Kostova & Zaheer, 1999; Qian, Li & Rugman, 2013; Zaheer, 1995, 1997, 2002), the construct incorporates various hazards such as distance, discriminatory, unfamiliarity and institutional hazards, along with the lack of networks that inflict disadvantages on foreign firms. Details about how the construct was derived are outlined in Chapter 4. This study uses LOF as its first dependent variable. In the second stage of the model, LOF is then used as an independent variable to examine its impact on the SMEs' perceived international performance.

International performance is the second dependent variable. The model includes perceived financial and perceived (non-financial) success measures to examine SMEs' international performance. The international performance measures were derived and adapted from Covin et al. (1990) and Styles (1998), as described in Chapter 4.

The hypothesized relationships were examined considering two groups of SMEs: those with and without interstate experience. As inter-state experiences that have been acquired by SMEs operating in diverse Indian states can potentially play an important role in helping firms to offset similar challenges encountered overseas, the study tests the hypothesized relationships for each group.

As mentioned previously, RBV, KBV, institutional theory, and the network perspective are the overarching frameworks incorporated in this study. The rationale for incorporating these perspectives lies primarily in their complementarity, their relevance to LOF, and the interview findings. Additionally, a recent literature review on foreignness conducted by Lu et al. (2021) urges researchers to integrate multiple theoretical perspectives to capture the complexity and richness of foreignness, as should allow for deeper understanding of the drivers, manifestation, and consequences of foreignness in contexts that are interesting and meaningful. Furthermore, the review analysis discussed in Chapter 2 showed that various LOF studies used multiple theoretical frameworks (please see Table D in Appendix A). Thus, consistent with the line of reasoning that integrating different theories will enable a better understanding of LOF faced by internationalizing firms from India, this study incorporates multiple theories/frameworks to gain a deeper understanding of SMEs' LOF, their approaches to mitigating foreign disadvantages, and the influence of LOF on SMEs' international performance. In the following section, the rationale for incorporating the constructs in the conceptual model is explained in detail, along with the development of the hypotheses.

3.3 Foreign Market Knowledge

Internationalization process theories have traditionally suggested that firms develop the knowledge necessary for internationalization primarily through experience from their own business activities (Johanson & Vahlne, 1990; Yu, Gilbert & Oviatt, 2011). Foreign market knowledge refers to the organized or structured information that firms possess about foreign markets (Li & Calantone, 1998; Roth et al., 2009), and it is viewed as vital for their internationalization (Yu et al., 2011). While MNEs have resources to obtain information about foreign markets, the entrepreneurship literature stresses the importance of foreign market knowledge already possessed by SMEs to succeed in internationalization (e.g., Oviatt & McDougall, 1994; Zahra, 2005). Given that foreign market knowledge can be a crucial element for SMEs to tackle disadvantages internationally, the study draws from IE literature to incorporate this construct in the study's conceptual model.

Broadly, foreign market knowledge pertains to awareness of host countries' financial, cultural, social, and political conditions, as well as general facts about country differences and international business operations (Lord & Ranft, 2000; Makino & Delios, 1996; Yu et al., 2011). It is the knowledge, possessed by either the founders or managers, that is used to identify opportunities (Shane, 2000), reduce uncertainties (Erramilli & Rao, 1990), and better understand the markets in which firms intend to conduct business (Musteen et al., 2014; Yu et al., 2011). Many studies have shown a clear connection between firms' foreign market knowledge and overseas performance (Bloodgood, Sapienza, & Almeida, 1996; Delios & Beamish, 2001), revealing it as an essential resource that influences performance outcomes.

Eriksson et al. (1997) identified three types of foreign market knowledge: foreign institutional knowledge, foreign business knowledge, and internationalization knowledge. Institutional knowledge is concerned with the target market's culture, formal and informal institutions, rules and regulations. Business knowledge involves customers, competitors and market conditions, and other peculiarities of foreign markets environment that affect businesses. Internationalization knowledge is related to the firm's knowledge and know-how about adapting its own resources and capabilities according to the foreign market environment (Zhou, 2007). Musteen et al. (2014) extended the work of Eriksson et al. (1997) and examined the foreign market knowledge of the small firms along six dimensions: foreign competitors, foreign customers, channels of distribution, foreign political/legal environment, foreign culture, and business opportunities in foreign markets. Building on the importance of the sources of foreign market knowledge, other studies also demonstrated that the number of countries in which firms operated, and the length of their foreign operations, are related to the nature of the foreign market knowledge accumulated by the firms and their key decision-makers (Autio et al., 2000; Eriksson et al., 2000; Zahra, Ireland, & Hitt, 2000; Musteen et al., 2014). In addition to shedding light on how firms gather foreign market knowledge over time, these studies reveal that accumulating foreign market knowledge is an incremental and ongoing process.

In the LOF literature, many studies have examined how foreign market knowledge reduces the LOF. For instance, research has highlighted that firms' accumulated foreign market knowledge reduces perceived unfamiliarity, uncertainty, enhances self-confidence in decision-makers, and makes them more aggressive in their resource commitments needed to mitigate LOF (Bell et al., 2012; Calhoun, 2002; Musteen et al., 2014; Petersen et al., 2008; Petersen & Pedersen, 2002). Other studies show that a lack of knowledge about foreign markets creates uncertainties, heightens the risks, and can be a major obstacle for internationalizing firms (Aharoni, 1966; Eriksson et al., 1997; Johanson & Vahlne, 1977; Petersen & Pedersen, 2002). The argument that a lack of foreign market knowledge can cause an adverse effect on firms operating overseas was highlighted by Petersen & Pedersen (2002), who examined how firms' limited knowledge about foreign business and institutional environment can impede them from developing approaches to tackle LOF. Based on this, they operationalized a construct called 'lack of foreign market knowledge', which included business knowledge (e.g., pertaining to foreign customers, suppliers, distributors, and competitors) and institutional knowledge (e.g., pertaining to foreign regulatory environment, rules, norms and values). Using this construct, their study, overall, demonstrated that firms with a thorough knowledge of foreign markets are better positioned to deal with the LOF. Their findings also indicated that foreign firms were familiar with the local business environment and opposed the conventional view that foreign firms encountered LOF primarily due to insufficient knowledge about the host market environment.

Considering small firms, Musteen et al. (2014) suggest that, when SMEs possess a broad array of foreign market knowledge (i.e., knowledge relating to foreign competitors, customers, distribution, political/legal environment, culture, and opportunities), it enables them to anticipate and address the challenges they may likely encounter in an unfamiliar foreign market setting. Such types of knowledge help to deal with the risks associated with internationalization and adapt their business according to the needs of the foreign markets (Liesch, Welch & Buckley, 2011). Possessing relevant knowledge of foreign markets may also help firms to avoid costly mistakes that may likely impact their international performance (Musteen et al., 2014). Despite the progress of the LOF literature, we know very little about how emerging market small firms' foreign market knowledge can alleviate LOF. Given that SMEs are presumed to have limited international experience (Pangarkar, 2008), it could be crucial to understand how internationalizing SMEs from emerging economies, such as India deal with the LOF.

Furthermore, foreign market knowledge is also regarded as a productive resource by the KBV and RBV frameworks (Grant, 1996; Kogut & Zander, 1992; Nonaka, 1994). According to these perspectives, it enables firms to see better, evaluate business opportunities, and make new commitments internationally (Petersen & Pedersen, 2008). As foreign market knowledge can be a vital resource for internationalizing firms, the study proposes that it will enable SMEs to mitigate LOF. Accordingly, the first hypothesis is:

Hypothesis 1: *Foreign market knowledge mitigates the liabilities of foreignness for SMEs.*

3.4 Organizational Capabilities

Organizational resources are introduced as capabilities that reflect a firm's ability to perform repeatedly or replicate productive tasks by creating value through the effective transformation of inputs into outputs (Nelson & Winter, 1982; Teece, Pisano, & Shuen, 1994). Organizations' capabilities are regarded as the main drivers of a firm's performance. For instance, firms may possess technological capabilities that enable them to have a stronger competitive position in the foreign market (Aaby & Slater, 1989; Alvarez, 2004; Anand & Kogut, 1997). When firms own valuable technological capabilities, they can enhance their existing products and manufacturing processes, and achieve product superiority by developing new products (Zahra & Nielsen, 2002). Moreover, by utilizing technological competencies, firms can increase their profits and their market share in international markets and achieve higher levels of growth (Wilkinson & Brouthers, 2006). Although competing in international markets might be easier for large firms having better technological capabilities, relative to smaller firms, studies show that SMEs in the high-tech sector succeed in international markets due to their technological capabilities (Dhanaraj & Beamish, 2003; Francis & Collins-Dodd, 2000). In section 3.4.1, the study discusses the relevance of technological capabilities, their role in offsetting LOF, and proposes a hypothesis.

In addition to in-house technological competencies, studies have shown that external capabilities such as those owned by distributors can also assist firms' internationalization (Cavusgil, Yeoh, & Mitri, 1995; Peng & York, 2001; Rosson & Ford, 1982). For instance, distributors possessing crucial capabilities can be important for export-oriented SMEs, to acquire information about foreign markets and their customers (Chen, 2006). The distributors' expertise can enable SMEs to anticipate challenges, overcome unfamiliarity, and lessen the risks associated with doing business abroad. In section 3.4.2, the study discusses the importance of distributors' capabilities as an essential resource and proposes a hypothesis.

3.4.1 Technological Capabilities

Studies have examined the effects of technological capabilities on firms' performance (Coombs & Bierly, 2006). A firm's technological capabilities are viewed as a critical organizational resource because they facilitate the creation of superior products, allow firms to improve existing products, and provide greater efficiency and effectiveness in production processes (Knight & Cavusgil, 2004). According to Teece et al. (1997), a technological capability is "the ability to perform any relevant technical function or volume activity within the firm including the ability to develop new products and processes, and to operate facilities effectively." (p.521).

Mainly, technological competency is considered as an important source of sustainable competitive advantage (Dierickx & Cool, 1989; Nelson, 1991), as it is an intangible competency that is usually difficult for competitors to imitate. Firms that possess valuable technological competencies can engage in product improvements and enhance their production process to reduce the costs (Coombs & Bierly, 2006). As a significant component of knowledge is connected to firms' industry-specific technological competency, the KBV approach argues that it is more likely to be firms' preeminent source of competitive advantage (Coombs & Bierly, 2006). Furthermore, the RBV proposes that companies that effectively use their technological capabilities develop unique products and gain a sustainable competitive advantage (Zahra & Neilson, 2002). Therefore, both the KBV and the RBV assert that the firms' technological capabilities can provide competitive advantage and improve firms' performance; this may be especially important in international markets that are subject to more extensive competition.

As technological capability is an intangible and unobservable construct, studies have used a variety of indicators to measure it. For instance, some studies measured a firm's technological capabilities by examining its R&D intensity and advertising expenditures (Asmussen & Goerzen, 2013; Delios & Beamish, 1999). Other studies have used R&D expenditures in combination with the number of patents owned by firms (Coombs & Bierly, 2006). For instance, Coombs & Bierly (2006) use patent and patent citation statistics, with R&D intensity, as indicators for technological resources, on the basis that patents represent the technological capabilities that are closest to project completion.

Although R&D intensity is frequently used as an indicator of technological capability, a few studies chose to use firms' absorptive capacity (Cohen & Levinthal, 1990) and the propensity of firms' scientists to co-author scientific papers (Coombs & Bierly, 2006) as indicators. Wilkinson & Brouthers (2006) included technological leadership, innovation, firms' learning about technology, and state-of-the-art processes in manufacturing as indicators of technological resources that constitute competitive advantage. Ortega (2010) examined the interaction between technological capabilities and competitive strategies, and their combined relationship to firms' performance. This study included three indicators - economies of scale and technical experience, technological capabilities and equipment, and an efficient and effective manufacturing department - to examine their effect on firms' performance. The results mainly indicated strong support, i.e., a positive influence of technological capabilities on firm performance. The study's findings also revealed that stronger technological capabilities provide firms cost advantages and reinforce the development of low-cost strategies. Furthermore, the outcome indicated that when firms operate in industries that are characterized by high levels of dynamism and rivalry, technological capabilities enable firms to enhance their innovations and improve their products and processes. Studies have also discovered that technological capabilities are multifaceted and might encompass firms' product development, technology commercialization, and process engineering, in addition to excellence in R&D (Zahra, 2007; Zahra & Neilson, 2002).

Collectively, studies that examined the relationship between firms' technological capabilities and performance have shown that firms possessing stronger technological capabilities tend to achieve superior performance (e.g., Afuah, 2002; Etemad & Lee, 2001; Lee et al., 2001; Zahra et al., 2007). It is, therefore, regarded as an important strategic asset representing firms' competitive advantage and a driver of firm performance (Ortega, 2010).

In the context of small and young firms, Knight and Cavusgil (2004) asked respondents to rate their technological competence, relative to competitors, with respect to technological superiority, invention and product innovativeness. In line with other studies, their findings indicated that technological capabilities were crucial drivers of born globals' overseas performance. Their study suggested that small firms with technological capabilities can create superior products, improve and adapt existing products, and develop efficient production processes. Small size makes firms more flexible, less bureaucratic, and able to enjoy internal conditions to moderate their technological capabilities as per the requirement of foreign markets (Knight & Cavusgil, 2004; Ortega, 2010). In a similar vein, Lee et al. (2001) studied the relationship between technological capabilities and the performance of 137 Korean high-tech start-up firms. They operationalized technological capabilities as the number of internally developed technologies, patents, registered designs and acquired quality assurance marks. They, too, found that the technological capabilities owned by start-up firms were drivers of their performance.

Studies pertaining to LOF have proposed that firms with strong intangible assets, such as technological capabilities, are likely to be more globally dispersed because they can overcome LOF by utilizing their capabilities (Asmussen & Goerzen, 2013; Nachum, 2003). Moreover, Nachum (2003) suggested that such proprietary assets may compensate for LOF by allowing foreign firms to outperform the local incumbents. The key underlying argument is that certain capabilities, such as technological capabilities, can help firms tackle LOF that would otherwise inhibit their expansion into global markets (Asmussen & Goerzen, 2013). Despite the important role of firms' technological capabilities, we know very little about its influence in helping emerging market firms overcome LOF. In emerging economies, most of the population are value conscious, and firms have to provide customers with "resource-constrained" innovations and business models that can create high value at lower cost (Winterhalter et al., 2017). As such, emerging market SMEs, that are presumed to be resource constrained, may possess technological capabilities that could be effective in dealing with the LOF. Based on the literature that highlights technological capabilities as a vital resource for firms, the study proposes that it will enable SMEs to mitigate LOF. Accordingly, the next hypothesis is:

Hypothesis 2a: *Technological capabilities mitigate the liabilities of foreignness for SMEs.*

3.4.2 Distributors' Capabilities

Compared to large firms, small, resource-constrained firms tend to prefer exporting as their primary entry mode, as it offers a higher degree of business flexibility (Buckley & Casson, 1998). Although SMEs might possess various capabilities on their own, the literature shows that they often have to rely on the capabilities of others that act as facilitators in foreign markets. Facilitators, such as foreign distributors, typically possess strong local knowledge and capabilities to perform valuable functions (Cavusgil, Yeoh, & Mitri, 1995; Peng & York, 2001; Rosson & Ford, 1982), which can be useful in dealing with the complexities of foreign markets.

Several studies have shown that judicious use of foreign distributors' capabilities enable entrepreneurial firms to understand competition, address changing customer needs, and adapt themselves according to evolving foreign environments (Cavusgil & Knight, 2015; Hernández-Espallardo et al., 2011; Knight & Cavusgil, 2004; Wilkinson & Brouthers, 2006). Studies in the IE and exporting literatures have found that small firms rely on independent foreign distributors with specific competencies to deal with uncertainties and maximize their international performance (Bowersox & Cooper, 1992; Knight & Cavusgil, 2004; Rosson & Ford, 1982). Chen (2006) used case studies to examine the LOF encountered by Taiwanese firms in Europe, and found that Taiwanese firms mainly entered individual European markets through local distributors before making investments. Initially, these firms sought local distributors as partners because they served diversified consumers, ranging from customers who were very cost-conscious to large supermarket chain stores. Thus, by using the foreign distributors' localized market knowledge and networks, Taiwanese firms overcame unfamiliarity, risks, and unique challenges often confronted by foreign firms in host markets (Chen, 2006).

Hernández-Espallardo et al. (2011) found that establishing relationships with distributors influenced firms' innovation and performance. Although the study mainly investigated how firms learn to collaborate and manage distributors, it also examined the importance of distributors' knowledge of products, technologies, and various markets. It outlined that the distributor's knowledge and capabilities offer exporters a more accurate description of consumers' current demands, environment dynamics, competitors, and various other factors that might influence a firm's success in a market (Hernández-Espallardo et al., 2011).

In the context of small firms, Freeman et al.'s (2006) interview-based study showed that born global firms overcame internationalization constraints and achieved rapid growth by entering into alliances with suppliers and distributors. By establishing such relationships, born global firms learned about foreign trade and received better access to market knowledge and opportunities. With the assistance of local suppliers in foreign markets, the small firms could amend products according to customers' requirements and achieve economies of scale in production (Freeman et al., 2006). Similar benefits of firms' relationships with the distributors have been highlighted by Sharma and Blomstermo (2003) and Wilkinson and Brouthers (2006).

Also, in the context of born global firms, Knight & Cavusgil's (2004) mixed-method study examined the strategies and orientations that lead to success; distributors' capabilities are regarded as one of the crucial drivers of performance. They developed a construct to examine distributor capabilities, including several aspects, such as the ability to set prices, sell products/services in local markets, and provide market information, among others (see Chapter 4). Their findings highlighted that distributors' capabilities facilitated promotion, customer relationship management, and marketing activities and enhanced the international performance of born globals (Knight & Cavusgil, 2004). Therefore, capabilities owned by distributors are regarded as a crucial organizational resource because small ventures with limited tangible resources can use the distributors' capabilities for their international business activities (Luo, 2000).

As the literature emphasizes the importance of distributor's capabilities in assisting small firms to conduct business overseas, this thesis regards it as an important resource available to the firm for offsetting LOF.

Hypothesis 2b: *Distributors' capabilities mitigate the liabilities of foreignness for SMEs.*

3.5 Foreign Institutional Support

Institutional theory posits that firms are affected by the social, economic, and political forces exerted by the institutions in particular contexts. According to Scott et al. (2001), formal institutions are the regulatory forces that include government laws and regulations. When formal institutions fail, informal governance mechanisms, such as social ties, act as substitutes to facilitate economic activities (Peng, 2003). Institutional support refers to the extent to which government and its regulatory systems offer support to the firms (Nuruzzaman, Singh, & Gaur, 2020). The formal and informal institutions of a country are responsible for assisting foreign firms in overcoming the barriers related to market access, information and operation.

To date, most of the literature in the international business domain has focused primarily on the problems created by host market institutions, ignoring that formal host market institutions can also support foreign businesses. However, a few studies have implied that government support, transparency, efficiency, and simplified legal rules can reduce foreign firms' challenges, particularly benefiting small firms. For instance, drawing on institutional theory, Zhang et al. (2017) studied the relationship between government support and the entrepreneurial capability of export-oriented SMEs. They examined the initiatives of the sub-national institutions, such as local governments implementing favorable policies, providing market information, and assisting firms with financial support and licenses, among other supportive roles. Their findings showed that a favorable institutional environment (e.g., government support, transparent legal rules and regulations) enhances the entrepreneurial capabilities and improves the international performance of the export-oriented SMEs. Other studies have documented that the implementation and enforcement of laws and regulations by the host market can either facilitate or hamper the birth, growth, survival, and mortality of foreign firms (Gupta, Guo, Canever, Yim, Sraw, & Liu, 2014; Meyer et al., 2009; Peng et al., 2008; Volchek, Jantunen & Saarenketo, 2013; Zhu, Hitt, & Tihanyi, 2006).

Furthermore, the entrepreneurship and policy literatures have asserted that rising entrepreneurial firms in international markets indicate the role of the host country's supportive and conducive regulatory frameworks (Kshetri, 2007; 2008; Lu, Liu, Wright, & Filatotchev, 2014). It is widely acknowledged that foreign firms can perform well when the host market government provides information, education, and training-related programs needed to operate in the market effectively (Lu, Liu, Wright, & Filatotchev, 2014). Businesses and competition can thrive in countries that provide a favorable institutional environment and offer a safe environment for firms to operate (Cai et al., 2010; Child et al., 2003). So far, LOF studies have primarily focused on the host market's informal and formal institutions causing hindrances to foreign firms. The limited attention towards the supportive functions of host market institutions provides us with an incomplete understanding of their role in assisting foreign firms in tackling LOF. Based on studies that recommend researchers to explore the influence of institutional support and institutional theory in the context of small firms (e.g., Ahlstrom & Bruton 2002; Peng, 2000), this thesis posits a positive relationship between foreign institutional support and LOF. Accordingly, the next hypothesis is:

Hypothesis 3: *Foreign institutional support mitigates the liabilities of foreignness for SMEs.*

3.6 Personal Networks

Extant literature has demonstrated that networks are important facilitators of SMEs' international activities (Chetty & Agnda, 2008; Coviello & Munro, 1995; Coviello, 2006; Coviello & Cox, 2006; Chetty & Agnda, 2007; Hadley & Wilson, 2003; Johanson & Mattsson, 1988; Nummela et al., 2004; Oviatt & McDougall, 1995; Oviatt & McDougall, 2005; Stam & Elfring, 2008; Zhou et al., 2007). SMEs, presumed to be resource constrained, rely on diverse networks to gather resources and knowledge, such as cultural, technical and commercial competencies that help them to overcome various challenges in foreign markets (Johanson & Vahlne, 2015). Iterating from section 3.2.4, the network theory of internationalization conveys that firms invest in strengthening and monitoring their positions in international formal business networks. However, the theory does not consider the entrepreneur's social networks (Chetty & Holm, 2000), and only recently has there been an increase in studies examining the different network relationships of smaller firms.

Many studies that have discussed the relevance of personal networks were related to INVs, rapidly internationalizing firms, or born globals. For instance, based on case studies of small New Zealand software firms, Coviello and Munro (1997) found that formal and informal network relationships shape the choice of foreign markets and entry modes. The importance and role of born global managers' extensive personal networks in firms' development and early internationalization are emphasized in Freeman et al. (2006). This is in line with McDougall et al. (1994), who find that the personal contacts of born global managers enabled them to expand business activities in international markets. According to Andersson and Wictor (2003), due to the young age, lack of stability in routines, systems, and processes of born globals, personal contacts represent a key factor in their internationalization strategy implementation. Furthermore, Crick and Spence (2005) indicate that existing networks that emerge from management's previous international experience enable firms to enter overseas markets. Studying the network connections of Chinese firms, researchers have indicated that personal contacts were a key source of quickly acquiring knowledge about foreign markets (Lovett, Simmons & Kali, 1999; Xie & Amine, 2009; Zou & Ghauri, 2010). In the context of eight Australian SMEs, Chandra, Styles, and Wilkinson (2009) noted that personal contacts played a critical role in enabling firms to identify opportunities in international markets. Being smaller makes it difficult for SMEs to gain recognition and trust amongst business networks (Zahra, 2005), compelling the reliance on personal networks. Moreover, as resource limitations are major obstacles in the business development of SMEs, personal networks enable firms to compensate for their lack of resources (Tang, 2011). Thus, entrepreneurs' personal relationships are viewed as supporting firms' internationalization.

So far, research on personal networks' role in assisting the internationalization of emerging market firms is limited (Ghauri et al., 2003). In one of the few studies focusing on this area, Manolova et al. (2010) observed that Bulgarian SMEs' domestic personal networks enabled firms to achieve a higher percentage of foreign sales. Furthermore, Ruzzier, Antoncic and Hisrich (2007) examined 165 Slovenian SMEs and found that entrepreneurs' strong network ties had a major influence on firms' internationalization. Studying internationally active SMEs from China, Zhou, Wu, and Luo (2007) found that social networks mediated the link between internationalization and performance. In many developing countries, especially in Asia, managers take advantage of their network connections to become globally competitive (Zeng & Williamson, 2003). For instance, they may extensively rely on networks within ethnic groups (Dana, 2001). It is also well-known that, in many Asian countries, such as China, Taiwan, Hong Kong, Singapore, and Malaysia, managers tend to utilize personal relationships, known as *guanxi* networks, for their overseas ventures. These networks are built through family ties and personal connections of the owners, and are key to successfully venturing and surviving in foreign markets (Li & Matlay, 2006). Although personal networks can provide valuable information, they can also compensate for SMEs' lack of resources. Moreover, personal networks can provide firms with legitimacy by improving their creditworthiness and trustworthiness in unfamiliar and new foreign markets. Therefore, entrepreneurs utilizing their personal networks can receive numerous benefits, such as cost efficiency in gathering the necessary information to understand the market quickly.

Although there is agreement that the information from personal networks can be helpful for SMEs to familiarize themselves with the foreign market environment, studies to date have not deeply examined the role of personal networks in mitigating LOF. As indicated above, personal networks have been observed to provide legitimacy, referrals, insidership, and knowledge vital for conducting business activities in foreign markets. This study postulates that SMEs' personal relations with friends, relatives, previous employment relationships, and company employees' contacts can be considered important networking circles that can help SMEs offset LOF. As the literature emphasizes the importance of personal relationships for firms' foreign business activities, the next hypothesis is:

Hypothesis 4a: *Personal networks mitigate the liabilities of foreignness for SMEs.*

3.7 External Networks

Research has shown that, in addition to close connections, firms are frequently involved in a set of different relationships outside their organization. These relationships are established through trade fairs, industry associations, government departments, and academic or professional institutes (Tang, 2011). When a firm belongs to relevant networks, it can be considered as an "insider" rather than an "outsider" (Johanson & Vahlne, 2015). When firms have no relevant network position, they suffer from the liabilities of outsidership and foreignness. Thus, firms tend to look at various ways through which they can be a part of these external networks.

Johanson and Mattsson's (1988) network model highlights the importance of external network structures. The model stresses the importance of specific business-related relationships that assist firms' internationalization; however, it does not specify dynamic network elements (Johanson & Vahlne, 2015). Rather, the model simply views internationalization as a multilateral network development process (Johanson & Vahlne, 2015). Like personal networks, external networks can also provide firms with valuable resources and knowledge that can mitigate the perceived uncertainties associated with internationalization. Given that managers or entrepreneurs of small firms are often hindered by their limited international experience (Musteen, 2014), external networks can equip them with relevant knowledge and information. Moreover, the information sourced from external networks can be particularly invaluable for SMEs because these firms might lack the knowledge, resources, and capabilities to conduct detailed and systematic research regarding foreign environments (Ellis & Pecotich, 2001).

Trade fairs provide an excellent opportunity to network. For instance, studies have found that trade fairs have been used more for networking than as a platform for sales (Rice, 1992; Shipley et al., 1993). Attending international trade fairs can be especially crucial for small firms that aim to develop new relationships because the ensuing networks can be advantageous. In a qualitative study of 37 Irish and New Zealand born globals, Evers and Knight (2008) discovered that firms used trade fairs to connect with potential buyers, business partners, and officials from governments or industry organizations. Based on these newly built networks, firms were able to identify business opportunities and successfully venture into foreign markets.

Trade associations and governments also represent external networks. In emerging economies, though, local trade associations and government agencies may not be seen as relevant sources of information (Manolova & Yan, 2002). According to the literature, many entrepreneurs question the credibility of government sources and view them with considerable suspicion (Franicevic & Bartlett, 2001; Pollard & Jemicz, 2006). However, this view may be outdated or changing as the governing bodies of emerging economies like India are increasing their support towards the growth of small entrepreneurial ventures by providing internationalizing SMEs with more of the information and resources needed to conduct business activities in foreign markets. When SMEs receive relevant information or resources from these sources, they can lessen the risks and unfamiliarity associated with operating in a foreign environment. External networks in the host country market could also assist foreign firms to deal with LOF. For instance, Anderson and Sutherland (2015) find that foreign investment promotion agencies provide foreign firms with information about potential investors, suppliers, and partners, which reduces the unfamiliarity hazards before entering the market. When firms can utilize such external networks, they can have access to a broader and more diverse set of knowledge, which can be used to tackle the LOF.

In the context of small firms, Loane and Bell (2006) pointed out the issue that born globals may not have pre-existing networks to assist them with developing the capabilities required to operate in foreign markets. When firms lack networks, new contacts established externally can help them initiate internationalization by providing knowledge and resources. Highlighting the importance of networks, Sharma and Blomstermo (2003) discussed the strength of network ties. They argued that weak ties are advantageous for small firms as they provide heterogeneous knowledge and are less costly to maintain than strong ties. This view lends support to the importance of weaker ties, such as external networks, that can prove valuable for SMEs' international business activities. As the network perspective of internationalization and the literature discussed above imply the importance of external network ties in firms' internationalization, the next hypothesis is:

<u>*Hypothesis 4b:*</u> *External networks mitigate the liabilities of foreignness for SMEs.*

3.8 Liabilities of Foreignness

In the multi-stage model, the liability of foreignness is the first outcome. We then examine the relationship between LOF and the international performance of SMEs. As previously noted in Chapter 2, the idea that foreignness may be a liability stems from Hymer's (1976) work proposing that firms setting up operations abroad face unavoidable costs that the firms operating in their own home environment do not incur (Zaheer & Mosakowski, 1997). This assumption led many researchers to investigate the topic of the liability of foreignness, i.e., the competitive disadvantage that foreign firms face relative to local firms. Extant studies have shown that LOF emerges from several sources, such as the firm's unfamiliarity with culture, needs of the customer, norms of the society, and the institutional environment of the foreign market (Denk et al., 2012). Recent studies have shown that disadvantages emerge due to firms' lack of networks (Johanson & Vahlne, 2015). The shortage of network resources gives rise to liabilities of outsidership, due to which firms miss out on crucial insider information (e.g., potential regulatory changes) and resources (Johanson & Vahlne, 2015). However, a strategy to overcome this deficiency is to become an 'insider' within relevant networks to access resources and information (Johanson & Vahlne, 2015). In the LOF literature, the disadvantages arising due to a lack of relationships in foreign markets are also represented as relational hazards (Eden & Miller, 2004), which firms face when they have difficulties building relevant relationships in foreign markets (e.g., with customers).

Foreign firms, especially those originating from emerging markets, are often treated differently by the host market's government and consumers. Firms encounter discriminatory hazards due to consumer ethnocentrism (Balabanis et al., 2001) and host market institutions favoring domestic firms over foreign competitors (Henisz & Williamson, 1999). The differential treatment inflicted upon foreign firms, relative to local firms, by the host country is denoted as 'discriminatory hazards' (Zaheer, 1995; Eden & Miller, 2004). When discriminatory hazards are high, foreign firms can experience challenges in gaining legitimacy in host markets. Additionally, discriminatory treatment, such as stereotyping behavior, can also emerge if a host market is unfamiliar or lacks awareness of foreign firms (Kostova & Zaheer, 1999) or if they have inherent prejudices towards foreign firms. The challenges arising due to host market discrimination can be serious for young and small firms, because they lack the history and credibility of doing business. Thus, it can be particularly challenging for SMEs to gain trust, build relationships and overcome the issues resulting from host market unfamiliarity.

Although discriminatory hazards can inflict disadvantages on foreign firms, one of the main challenges that foreign firms encounter pertains to the additional costs associated with travel, transportation, and managing administration over distances and across different time zones (Zaheer, 1995). For instance, distance-related liabilities can inflict financial pressures on foreign firms, with respect to coordinating and managing logistics across national borders. The challenges stemming from the distance between the home and the host market can be more intensely felt by SMEs that are presumed to be shorter on experience and resources, such as capital and human resources than large firms.

Limited knowledge of foreign markets increases firms' risks of facing unfamiliarity-related liabilities, which can pose risks, especially for inexperienced emerging market firms. Additional expenses incurred to understand host markets put foreign firms in a disadvantageous position, relative to local firms (Caves, 1971; Eden & Miller, 2004; Zaheer, 1995). Although studies have suggested that unfamiliarity-related costs should diminish as firms learn about the foreign market over time (Denk et al., 2012), Petersen and Pedersen (2002) argue that these costs can persist in the long run if foreign firms follow a standardized global strategy and do not engage in local learning.

Additionally, LOF can also be related to individuals working in the organization. Joardar and Wu (2017) looked at entrepreneurs' country of birth and the nationality of their parents to observe if this affected the scope of LOF and firm performance. Matsuo (2000) considered the LOF faced by Japanese firms in the USA by examining the expatriates working for the organizations and their influence in helping overcome the LOF. Although that study draws our attention to the role of expatriates in mitigating LOF, it does not address the positions held by these employees.

A key underpinning of institutional theory is that organizations are embedded in the broader institutional environment, and that institutions have the ability to influence organizations to conform to practices, policies, and structures that are consistent with institutional preferences (Eden & Miller, 2004). According to Eden and Miller (2004), institutional distance is the degree of similarity or dissimilarity between the institutional environments of different markets. It is also considered to be at the root of LOF (Bae & Salomon, 2010) and a key driver (Eden & Miller, 2004). Generally, institutional distance is measured along the formal and informal dimensions. The formal dimension includes regulatory, political, and economic institutions, and the informal dimension includes social, cultural, and cognitive aspects (Bae & Salomon, 2010). Compared to local firms, foreign firms may face stricter legal rules and regulations, and less support from the host market institutions, because of the host market's inclination toward supporting domestic firms (Eden & Miller, 2004).

Studies have argued that the larger the institutional distance between home and host countries, the greater the foreign firms' liabilities (Campbell et al., 2012; Eden & Miller, 2004; Lu et al., 2021). However, this may not apply equally to all firms. For instance, firms from institutionally developed economies investing in institutionally weak countries may find foreignness an asset with respect to customer perceptions. On the other hand, firms based in countries with less developed institutions that invest in institutionally developed countries may find foreignness (and origin) more of a liability. Therefore, it is the difference, rather than distance that really matters (Maseland et al., 2018). Moreover, it is the institutional conditions prevailing in the host market that can affect the extent of LOF that firms may encounter when operating internationally.

As previously indicated, very few studies have operationalized LOF. While it is straightforward to comprehend LOF-related hazards, qualifying liabilities, and how they affect the firm and its performance, has been challenging (Sethi & Guisinger, 2002). Operationalizing the liabilities that stem primarily from foreignness remains a daunting task. The reference point from which researchers measure LOF has been inconsistent (Denk et al., 2012), because firms' degree of liability of foreignness cannot be readily observed, and efforts to get managers to estimate it have proven challenging (Schmidt & Sofka, 2009). Thus, despite the importance of LOF in the IB and IE literatures, researchers have yet to develop a commonly employed construct for LOF.

Furthermore, studies have used various measures as proxies for liabilities encountered by foreign firms. These include comparing firms' profits, costs, survival, and other non-monetary measures such as the owners' nationality and the number of expatriates working in the organization. For instance, Zaheer's (1995) study confirmed the existence of LOF on the basis that foreign firms' profits in the currency trading industry were lower than those of domestic firms. Zaheer and Mosakowski (1997) concluded that the LOF existed because the foreign firms' survival rates were lower than local competitors. Often, researchers have not measured LOF but rather determined the effects of LOF using performance indicators (Mezias, 2002a;

Sethi & Guisinger, 2002; Zaheer, 1995; Elango, 2009). Studies have also examined the survival and exit rates of MNEs from foreign markets to argue for the existence of LOF (Hennart et al., 2002; Zaheer, 1995; Zaheer & Mosakowski, 1997). Other measures have included the probability of lawsuits (Mezias, 2002a) and X-efficiency measures as evidence of LOF (Miller & Richards, 2002). From the start, studies have focused more on demonstrating that LOF exists by using alternative measures to demonstrate its effects; recent studies have also followed a similar path. For instance, Nachum (2010) identified when foreignness could be an asset or liability, examining liabilities by looking at the costs incurred by foreign firms relative to local firms. In other studies, distance-related dimensions, such as culture, political, demographic, and administrative distance, have been used to argue that foreign firms face LOF (Zhou & Guillen, 2015).

The extant LOF literature has mainly found that firm performance declines due to LOF hazards, i.e., unfamiliarity, relational, discrimination, distance and institutional hazards (see the review of Denk et al., 2012). The decrease in firm performance is directly related to the additional costs that foreign firms incur due to various LOF-related hazards. The additional costs are those that are emerge due to spatial distance, institutional environment, travel, transportation and coordination across time zones. Foreign firms may also incur additional expenses to build legitimacy and overcome their unfamiliarity with the foreign environment, and may affect the firms' performance (Mezias, 2002a; Sethi & Guisinger, 2002; Zaheer, 1995).

Consistent with the above-discussed literature that LOF is detrimental to firms' international performance, the study proposes that LOF decreases the international performance of emerging market SMEs. Accordingly, the next hypothesis is:

<u>*Hypothesis 5:*</u>	*Liabilities of foreignness are negatively related to international performance for SMEs.*

3.9 The Influence of Inter-state Experiences

In large economies, the culture, local institutions, and economic conditions can vary drastically within the country (Liu, Lu, & Chizema, 2014; Ma et al., 2013; Meyer & Nguyen, 2005; Monaghan et al., 2014; Shi et al., 2012; Shi, Sun, Yan, & Zhu, 2017; Zhou et al., 2002). This is especially pertinent in large emerging economies (e.g., BRICs), whose overarching institutions may be less effective. Past studies have found that the subnational variations within the country play a key role in firms' international business activities. The subnational regions of a country can vary in terms of culture (Beugelsdijk & Mudambi, 2014), institutions (Castellani, Giangaspero, & Zanfei, 2014), and geographic characteristics (Dellestrand & Kappen, 2012; Goerzen, Asmussen, & Nielsen, 2013; Lee & Tan, 2015; Meyer & Nguyen, 2005; Sun, Peng, Lee & Tan, 2015). By conducting business in subnational regions with different characteristics, firms are able to gain knowledge and experience in dealing with various challenges. Variations across subnational regions can be observed in countries such as India, China, Canada, and the USA, where states and provinces are sometimes large as entire countries, in terms of surface and population (Hutzschenreuter et al., 2020). The sub-national distinctions within a country can create challenges and opportunities for firms to learn, through conducting business in different environments without internationalizing (Chan, Makino, & Isobe, 2010; Li & Sun, 2017).

Within subnational areas, local cultures may also differ substantially from the national culture. For instance, studies have suggested that, in countries where subnational regions differ, local traditions and dialects – or even distinct languages – influence firms' behavior and business practices (Beugelsdijk & Mudambi, 2013; Beugelsdijk et al., 2014). In addition to subnational cultural variations, researchers have found that institutional conditions can also vary within a country even though, in principle, there is a unified political and economic system (Beugelsdijk & Mudambi, 2013; Bu & Wagner, 2016; Chan et al., 2010; Li & Sun, 2017; Ma, Tong & Fitza, 2013; Meyer & Nguyen, 2005). Although subnational institutional differences exist in developed western economies, the institutional differences in countries such as China and India are particularly salient (Chan et al., 2010; Lau et al., 2002) and qualitatively distinctive (Shenkar & Glinow, 1994; Zhang et al., 2017). For example, in India, the central government designates considerable autonomy to each of the country's 28 states, enabling state-level leaders to set rules, regulations, and policies suitable for their public and region. Due to institutional variations, some state governments may be open and more supportive towards foreign investments (Zhou, Delios, & Yang, 2002), while others may be far less open because they have the power to maintain control over local resources and protect domestic firms (Ma & Delios, 2010). State-level differences can result in administrative decentralization, i.e., when regional authorities have the right to set certain laws (e.g., in the USA) or interpret and decide how to implement national-level rules and policies (Chan et al., 2010; Meyer & Nguyen, 2005). As examples, the existence of several special economic zones in Chinese provinces and Indian states, and differences in taxation laws between US states, represent institutional subnational variations. When state- and national-level policies differ substantially, firms have to cope with different – and potentially challenging – regulatory environments (Chidlow et al., 2009; Mataloni, 2011).

With limited research on subnational institutional complexities, there have been recent efforts toward understanding institutional frameworks at subnational levels such as state, region, and city (Brouthers, 2002; Busenitz et al., 2000; Zhang et al., 2017). It is important to recognize that there may be institutional divergence among subnational geo-economic and political areas within the same nation (Zhang et al., 2017). Therefore, recent studies have encouraged researchers to conduct more fine-grained analyses and investigate the effects of within-country differences (e.g., Chan et al., 2010; Ma et al., 2013).

Among the limited work pertaining to subnational regions (Zhang et al., 2017), few studies have examined the influence on firm performance. Nguyen et al. (2013) considered Vietnamese SMEs' export strategies and performance, and found that subnational institutional factors were influential. Other studies have discussed how subnational institutional conditions in emerging economies affect firms' financial performance (Chan et al., 2010; Lu & Ma, 2008; Ma & Delios, 2007). Though within-country differences can create challenges, uneven economic development, culturally and ethnically diverse regions and varying institutional rules present unique prospects for domestic firms to learn from the home market's subnational complexities (Chan et al., 2010). The intricacies of the subnational environment, such as differences in the business practices, institutional environment, economic conditions, politics, infrastructure, education, and cultural environment (Beugelsdijk & Mudambi, 2013; Beugelsdijk et al., 2014; Hutzschenreuter et al., 2020), allow firms originating from such nations to develop unique capabilities with respect to operating effectively in different environments (Cuervo-Cazurra et al., 2007; Hutzschenreuter et al., 2020), potentially offering learning opportunities that will be applicable in other national markets.

In line with the existing literature, the findings from the interviews conducted for this study indicated that Indian SMEs faced intra-country liabilities because of subnational level differences (see Chapter 5). In fact, some interviewees reported that they experienced more challenges within India than in foreign markets. Additionally, some interviewees highlighted that managing the complexities of doing business in various Indian states helped them to cope with foreign market challenges. So far, there are no studies examining how firms' subnational experiences can help to mitigate LOF; this study is the first to examine the influence of inter-state experiences on SMEs' LOF mitigation approaches and international performance. Based on the interview findings and the general discussion around subnational variations, the conceptual model incorporates the intermediating role of SMEs' intra-country experiences on the hypothesized relationships.

3.10 International Performance

International performance is adopted as the second dependent variable in the study. As outlined in Chapter 2, several studies have discussed the relationship between small firms' internationalization and performance (Kuivalainen et al., 2007; McDougall & Oviatt, 1996; Oviatt & McDougall, 1994; Zahra, Ireland, & Hitt, 2000). Some of them focused on issues such as firm size (Fritsch & Meschede, 2001; Moreno & Casillas, 2007) and social capital resources (Stam, Arzlanian, & Elfring, 2014), while others focus on SME behavior such as entrepreneurial orientation (Hult, Hurley, & Knight, 2004; Lumpkin & Dess, 1996), and R&D activities (Becheikh, Landry, & Amara, 2006; Raymond & St-Pierre, 2010). Studies have also examined the broader determinants of SMEs' performance (Jiang et al., 2020). For instance, researchers have noted differences in SMEs' performance due to elements such as environmental conditions (industry, institutions and macro environment), strategies, social capital, and organizational resources; however, firms' performance is inhibited due to aspect of LOF (e.g., uncertainty, distance, discrimination, institutional hazards) has received limited attention (Denk et al., 2012).

The assumption that foreign firms incur costs over and above those of local incumbents was supported by Zaheer (1995) and Mezias (2002a; 2002b), which provided evidence of the existence of LOF as an inhibitor of MNE performance. Miller & Richards (2002) also highlight the link between the performance of foreign firms from the European Union (EU) region and the LOF that they experienced within the regional economic group. Elango (2009), measuring firms performance using return on assets (ROA), found that foreign firms underperformed more than domestic firms; however, obtaining business group affiliations tended to enhance their performance. Other studies have also indicated that foreign firms' performance is lower due to lack of legitimacy and knowledge, discrimination and institutional distance (Denk et al., 2012). Research investigating the effects of LOF on foreign firms has used various performance measures such as profit growth, return on sales, and return on assets (e.g., Miller & Eden, 2006). However, most of the studies examine LOF and its effect on the performance of large firms. As such, the literature lacks substantial research highlighting the impact of LOF on the performance of smaller ventures.

There is considerable heterogeneity in the performance measures employed to examine SMEs (Pangarkar, 2008). Measuring the performance of SMEs can be complex, as most of the measurements were designed for large firms, and there are fewer constructs available to that are appropriate for SMEs. Furthermore, obtaining performance-related information from SMEs can be challenging; SMEs tend to be privately held, lack historical records, and may be especially reluctant to provide actual performance data (Barnes et al., 1998). In addition to the accessibility issues, performance data, if obtained, can be inaccurate. Some SMEs, especially in emerging markets, have record-keeping approaches that lead to uneven and casual (Sapienza & Grimm, 1997) and less-structured approaches to measuring performance, relative to large MNEs, can be challenging for researchers (Barnes et al., 1998). As a result, even if a researcher manages to collect data on the performance of SMEs, the inadequacies in the recorded data may result in misleading conclusions.

Broadly, there are two approaches to measuring firms' performance: subjective and objective (e.g., Cavusgil & Zou, 1994; Katsikeas, Leonidou, & Morgan, 2000). Although it would be preferable to employ both types, as a cautionary note, researchers (e.g., Covin et al., 1990; Dess & Robinson, 1984; Gupta & Govindarajan, 1984) suggest that subjective performance measures can be appropriate when objective financial data are unavailable, such as while considering SMEs' performance (Jantunen et al., 2008). Studies examining smaller firms have mainly used subjective performance measures (e.g., Gupta & Batra, 2016; Knight & Cavusgil, 2004; Lu & Beamish, 2006; Pangarkar, 2008). Another rationale for the use of subjective performance measures is that the managerial evaluation of firm performance is often guided more by subjective perceptions than objective measurements (Madsen, 1989).

The literature has suggested the use of non-financial subjective performance measures to provide important information about how managers judge their firms' successes and failures (Brouthers, 2002). Such measures can provide valuable information about managerial satisfaction with the firm's success relative to its competitors, as perceived by the respondent (Styles, 1998). Considering the importance of subjective measures to reflect SMEs' performance, this study adopts perceptual financial measures, consistent with key IE research (e.g., Covin et al., 1990; Knight & Cavusgil, 2004; Crick, 2009). Additionally, following Styles's (1998) approach, the study incorporates perceived success (non-financial) to provide a more holistic assessment of performance. Further information on the international performance measures employed in the study is outlined in the next chapter.

3.11 Chapter Summary

This chapter described the conceptual model for the study, created by building on the resource-based view, the knowledge-based view, institutional theory and the network perspective. Five main research hypotheses are developed based on several literature strands: strategic management, international entrepreneurship, and international business. The conceptual model incorporates constructs such as foreign market knowledge, technological capabilities, distributors' capabilities, foreign institutional support, personal networks and external networks. Moreover, it includes liabilities of foreignness and international performance as the outcomes. The model also incorporates intra-country experiences attained by the SMEs as an intermediate factor for each of the hypothesized relationships. Table 3.1 provides a summary of the hypotheses. The next chapter outlines the research methodology employed to test the hypotheses.

Table 3.1: Summary of Hypotheses

Hypothesis No.	Input	Output	Expected sign
H1	Foreign market knowledge	LOF	**-**
H2a	Technological capabilities	LOF	**-**
H2b	Distributors' capabilities	LOF	**-**
H3	Foreign institutional support	LOF	**-**
H4a	Personal networks	LOF	**-**
H4b	External networks	LOF	**-**
H5	Liability of foreignness	International performance	**-**

CHAPTER 4

RESEARCH METHODOLOGY

This chapter covers the methodology employed in the study. It discusses the research paradigm, and the rationale for using a mixed methods approach. The study's qualitative and quantitative components are described, including, for the latter, the research instruments, the sample selection, and measurements of the dependent and independent variables. In addition, the chapter outlines the statistical approach used for testing the hypotheses and addressing the research questions.

4.1 Research Paradigm

Choosing an appropriate paradigm is an important step for scientific research because it can provide basic foundations for the research design (Creswell, 2009). According to Guba & Lincoln (1994), “a paradigm is a basic belief system or set of assumptions that can provide a conceptual guideline to the researcher but cannot be proved or disproved” (p.105). Guba (1990) suggests that all existing paradigms are characterized by their ontological, epistemological and methodological assumptions. Ontology refers to the ways of constructing reality, and it is a theory about the nature of being and existence (Given, 2008). The general aim of ontology is to provide reasoned and deductive explanations Given, 2008). Epistemology refers to the theory of knowledge and is related to the question of what is (or should be) regarded as acceptable knowledge in a discipline (Bryman & Bell, 2007). If “ontology explores the nature of social reality such as what kinds of things can be said to exist, and in what ways, then epistemology explores how we know that we know something” (Miller, 2003, p.33). Broadly, there are two main paradigms that are generally adopted in business research: positivist and interpretivist (Barker, Nancarrow, & Spackman, 2001).

Positivism is defined as “a family of philosophies characterized by an extremely positive evaluation of science and scientific method” (Lincoln & Guba, 1985, p. 19). The positivist approach evolves from the natural sciences and is applied to study social reality. The core of the positivist paradigm is the interrelationship of cause and effect. The positivist paradigm is based on five principles (Bryman & Bell, 2007). According to the first principle, only the phenomena that are confirmed by the senses can genuinely be considered as knowledge (i.e., the principle of phenomenalism). The second principle states that the purpose of the research is to generate theories that can be tested (i.e., the principle of deductivism). The third principle considers only the knowledge that comes from gathering the facts that provide the basis of law (i.e., the principle of inductivism). The fourth norm states that the science must be conducted in a way that is value-free (i.e., objective). Lastly, the fifth principle postulates that there is a clear distinction between scientific and normative statements. Therefore, in a positivist approach, there is an assumption of an objective, social reality, and the researcher is to be independent of the subject of the research (Houghton, 2008; Remenyi, Williams, Money & Swartz, 1998). Positivism considers replicated findings as ‘true’ (Guba & Lincoln, 1994).

A post-positivist approach is related to the positivist view that there is an assumption about objective reality. However, the reality can never be fully understood, only approximated, according to the post-positivist perspective (Denzin & Lincoln, 2005). Reality is viewed as imperfectly reachable due to the flawed human intellectual mechanisms and the intractable nature of the phenomenon (Guba & Lincoln, 1994). As such, post-positivism postulates that our understanding of reality is constructed, and that research is influenced by the values of the investigators (Tashakkori & Teddlie, 1998). As per this perspective, the replicated findings are 'probably true' (Guba & Lincoln, 1994). Therefore, most quantitative research in IB is inherently based on the post-positivist paradigm.

In contrast, the interpretivist approach is the basis of qualitative research methods (Tashakkori & Teddlie, 1998). It argues that the methods of natural sciences cannot be applied directly to the social world. In this perspective, the subject of social sciences (i.e., people and their institutions) is seen as fundamentally different from that of the natural sciences (Bryman & Bell, 2007). Unlike the positivist approach, which focuses on the assumption of a single, objective reality, the interpretivist perspective focuses on subjective consciousness, which implies that the world consists of multiple realities. Each reality is unique and depends on the situations and individuals involved. The world is socially constructed for an interpretivist (Remenyi et al., 1998). In this perspective, the researcher is not independent of the subject of research but interacts with it and is an intrinsic part of it (Creswell, 1994; Guba & Lincoln, 1994). Therefore, this paradigm emphasizes understanding human behavior rather than explaining it (Bryman & Bell, 2007).

4.2 Research Approach Adopted for this Study

In this study, a sequential mixed methods research design is adopted: qualitative followed by quantitative. This is consistent with the post-positivist paradigm on the basis that it reflects "the common understandings regarding both the "nature of reality" and the conduct of social and behavioral research in the second half of the twentieth century" (Tashakkori & Teddlie, 1998, p. 8). The qualitative research complements the quantitative research component, in order to provide deeper insights on the LOF encountered by SMEs, firms' approaches to mitigating LOF, and the effect of LOF on the international performance of the SMEs. There are several definitions and insights offered by scholars on mixed methods design. For instance, Green, Caracelli and Graham (1989) defined mixed methods as those studies "that include at least one quantitative method (designed to collect numbers) and one qualitative method (designed to collect words), where neither type of method is inherently linked to any particular inquiry paradigm" (p. 256). According to Teddlie and Tashakkori (2003), mixed-method research studies "use qualitative and quantitative data collection and analysis techniques in either parallel or sequential phases" (p. 11). Moreover, Johnson, Onwuegbuzie, and Turner (2007) combined 19 definitions to describe mixed methods from leading scholars and provided the following view:

> Mixed methods research is the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration. (p. 123)

Mixed methods research design is particularly appropriate in the international entrepreneurship literature, and many studies address the international business part with the quantitative element and the entrepreneurship part with the qualitative component (Hohenthal, 2006). As such, IE studies have been using mixed methods approach to examine small entrepreneurial firms (Loane & Bell, 2006; Knight & Cavusgil, 2004). However, mixed methods have been scarcely employed in the LOF literature, especially studying emerging market SMEs (An et al., 2022). Therefore, this study uses a sequential mixed methods approach as proposed by Tashakkori and Teddlie (1998).

The main purpose of the sequential mixed methods design in this thesis is development and initiation (Greene et al., 1989). According to Green et al. (1989), development denotes using the results from one method to inform the other method, to increase the validity of the constructs and inquiry results. On the other hand, initiation pursues the discovery of new perspectives or frameworks by using results from one method and combination those of the other method to increase the breadth and depth of results and interpretations (Greene et al., 1989). Specifically, this study implements a sequential mixed methods research design, in which exploratory interviews inform the development of the survey instrument used to collect data for the quantitative analysis.

The exploratory interviews provided rich and detailed information that was used to enhance the conceptual model and constructs, and to inform the development of the survey instrument. This ensured that the survey questions were grounded in both theory and the experiences and perspectives of Indian SMEs. As operationalization of LOF was one of the goals of this thesis, the mixed methods design was particularly invaluable for developing the measurement of a previously abstract construct. Moreover, by combining the qualitative and quantitative approaches, the study was able to identify and operationalize the intra-country liabilities faced by SMEs in India due to subnational variation, along with the effect on SMEs' approaches to mitigating LOF and the effect on their international performance. The qualitative/quantitative sequencing is relatively common in mixed methods designs; "in most quantitative survey research, the quantitative closed-ended instruments are developed after exploratory qualitative interviews have been analyzed" (Tashakkori & Teddlie, 1998; p. 47). By linking qualitative interviews and quantitative analysis of survey data, the goal is to offer a rich and in-depth understanding of the phenomenon that is being examined in the thesis. In the following sections, the qualitative and quantitative research components are discussed in detail.

4.3 Qualitative Component

For the qualitative section of the thesis, an in-depth interview approach is used. Interviews are the dominant form of qualitative methods in international business (Piekkari & Welch, 2004; Andersen & Skaates, 2004). Research methods scholars have suggested that interviews are commonly the primary data source in qualitative research as they can provide rich and empirical information about a phenomenon (Eisenhardt & Graebner, 2007). There are three main purposes of conducting interviews: (1) to obtain a deep understanding of the phenomenon at hand, (2) to inform and develop the survey instrument (e.g., to operationalize LOF and the model constructs), and (3) to seek initial confirmation of the conceptual model (Piekkari & Welch, 2004). The validity of the constructs is expected to increase through the utilization of interviews followed by a survey study (Edmondson & McManus, 2007).

4.3.1 Participant Selection for Qualitative Component

The process for selecting participants in qualitative research is usually theoretical, rather than statistically driven (Eisenhardt, 1989). Qualitative studies tend to use a purposive sampling approach, as random sampling may reduce the logic and coherence that are characteristic of social processes to "uninterpretable sawdust" (Miles & Huberman, 1994, p. 27). Based on this line of thought, the thesis adopts a purposeful sampling approach. The main criteria for selecting SMEs for the interview included being an independently owned Indian SME and having international activities (e.g., exporting, FDI). The SMEs were selected that differ with respect to industry sector (e.g., manufacturing, IT, pharmaceuticals), size, foreign market selection and operation, to provide variation for the analysis. An extensive internet search was carried out to find the details of applicable SMEs. This involved searching for internationally active SMEs listed on the Bombay Stock Exchange's junior trading market, searching the websites of the Ministry of Micro Small and Medium Enterprise (MSME) and export promotion councils, along with company's websites. The SMEs were contacted initially via email, outlining the purpose and objectives of the research (see Appendix B for a copy of the invitation email for the interviews). This was followed up by phone calls where arrangements of the interviews, such as time and location, were confirmed. In the state of Maharashtra, 14 SMEs were interviewed, along with one SME from Gujarat. In total, 15 internationally active SMEs were interviewed, which was considered sufficient as saturation of answers was perceived as the interviews progressed (Glaser & Strauss, 1967). This is consistent with studies that proposed the use of approximately of six to 12 interviews as samples (Guest, Bunce, & Johnson, 2004; Kuzel, 1992). All internationally active SMEs from adjoining states in India were relatively homogeneous. A detailed profile of the interviewed companies is provided in Chapter 5.

4.3.2 Data Collection

The data for the qualitative component of the thesis were collected via semi-structured, in-depth interviews. The interviews were conducted with either CEOs, owners, founders, or export managers of SMEs, because they are likely to be able to provide extensive and accurate information about their firms' international activities. The discussions during the interviews were mainly centered on the topics of the SMEs' international activities, challenges encountered in international markets, previous knowledge and experiences, and their approaches to overcoming the challenges encountered in foreign markets. Additionally, the interviewees were asked about how they measured and assessed the international performance of their firm. Their views were helpful for understanding different performance measures used by practitioners, compared to academics (Matthyssens & Pauwels, 1996). A semi-structured interviewing approach was chosen to enable to flexibility to understand the SMEs' experiences in international markets and address the research questions. This method enables comparison across different firms, which is appropriate for categorizing and analyzing the interview discussions (Morse, 2005).

The interviews were conducted either via phone or face-to-face at the firms' premises. The primary reasons for conducting some of the interviews by phone included budget constraints regarding to travel to India and the interviewees' limited availability for in-person interviews. Each interview lasted for approximately one hour, apart from one interview that lasted for about three hours. Before commencing each interview, the interviewee completed a consent form indicating their agreement to participate in the study, according to the standards of the University of Leeds Ethics Committee. The consent form emphasized that the participation was voluntary and assured the confidentiality of all of the interview data. A copy of the invitation email and an example of the participant's consent form can be found in Appendices B and C, respectively. Appendix D outlines the interview protocol for the interviews. However, the interview guide does not include questions that arose in the course of the interviews, which were asked by the interviewer as and when appropriate.

4.3.3 Data Analysis

For data analysis in qualitative research, there are generally three activities: data reduction, data display and conclusion verification (Miles & Huberman, 1994). These three interactive and interrelated activities form a continuous and iterative process (Miles & Huberman, 1994).

All of the interviews (either conducted face-to-face or on the telephone) were audio-recorded and then transcribed on NVivo. Later, the transcribed interviews were analyzed using NVivo (Version 12) software. It is often recommended in the literature that computer-assisted qualitative data analysis (CAQDAS) be employed, due to its usefulness in providing rigor and validity, which is difficult with manual methods (Lindsay, 2004). NVivo is an efficient software application for performing advanced qualitative analysis and has been widely used by qualitative researchers (Bazeley, 2007). As suggested by Miles and Huberman (1994), the interview transcripts were thoroughly inspected, and evolving patterns and themes were identified to draw conclusions. The research design for the qualitative component involved pre-conceptualization of the issues developed from the literature review and the conceptual model outlined in Chapters 2 and 3, respectively (Miles & Huberman, 1994). According to Sinkovics, Penz and Ghauri (2008), this method is termed as '*a-priori* categorization'. As part of the data analysis, the coding process included *a-priori* categorization with an open coding process that allowed for the inclusion of emerging new themes (Sinkovics et al., 2008). In summary, descriptive and subsequent pattern coding was used in the course of the interview data analysis (Miles & Huberman, 1994).

4.4 Quantitative Component

For the quantitative part of the thesis, the data were collected via a web-based survey instrument. The rationale for choosing a web-based questionnaire; the sample selection criteria; the process of survey development, pre-testing and administration; and the measurement of the variables used in the survey are described in the following sections. Additionally, the statistical analyses used for testing the hypotheses and addressing the research questions are presented in the next sections.

4.4.1 Research Instrument

The electronic-based survey has become increasingly important and popular (Couper, 2000). It allows the researcher to send the questionnaire to many potential respondents at a dramatically lower cost than paper-based surveys (Couper, 2000). Web-based surveys are also easy to design, and self-administer (Dillman, 2000). Electronic survey methods can be differentiated into email and web-based surveys (Sue & Ritter, 2007). Surveys sent through email can be either in the body of the email or attached as a document for the participant to complete. The advantages of email-based surveys include speedy delivery, low cost and, often, fast responses. One major drawback is that anonymity can be compromised, as there are often ways to identify the respondent, which can negatively affect response rates (Sue & Ritter, 2007). However, recent software applications such as Qualtrics have introduced features that assure anonymity of the respondents. In a web-based survey, the respondents are directed to a website, and the survey is stored on the network's server. By using the features offered by web-based platforms, the email address of the respondent remains hidden. Thus, the benefits of web-based surveys can be very similar to email surveys (Jansen, Corley, & Jansen, 2007). Table 4.1 provides an overview of the advantages and disadvantages of the web-based survey compared to postal questionnaires.

Table 4.1: Benefits and Drawbacks of Web-based Surveys Compared to Postal Questionnaires

Advantages of web-based survey compared to postal survey	Disadvantages of web-based survey compared to postal survey
Lower costs (Dixon & Turner, 2007) • No printing of survey required • No postage costs • Overcome international boundaries as barriers to conduct surveys (Dillman, 2000)	Appearance (Dillman, 2000) • Survey may appear differently for different respondents due to dissimilar monitor size, web-browser and operating system (e.g., Windows or Mac)
Design (Griffis et al., 2003) • More options to choose layout and colors • Feature to skip or jump questions • Survey design can be interactive	Spam trapping (Dixon & Turner, 2007) • Survey invitation may be seen or marked as spam email
Administration of survey (Sue & Ritter, 2007) • Easier to administer (e.g., tracking of response rates, sending reminders) • Reduces manual data entry errors	Technology issues (Jansen et al., 2007) • Server crashes, weak internet connections
Speed of delivery and response (Kwak & Radler, 2002) • Quicker delivery and turn around response time	

As seen in the above table, there are numerous advantages of the web-based survey. This thesis uses a web-based questionnaire as the research instrument. Of particular concern was the fact that web-based surveys allow of the researcher cost-effective access to a broader geographic range. It is expected that most managers of internationally active SMEs are familiar with the internet and are relatively technology savvy, meaning that the delivery system should not have been a barrier to participation. In the following sections, the development and administration of the survey are described.

4.4.2 Research Sample

As noted in Chapter 2, different countries have different criteria for defining an SME. This study adopts the definition provided by the Indian Ministry of Micro, Small and Medium Enterprises (see Table 2.3) as the basis for the research sample. The Indian institutional body defines micro, small and medium-sized enterprises based on their annual turnover and level of investment. Therefore, the study follows this definition to filter and narrow the research sample and exclude large-sized firms. Next, only those firms that originated in India were selected for this study. The last criterion involved including only internationally active SMEs (e.g., exporting, FDI, etc.).

In order to provide richer perspectives and gather a more holistic understanding of the issues, the firms that received the invitation to complete the survey varied across industries (e.g., information technology, pharmaceuticals, fast moving consumer goods (FMCG)). As accessing the contacts of the SMEs can be especially challenging in India due to unsystematic and outdated records, the study used several sources to gather the contacts (email addresses) of the MSMEs. This included the directory of Agricultural & Processed Food Products Export Development Authority (APEDA), Marine Products Export Development Authority (MPEDA) and Bombay Stock Exchange's (BSE) junior trading market for SMEs. Additionally, contacts of SMEs were retrieved from the websites of the Ministry of MSME, SME Chambers of Commerce (Mumbai) and Pharmaceutical Export Promotion Council. Moreover, additional contacts were obtained by using the researcher's personal networks (e.g., friends and families).

4.4.3 Questionnaire Development and Pre-testing

The survey instrument was developed to collect primary data on liabilities of foreignness, its effect on international performance, and the approaches used by SMEs to tackle LOF. As the exploratory interviews indicated that firms faced intra-country liabilities, the questionnaire asked respondents to indicate the challenges that they faced within their home state and in other Indian states, in addition to those encountered outside of India. Thus, each question displayed three columns (i.e., within the firm's home state, other Indian states, and outside of India), allowing the respondents to provide their responses concisely. Please see Appendix F for the survey design and format.

To create a web-based survey instrument, Qualtrics software was chosen. Qualtrics software is widely used by universities, corporates, and governments worldwide (Qualtrics, 2020), and the University of Leeds holds a license for the software. The questionnaire consisted of several sections, to address the hypotheses outlined in Chapter 3. Most of the questions used seven-point Likert scales, which are commonly employed in social science and international business research (Cavana, Delahaye, & Sekaran, 2001). The layout and design of the survey followed the principles outlined by Dillman (2000). For instance, the questionnaire included page breaks where appropriate to optimize the number of questions per screen without the need for scrolling, and other features such as adding skip options for non-applicable questions (Toepoel, Das, & Van Soest, 2009). The questionnaire also included a survey progress bar for respondents and provided options to move forward and backward between the questions, consistent with design for an effective web-based survey (Lumsden, 2007).

Before sending out the survey instrument on a large scale, it was pre-tested, which is an essential part of survey development. This can serve different purposes, such as validity assessment, evaluating any errors with the survey, and learning about the understandability of the questions by potential respondents (Dillman, 2000). The survey instrument was first checked thoroughly by the author and the supervisors. After this, it was pre-tested with 10 managers of internationally active Indian SMEs. The resulting feedback and suggestions were incorporated, in the form of minor amendments to wording, item options, and order of the questions.

4.4.4 Questionnaire Administration

A total of 32,342[3] Indian firms were invited to participate in the survey, via invitation emails containing the link to access the web-based survey (see Appendix E). The email described the purpose of the study and explained that all of the responses would be strictly anonymous and treated in confidence. As an incentive to complete the survey, the respondents were offered a summary report of the findings. Dillman (2000) argued that, absent follow-up contacts or reminders, survey responses are generally 20-40% lower. To avoid this, personalized emails were sent 15 days after the initial contact. The follow-up email re-iterated the information from the first email and contained the survey link. In order to increase the survey response, several

[3] These were a mix of micro, small, medium and large firms. Appropriate filter questions were used to exclude survey responses from large firms.

reminders were sent to the firms. The reminder emails also thanked those who had responded and completed the survey.

Appendix F contains a copy of the web-based survey instrument. Appendices G and H contain copies of the reminder emails sent to the respondents. The detailed measurement of the constructs is outlined in the next section.

4.4.5 Measurements of Constructs

The measures used to test the hypotheses highlighted in Chapter 3 were derived from previously validated measures found in the existing literature, wherever possible. The findings from the interviews were also incorporated into the measurement, thereby improving the criterion validity of the survey instrument. The interview findings revealed that SMEs encountered intra-country liabilities whilst operating in different Indian states, which were similar to the challenges that the firms encounter internationally. From the interviews, it was suggested that the SME's experience of dealing with intra-country liabilities was useful for tackling LOF. In order investigate this finding through the quantitative part of the thesis, the role of intra-country experiences was incorporated in the conceptual model (see Chapter 3).

In the survey, respondents were asked to indicate their experiences within their home state, in other Indian states and outside of India (please see Appendix F for the survey design) to understand the subnational-level and international challenges experienced by the SMEs. Tables 4.2 and 4.3 provide a detailed overview of the measurements of the constructs.

Table 4.2: Summary of Measurement for Explanatory Variables[4]

Construct	Measurement *(Adapted to capture subnational and international-level differences)*	Sources
Foreign market knowledge	20 items along 6 dimensions, 7-point Likert scales (Question 17) - Knowledge about customers (4 items) - Knowledge about competitors (2 items) - Knowledge of foreign normative environment (4 items) - Knowledge about the regulatory environment (4 items) - Knowledge about channels of distribution (4 items) - Knowledge about foreign business opportunities (2 items)	Musteen et al. (2014)
Technological capabilities	8 items, 7-point Likert scales (Question 18) **Technology/services are…** - Better than competitors. - Our competitive advantage. - The result of our heavy investment in research and development (R&D). - Difficult for other firms to copy. - Designed using complex and specialized assets. - Protected by patents, copyrights and/or trade secrecy. - Customized for local markets. - Acquired from other businesses.	Knight & Cavusgil, (2004), interviews
Distributors' capabilities	13 items, 7-point Likert scales (Question 23) - Setting prices - Selling - Advertising - After-sales service - Collecting market information - Liaising with local government - Cultivating business expansion - Product modification - Arranging international shipping - Arranging local shipping - Public relations - Technical support/training of customers - Translation (e.g., sales literature, usage instructions labelling	Knight & Cavusgil, (2004)
Foreign institutional support	6 items, 7-point Likert scales (Question 10) - Implemented policies and programs to support business operations. - Provided information to protect our business (e.g., patent laws, intellectual property rights).	Zhang et al. (2017), Malca et al. (2020), interviews

[4] Includes all items in the measurements that were incorporated before conducting exploratory factor analysis.

	- Provided information on applicable technologies or services. - Provided important market information. - Provided financial support. - Helped firms obtain licenses for import of technology, manufacturing and raw material, and other equipment.	
Personal networks	5 items, 7-point Likert scales (Question 13) - Family, relatives, and/or personal friends of key decision-makers - Past work colleagues and/or business contacts of key decision-makers. - Past and/or current business associates of the company. - Family, relatives and friends of company staff. - Past work colleagues and/or business contacts of company staff	Tang, 2011, interviews
External networks	6 items, 7-point Likert scales (Question 16) - Trade fairs - Industry associations - Ethnic and/or diaspora communities (Indian communities) - Government - Academic/research institutes - Professional institutes - Traditional media advertising (e.g., magazines, TV, radio) - Social media advertising (e.g., Facebook, LinkedIn, Twitter)	Tang, 2011, interviews

Table 4.3: Summary of Measurement for Dependent Variables

Construct	Measurement *(Adapted to capture subnational and international-level differences)*	Sources
Liabilities of foreignness[1]	11 items, 7-point Likert scales (Question 8) **Relative to the competitors in that location…** - Our firm incurs distance-related costs, including transportation, coordination and administration costs. - Our firm's networks and links with local actors – such as distributors, suppliers and customers – are less developed. - Our firm incurs higher costs for gathering location-specific information or knowledge. - Our firm incurs higher costs to build reputation and goodwill. - Our firm incurs challenges due to unfavorable or biased treatment by suppliers or distributors - Our firm incurs challenges due to unfavorable or biased treatment by local consumers. - Our firm incurs challenges due to unfavorable or biased treatment by local governments. - Our firm incurs higher costs due to different rules (e.g., laws, procedures). - Our firm incurs higher costs due to corruption. - Our firm incurs higher costs due to different views in the society (e.g., values, beliefs, norms, culture). - Our firm incurs higher costs due to the Indian government's restrictions related to international business (e.g., limitations on sales to certain countries).	Zaheer (1995, 1997, 2002), Kostova & Zaheer (1999), Calhoun (2002), Eden & Miller (2004), Hymer (1976), Qian, Li & Rugman (2013), interviews
International performance	9 items, 7-point Likert scales (Questions 28 and 29) - International sales - International sales growth - Cash flow - Return on shareholder equity - Gross profit margin from international operations - Net profit from international operations - International profit to sales ratio - Return on investment (ROI) from international business - Ability to fund business growth from international profits	Covin et al. (1990), Knight & Cavusgil (2004), Crick (2009)
Perceived success	1 item, 7-point Likert scale (Questions 30 and 31) - Success of main international business from a competitor's perspective	Styles (1998)

[1]The liability of foreignness construct was created by examining the key LOF literature. During the exploratory factor analysis, two LOF factors emerged, which were labelled as institution-related LOF and unfamiliarity-related LOF (see Table 4.5)

4.4.5.1 Measuring Independent Variables

The study includes independent or explanatory variables measuring constructs such as foreign market knowledge, organizational resources (technological and distributors capabilities), networks (personal and external networks), and the support that SMEs received from foreign institutions. In addition to these, the variables measuring liabilities of foreignness were developed mainly from the extant LOF literature and adapted after the interview findings. As depicted in the conceptual model, LOF is used for both dependent and independent variables. Initially, LOF represents the outcome, viewed as a function of foreign market knowledge, technological and distributors' capabilities, personal and external networks, and foreign institutional support. Later, LOF is treated as the input for the firm's international performance. All the variables used in the study are explained in the following sections.

4.4.5.1.1 Measuring Foreign Market Knowledge

The measures for foreign market knowledge are derived primarily from Musteen et al. (2014). Based on the literature (see Chapter 3) and the interview findings (see Chapter 5), the foreign market knowledge construct draws on managerial knowledge about foreign customers, competitors, normative and regulatory environment, distribution channels and business opportunities in foreign market. When CEO/founder/managers possess an extensive array of knowledge about foreign markets, it arguably gives them leverage to tackle uncertainties associated with foreign market operations (Petersen & Pedersen, 2002). The interviews also indicated that CEO/founder/managers' foreign market knowledge helped to offset many challenges that SMEs encountered overseas. Question 17 of the survey captures foreign market knowledge (Please refer to Appendix F).

4.4.5.1.2 Measuring Technological Capabilities

Technological capabilities have been operationalized in several ways (e.g., Chung & Yoon, 2020; Chrisman & Patel, 2012; Knight & Cavusgil (2004); Zahra et al., 2007; Zahra, 2020), including R&D investment, number of patents, and ability to innovate. Two of the most widely used measures of technological capabilities are from Knight and Cavusgil (2004) and Zahra et al. (2007). Supplemented by the interview findings, this study operationalizes technological capabilities based on Knight and Cavusgil (2004), on the basis that it is more grounded with respect to determining firms' technology position and innovativeness, relative to the Zahra et al. (2007) scale that focuses more on the strength of technological capabilities. Please refer to Question 18 of the survey (Appendix F) for the measurement items pertaining to technological capabilities.

4.4.5.1.3 Measuring Distributors' Capabilities

SMEs often have to rely on the capabilities of distributors as their facilitators, to overcome a range of host market complexities and enhance their performance abroad (Bowersox & Cooper, 1992; Knight & Cavusgil (2004); Rosson & Ford, 1982). The measures for distributors' capabilities are derived primarily by adapting scales from the commonly used and established operationalization by Knight and Cavusgil (2004), supplemented by the interview findings. The questions asked respondents to indicate the extent to which the functions offered by their distributors supported their business activities (e.g., various marketing-related functions, logistical arrangements, after-sales service, and related activities). Question 23 of the questionnaire is used to develop this construct (see Appendix F).

4.4.5.1.4 Measuring Foreign Institutional Support

A favorable institutional environment can assist foreign firms in overcoming liabilities related to market access, operations and information in foreign markets. The foreign institutional support construct is derived by drawing on and adapting scales from Zhang et al. (2017) and Malca et al. (2020). It includes dimensions related to government support, transparency, efficiency and simplified legal rules. Respondents were asked to express the extent of support they received based on the aforementioned dimensions. Question 10 in the survey is used to develop this construct (see Appendix F).

4.4.5.1.5 Measuring Personal Networks

There has been limited research examining how personal networks assist the internationalization of emerging market firms (Ghauri et al., 2003). Though resource-constrained SMEs often rely on personal networks to gather knowledge about foreign markets, studies to date have not fully understood the role of personal networks in mitigating LOF. Therefore, building on the limited number of studies that have demonstrated the usefulness of personal networks for emerging market small firms (e.g., Manolova et al., 2010; Li & Matlay, 2006; Ruzzier & Antoncic, 2007) and the interview findings, this study includes personal networks as potential mitigators for LOF. The scales for personal networks are based on the work of Tang (2011) and findings from the interviews. Respondents were asked to indicate how helpful the members of their personal networks (e.g., family, friends, past work colleagues) were in dealing with foreign business challenges. Question 13 of the questionnaire is used to operationalize this construct (see Appendix F).

4.4.5.1.6 Measuring External Networks

The role of external networks is incorporated in this study, due to their potential to provide knowledge and resources needed by firms in international markets and their implications for firms' LOF (Anderson & Sutherland; 2015; Johanson & Vahlne, 2015; Tang, 2011). Respondents were asked about the extent to which their firms received assistance from external networks, such as industry associations, ethnic diaspora, government, trade fairs, etc. The items for the external networks are derived from Tang (2011) and the findings from the interview. Please refer to Question 16 in the survey, which has been used to develop this construct (see Appendix F).

4.4.5.2 Measuring the Dependent Variables

The study incorporates two dependent variables. The first is the liability of foreignness, and the second is the firm's international performance.

4.4.5.2.1 Measuring Liability of Foreignness

As indicated in Chapters 2 and 3, despite the general agreement on the primary sources of LOF, identifying and measuring it is a daunting task (Mezias, 2002a). Over the years, studies have recommended that LOF should be measured by examining different costs incurred by foreign firms and comparing the performance of foreign and local firms through indicators such as efficiency (Miller & Parkhe, 2002), profitability, and survival. Studies have also suggested using non-monetary measures such as the incidence of lawsuits (Mezias, 2002b) and legitimacy indicators (Zaheer, 2002) to operationalize LOF. Furthermore, the literature recommends controlling for other liabilities such as newness, smallness, industry effects, along with potential advantages while examining the disadvantages emerging from foreignness (Zaheer, 2002; Mezias, 2002a). Although studies have identified the existence of LOF using profitability, performance and X-efficiency measures (Denk et al., 2012), scholars have not yet attempted to develop a holistic measure to operationalize the LOF construct (Zaheer, 2002).

Zaheer's (2002) commentary invited researchers to develop a measure for LOF to achieve a deeper understanding of what it really means to experience foreignness in an overseas environment. Although comparing the profits of domestic and foreign-owned firms is widely used and is considered acceptable to demonstrate that LOF exists, other LOF elements require attention and could offer fresh insights. For instance, the LOF construct can include measures that integrate the difficulties experienced by foreign firms due to distance, discrimination, unfamiliarity, lack of legitimacy, and characteristics of the host market environment (e.g., cognitive, normative, and regulatory aspects of its institutional context). Based on the extant literature that shaped the foundations of LOF, such as the works of Hymer (1976), Zaheer (1995, 2002), Zaheer and Mosakowski (1997), Kostova and Zaheer (1999), Calhoun (2002), Eden and Miller (2004), the study is amongst the first to develop a holistic LOF construct. In addition to these studies, this work relies on Qian, Li, and Rugman (2013) to develop the LOF construct. Their study operationalizes the liability of country foreignness and liability of regional foreignness constructs and works as a good reference to develop the LOF construct for this study. Moreover, the thesis draws on the findings from the exploratory interviews outlined in Chapter 5 to adapt the operationalization of LOF. The following section discusses how the extant literature and interview findings were used to develop the LOF measure.

Compared to former studies that identified the notion of foreignness was based on the costs of doing business abroad, (e.g., Zaheer, 1995; Zaheer & Mosakowski, 1997; Mezias, 1999, 2002a), studies after the release of a special issue of *Journal of International Management in* 2002, deeply investigated the sources of LOF (Denk et al., 2012). For instance, researchers more deeply examined the hazards related to spatial distance (e.g., travel, transportation and coordination over distance), discrimination (e.g., lack of legitimacy and economic ethnocentrism), and issues emerging from the home country environment (e.g., trade restrictions to certain countries) (Denk et al., 2012; Lu et al., 2021). Although these hazards may decrease over time (Zaheer & Mosakowski, 1997), they are not likely to entirely disappear (Miller & Richards, 2002; Qian et al., 2013). Given that foreign firms encounter these hazards, this study includes items reflecting the challenges due to distance, discrimination, lack of legitimacy, and home country environment. Please see Appendix F, Question 8 of the survey for the items.

Furthermore, foreign firms face subtle relational and structural costs, which are associated with developing a network position in the host country (Qian et al., 2013). Zaheer (2002) discusses the intentions in reframing the concept of cost of doing business abroad as liabilities of foreignness. Primarily, the idea was "…to focus the attention away from market-driven costs that dominate the discussion of CDBA…to the subtler structural/relational and institutional costs of doing business abroad." (p.351). Developing networks in foreign markets provides benefits such as access to crucial insider information, and enables foreign firms to overcome the outsider status in unfamiliar foreign markets (Johanson & Vahlne, 2015; Almodovar & Rugman, 2015). However, foreign firms with less developed networks can have poor access to important local information and thus increased LOF in foreign markets (Qian et al., 2013). Therefore, an item asking the respondents about their network ties was added to the LOF construct (see Appendix F, Question 8 of the survey).

Foreign firms also tend to experience challenges due to the institutional environment of the host country. The institutional liabilities emerge from the cognitive (comprising shared beliefs, heuristics, identities, and mental models), normative (consisting of informal values, standards, and codes of conduct that guide behavior), and regulatory (including formal regulations, such as laws and constitutions) differences between the countries (Bell et al., 2012; Denk et al., 2012; Zaheer, 2002), due to which firms incur additional disadvantages (Eden & Miller, 2001, 2004; Petersen & Pedersen, 2002; Zaheer, 1995). The institutional challenges emerge from not only the host market but also the home market. It was noted by Zaheer (1995) that the home country environment could also impose institutional challenges on firms' overseas operations. Therefore, while operationalizing LOF construct, it was crucial to include the institutional factors (emerging from the host or home market) that can inflict challenges on SMEs operating internationally (please see Appendix F, Question 8 of the survey).

Besides disadvantages emerging from institutions, foreign firms encounter problems due to unfamiliarity with the foreign environment. The literature argues that foreign firms that lack understanding and adequate information about the host market will incur additional costs to gather knowledge and lessen unfamiliarity hazards (Denk et al., 2012). Moreover, as the host market might not be familiar with the foreign firms, these firms may have to incur additional costs to build reputation and goodwill in foreign markets (Eden & Miller, 2004; Kostova & Zaheer, 1999; Wu & Salomon, 2017; Newenham-Kahindi & Stevens, 2018). Given the challenges emerging due to unfamiliarity hazards, the LOF construct included items that asked respondents if the firm incurred costs to gather location-specific information and build reputation and goodwill (please see Appendix F, Question 8 of the survey).

4.4.5.2.2 Measuring International Performance

The second dependent variable employed in the thesis is international performance. As described in Chapter 2, firms' performance can be measured using subjective and objective indicators (Hult et al., 2008). Although it can be ideal to employ both types of indicators to measure firms' performance, a researcher may find difficulties gathering data on the objective performance of small firms. Sapienza et al. (1988) argued that:

> It is quite common for owner/entrepreneurs to refuse to provide objective and actual measures of organizational performance to researchers. Furthermore, often when such data are made available, they are not representative of the firm's actual performance, as many owner/entrepreneurs for a variety of reasons report manipulated performance outcomes (e.g., profits). (p. 46)

As noted in Chapter 5, the availability of public data, such as annual reports, is often not available for SMEs (Robertson & Chetty, 2000). Traditional financial measures to evaluate emerging market SMEs' performance may be difficult to obtain due to uneven and casual record-keeping approach (Sapienza & Grimm, 1997). In addition to the accessibility issue, performance-related information, if obtained, can be inaccurate and outdated, which can provide misleading conclusions. Especially for start-up enterprises, the information available can be variable year-on-year. Furthermore, as small firms focus on day-to-day operations, they are less likely to have a structured approach to measure their financial performance (Barnes, Coulton, et al. 1998). Thus, many studies examining small firms adopt subjective performance measures (e.g., Pangarkar, 2008; Lu & Beamish, 2006; Knight & Cavusgil, 2004). In line with the literature examining small firms, this study uses subjective performance measures (financial and non-financial). The perceived financial performance and perceived success (non-financial) are used as indicators of SMEs' international performance.

The perceived financial performance construct originates from Covin et al. (1990), which they adapted from Gupta and Govindarajan (1984). It incorporates various subjective performance indicators (e.g., sales, net profit) and assesses SMEs' perceived performance relative to their competitors. Similarly, the perceived success construct from Styles' (1998) work is used to measure the success of the SMEs. The rationale for using these two subjective measures for performance is to provide a more differentiated analysis while investigating the relationship between LOF and international performance. Therefore, the study also draws on the extant literature and exploratory interview findings outlined in Chapter 5 to develop the performance measures.

Employing both financial and non-financial measures provides insights into the firms' international performance (Hult et al., 2008). The perceived financial measures include the degree of satisfaction with the firm's international sales, sales growth, cash flow, return on shareholder equity, gross profit margin, net profit, profit-to-sales ratio, return on investment (ROI), and ability to fund business growth from international profits (Covin et al., 1990; Knight & Cavusgil, 2004, Crick; 2009). Respondents were asked to evaluate the extent to which they were satisfied with their firm's international business performance, based on each indicator and relative to their competitors, during the most recent five years. The subjective non-financial measures of performance provide important information about how managers judge the success and failure of the firm (Brouthers, 2002). The study incorporates a perceived success measure to evaluate the success of the firm's international business during the past five years relative to their competitors (Styles, 1998). If SMEs internationalized recently or had been operating internationally for fewer than five years, then respondents were asked to evaluate the performance and the success of their firm's international business up to the present.

In line with other studies, this study used a five-year timeframe to examine SMEs' performance (e.g., Cavusgil & Zou, 1994; Thirkell & Dau, 1998) to provide insights on the effect of LOF on the recent performance of the SMEs while avoiding recent ups or downs. Other common timeframes adopted in the literature include the previous one to three years (e.g., Knight & Cavusgil, 2004), which is mainly used while examining born globals or rapidly internationalizing ventures. Furthermore, the frame of reference against which the international performance measures are related is based on the company's own expectations and goals. This was used because firms perceive their own plan as an important measurement benchmark against competitors (Sadeghi, Chetty, & Rose, 2021; Sadeghi, Rose, & Madsen, 2021). The study also adopted a competitor-related frame of reference for the perceived performance and success measurements, in line with Styles (1998), using the firm as the unit of analysis. Questions 28 and 29 of the survey are used to develop the international performance measure (see Appendix F).

4.4.5.3 The Role of Intra-country Experiences

The interviews were conducted to understand more deeply the LOF experienced by firms, and their approaches to mitigate the challenges encountered internationally. The insights gained from the interviews helped the development of the survey instrument. The interviews indicated that SMEs experienced intense challenges while doing business in various Indian states. For instance, they encountered issues due to diverse cultures, languages, and regulatory environments in other Indian states (see Chapter 5). The within-country challenges experienced by interviewed SME managers were strikingly similar to the liabilities of foreignness that are experienced by foreign firms conducting business in international markets. Therefore, for the purpose of this study, the challenges that SMEs encountered while doing business in different Indian states (which resemble LOF) are denoted as *intra-country liabilities*.

Based on the interesting discovery of intra-country liabilities, the study postulates that the acquired experience of dealing with a variety of disadvantages within the home country may enable SMEs to tackle LOF differently. Therefore, the conceptual model incorporates the intermediate role of SMEs' *intra-country experiences* on the hypothesized relationships (see Chapter 3). In most survey questions, three columns are incorporated to obtain information about the SMEs' dealings at the subnational and international levels. As indicated in section 4.4.5, the columns are labeled as (1) firm's home state, in which respondents evaluated their answers based on home-state experiences (2) other Indian states, in which respondents evaluated their answers based on their experiences in different Indian states (excluding their home state) (3) outside of India, in which respondents evaluated their overseas experiences.

Furthermore, specific questions were incorporated into the questionnaire to determine whether SMEs participating in the survey had experience of operating within India (see survey question 4 in Appendix F). Respondents were asked to indicate the states within India where they conducted business, to learn whether or not the SMEs had interstate experience. This enables the development of a deeper understanding of the LOF experienced by SMEs with and without interstate experience, their approaches to mitigate the foreignness, and any performance differences (please see Chapters 3 and 5 for further details).

4.5 Data Analytical Tools

Before testing the hypotheses, the study assessed the reliability and validity of the constructs. Preliminary data analysis involved examining descriptive statistics and frequencies for the variables. Next, the study undertook exploratory factor analysis using varimax rotation to develop multi-item constructs. This was followed by the reliability analysis, which was based on Cronbach's α (alpha) values. Appendix I includes the factor loadings, reliabilities, and details of the items and constructs. The uniformly high α values suggest acceptable reliability.

Although the intended approach to testing the conceptual model using the survey data was to undertake two-stage least squares regression, limited survey responses to the web-based survey necessitated finding an alternative approach. The study employs independent sample *t*-tests to evaluate the relationships and test the hypothesis. Independent sample *t*-tests enable comparison of the means of two groups, based on statistical inference. As the quantitative part of the thesis is very exploratory in nature, and the number of usable responses did not permit the use of the more complex modelling, independent sample *t*-tests seemed a reasonable approach to employ, while allowing rigorous comparison of SMEs with and without interstate experience. All testing was done using 90% confidence.

The statistical software SPSS (Version 26) was employed to undertake the study's quantitative analysis. Table 4.4 and 4.5 show the constructs derived using exploratory factor analysis.

Table 4.4: Summary of Measurement for Explanatory Variables (Post Factor Analysis)

Construct	Measurement *(Adapted to capture subnational and international-level differences)*	Sources
Foreign market knowledge	16 items along 5 dimensions, 7-point Likert scales (Question 17) - Knowledge about customers (4 items) - Knowledge about competitors (2 items) - Knowledge of foreign normative environment (3 items) - Knowledge about the regulatory environment (3 items) - Knowledge about channels of distribution (4 items)	Musteen et al. (2014)
Technological capabilities	5 items, 7-point Likert scales (Question 18) **Technology/services are…** - Better than competitors. - Our competitive advantage. - The result of our heavy investment in research and development (R&D). - Designed using complex and specialized assets. - Protected by patents, copyrights and/or trade secrecy.	Knight & Cavusgil (2004), interviews
Distributors' capabilities	4 items, 7-point Likert scales (Question 23) - Setting prices - Selling - Collecting market information - Arranging shipping	Knight & Cavusgil (2004)
Foreign institutional support	4 items, 7-point Likert scales (Question 10) - Implemented policies and programs to support business operations. - Provided needed technology information and other technical support. - Provided important market information. - Helped firms obtain licenses for import of technology, manufacturing and raw material, and other equipment.	Zhang et al. (2017), Malca et al. (2020), interviews
Personal networks	4 items, 7-point Likert scales (Question 13) - Family, relatives, and/or personal friends of key decision-makers - Past work colleagues and/or business contacts of key decision-makers. - Past and/or current business associates of the company. - Family, relatives and friends of company staff.	Tang (2011), interviews
External networks	6 items, 7-point Likert scales (Question 16) - Trade fairs - Industry associations - Ethnic and/or diaspora communities (Indian communities) - Government - Academic/research institutes - Professional institutes	Tang (2011), interviews

Table 4.5: Summary of Measurement for Dependent Variables (Post Factor Analysis)

Construct	Measurement *(Adapted to capture subnational and international-level differences)*	Sources
Institution-related liabilities of foreignness	6 items, 7-point Likert scales (Question 8) **Relative to the competitors in that location…** - Our firm incurs challenges due to unfavorable or biased treatment by local consumers. - Our firm incurs challenges due to unfavorable or biased treatment by local governments. - Our firm incurs higher costs due to different rules (e.g., laws, procedures). - Our firm incurs higher costs due to corruption. - Our firm incurs higher costs due to different views in the society (e.g., values, beliefs, norms, culture). - Our firm incurs higher costs due to the Indian government's restrictions related to international business (e.g., limitations on sales to certain countries).	Zaheer (1995, 1997, 2002), Kostova & Zaheer (1999), Calhoun (2002), Eden & Miller (2004), Hymer (1976), Qian, Li & Rugman (2013), interviews
Unfamiliarity-related liability of foreignness	2 items, 7-point Likert scales (Question 8) **Relative to the competitors in that location…** - Our firm incurs higher costs for gathering location-specific information or knowledge. - Our firm incurs higher costs to build reputation and goodwill.	Zaheer (1995, 1997, 2002), Kostova & Zaheer (1999), Calhoun (2002), Eden & Miller (2004), Hymer (1976), Qian, Li & Rugman (2013), interviews
International performance	5 items, 7-point Likert scales (Questions 28 and 29) - International sales - International sales growth - Net profit from international operations - International profit to sales ratio - Return on investment (ROI) from international business	Covin et al. (1990), Knight & Cavusgil (2004), Crick (2009)
Perceived success	1 item, 7-point Likert scale (Questions 30 and 31) - Success of main international business from a competitor's perspective	Styles (1998)

4.6 Chapter Summary

This chapter highlighted the research methodology used in this study. The thesis adopts a sequential mixed methods approach with exploratory interviews and a subsequent web-based survey. The key purpose of the interviews was to (1) help validate the conceptual model, (2) develop a richer understanding of the liabilities of foreignness experienced by the Indian SMEs and the approaches employed to mitigate LOF, and (3) assist in refining the constructs and wording of the survey instrument. The primary purpose of the mixed methods design was to increase the rigor of the study and provide an integrated understanding of the problem that is being examined. In addition, the goal was to operationalize the LOF construct using both relevant literature and interview findings. Therefore, the mixed methods design was useful not only for understanding the LOF encountered by the SMEs in foreign markets, but it also led to the discovery of intra-country liabilities that firms faced while operating across Indian states (see Chapter 5 for further details).

Semi-structured and in-depth interviews were conducted with the CEOs/owners/export managers of 15 Indian SMEs via phone or in person at the company's premises. Later, the interviews were transcribed and analyzed using NVivo (Version 12) software. The web-based survey instrument was developed based on extant literature and by incorporating the interview findings. It was distributed to a total of 32,342 India-based firms, from various Indian states and industries. The sampling frame incorporates SMEs with interstate experience and SMEs that did not have interstate experience to add robustness to the study's findings and provide a valuable comparative perspective. Independent sample *t*-tests are used to test the hypotheses and address the research questions.

CHAPTER 5

QUALITATIVE ANALYSIS

As the first step in the mixed methods approach, this chapter outlines the findings from the exploratory, semi-structured interviews of 15 Indian SMEs. The primary rationale for conducting the interviews is to provide rich insights into the LOF experienced by Indian SMEs and inform the subsequent quantitative survey. The in-depth semi-structured interviews were carried out between November 2018 and May 2019, and involved companies from various industries, including manufacturing and service.

5.1 Introduction

This chapter describes the findings and key themes from the in-depth interviews that were conducted with the CEOs/owners/managers of 15 SMEs in India. The exploratory interviews were the first step in the mixed methods approach adopted in this thesis. The purpose of the interviews was to offer rich insights into the LOF encountered by SMEs and to assist in informing the development of the quantitative survey instrument (e.g., by operationalizing LOF and refining the measurement items). The interviews were also intended to assess the suitability and relevance of the initial conceptual model, seeking confirmation and validation. The interview findings were also helpful in developing the hypotheses for the quantitative part of the thesis.

5.2 Interview Process

As outlined in Chapter 4, semi-structured and in-depth interviews were carried out with 15 Indian SMEs. The firms were initially contacted via email, explaining the purpose of the research; this was followed up by phone to confirm the interview arrangements (see Appendix B for a copy of the email). The companies' details were obtained through internet research, by browsing government websites such as the Ministry of Micro Small and Medium Enterprises, export promotion councils, and Bombay Stock Exchange's (BSE) junior trading market. The design was based on a purposive sampling approach (Miles & Huberman, 1994), with the main criteria being that the target firm was an internationally active Indian SME. Ten interviews were held face-to-face at the company's premises, and five interviews were conducted via phone. The decision to use phone versus face-to-face interviews was mainly guided by the availability of the managers and the author's financial considerations. The interviews were carried out between November 2018 and May 2019. Each interview lasted approximately one hour, except for one interview that lasted approximately three hours. A semi-structured interview approach was chosen because it allows for exploration of key topics based on an interview guide and simultaneously gives the researcher discretion to follow new leads (Bernard, 2006); see Appendix C and D for the participant consent form and interview guide, respectively. All interviewed companies were characterized as SMEs and were purposively selected from various industries, including manufacturing, services, FMCG, chemicals, pharmaceutical, and ICT. Tables 5.1 and 5.2 provide a summary of the key interview details and profiles of each firm.

Table 5.1: Key Interview Details

Time frame	Conducted between November 2018 and May 2019
Number of interviews	15
Type of interviews	- Semi-structured, in-depth - 10 face-to-face interviews - Five phone interviews
Location of companies	India
Interviewees	CEOs/owners/managers
Duration	Approximately one hour, except interview with MFG1 that lasted for approximately three hours thirty minutes

Table 5.2: Profile of Interviewed Companies

Companies	**Industry**	**Internationalization modes**	**Size of firm**	**Year of establishment**	**Key international markets**	**Interviewee**
MFG1	Manufacturing	Export	Small	2002	Dubai, USA, UK	CEO/Founder
FOOD1	Food	Export	Medium	1995	USA, UK, Middle East, Singapore, Canada, Australia, New Zealand, South Africa (Congo and Angola)	Export Manager
MFG2	Manufacturing	Export, joint venture, FDI	Medium	2005	Brazil, China	Business Development Manager
MFG3	Manufacturing	Export	Medium	1986	China, North America, South America, UK and Europe	CEO/Founder
IT1	Information Technology	Partnership, Export services, FDI	Medium	2005	UK, MENA region, USA, Asia-Pacific,	CEO/Founder

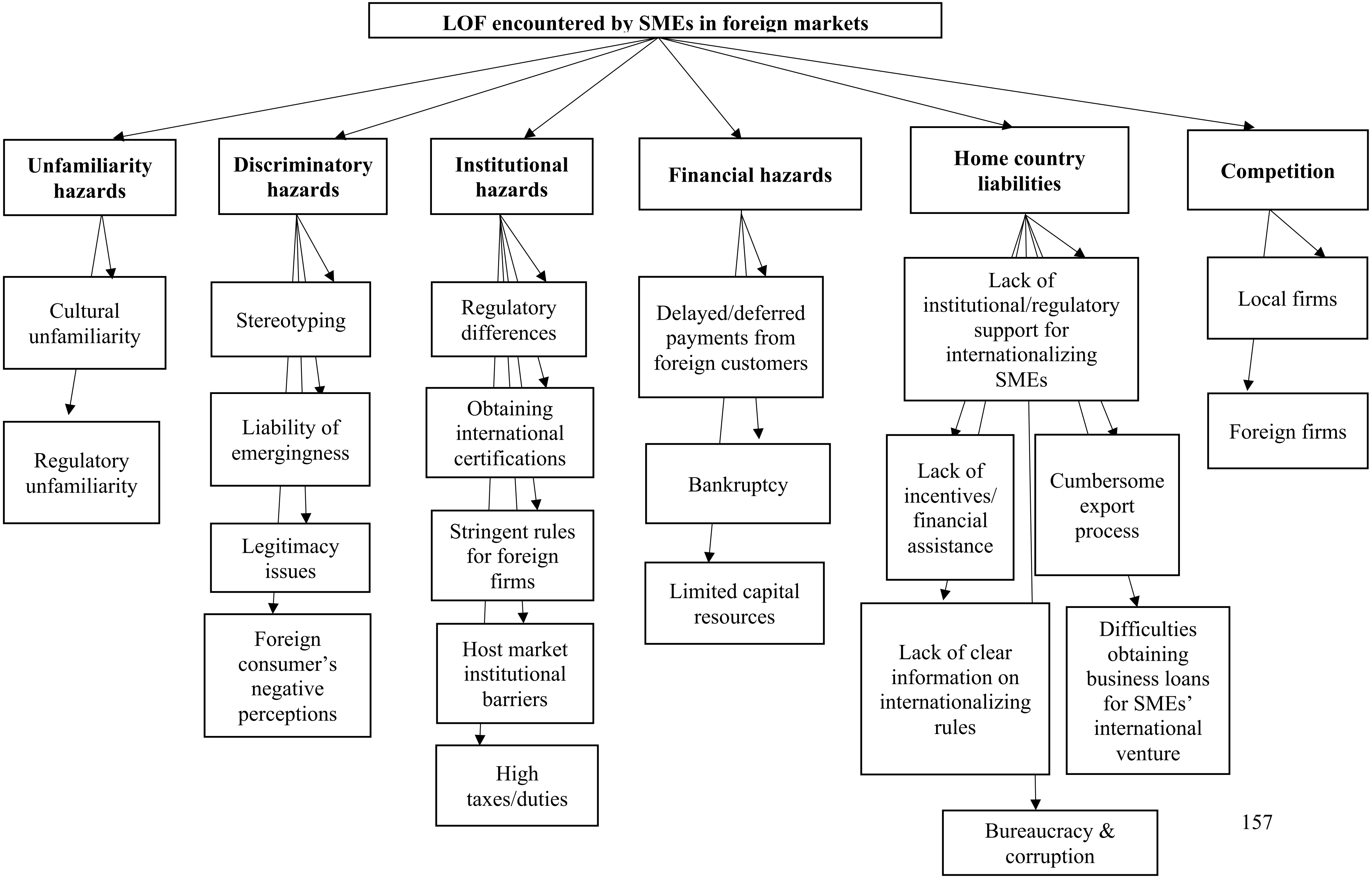
MFG4	Manufacturing	Export	Small	1998	Middle East, China	CEO/Founder
IT2	Information Technology	Partnership	Medium	2012	Middle East, Maldives, Dubai, Qatar, Saudi, and UK	CEO/Founder
MFG5	Manufacturing	Export	Medium	2006	USA	Founder and Director
MFG6	Manufacturing	Export	Medium	1984	Argentina, South Korea, Indonesia, China. Thailand, Germany, Europe	Business Development Manager
MFG7	Manufacturing	Export	Medium	2012	Bangladesh, Sri Lanka, Vietnam	Managing Director
TXT1	Apparels and Textiles	Export	Micro	1995	USA, UK, Sweden	Founder
TXT2	Apparels and Textiles	Export	Medium	1977	UK, USA, Japan, Australia	General Manager
OIL	Oil and Gas	Export services	Small	2008	Germany, Thailand, Dubai, Singapore, Egypt	CEO/Founder
FOOD2	Food	Export	Small	2004	UK, USA, Europe, Australia	CEO/Founder
MFG8	Manufacturing	Export	Medium	1975	Germany, Middle East	CEO

The interviews were audio-recorded and transcribed before being used for further qualitative data analysis with the computer software NVivo (Version 12). During the data analysis, emerging patterns and themes were identified, and conclusions were drawn. As indicated in Chapter 4, the research design of the qualitative component of this thesis involved prior conceptualization of issues developed from the literature review and conceptual model (Miles & Huberman, 1994). The coding process included '*a-posteriori* categorization' with open coding to consider the emergence of new themes and patterns (Sinkovics et al., 2008). A combination of descriptive and pattern coding was applied for analyzing the interview data. The total of 15 SMEs was considered adequate as saturation of answers was perceived as the interviews progressed (Glaser & Strauss, 1967). This is also in line with studies that recommended the use of six to eight (Kuzel, 1992) and six to 12 interviews (Guest et al., 2004) as samples.

5.3 Representing Findings from the Interviews

The interview findings can be classified into two parts. The first, labeled as 'LOF encountered by SMEs in foreign markets', categorizes the different hazards SMEs encountered in international markets, such as unfamiliarity, discriminatory and institutional hazards. It provides preliminary answers to the first research question: *What is the nature of the LOF encountered by SMEs in foreign markets?* The second part, labeled as 'Mitigating LOF,' comprises different approaches used by the SMEs to mitigate LOF. It provides preliminary answers to the second research question: *How do Indian SMEs deal with LOF in foreign markets?* In addition to the disadvantages encountered overseas, firms discussed facing intra-country liabilities due to sub-national variations within India, which was remarkably similar to the LOF encountered by foreign firms in host markets. A separate section has been dedicated to this finding.

Figure 5.1: Identifying SMEs' LOF



5.4 Liabilities of Foreignness Encountered by SMEs

As indicated in the previous section, the interview data was divided into two sections during the analysis. The first section provides insights into the challenges interviewed SMEs faced in foreign markets. As seen in figure 5.1, the firms encountered different hazards in foreign markets. They faced unfamiliarity hazards due to their lack of understanding and awareness of the cultural and institutional norms of the host markets. Discriminatory hazards included challenges emerging due to stereotypical views of foreign customers towards Indian firms. The discriminatory behavior also stemmed from SMEs' lack of legitimacy in the host markets. Moreover, the interviewed firms also discussed encountering institutional hazards, due institutional differences between the home and the host market. Interviewees also indicated facing financial hazards due to delayed payments from foreign clients and limited capital resources. Additionally, the SMEs confronted competition from local and foreign firms. In this section, the study discusses the LOF encountered by SMEs in foreign markets, which provides insights into to the first research question.

5.4.1 Unfamiliarity Hazards

As discussed in the literature review, unfamiliarity hazards reflect the lack of knowledge of, or experience in, host countries, which places the foreign firm at a disadvantage compared to local firms (Eden & Miller, 2004). Many interviewees indicated that they experienced challenges and added costs due to their limited knowledge, and lack of familiarity with the characteristics and requirements of the host country's environment.

Although the literature suggests that foreign firms face increased unfamiliarity in distant markets, the following quote from the managing director of MFG7 illustrates their unawareness of the culture present even in neighboring markets.

> *Bangladesh, they have a different culture. Sri Lanka has a different culture. If you go to Vietnam, that is a different culture. So being an Indian over there, we have to understand things [such as] what kind of culture they are following. Otherwise, lots of the European companies they have failed in Bangladesh because of this. We also lost money somewhere because of our lack of knowledge, and we suffered a lot during that time, but we slowly understood.* - **MFG7**

Unfamiliarity with the regulatory environment of the host market could also pose an obstacle for foreign firms. The CEO of FOOD2 indicated that they faced challenges because they were not familiar with the European rules that prohibit the export of composite food products containing unpasteurized milk. Furthermore, the firms' unawareness of packaging requirements for Europe led to the client returning the entire consignment to the SME. As such, this firm faced hindrances due to its unfamiliarity with the regulations of the foreign market.

> *The only challenge is regarding the products we exported. You know, due to the ingredients, the entire material was stopped there in Europe. They, in fact, even sent back the container saying that there is 10% of your items contain milk which is not allowed into Europe. So, the whole consignment had to come back, and then the milk items had to be removed, and then we had to export. And then you know we had an issue with the packaging, not with the product. Now the pulp that we had exported somehow had torn packs, due to which the client refused to accept it. So, the entire thing had to be bought back. [We had to] again re-pack and re-export it.* - **FOOD2**

The first excerpt from MFG7 is particularly interesting because it made clear that the SME faced unfamiliarity even in neighboring countries. Despite the similarities between India and other nearby nations, the SME found it difficult to understand the cultural and societal differences in Bangladesh and Sri Lanka. Furthermore, the interviewee at FOOD2 indicated that they were not familiar with the export regulations and packaging requirements that must be followed while exporting to European countries. Consistent with Kostova & Zaheer (1999). the institutional differences between the home and host country could be why this SMEs found it challenging to understand the host country's institutional guidelines.

5.4.2 Discriminatory Hazards

Another element of liability of foreignness is the discriminatory treatment inflicted upon foreign firms compared to local firms in the host country. Liability of foreignness needs to be understood from the foreign firm's perspective of the host country (outside-in) and the host country's perspective of the foreign firm (inside-out) (Eden & Miller, 2004). Kostova and Zaheer (1999) asserted that foreign firms are treated differently by the host market consumers, government, and the public due to the host country's unfamiliarity with the foreign firms. In line with this view, interviewees indicated that they received differential treatment in host markets. For instance, IT2 was stereotyped because foreign consumers questioned the trustworthiness of the firm to deliver projects.

> *The moment I say health informatics, people are so scared about their data. How [do] we store it? And who has access to it? And all the stuff. So that was something which was very, very critical and then the next thing is my customers were like do you really understand this space? And do you think you can you deliver? So those were the kind of questions that were asked.* - **IT2**

The above comment from the interviewee at IT2 suggests that they were perceived as outsiders because the host market stakeholders were unaware of the firm and its competencies. It supports the argument that foreign firms are mostly discriminated due to legitimacy deficit arising from inadequate quality and quantity of information available to the foreign market clients (Bell et al., 2012; Schmidt & Sofka, 2009). As a result, foreign customers may be skeptical about dealing with emerging market SMEs.

Similarly, another participant indicated that foreign customers were not ready to accept the latest technology offered by an emerging market SME because they did not trust the firm. Instead, they had confidence in the outdated technology they currently owned. In order to overcome the foreign consumer's unfamiliarity and develop credibility, this SME had to invest in educating the consumers about their technology and its benefits.

> *It is a trouble that still they have belief on the 30 years old technology. So [the] main challenge [is] to educate them [that] these are the new technology [and] these are the new benefits. So, it's taking more time to educate them, to make them understand [that] what you are doing is outdated right now, and these are the new processes and new chemistry [that has come] into the market, which is going to save you money, your quality will increase, and your profitability will increase. Apart from all these things, it will take care of the environment that is very much important. So, it is taking little time to make them educate, but slowly they are understanding it.* – **MFG7**

Furthermore, an export manager of FOOD1 discussed the challenges it faced due to a foreign distributor's stereotypical views towards the products it manufactured. In addition to other food products, this firm produces Chinese sauces and noodles; however, the foreign retailers and distributors did not associate their products as 'Chinese' because an Indian firm manufactured them. The manager indicated that their products were shelved amongst Indian products in retail shops and not with other Chinese and Japanese brands.

> *The first thing that I observed was all the distributors' mindsets again typical Indian product. They kept all our products in [the] pickle category. [They said] Indians come here, so we keep Indian sauces here (translated from Hindi). Our dark soya sauce was not kept in the soya sauce category [with] Lee Kum Kee and Kikkoman all these international brands. It was there (in the Indian section). So, [the] first thing it took me time to tell them [was], of course, why do you think it is Indian just because it is coming from India. It's a dark soya sauce. It is eaten by which people? And then I had a word with these people (foreign retailers) that why are you sticking it here. It took me four to five months to get into their mindset [and convince] please do not consider these products as Indian. So, then the volume started growing phenomenally because they were in the right place.* – **FOOD1**

The comment from FOOD1 is in line with the LOF literature that suggests foreign firms are subject to discriminatory hazards that are aggravated because of their stereotypical views associated with the nationality of the foreign firms (Kolk & Curran 2017). Kostova and Zaheer (1999) referred to such challenges as negative legitimacy spillovers i.e., when a foreign firm from a particular country is adversely judged or discriminated against by host country constituents. The discrimination against Indian SMEs could be identified as a liability of origin because it is the disadvantage the SME faced as a consequence of 'where they were from' (from India) not 'where they were not from' (not a local or developed market firm) (Ramachandran & Pant, 2010; Madhok & Keyhani, 2012). The manager of FOOD1 further added that, as a food exporter, they were stereotyped by foreign clients because Indian firms carry a bad reputation for not following food health and safety standards.

> *Holland was a big importer of oil and sesame seeds from India. So, they use to buy sesame seeds from India, process [them] clean [them] and get [them] done as per the US requirements and sell [them] to McDonalds. We were all just sourcing it. Now Americans wanted it. Americans are not going to go to India and ask for sesame seeds. Obviously not! You have an image problem, so you don't handle [it]. They know that Europeans have a standard of cleaning. They have [a] guarantee back-to-back. If I am sued for anything, I can go back to these guys. They (Europeans) understand what we are talking about. I was supplying to a French company in bulk packs and tankers, ISO tankers by large quantities of sesame oils. They used to get it processed in the*

Netherlands and then get it back to France. I visited the processing facilities also. Oil refined in India was not accepted. - **FOOD1**

As a result of the negative perception associated with Indian food manufacturers, after purchasing raw materials from this SME, the French company got the products processed and cleaned by a European firm that follows international food safety standards. The interviewee further highlighted that the reluctance of foreign clients to buy finished products was primarily due to the lack of trust and credibility of Indian firms amongst foreign clients.

> *Major challenge is the trust factor. The equipment (used by the firm in the Netherlands) was the same as that was there in India. We were buying the same equipment. [The] same procedures were there. The technologies were the same. But the fact is that do we cheat. Yes, most of the refineries in India cheat. We [are] bothered about cost, we are always scared, and we try to sell cheap.* - **FOOD1**

In addition to FOOD1, several other interviewees also expressed facing discriminatory treatment in foreign markets.

> *Europeans and Koreans are welcome more than us. For us to have the visa every now and then becomes difficult because the clients don't give us the invitation letter. It is not decided whether they would be awarding the contract to us or not. British passport holders and American passport holders are free to go anywhere with visa on arrival.* - **MFG2**

> *I have been traveling all around the world. I was always being treated differently.* - **FOOD1**

> *Fighting with [associated perception] the bureaucracy, fighting with the bad name India has for product quality.* - **MFG3**

> *The US is the most challenging market. Whether you have a good product or not, you have to do very good marketing. You need to have a lot of capital to do that kind of marketing, create that kind of impact on the perception. They all have a large enterprise kind of mindset, so they all want to deal with large enterprise.* **- IT2**

The first excerpt from MFG2 is particularly interesting because it highlights the difficulties confronted by the managerial team while traveling overseas for business dealings. In order to visit many developed nations, Indian nationals require a visa, and applying for a business visa can be a time-consuming process. Therefore, instead of inviting Indian businesses to discuss the potential of doing business together, foreign clients prefer to deal with businesses whose nationals can travel easily. As a result of travel limitations, SMEs could lose the opportunity to do business with foreign customers. Extending the topic of discriminatory hazards encountered in foreign markets, the manager of FOOD1 implied that he was 'treated differently' due to his nationality. Foreign customers' perceptions of EMFs also differ, and the interviewee at MFG3 indicated facing difficulties in foreign markets primarily because Indian firms have a bad reputation for producing inferior quality products. Considering the perceptual hurdles encountered by EMFs in foreign markets, the CEO of IT2 indicated that developed market customers usually prefer to deal with large enterprises than small firms from emerging markets. Thus, the firm incurred additional challenges to market its services and promote its business in the USA, to overcome the negative perceptions associated with emerging market SMEs.

5.4.3. Institutional Hazards

As discussed in Chapter 2, LOF also stems from the institutional differences between the home and the host markets. Institutions are the humanly devised constraints that structure political, economic, and social interaction (North, 1990), and the interviewed SMEs noted facing challenges due to different institutional environments. For instance, a business development manager of MFG2 indicated that they experienced difficulties adjusting to the stringent working standards and safety rules when the firm sent a small group of employees to work at a client's factory in the UK.

> *When I sent some small team of my people from my company to the UK for some installation, it is very difficult for my people to really work there because of the industrial rules, timing, safety aspect, time logs, all the standards.* - **MFG2**

The representative of MFG2 further added that they found it challenging to meet the safety, health, and environmental requirements when exporting their products to European countries, because the EU requires products to be CE marked. CE marking indicates to the consumer that the manufacturer has assessed the product and meets the EU safety, health, and environmental protection requirements (European Union, 2020). There is only a handful of companies in India that are authorized to certify a firm's products with the CE marking. As such, it can be challenging to certify each component that is fitted into the machinery with this designation. Moreover, the requirements and regulations vary across different markets. Adhering to each of them can be challenging for the SME because it can add to the costs of manufacturing (e.g., changes to design and production process).

> *Another challenge that we face is that when we want to export to European countries. All our automation [has] to be CE marked. So that is one of the challenges that still remain. There are very few agencies in India that do the CE registration. [A] thorough process means we have to keep it in mind during design as well. [The] component selection also has to be CE certified. The entire system has to be certified under [the] CE mark. All the parts that go into it also has to be CE marked. So, the cost is different. That is one thing, and then the design process changes. Actually, the product requirement changes from country to group of countries. Like Southern America will be very specific, western Europe not so much, eastern Europe is a little different, central Asia is a little different, southeast Asia is also different. So, when the product itself changes, the equipment to build the product is definitely going to change and the usage pattern. So, lot of issues actually [because] their physical properties change for every country.* - **MFG2**

Similarly, an interviewee from FOOD1 noted that adhering to international food safety standards was a challenge for their firm.

> *Internationally, from a food perspective and for the food company, the challenge [is] adhering to the international standards for a small and medium enterprise. I am already facing some challenges in [the] mainstream. I will give you a classic example. There was a fancy food exhibition in the US. There only the big chain buyers come. They tested all our products they were happy. Ah! Amazing! Everything was okay, right. They saw the ingredients. [A] lot of salt. Change the ingredients get the same taste [we will] take them all. These are the challenges.* - **FOOD1**

The interviewee further explained that challenges emerged because they did not understand the international standards.

> *In terms of the hurdles, initially, people here did not understand standards. They did not understand why? Because truly saying even the people from abroad who brought*

from us, they did not inform us about the standards. I have worked in [the] QA team, knowing each and every requirement of each and every FDA in the world. The reason being, we are exporting to these countries, so all my packaging requirements have to adhere [to] these standards. Otherwise, the FDA will hold it and destroy it. – **FOOD1**

The comment from FOOD1 is in line with Nachum's (2010) view, which implies foreign firms encounter institutional liabilities because they are likely to be less familiar with the host market's institutional environment, which includes policies and regulations for foreign firms.

Furthermore, the CEO of IT1 noted that their firm experienced regulatory challenges due to lack of transparent rules and high taxes for Indian firms doing business in the UK.

Trading between India and the UK is very, very difficult, very challenging. Taxes are also high. There is no transparency. If you have to transfer money out of India to the UK, you have to deduct 15% TDS and which the UK company cannot claim. So, any money that goes from India to the UK, 15% is lost straight away, and then there are local taxes over there. So, there are [a] lot of complications between the UK and India. If the government looks into it, those can be sorted because there is a lot of synergy between the countries. But because of the complicated tax laws, both countries are not able to improve their sharing of knowledge and innovation. All this can help both the countries to grow significantly. – **IT1**

Although studies demonstrate that foreign firms encounter higher institutional liabilities in distant and dissimilar host markets, a representative of FOOD1 discussed facing institutional disadvantage in the neighboring country, i.e., in Sri Lanka, due to higher duties imposed on foreign firms to protect local firms from foreign competition.

Sri Lanka has put up so high barriers. Their duties are like 60% for Indian food products. They are protecting their own companies; otherwise, we can kill their companies. – **FOOD1**

Consistent with Wu & Salomon (2017) and Mezias (2002a), the comment from FOOD1 suggests that the regulatory environment of the host market places foreign firms at a disadvantageous position relative to local firms.

Although it is presumed that Indian firms can easily cope with similar institutional environments in less developed and other emerging markets, the owner of MFG4 noted facing difficulties due to different payment methods used by firms' clients from various countries in African continent, which were not acceptable by Indian banking systems.

> *It is highly risky. See, none of their [African businesses] LCs (letters of credit) are acceptable to our Indian banks. That is the major challenge we are facing, and they do not open LCs through first-class banks, which our banks are stipulating. This is a major challenge, and another thing is creditworthiness. We basically think that ok if you go to the African market then you have to be doubly sure that your payment has to come, and then you dispatch the material. These kinds of things are hampering the business potential there. That's the main thing. I don't know how they are going to overcome this.* - **MFG4**

The comment from MFG4 shows that the payment systems between home and host countries can hamper the trading between businesses. A letter of credit (LC) is a legal document that the buyer's bank issues, which acts as an irrevocable guarantee in making payment to a seller. If the buyer fails to pay the seller, the bank becomes responsible for paying the seller. As a result of defaulting clients from less developed and emerging markets defaulting payments, the Reserve Bank of India (RBI) restricts Indian banks from accepting LCs from certain countries as a guarantee of payment. Due to such limitations on acceptable forms of payments, it can be challenging for small firms to do business with clients in less developed and emerging markets.

5.4.4 Financial Hazards

Although we have learned that costs underpin the liability of foreignness, we have not learned a great deal about the challenges EMFs face to receive payments from foreign clients. The delayed payments from foreign customers can negatively affect SMEs that are resource constrained. Many interviewees reported facing financial hardship due to delayed payments for the products or services provided to foreign clients.

> *[Challenges] in terms of two things, in terms of the payment and in terms of the delivery schedule. If anyone gets delayed, then [the] process gets weak.* - **MFG8**

> *The issues are only with the delays in the payments.* - **MFG4**

There was a period [of] difficult situation. I was assuming that these customers will pay. But those customers stopped paying for some or the other reason. So, there was a period from March 2006 till Nov 2006 when the business, which was very, very small at that time, was on the verge of bankruptcy because it didn't have anything left. Neither there was any money left in the bank account, neither there was anything left with me, and my father was just a banker he didn't have enough money to fund my business. - **IT1**

As small firms have limited financial resources, delayed payments from foreign clients can cause severe disruption to their finances, including insolvency risks. The financial risks are more when firms offer services instead of physical products. For instance, the CEO of OIL stated that his firm received payments only after the complete delivery of the services. The interviewee recalls an episode when a foreign client refused to pay for the services received. As a result, they had to approach the Indian embassy to resolve international payment issues, which took considerable time and effort. Thus, such situations encountered while doing business in foreign markets place SMEs at risk of running out of capital for their business activities.

The challenge, the main thing was only the payment thing. For the payments, while dealing internationally, some payment issues are there. While working in Thailand, we got a payment issue. So, once we are stuck in for payments, then we need to approach our embassy to proceed, which took very long time for us. Like instead of providing any services, if we are doing some trade, then it is much more secure than providing services. Services [are] like - 100% payment will be received after providing the services. On the credit there [are] 30 days or 45 or 60 days but when it's stuck then that's the main issue. - **OIL**

The interviewee further added that the payment risks were particularly high when they provided services as a third-party sub-contractor to foreign customers. As a third-party service provider, the SME received payments only after the foreign client pays the main contractor. Thus, the decision to pay or delay SMEs' payment is at the discretion of the middleman, which causes uncertainties in terms of receiving imbursement.

Payments for the service provider [are] very difficult. So, in that case, our risk level was quite increasing for the payment part because after the payment to our main contractor then only we will be getting. So, like there was a risk that if he is getting but *maybe for some reason if he changes his mind and if he doesn't pay, so that was the risk.* - **OIL**

5.4.5 Host Market Competition

Several studies have explored the nature and effect of cultural differences, institutional policies, discrimination, and unfamiliarity hazards on the international activities of foreign firms. In addition to these challenges, intense competition from local and other foreign firms in the host market can also create hurdles for SMEs. For instance, the managing director of MFG7 indicated that they faced intense competition from foreign firms operating in Bangladesh.

Bangladesh, they don't have any own manufacturers, but lots of the big players are there. Lots of the Indian manufacturers are there. For the local manufacturer, they don't have to pay the extra duties. So that 20-25% margin already they are getting it, saving it. If we don't make it different than other Indian manufacturer then, nobody will entertain you because of the cost barrier. So, we have to take care of these things. We have to compete with their price. - **MFG7**

The views expressed above also suggest that SMEs internationalizing to neighboring countries face intense competition from other Indian firms, in addition to global and local players in the host markets. In order to survive the competition and succeed, firms may have to offer affordable products that have better quality than competitors. Moreover, the comment highlighted how local firms are at a relative advantage over foreign firms due to tax levies offered by their home country government - supporting one of the key arguments in the LOF literature (Nachum, 2010; Zaheer, 1995)

In a similar vein, the CEO of FOOD2 indicated that they had to offer products at a better price and quality to their foreign customer to survive and outperform its competitors.

Challenges [were] more in terms of the competition and quality. Like in Belgium, we are exporting lemongrass. But the quantum of lemongrass is not going there. This is purely due to the quality that we are able to get from the Indian soil and Indian weather conditions. It is comparatively different from [what] Vietnamese are able to get from their soil their climatic conditions. You know our soil, the color, is totally different from the Vietnamese, and what we can get in India is totally different. Other challenges in terms of the red chilies that we are exporting from Europe. The quality of chilies coming *from China is very mild. whereas the Indian chilies are hotter. Similarly, our ginger and garlic. So, these kinds of challenges do come in where we are not able to compete due to the weather conditions. Yes, we do face a lot of competition from international markets as well as from local manufacturers. See, some of the competitions are for parathas. [For] parathas, there [is] big competition from Malaysia, China, Pakistan and Bangladesh. More so, the value of their currency is different. And also, in Malaysia, they are importing wheat from Australia. So, they are able to produce parathas with so much of margin in it [and] at a cheaper price than the Indian manufacturers can produce.* - **FOOD2**

The above comment suggests that the competition existed because food grown on Indian soil and weather conditions may differ in quality. As a result, exported vegetables from India tastes different from products offered by other countries. The heterogeneity in foreign consumers' preferences, needs, and expectations means that they may react differently to foreign goods originating in different countries. Due to such cognitive tendency of consumers to differentiate products based on quality and cost, the SME encountered challenges and competition from other foreign producers.

5.4.6 Home Country Liabilities

It is widely known that firms from emerging economies face substantial disadvantages when they venture outside their home country to compete in international markets (Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2007; Thomas, Eden, Hitt & Miller, 2007; Wright et al., 2005). However, less is discussed on how the home country context can systematically create disadvantages for internationalized firms (Ramachandran & Pant, 2010). The characteristics of EMFs' home country, the weak institutional environment, and the lack of support from home country institutions for internationalization can impose difficulties on SMEs' international initiatives (Cuervo-Cazurra et al., 2018). As underdeveloped economic and institutional environments hamper emerging economies, EMFs may be disadvantageous to DMFs. Home market institutional rigidities also reduce EMFs' ability to meet opportunities in foreign markets. Thus, besides the disadvantages EMFs encounter because of foreignness, the underlying home country issues can also pose disadvantages that can hinder firms' international progress.

For instance, the founder of MFG3 indicated that his firm was unable to compete with competitors' costs in foreign markets because of inadequate assistance available from the home country's government.

> *Chinese are in a big competition, but cost-wise I cannot compete with Chinese products, quality wise I can definitely compete. We are much better than the Chinese but cost wise it is not because the raw material cost is very high in India. Why it is high? Because in China, they give raw material as per the cost, as per the size of the company. So, if you are in a small scale [firm], you get the same product, same raw material at a lesser cost. So [that] the small scale can compete in the international market. That facility is not available in India. If I am paying one thousand rupees, Reliance [an Indian MNC] is paying less because of their bulk purchases. So, I cannot compete internationally. So that is how it is a very wrong strategy. For a small-scale person, the per kg amount is more. For a large scale, it is less because they can afford to have bulk purchases, and I cannot afford to have bulk purchases, and when my cost is high, I cannot compete with the Chinese. And [for] Chinese [firms] it is exactly reverse. If you are small, your raw material cost is the lowest. So that is a big difference. But our government is not much interested. I am not very happy with Make in India. I*

will be happy with Made in India. It is very, very important. There is a big difference between 'Make' and 'Made' in India. Make in India, there is only infrastructure cost, [and] the remaining profit goes back. In Made in India, everything remains here, but there is no encouragement to Made in India products by the government. So, what is happening? Infrastructure only. Multinationals are coming in India; they are investing, and they are sucking small scale. They are absolutely sucking small scale. - **MFG3**

The comment from MFG3 shows that financial and resource-constrained SMEs are not appropriately supported by the Indian institutions administering the MSMEs. Instead of assisting SMEs to procure raw materials at a lower cost to grow their business in international markets, the Indian government encourages and supports MNCs because they buy raw materials in bulk quantities.

The financial system supporting small firms is mostly underdeveloped in emerging economies, due to which EMFs have difficulty accessing capital for their international business activities (Kotabe et al., 2000; Hitt et al., 2000). Many interviewees reported that accessing financial resources to support firms' internationalization is challenging. For instance, the owner of MFG discussed the reluctance of Indian banks to lend business loans to SMEs.

The present problem is money liquidity because it is a constraint in India because bankers started shying away from lending. That is because of their approach to lending. All these banks are not interested [in] lending now unless they are triple-rated companies. Now our companies are triple Bs: triple B minus rated company. So, we find it hard to get money, if you know what I mean, and this is the case with every small industry, and I see this as a major problem. Another thing because of this legitimacy, crunch interest rates naturally have gone up. See till last March, we were having a financial product called as buyers' credit, so we use to get the quotes from the Indian banks abroad or foreign banks. LIBOR plus coin 6, that's how we use to get money. Now the reserve bank, because of the Nirav Modi scam, they totally betrayed us. When your finance cost is so high, depending upon the Indian availability of funds, you are not able to stand. These [are] our major issues. - **MFG4**

The comment from MFG4 is particularly interesting because the interviewee also talks about the legitimacy issues it faced while borrowing money from foreign and Indian banks. Borrowing money became difficult for SMEs after the two-billion-dollar fraud conducted by the state-run Punjab National Bank (NDTV Report, 2018). This incident had an adverse effect on business loans. For instance, Indian and overseas banks tightened their credit-giving facilities to Indian businesses, mainly affecting the MSMEs. Due to such home market liabilities, SMEs suffer the most in managing their overseas business.

Similarly, other interviewees discussed that the inadequate provisions for borrowing capital from the Indian banks were one of the key challenges restraining SMEs' international business initiatives.

> *Second thing is money. Cost in India is very huge [for] entrepreneurs. Finances [are] one of the important parts. Because you need to have a mortgage, and until and unless you have a mortgage, the bankers are not going to come to you. Bankers lend money only to those who have enough money. Because unless you have money secure with you, they know that it is coming back to you. So again, the trust factor comes here. So that is there. [The] Government is trying to do certain things, but again they are chewed because, at the end of the day, it is handled by one person who decides whether you deserve it or not. Again, if you give him money or cut in that, you will get it.* – **FOOD1**

> *Nobody was believing me. The quantities (of products manufactured) were so small. [The] first thing was my age. The challenge started with my age because when I came back with all my degrees, I was only 28-year-old. So, no banker was even allowing me to enter the manager's room. Everybody was saying that you don't have any experience, they were not believing my degree also. Because the technology was so new, no single bank was ready to entertain me to talk. So, it was a very frustrating first six months. But the branch manager was so sure about my character that he said, no, it's not enough. Actually, I was not knowing what I should do that time because even my shirt was hypothecated to my bankers, so I was firefighting a big problem in my life.* – **MFG3**

The interviewee from FOOD1 discusses the difficulties of getting asset-based loans due to the bureaucratic hurdles while accessing financial resources. Moreover, the comment from MFG3 highlighted India's unapproachable support system for young entrepreneurs. Although the current government's approach has been to set up schemes to support entrepreneurs, the overall process of accessing the resources launched by the government is tedious because each Indian state controls the disbursement of resources.

Contradicting the above comments, an interviewee discussed receiving benefits for their international business initiatives from promotional schemes launched by the Indian government. However, the interviewee also highlighted that the schemes offered by the government are not adequate for SMEs, and it is difficult to know the appropriate provisions available for SMEs from different industries.

> *There are certain things which had helped us like some promotional schemes that we could enjoy. [The] government had supported us in terms of monetary then some subsidy for manufacturing of machinery and technology. [The] government had given, but the promotion of the schemes is not up to the mark. You have to really find out what type of scheme is available. Once you get into it, it is really good. It helps.* – **MFG5**

Furthermore, lack of support services from the home country institutions meant that SMEs did not have access to information about the rules and regulations of operating in international markets.

> *We don't have any proper channel to get the right information, who are the customers, what are their requirement. That kind of database is not available in India.* – **MFG7**

> *I was a part of certain institutions here, but that did not benefit me a lot. Because a lot of gossip use to go on and less of business and I really did not have that much of time to get that done. Spending 5-6 hours on gossip and not generating business at all.* - **MFG1**

> *Well, frankly speaking, there are no initiatives available. There are sometimes you know tax lollipops.* – **MFG6**

The constant changes to the rules and regulations in emerging economies can also cause uncertainties. For instance, the export manager of FOOD2 describes facing problems and incurring losses due to the inefficiencies of the home government to communicate and enforce the changes to the export regulations.

> *In terms of understanding the process and the laws, we are not trained in that. You know there is a confusion on how things are to be dealt with. I will give you an example. Initially, [for] every container we shipped out, a customs officer used to come and inspect the consignment at our factory. We used to seal the container in his presence*

and dispatch the container, which was very nicely accepted at the port. Then the new government came in, and they came out with the regulation which involves self-sealing of the container that ok we believe that you guys and whatever you are going to declare in the paper is legitimate. We will not open the container. So, when this process started. We started self-sealing the container, and unfortunately, we were not aware or maybe you know they had drawn some guidelines written where they said that if any container that has got more than ten commodities should be opened for inspection and unfortunately, they were not even ready with the infrastructure to inspect a container at the port. So, what use to happen is the container used to reach the port, and the moment the invoices [were] put into the customs systems, they would say that now we have to open the container. Then we will not lower the container, which means there is a vessel shut out, and then that means that seven days that the container is going to stay there on the port, and I have to bear the ground rent, the plug-in charges. The expenses were increasing like anything. So, they use to take it to some yard, and again the yard has no facility so we never use to allow them to unload it because the whole consignment would be damaged otherwise. So yeah, we lost a lot of money during that period. - **FOOD2**

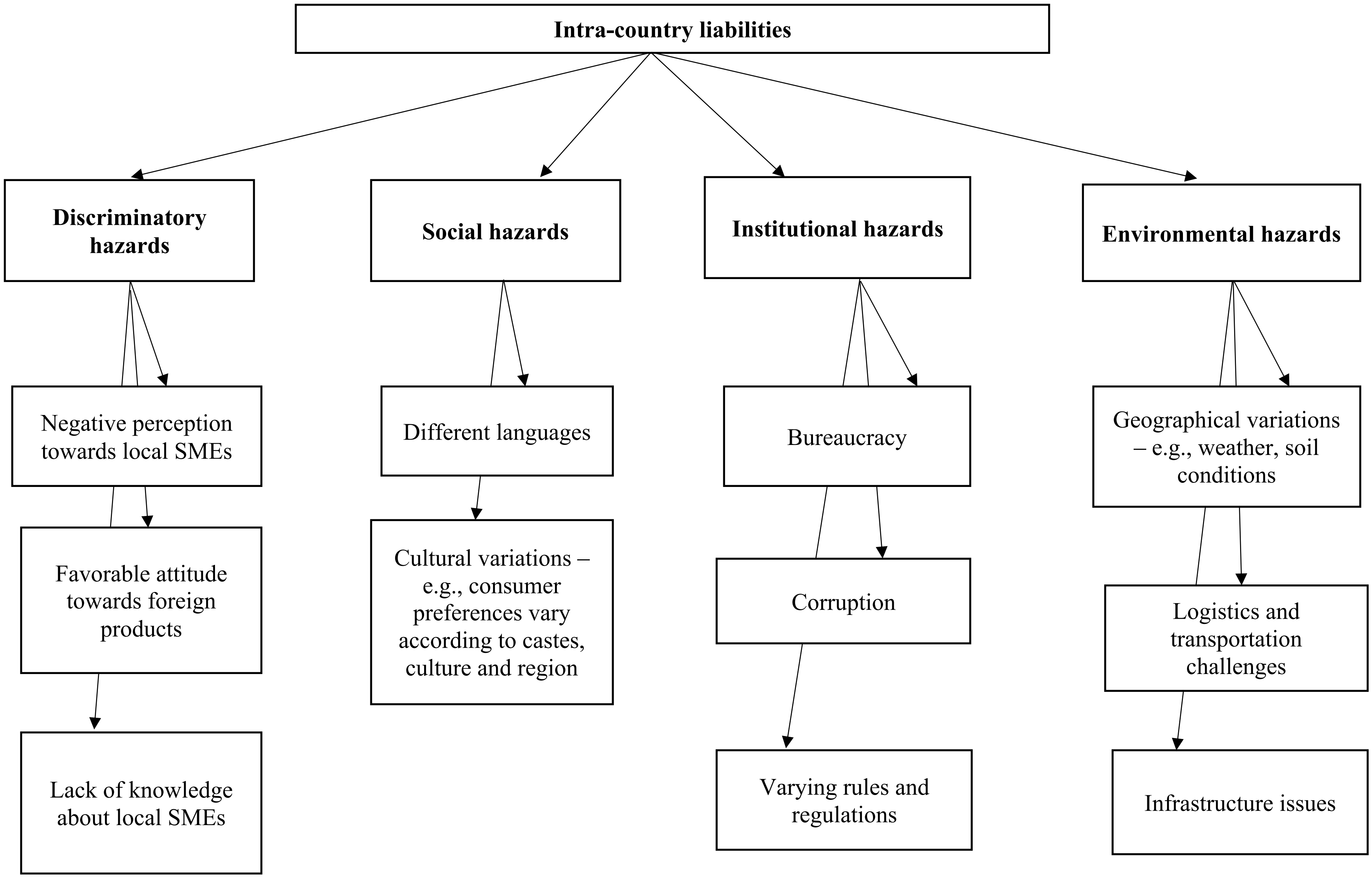
Similarly, the CEO of MFG1 and FOOD1 discussed that the constant updates to the exporting rules were time-consuming to deal with and caused a hindrance to SMEs' exports.

See, they are not stringent, but they are very cumbersome. See, everything should be made transparent. If I want to export an XYZ product, I need these documents, Straightforward! But when the person goes there, then the officer will ask you - have you got this document? Which was never told to us. New documents! Have you got this test report? Yes, if you would have asked us, we would have definitely given. The same thing happened when we were exporting last year in Dubai. After we reached the Nava Sea, the export officer says - sir they want these reports. Now you should have asked us for this report. And then, when they take a printout, they will charge you a bomb. A printout which costs one rupee they will ask you to pay ten rupees. So, it's a time-consuming process. You tell us something in one go. Things are very cumbersome. – **MFG1**

The hindrances are in terms of your laws. Huge amount of laws are still deceiving SMEs to expand. – **FOOD1**

The above comments show the limited support of home government to implement adequate policies and regulations that would help small businesses' internationalization. The improper information and tedious and bureaucratic processes increase costs for SMEs. Moreover, such friction in the institutional environment takes precious time away from the productive activities of SMEs (Zhang et al., 2017). Therefore, SMEs are susceptible to liabilities stemming from their home country's environment, which affects their international business.

Figure 5.2: Intra-country Liabilities



5.5 Intra-country Liabilities

Most of the interviewed SMEs conducted business activities within and outside of India. Though a coherent part of the country, the subnational regions within India differ considerably. As a result, while doing business within India, SMEs confront variations stemming from the geographically, culturally, and institutionally different Indian states. For instance, each state has a different language, culture, regulatory systems, and infrastructure facilities. When there are vast differences within a country, it can create challenges for firms; however, it can also provide unique opportunities for the firms to learn from the home country's subnational complexities (Hutzschenreuter, 2020).

As exploratory interviews are used to guide the research in new directions, one of the key findings from the interviews was the discovery of intra-country country liabilities. Since most of the interviewed SMEs operated in international and domestic markets, they indicated facing challenges due to variation between the Indian states. The challenges that emerged due to subnational variations has been categorized into discriminatory, social, institutional and environmental hazards. To put it into perspective, the intra-country liabilities experienced by SMEs were similar to the liabilities foreign firms experience abroad. As a result of within-country diversities, SMEs were 'strangers in their own land' compared to LOF that makes foreign firms feel like 'strangers in a strange land.' Like LOF related challenges, the interviewed SMEs discussed experiencing similar problems such as discriminatory treatment by local customers, unawareness and uncertainty of the regulatory systems in each Indian states, transportation issues due to spatial distance between states, and inadequate infrastructure facilities within India. The findings concerning the intra-country liabilities encountered within India are discussed in detail in the following sections.

5.5.1 Intra-country Discriminatory Hazards

Many interviewees reported experiencing discrimination from domestic consumers. They indicated that perceptions of Indian consumers towards SMEs were one of the key disadvantages experienced while doing business within India. It is well documented in the literature that emerging market consumers perceive foreign manufactured products to be of higher quality than domestic products (Sharma, 2011). In line with the literature, the CEO of

MFG1 reported that Indian consumers disregarded their products as they perceived home country products to be of inferior quality to foreign products.

> *Perception was a major hurdle. We have faced hurdles as far as housekeeping brands are concerned. Even today, there are a lot of companies and a lot of hotels, lot of institutions. There are a lot of foreign chains that are available in India which are running in India, and they do not allow us to put our elbow in. Now you tell me if we want to make an edge over them, how are we going to do it? Later on, if you don't allow us to show us our performances, how are we going to grow? And how is an SME going to grow? Now the biggest threat to what I have found is that we Indians do not trust our own products. That is the biggest threat we face as SMEs. They would not like to learn [about our product], they just like to show-off with a foreign brand. Whether the brand works, whether the brand has given results, no one has cared.* – **MFG1**

The above comment also indicated that the firm confronted challenges from foreign firms operating in India. Furthermore, the CEO added that it is much simpler to sell its products to foreign customers than to consumers in India.

> *I have encountered this. Foreign customers, they give a very good ear to listening. Not only that, [but] they also know the surface chemistry of the products really well. I have dealt with lot of multinationals where I have foreigners have used our products and they have given a pat on our back saying that our products are amazing. Now when we deal with people such as multinational foreigners, they are aware of the surface chemistry. It will be much easier for us to adapt the product in the international market as compared to the Indian market because of the mindset and because of the education. Every individual in the international market is much more educated than the person in the Indian market. So, these are the biggest hurdles we face. The only thing that I would like to say here is that the biggest threat in Indians is that they should change their mindset. They should trust the Indian products, and if we Indians don't trust our Indian products, then how are the SMEs going to grow. But if you don't allow us, you don't open the doors for us to showcase our products then how are we supposed to do.* – **MFG1**

According to the international selling experiences of MFG1, foreign customers had a rational approach when making decisions about purchasing products from them. Foreign clients appreciated the products manufactured by this firm because they understood the composition of products compared to Indian customers, that mainly held biases towards the SME and its products. Moreover, the manager points out that understanding the composition of chemicals in their products requires a certain amount of knowledge. Due to the low literacy rate in India, it was difficult for the firm to convince the customers about the benefits of products manufactured by this SME. As such, the firm finds it much easier to accommodate the demand of foreign clients than Indian customers.

In a similar vein, the CEO of FOOD2 indicated that, unlike foreign customers, Indian customers were unaware of freezing their food products at suitable temperatures, which created problems for this firm while doing business within the Indian market.

> *Yes, the international market is much better than the domestic market because you know people are aware about freezing the frozen products. They understand how to use the frozen products. They are much more enlightened about food safety. They do not switch off their freezer in the mall. They know what can make the product go bad. But in India, you know the whole concept of food safety is still to gel in as people, the storekeepers in the mall will switch off the refrigerator at night to save the power. They keep ice cream in there, and ice cream will remain good at even minus four and minus five, but a frozen product preserved will not stay good and if you keep abusing the temperature. So, a lot of times, it has happened that – Oh, your aloo parathas have gone bad (said by consumers). So, when we check with the shopkeeper as to whether he had switched off the freezer in the night, he said, yeah, that is our usual practice. So, we have actually withdrawn our products in most of the stores. Only because they are not very clear about the food safety concept and our focus is more onto this international food chain you know because they are very focused on food safety and they have regular orders from various companies, so you know it's much better to deal with them.* - **FOOD2**

As a result of Indian retailers' unawareness of storing frozen food products at a suitable temperature, this SME received complaints from consumers about their products becoming unconsumable. Thus, the excerpt from FOOD2 highlights the challenges firms can encounter due to the lack of food safety practices followed by retailers within India. As a result of such challenges of operating in the domestic market, the CEO indicated that it had no intentions to expand its business in the Indian market; and would prefer to be engaged in exports.

> *To be very honest, we are not really focused on the domestic market. If I want to grow, I can grow. Currently, I see a lot of orders because the volume that everybody wants to*

give is not ideally priced. Even if I want to go to the smaller guys, then probably, I will be getting out of this export business that kind of volumes [is] available, but you know a lot of nitty-gritty. You know instead of dealing with 1000 clients in the local market it is better to deal with 15 clients in local market and 50 clients in the export market. - **FOOD2**

Concerning the consumer biases towards local firms, CEO of MFG3 noted the associated perceptions of Indian consumers towards home-grown firms were problematic.

Especially in India what happens, there is a psychology [that] imported is good. When my product goes to UK and US and comes back as made in USA product, people use it. But if I offer them directly, they say no no it is a substandard product. – **MFG3**

Much like consumers' negative perceptions towards SMEs, domestic businesses also disregard small firms. As a result of this bias, the founder of TXT1 reported that they faced challenges to receive payments from domestic retailers to whom they had supplied their products.

These shopkeepers are very reluctant to give the money. Like it had to be followed up a lot in time to get the cheque or whatever cash. They used to buy the things, you know, 50 pieces in different sizes, but then recovery was a tedious job. It used to never be good. I mean, they used to be a lot of trouble recovering your money. So, we stopped doing that. – **TXT1**

5.5.2 Intra-country Social Hazards

In India, the subnational regions have diverse socio-cultural traits such as different languages, dialects, cultures, values, and beliefs, which increases the disadvantages for firms operating within India. Due to language and socio-cultural diversity, the method of doing business varies across various parts of India. For instance, the interviewee of MFG2 highlights the differences in business tactics in northern and southern parts of India.

When we go [to] south, the communication is non-verbal. It is all written down. The moment we go north, it is all verbal and not written down. So those are the two different ends. So, we are in between, actually. We do partially verbal and partially written communication, but up north, written communication doesn't really matter. They see the person, they trust the person, and award the business. – **MFG2**

Referring to their business dealings in South India, the interviewee further added:

> *A lot of things are lost in translations. What you mean to say, what I understood, can be different. That way, south is better because everything is written communication, so there is no gap as such. So, whatever we discuss, we write down, sign it off, record, everything. Whatever their demands are as customers what they want it's all jotted down and signed off.* – **MFG2**

This excerpt from MFG2 explains the different business practices, i.e., formal and informal methods of doing business in different Indian regions. Due to considerable language variations, business dealings in South India are documented to avoid misunderstanding and misinterpretation. On the other hand, in North India, businesses deal based on verbal trust and promises. Therefore, SMEs intending to do business in Northern Indian states may have to develop trust and legitimacy. In contrast, those conducting business in the Southern Indian states will need to rely on written agreements to avoid misinterpretations.

Extending the intra-country hurdles emerging due to language differences, the interviewee of MFG1 discussed that they had to take the help of local distributors to promote their products in Southern Indian states. Moreover, the firm had to develop product charts in the local languages of that region so that the local customers could understand the chemicals added to their products.

> *We do face language problems, but there are our distributors who are in a better way to translate the whole product knowledge to them and when a local translates it is more easy for them to accept it rather than a person coming from other parts of the state. There are certain products which we have made in the local languages like the dilution charts, especially in the south; Bangalore and Karnataka region, where the people cannot understand Hindi. So, you know we have made it in Kannada.* – **MFG1**

In addition to the language variations, the culture varies substantially across different Indian states. The representative of FOOD1 describes the cultural variations that affect the food preferences amongst Indian customers. The manager implies that food producers have to understand the cultural integrities within the Indian economy to be successful.

> *The food habits change every hundred kilometers, which is a fact. In Maharashtra itself, we have the Konkan region, we have the Marathwada region, and we have the Ghat region. So, every language is different. So, within a state, language is different culture*

is also different. Konkan region doesn't like to be associated with others. The reason I am telling you this is because I am married to a Konkan person, and their culture is totally different from this end. Totally irrelevant. A Punekar is totally different. He doesn't consider himself to be a part of Maharashtra only. So, he is a Peshwa. So, the eating habits are different. So, within Indian itself, state itself, there are regional differences, casteism. So, whoever (businesses) has mastered these intricacies they have been successful. – **FOOD1**

5.5.3 Intra-country Institutional Hazards

Just like institutions are not homogeneous across countries (Kostova, Roth, & Dacin, 2008; Kostova & Zaheer, 1999), institutional conditions within a country can differ despite a unified political and economic system (Hutzschenreuter, 2020). In diverse economies like India, China and the USA, the subnational institutional environment is heterogeneous (Zhang, Zhao, & Ge, 2016) because regional authorities (in each state or province) control how they implement and administer the institutional policies. There can be differences in the informal institutions because of the variations in their normative or cognitive aspects (Meyer & Nguyen, 2005; Nguyen, Le & Bryant, 2013). For example, there are differences in taxes between states in the USA and special economic zones in China. Similarly, the level of bureaucracy and corruption may vary within a country. In some Indian states, it might take significantly less time for firms to deal with government authorities, whereas in other states dealing with regional authorities can be time-consuming. The decentralization of the powers and the autonomy to set certain laws and implement the national-level policies provides state governments to dictate their norms, which encourages corruption and bureaucracy. Though offering bribes and side payments to government officials is a common practice in emerging and less developed countries, it can cause hindrances, and small businesses may find it difficult to cope in such an environment.

As indicated in Chapter 2, India has 28 states, 718 districts, and 1500 municipal corporations. Therefore, dealing with different bureaucratic authorities in various states and districts can be challenging for SMEs. The CEO of IT1 discussed the challenges they encountered while dealing with local institutional authorities.

Of course, right from the registration itself, we had a lot of challenges because whatever name we were trying to register was getting rejected. Every time we wrote *three preferred names, sent it to the registrar of the companies and [got] rejection. Again, [we] sent three names and the rejection also came after one month. The business could not wait for so long and finally, I decided to choose a complicated name and that is how it became XYZ. Our company name at that time was XYZ, so I made it ABC and then applied for registration and then it got accepted. But it is definitely very very challenging.* – **IT1**

The CEO further indicated how the local government authorities deliberately harassed and accused the firm of making mistakes in tax payments.

Because when you start making money then different government organizations, they start looking at you in a very different way. Then they think we can make a lot of money out of this company. Government departments they come behind you and start harassing you to make money. They will start identifying that you made a mistake here and now you made a mistake in GST returns. You made a mistake in VAT returns, and then they start charging you extra and they start penalizing you. They start identifying soft spots where they can make their impact and make money out of you, which is a wrong culture, and which needs to change. Start-ups need to be supported. – **IT1**

The second excerpt from IT1 is particularly interesting because it shows the challenges confronted by this firm due to local government authorities, such as penalizing the firms for incorrect tax payments. As local institutional authorities within India are given administrative powers to oversee businesses in their region, they tend to misuse them to cause hindrances to businesses. Such obstacles can impede the progress of small firms. In order to keep bureaucratic state authorities away, firms are compelled to offer a bribe or make extra payments to the state authorities. The red tape within India is one of the reasons why firms doing business within India encounter intra-country liabilities.

In a similar vein, the CEO of MFG1indicated facing corruption while supplying its products to the hospitality and public sectors.

Yes, corruption in Indian. You cannot stop corruption. Corruption is there worldwide, but in foreign country, corruption is there at a higher level but here starts from passing your paper from a door. I told in Mysore by my dealer that sir any hotel you go they ask for 10% (commission). You go to the hotel and executive housekeeper. Even if she is a lady, she will say, give me 10% I will start [using] your product. [For] the railways, *recently we did a demo - a successful one. I asked my dealer what happened. He said, sir I don't think we can work with the railways because they are asking 30%. We cannot speak about these issues, you know. So, my dealer told me it is not possible for me to take. If it was 10% it would have been ok. So, corruption is at the lower level.* – **MFG1**

In order to get the business contract, MFG1 was asked to pay the price. These payments are commonly termed 'commission,' which is like giving a bribe or part of the firm's profits to the person in charge of assigning business contracts. If the firm agrees to pay a certain amount of commission, the contract is given to the firm. The excerpt also indicates that as corruption occurs at a lower level, SMEs are more prone to facing it.

As indicated previously, SMEs encountered language barriers in the South of India (see section 5.5.2). In addition to language variations, the institutional environment in this region differs vastly from other Indian states. The representative of FOOD1 indicated facing institutional challenges in this part of the country.

We never bothered about dealing in South. We had certain problems always in the south. In terms of the distribution, regional distribution. So, we are well off in we have a decent distribution in Tamil Nadu, in Karnataka, very poor distribution in Kerala. [It is] because of the rules and regulations and dealings with them. Establishing a distribution over there is now a very difficult because of the cultural part of it. There is communist government. – **FOOD1**

The interviewee further added that not serving South Indian states affected their international sales in the Middle East. This was because the diaspora in Middle Eastern countries mainly comprises South Indians.

What kind of Indians are in this location? [In] Middle East 70% [are] Malayalam enterprises, now that's where I face problem. So now because they do not know my brand so well, I do not have a great business in the Middle East. That's my major problem. Whereas in the US I am doing phenomenally well for the simple reason that there are Gujrati's and Punjabi's, and they know our brand extremely well. So that's the difference. West coast I am not doing that well because again [in] Andhra [my products are] not distributed that well again. So, the diaspora is important because of the recall of the brand in that particular region. So, you have to be popular to ensure *that you connect with them. You have to connect directly with the locals [and be] who brings India to them.* - **FOOD1**

Though the excerpt from FOOD1 indicated that the firm does less business in South India due to institutional complexities, the comment provided a deeper understanding of the consequences of not seizing this part of India. Their limited dealing in south Indian states had a major influence on its sales in Middle East countries because the South Indian diaspora residing there were unfamiliar with the firm from their own country. As such, the firm faced LOF in the form of legitimacy issues amongst the South Indian diaspora in the Middle East.

5.5.4. Intra-country Environment Hazards

In a large emerging economy like India, the geographic and environmental conditions can also vary substantially. Due to this, the CEO of MFG1 indicated adapting the chemical formulations of its products for different regions in India.

> *A product which may work in Mumbai's soil may not work in the Northern parts of India. Because of the water conditions, because of the soil and [there are] many parameters involved. So, understanding the demographics [of India], one has to formulate a product, to be in this competitive market.* – **MFG1**

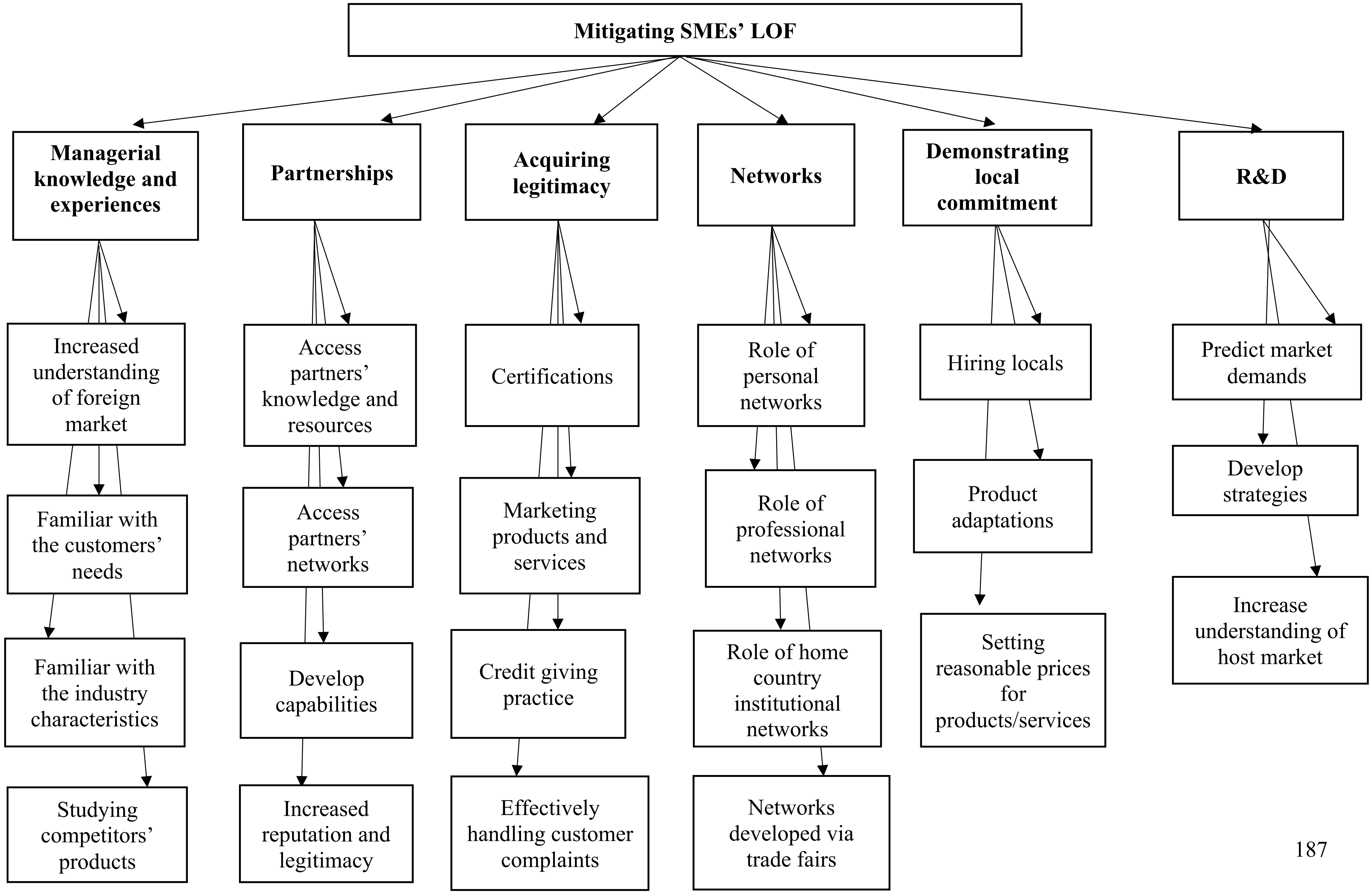
Additionally, the uneven infrastructure development and vast geographical distances between Indian states increase the logistical costs and transportation issues for small business owners.

> *Whenever the machinery comes, so there are two things. One is the volume, and another is the weight that matters. Our equipment weight is not a big thing, but the volume is big. So, it requires separate logistics transportation. Suppose if we are manufacturing in Pune and supplying to Delhi or the north part of Rajasthan or any part of Gujarat, the cost is very big. So, the transportation and the logistics part matter a lot. So, that is the constraint we are facing.* – **MFG8**

From the above comments, it is evident that the variations in subnational environments and infrastructures can cause severe challenges for SMEs doing business within India. Thus, in contrast to the other studies that mainly focus on the home country's domestic challenges, the excerpts in this section presented the problems encountered by SMEs due to subnational variations in a large, diverse, and decentralized economy.

In summary, SMEs encountered intra-country liabilities mainly due to differences in culture, language, perceptions, preferences, and institutional dissimilarities within India. Therefore, examining subnational regions to determine how the intra-country diversities affect the business activities at home and abroad, together with national-level elements, can provide new insights into emerging markets and their firms.

Figure 5. 3: Mitigating SMEs' LOF



5.6 Mitigating the Liabilities of Foreignness

In section 5.4, the study uncovered the LOF experienced by SMEs in international markets. The disadvantages encountered by interviewed SMEs showed that they faced different hazards in host markets. For instance, the lack of information about the host market environment and culture gave rise to unfamiliarity hazards. Moreover, the SMEs confronted discrimination from the local customers. The interviews also showed that firms encountered uncertainties due to the institutional differences between the home and host markets. Although section 5.4 identified the LOF Indian SMEs faced in foreign markets, in this section, the study highlights the approaches undertaken by the firms to mitigate the LOF. This provides preliminary answers to the second research question of this study.

5.6.1 Role of Founders'/Managers' Experiences and Knowledge

The extant literature suggests that when firms encounter LOFs, they use their knowledge and experiences as a coping mechanism to mitigate foreignness (Denk et al., 2012). During the interview, the participants were asked if their knowledge and previous work experience assisted them in coping with challenges encountered in foreign markets. Interviewees described that the knowledge attained through previous roles was helpful to handle the challenges encountered in international markets. For instance, the managing director of MFG7 indicated that they understood the expectations of foreign clients because of his working experience in different organizations.

> *We know what is the requirement of the customer (referring to foreign customer) because I am in this field for more than 25 years and I have worked in various positions in different companies. So, I have knowledge about the demand, requirement of the customer, so we always rather than selling a product we always sell a system to the company.* – **MFG7**

Similarly, a representative of FOOD1 indicated how his knowledge acquired by working for domestic and international firms benefitted the current venture.

> *I have started a lot of my career into scratch companies, starting from scratch. Buyer or supplier to taking it (a previous firm) up to a particular level. Let us say 10 million dollars to 15 million dollars step by step. That's how I have worked out things. So, I have seen a lot of challenges domestically and internationally at all levels. See, I am*

what 50 years old, and I have been in this industry for 25 years. So started from scratch. From agricultural businesses to all these other companies. - **FOOD1**

When firms encounter disadvantages in foreign markets, it is the responsibility of the managers or owners to tackle disadvantages stemming from foreignness. The excerpt from MFG7 shows that the managing director's previous work experiences were helpful in understanding the demands and requirements of foreign clients. Similarly, the comment from FOOD1 showcases the abundant work experience, and the learnings from previous roles were helpful in supporting firms' international business activities. Therefore, when managers or founders have knowledge of foreign markets, they can be leveraged to deal with LOF.

The managers experiences in foreign markets could also enable firms to cope with critical situations. For instance, the CEO of MFG1 described how he managed to cope with payment issues with foreign clients.

We supplied them [foreign client] say in the month of Feb 2018. We received our first cheque, and the cheque got bounced. It was not honored. So, as you know, if the cheque is not honored, what are the conditions. But being more submissive, we tried to follow up, and now we have received the cheque again for the second time and a post-dated cheque that too on the month Feb dated in December. Now during the follow-ups, they were giving us lame excuses that we have just started, and we do not have a proper cash flow, and our directors are not in India; they are abroad. All these lame excuses they kept on giving, and we were very stringent enough to take proper actions if the money is not paid to us, but ultimately, we got the money. I would say we have not received the money in hand, but we have received the cheque, which is a post-dated cheque. - **MFG1**

As a result of deferred payments from foreign clients, the CEO described that the firm conducts credit checks before dealing with foreign clients.

A smaller company, an SME cannot make mistakes. An MNC can make a mistake and they can get a second chance. We had lost a lot of money some years back, but now we really ration them. We scrutinize the customer properly [as] far as the background is concerned [and] the number of partners in the business. If there are more than two partners in the business, then we don't get involved. It is because of the difference of *opinions among the partners that the money gets held up, but if it is a single partner firm, then we are welcome to supply our products.* – **MFG1**

The comment from MFG1 indicated how an unpredictable situation taught the firm to cautiously screen foreign clients and avoid payment delays. Moreover, the SME also bypassed doing business with firms having more than two partners as there may be challenges emerging from differences of opinion. Thus, such unusual experiences enabled the firm to learn and develop a cautious approach before dealing with businesses in foreign markets.

5.6.2 Examining Competitors' Products or Services

Unless the foreign firm possesses know-how or competitive advantage such as technological capabilities, it is evident that they will face challenges from local and other foreign firms in the host markets. It is widely assumed that emerging market firms encounter substantial disadvantages when they compete in international markets. Dealing with competition can be relatively easy for an experienced firm or a firm with an experienced managerial team. Such firms can apply their accumulated knowledge, experience, and business networks (Qian et al., 2013) to overcome liabilities from competition in the host markets. However, a firm with limited international knowledge and experience can closely study its competitors to tackle liabilities emerging from them. The CEO of MFG1 indicated facing challenges selling their products in foreign markets due to competitors. In order to overcome the disadvantages from intense competition, this SME invested in meticulously studying the competitors' products. This strategy allowed the SME to improve and differentiate its products from competitors.

When [we] started, I had a lot of testing problems. You know I had to face a lot of big competitors, and I really was not aware of these competitors, but when I started visiting the hotels and when I started visiting the institutions. They told me that these are the companies that are manufacturing these lines of products. I made a very detailed study about these products. I bought these products in cash. These competitive brands, I would say, I bought them in cash, and I studied them knowing how the efficacy of the product was on my personal level. I studied how the competitive brands are moving in the market. How efficient these products are on the hard water stains, and I really came to know that these products are not as effective as [they] should have been. I made it a point that we should be better than this. – **MFG1**

Similarly, another interviewee indicated that they, too, studied and compared their products against competitors.

> *We have to study our products, and the comparisons should be very strong because a lot of competition in the local as well as the international markets, so you have to compare your products techno commercially.* – **MFG8**

Both the above comments indicated that interviewed SMEs studied their competitors to understand and enhance their knowledge of how their products would withstand competition. Thus, by doing a detailed study of the competitors, SMEs dealt with one of the hurdles, i.e., competition from local and foreign firms, which could adversely affect their ability to compete in international markets.

5.6.3 Role of Partnerships to Overcome LOF

Although accumulated experience and knowledge of the managers or founders can be helpful to offset unprecedented challenges, working in partnerships can significantly reduce the LOF that foreign firms experience in a host market (Zaheer & Mosakowski, 1997; Qian et al., 2013). The knowledge, resources, stability, associated legitimacy, and external endorsements that partners provide tend to compensate for the disadvantages firms experience in overseas markets (Asmussen & Goerzen, 2013). Based on this view, the interviewees indicated that they rely on the capabilities of their partners to do business in international markets. The following section highlights the assistance interviewed SMEs received through partnerships, which enabled them to reduce the LOF.

As emerging market SMEs tend to have limited capabilities, joint ventures can provide numerous benefits. These include access to partners' knowledge and capabilities. For instance, the business development manager of MFG2 highlighted that the partnership with a Korean firm provided them access to the partner's resources and expertise.

> *We have also tied up with one Korean company recently for technical collaboration kind of thing. It is not financial in any nature [as] they do not want any stake in us [our company] nor we hold any stake in theirs [the Korean company]. So that is an independent company which is 20 years old. We have joined hands to club the resources very recently. I joined in the month of September 2018, and last month (Nov 2018), we signed the JV (joint venture). I would say technical [joint venture]. When we are*

pitching for larger projects, there are certain areas of expertise where we are too low, where we don't know in that domain. So, these people have already worked in that. So, the idea is that we will jointly pitch for a project so there will be [an] appropriation of the project cost. So, something will go directly to them, something will go directly to us, but we jointly deliver the product to our customer, so that's our strategy. – **MFG2**

The above comment suggests that if small firms can tap into the partners' capabilities, it accelerates their learning. It also improves their ability to cope with uncertainties and enables firms to manage the additional costs of doing business in foreign markets. Moreover, collaboration enabled this SME to execute the project using partners' expertise, suggesting that small firms can overcome resource deficiencies through collaboration.

Similarly, another interviewee suggested that finding partners to do business overseas was one of the customary practices adopted by their firm.

So usually when I open up in a country or location, I try to find a good partner. And this partner will be somebody who already has a business like the company already established in the region. We do partnership with them, and possibly they should be in the healthcare sector. Possibly selling some solutions to the hospitals, clinics, or governments. So that makes life easier. So that nucleus is always the part of the game, and we understand that when we do. So, what we try to what you call it [a] marriage of the partnership. Marriage as in relationship, so that both of them understand. I think business is all about collaborations and partnerships so you can network with people. See, tomorrow I go from India sit there, establish a brand, it will take me two or three years to do it. So, it is better to collaborate. – **IT2**

Interestingly, the view presented by the interviewee from IT2 highlights that collaborations should be considered as "marriage between firms." It suggests that a successful partnership depends upon the harmony and understanding between firms, which is vital when working together. Finding local partners with whom the SME can work in symmetry reduces the uncertainties. Moreover, forming partnerships with local firms from similar industries provides easy access to the resources needed for the business in a foreign market. In addition, the firm can access the local networks and develop legitimacy in the host market through local partners, which is beneficial in overcoming the outsider status. Thus, by combining firms' capabilities with the complementary capabilities of the local partners, it can receive access to host market information and reduce liabilities of foreignness and outsidership.

Similarly, partnerships with large multinational firms could provide numerous benefits to SMEs. For instance, the owner of FOOD2 discussed how they received assistance from large firms to set up the required infrastructure to manufacture the products suited for international markets.

> *I saw things that are very old, unfortunately, people are not aware of various infrastructure requirement but we being working in the industry we were lucky to be assisted with a lot of European companies like Lamer sweets, big brands like Co-fresh in the UK, the American companies they have been helping out and coming over and telling us how to do it and how to meet the price and how things should look like and all the help is available, and things are getting better.* – **FOOD2**

The above comment shows how FOOD2 received help from MNCs to develop products according to the requirements of the foreign markets and set reasonable costs for their manufactured products.

Similarly, other interviewees indicated relying on partnerships because it helped reduce their LOFs.

> *We supply in international market via Tata International Ltd. So, wherever Tata international is having their own presence, so we supply materials to them and if they are not having their presence in [an] international market [then] for that country we supply directly.* – **MFG8**

> *We have collaborated with [a] German company. I don't have to go for the marketing. Our marketing cost have come down. No added expense, no exhibitions or anything. I cater to their networks. I don't have to worry about tapping the market.* – **MFG6**

From the above excerpts, it is clear that SMEs form partnerships to seek resources, knowledge and develop capabilities. In the case of MFG8, they supplied products through an Indian MNE with well-connected supply chains worldwide. By using the reputation and legitimacy of Tata enterprises, their products reached international markets. Partnerships also reduce discrimination and legitimacy issues that small firms frequently encounter in foreign markets.

In the second excerpt, the representative of MFG6 discussed that by partnering with a German firm, they could reduce the additional costs associated with promoting and marketing their products in host markets or at trade exhibitions. Additionally, this SME had access to partner firms' networks, which helped them to offset the outsider status. Thus, collaborations with foreign or domestic firms that have a global presence can reduce SMEs' disadvantages if they internationalize exclusively.

Although building and maintaining partnerships with host market firms can be especially important for emerging market SMEs, IT1 used a different approach to expand its services in the international markets. In order to enter international markets and overcome the initial challenges due to foreignness, they acquired small firms. Entering foreign markets by acquiring small local firms was their initial internationalization strategy. Although acquisitions provided several advantages to offset initial LOF, the CEO indicated that the firm now relies on establishing joint ventures as it allows them to use the partners' local market knowledge and capabilities effectively.

> *I got such opportunity to acquire Bordos, the UK host limited, and web hosting UK company. These were the three companies, which I got the opportunity to acquire in the year 2005-2006. Initially, it was on a stand-alone basis we were acquiring smaller companies and expanding, but now we have started following a partner model, where we do a JV with a local company [that] is very strong in the market. Along with them, we work on opportunities. They help us to identify the opportunities and then we give solutions to them. JV is the way we are moving now. In the case of JV, you already have a partner who has had very, very strong local experience. He understands the local geography, demography, everything. He knows everything about the customers. He has relationships in the market. He has a staff [that] is already there and ready to go and deploy solutions for the customers. So, 90% of the things your partner takes care of you. That's why we are now going for the JV. Because for a rapid expansion [and] growth you either need to go through JVs or acquire companies. And acquisition can actually go a lot of times wrong also. In some countries you have to go through partners only.* – **IT1**

The excerpt from IT1 indicates how this SME initially acquired small local firms to build its presence in the UK market. Acquiring local firms provided the SME required resources, such as the knowledge and experiences needed to operate in the UK, which helped reduce the disadvantages of foreignness. However, the firm shifted to forming joint ventures to acquire host market knowledge, develop sustainable relationships, rapidly expand, and increase the reachability of its services in international markets. Thus, initial acquisition deals were mainly conducted to set foot in the market; however, this SME later engaged in partnerships to expand its business in foreign markets.

5.6.4 Mitigating Institutional and Cultural Dissimilarities

As observed in section 5.4.3, SMEs encountered LOF due to institutional dissimilarities between their home and host markets. In order to overcome institutional hazards and attain legitimacy in the host country, the institutional theory suggests that organizations must conform to the rules, values, and norms deemed important by host market institutions (Deephouse, 1996; DiMaggio & Powell, 1983; Oliver, 1991; Westney et al., 1993; Zhang, Jiang & Noorderhaven, 2019). One of the many ways of attaining institutional legitimacy is via certifications. When firms obtain certifications, the issuing authority provides a formal confirmation that prescribed international standards are being achieved by the firm (Zhang et al., 2019). Thus, obtaining international certifications (such as ISO 9001 and ISO 14001) guarantees foreign customers and institutional authorities that the firm that they are dealing with complies with specific standards. To decrease the problems of discriminatory behavior by local customers and government authorities, and to develop legitimacy, emerging market firms obtain international certifications for their foreign business activities. For instance, a representative of MFG6 discussed how obtaining internationally recognized certification helped them to gain the confidence of foreign customers.

> *We applied for REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) registration. We got the REACH registration. It does [matter] because when your global customers look at you and they look at you with pressings. They look at you with these things, our registrations with elite institutions, and they feel that where we are and then when they cross-check it. Then they can understand what we are before they enter into contact with us and how worth is our track record and how many times we have defaulted anywhere. All things are mentioned in the REACH. Then this gives a good platform for them to think about whether we should go with them or no before they talk to us and once, they come to us then it is the positive note that they have to do business with us. It's a commercial understanding here and there. They come with a positive mind being the certificate body, certification what we have, with that they know*

what we are. It (certifications) shows the journey of the company. It shows you know whether we have defaulted anywhere, whether we have dishonored the global customers, whether we have any what do you call litigations with the global business, or how we are doing within the country. How is my financial backing? All these things are available with them. So once that is available, they study that, and then they pick up that pharma chem is a company that we can approach. – **MFG6**

The comment from MFG6 indicated how certifications promote efficiency and increase the legitimacy of the SME amongst host market customers. This SME established legitimacy and trust amongst foreign clients by obtaining certification and demonstrating that their business activities are aligned with international rules, norms, criteria, and expectations. Certifications can also act as evidence of firms' capability because it demonstrates that they can comply and deliver products that meet international standards. It also helps reduce discrimination by customers, suppliers, or government authorities due to being an emerging market firm with weaker competencies. Thus, acquiring certifications can help mitigate LOF.

Similarly, other interviewees discussed the benefits of gaining internationally recognized certifications.

We have something called as CAA certificate of analysis, which is provided by our quality team as well as an external person that yes everything as per the [foreign] client is there, and now the product is good to go. We are certified under [the] British retail consortium, a guideline that is created by all the big European supermarkets such as Tesco, ASDA [and] Sainsbury. Without this certification, we actually do not have entry into any of the supermarkets or any of the country, whether it is Costco in Australia, or you know any of the UK big brands like Sainsbury, etc. So, they deal with us only because we are certified as per the latest edition of 2017. So that's the first and most important step that we have to do to have sales in our company. – **FOOD2**

Well, we know what is going on in terms of the standards. I mean, here people talk about FSSI (Food Safety Services International), and we are talking about BRC (BRC Global standards) and all. Those standards are far beyond. Those are like FDA standards like your medicine making standards. The floor has to be absolutely where you can eat out off the floor. The machines have to be state of the art so much cleaning most of the things have to be handsfree automated. Everything plus the documentation *has to be perfect, so any questions asked tomorrow with regards to the traceability all these issues have to be taken care of. For that, you need to have that kind of setup, so you need to put money into your plant and materials. You need to have people doing that, and you need to have systems into place, and everything costs you. So that is the reason why certification is important that ascertains that you are as per the standard. And a lot of things happen is that for example buyers are also coming and inspecting your facility which is a very good thing.* – **FOOD1**

In this European company, if you have to supply the material then, [it] should be the CE marked. That means that product is a quality product [and] you can cater into the international market. As far as the export is concerned, then we made our company. We have set up our quality standards that this is. Because it [does] not matter what product Universal is selling, it matters what Indian products sells to the international market. Because it is not only your company, or it is not a matter of money or international dollar, international currency exchange, you are bringing in your country. It is the Indian brand you are selling in international markets, so it should be quality products. So, we have taken care that our products are internationally requirement fulfilled products. We have taken all certifications TUV certification, weights, and measures certification. Then quality checks, our company is the only company in India who uses robotic welding in our machines. What I am supplying is my technology, but it should get accepted internationally or [in] the local market. So, we have taken care [to get] certification [for] products, so that the product is approved and appreciated. – **MFG8**

The first excerpt from FOOD2 shows how obtaining international certifications was necessary for firms' internationalization. The CEO also hinted that acquiring certifications was important because foreign clients would only conduct business with firms that have appropriate certifications. Therefore, to reduce institutional hazards from the host markets, firms must comply with their standards and attain certifications to show that their business complies with the rules set by clients' countries. Extending the importance of complying to rules and regulations of the host market, the second excerpt showed how crucial it is for the food manufacturing SMEs to follow the global food safety standards, such as following appropriate practices at firms' manufacturing premises, to be granted certifications. SMEs with international certifications can convey to their foreign clients their manufacturing standards, so that their products are not underappreciated.

Additionally, the comment from the third excerpt is interesting because the representative of MFG8 described the importance of obtaining CE marking when dealing with European clients. As indicated previously, CE marking indicates that the manufacturer has assessed the product and meets the EU safety, health, and environmental protection requirements (European Union, 2020). By gaining CE marking, the firm declares that it conforms to all relevant EU-wide requirements. Thus, by adding this mark to its products, this SME implied that its manufacturing standards adhere to the host market requirements. Overall, acquiring certifications enables SMEs, especially from emerging markets, to develop trust and legitimacy, and gain the confidence of foreign customers while also overcoming the perceptual barriers associated with liabilities of foreignness and emergingness.

Although acquiring certifications can be one of the strategies to overcome the institutional and legitimacy-related challenges in foreign markets; however, firms' approach to handling consumer complaints and queries can help overcome LOF. The following comment from FOOD1 shows the steps taken by the SME to deal with complaints from the customers:

> *For example, there is a consumer complaint. As a matter of fact, foreign customers are much more understanding than Indian customers. So, then we explain to them. First thing is the response. How do we respond? And that is that it is the most critical. Because 20% of the people will fail there. You need to acknowledge that there is a problem. Second thing is that you need to make them understand that yes, there is a problem [and] we need to understand why ourselves. So, you (customer) help us with all the details of that product like the batch number and all those things, and we will go back and do all the traceability, and then immediately you inform the QA (Quality assurance team). The QA informs that we are a good legitimate company, [we] have the certifications, and we follow all the rules and regulations, so just give us time to analyze this and we will come back. Within two or three days, the report goes back. The entire proper international standard report goes back to him (customer) that yes, we analyze this and there may be a problem because of this, and these are the steps that I have taken.* – **FOOD1**

Moreover, by handling customers' complaints quickly, it helped the firm to gain distributors' confidence. This approach also helped the firm to demonstrate their grievance management procedure to the Canadian FDA – a food regulatory authority responsible for overseeing foods' safety and nutritional quality.

> *In between, the Canadian FDA asked us each, and every step in our process involved and we gave them roughly 500 sets of documents. Right from the flowchart, what is involved, where is the metal detector is placed, all the safety measurements systems [and] healthcare systems of the workers. They asked us every bit. All the documentation we gave it to them, and they were satisfied. We took care of the consumer also and the FDA also, so now the distributor felt so relaxed because he knew that now he is dealing with the right company.* – **FOOD1**

On the topic of going the extra mile to address customers' problems, the representative of MFG6 provided an example of how visiting a foreign client's factory helped solve their complaint.

> *For us, you know, if there is any complaint, international or domestic, whatever it is, for us it is prime important that the customer [is] satisfied, so that we get back again [to do business]. If not today, then in [the] future. So, we have to maintain that. My traders said that the person who has imported says that this is the problem. I said OK! I am coming! So, we went there. I spent only a couple of hours at actual users' residence and the factory, and then I told him what are the problems. He said is that if the container is not in proper shape, then I cannot sell it further. I cannot do anything with it. I said OK I will correct it. Then we emptied the container, did some straightening job, drum became ok, put the metal inside, sealed back, and I said is it ok for you. He said, yeah it is perfectly ok for me, and I came back.* – **MFG6**

By prioritizing issues of the clients or customers, FOOD1 and MFG6 were able to develop trust and legitimacy and establish long-term relationships. By effectively resolving complaints from overseas customers, SMEs can reduce stereotyping issues and enhance firms' growth and progress in foreign markets.

The interviewed SMEs discussed facing LOF due to host markets' unfamiliarity with them. As such, SMEs implemented different tactics to overcome the host market's unfamiliarity. It included strategies such as building a brand, marketing their services in foreign markets, giving products on credit to foreign customers.

As indicated previously, foreign customers may perceive EMFs' products to be of inferior quality. Due to the associated stereotypical views, MGF7 began offering products on credit during its initial years in foreign markets. This enables foreign customers to try and test the quality of the firm's products before paying full price for them. As a result of this approach, the firm gradually built trust and legitimacy in the international markets, which helped them mitigate discriminatory and unfamiliarity hazards.

> *Initially, when we started, there was no brand name. People questioned what is this? We never heard about this. So, for [overcoming] that, we had to take the challenge. We had to convince them [by saying] you run it for a month [and] if you are not happy [then] you don't pay me. If you will be happy then only you pay me. So, like that, we did for the six months. Then the customers understood the product is good. Then slowly, we created a brand by entering into good corporate houses and all these things. So that helped us a lot. So, six months I did that [and] finally now we are through.* - **MFG7**

Another tactic used by firms to acquire legitimacy included marketing their services in host markets. As customers in advanced economies have stereotypical perceptions of EMFs, the SME invested in creating a brand and hired exclusive sales personnel to portray themselves as a reputed enterprise. Thus, by positioning and representing themselves as a sophisticated enterprise, i.e., by clever marketing techniques in the USA and the UK, this SME developed a high profile and legitimacy that appealed to developed market customers.

> *They (foreign customers) all have a large enterprise kind of mindset. So [if] they all want to deal with large enterprise, that is how you create a marketing impact by making the customers feel that you are a very large enterprise and by positioning some very expensive sales guys who are highly branded and right from the top to the bottom they have the impact of working for large enterprise so all those things. So, it is all about branding and marketing in the US. They say that they are a technology-loving country, but actually, the US is not a techno-savvy country. For a trend to be adopted in the US, you just need to do the right marketing and they will accept it, whether it is technologically number three or number four or number five. Product doesn't matter. It doesn't need to be technically number one [only] well communicated. So, when Google started becoming popular, that was the time we also became very, very popular*

on google. So marketing is the most important thing. Without marketing, your internet business cannot survive. – **IT1**

Although marketing in host market increases the awareness amongst the foreign customers, not all SMEs can afford it. SMEs often have limited capital resources to invest in expensive promotions. As a result of this limitation, they may consider promoting their business via word of mouth and endorsements via existing network connections. The founder of MFG3 denied promoting their products through traditional marketing approaches. Instead, the firm received continuous business opportunities via its competitors' networks.

We are getting orders through a cascade effect. So, competitors come to know that we are supplying to this company industrial products. So, they know that this is a company. So, they approach me. But being my product, I can sell it to them. It is my design ownership, and that is how the business has grown. But I have never done any marketing targets. So that is how I have never given a single rupee bribe to any of my customers. So, there is no marketing; this is my credential, this is my product quality, this is the life of the product, you decide whether you want or not. – **MFG3**

When SMEs possesses innovative technology capabilities, it uses them to compete in global markets. Owning technological prowess helped this firm to promote itself and achieve legitimacy in foreign markets.

Furthermore, the literature has emphasized the negative consequences of cultural dissimilarities between the home and the host market (Asmussen & Goerzen, 2013). Studies have proposed that foreign firms operating in culturally different countries from their home country would experience disadvantages due to intercultural LOF (Mezias et al., 2002; Asmussen & Goerzen, 2013). To minimize the uncertainty stemming from the cultural aspects of the host market, EMFs could internationalize to countries sharing similar cultural traits to their home country. For instance, the CEO of IT1 discussed internationalizing its services to the South Asian, Middle East, and MENA regions instead of the USA, which requires enormous investments.

There is a lot of capital required if you want to become a strong player there in the US market. You need to put a lot of capital, and for that, you need strong PE (private equity) funds to fund your growth aspirations. So, we didn't have that much. So, then we focused [to] do something in India first. Then the UK was already there and then

> *countries around India with a similar culture where you can quickly understand the nerve of the customers like what they need and building relationship with the customer. So, countries in South Asia, in the Middle East region, entire MENA region (MENA is an English-language acronym referring to the Middle East and North Africa region), so those are all relationship-driven countries [and] culture is very similar to India. That's why we started focusing on those, and we are scaling up in those countries now, and now being backed by a very strong PE fund, we are focusing on the US market also. Expanding in the US market. We have got some very big opportunities now and now like all of a sudden, we have started some very big deals, in India as well as outside India.* - **IT1**

The cultural, cognitive, and normative similarities between South Asia, the Middle East, and MENA regions could help firms lower LOF. The comment also suggests that it was easy to build relationships with the customers from these countries as they understood their preferences. Thus, these countries' cultural and institutional similarities reduce the unfamiliar hazards SMEs would otherwise face in different markets. The quote also suggested that after doing business in India, the SME preferred to internationalize its business in the UK by acquiring the local firms, which is interesting and could be accounted for the colonial history between India and the UK.

5.6.5 Role of Personal and Professional Networks

Besides engaging in partnerships to mitigate the LOF hurdles, the importance of other types of networks to offset internationalization challenges has been well advocated in the literature (Johanson & Mattsson, 1988). For instance, the social theory has been identified by IE scholars (e.g., Harris & Wheeler, 2005; Oviatt & McDougall, 1994; Zahra, 2005), helping explain the early internationalization of small, resource-constrained firms. This is because it explains the internationalization of firms due to formal and informal network relationships. These relationships are vital in assisting firms to mitigate internationalization obstacles (Coviello & Munro, 1997). The key argument here is that networks can provide firms with valuable resources and information, regardless of the SMEs' experience and knowledge of international markets. Network ties can also help SMEs attain familiarity with the foreign market and mitigate the perceived uncertainties associated with operating in an unfamiliar foreign market (Musteen et al., 2014). In other words, small firms can attain foreign market knowledge via their contacts than by building knowledge by operating in the foreign markets for several years (Musteen et al., 2014), which can be time-consuming. Personal contacts of the SMEs (e.g., friends and families) and business contacts (e.g., clients, customers) can compensate for SMEs' lack of understanding of the foreign markets that hinder their international business activities (Chandra, Styles & Wilkinson, 2009; Khanna & Palepu, 1997; 2000). The importance of networks was reinforced by Johanson and Vahlne (2015). They asserted that firms confront unfamiliarity due to being an outsider of networks. As such, foreign firms disconnected from relevant networks can encounter more challenges than those embedded in local networks (Johanson & Vahlne, 2015).

As observed in previous studies (e.g., Coviello & Munro, 1997; Oparaocha, 2015; Sasi & Arenius, 2008), small firms rely predominantly on networks of their founders or CEOs for their internationalization. These networks comprise business networks (such as suppliers, competitors, strategic partners, and customers), social or personal networks (such as family, friends, colleagues, and employees), and institutional networks (such as governments, incubators, research institutes, agencies for international development and business associations). Social or personal networks, when used correctly, can be the primary sources of knowledge and information, allowing SMEs to learn quickly about foreign markets, business opportunities, and the existing hurdles in host markets (Xie & Amine, 2009). Moreover, they can help firms by suggesting strategies to reduce the risks and cope with the LOFs. However, there has been a minimal emphasis on the role of personal networks in helping Indian SMEs to cope with the LOF. The existing literature informs us of the increased reliance of Chinese enterprises on the Guanxi network system, which helps them to do business in foreign countries using personal and informal relationships (Lovett, Simmons & Kali, 1999). Leveraging these personal contacts can enable firms to legitimate their business, increase their familiarity with the host market environment, and reduce the liabilities stemming from outsidership, emergingness and foreignness.

Advocating the importance of personal network ties, a CEO of MFG1 indicated using an overseas family network to develop legitimacy amongst foreign customers.

> *My elder brother who is in the USA, he is an MS from John Hopkins so this [is the] collaboration. It is the technical assistance that is given by him, which is the latest molecule in the market. You [the firm] should try this, and the same thing is formulated in India, manufactured and marketed in India. Only the technical background is given by him, the technical assistance [such as] this is a new molecule in the market. So [that] the formulation is done at our end. The sampling is done from our end. He is the one who is not a major player here. But writing in technical collaboration with [him] is a marketing Gimmick. It makes an impact on the minds of the people. He is very much free to answer if anyone asks him anything about the product.* – **MFG1**

As indicated previously, emerging market SMEs are discriminated due to stereotypical views, such as producing inferior products. Forming a technical collaboration with a family member residing abroad enabled the firm to change customers' perceptions and overcome discriminatory hazards. Therefore, it can be asserted that personal networks can provide access to quality information and stronger knowledge of foreign markets to compete amongst other firms in host markets. Therefore, foreign market knowledge acquired from personal networks can be invaluable as it enables firms to cope with LOF.

Beside personal networks, professional contacts of the managers and founders can provide valuable information about the host market environment (Yli-Renko, Autio & Tonti, 2002). Professional networks include contacts developed during trade shows and previous work experience with foreign clients and suppliers. Such contacts are also developed when firms collaborate or form partnerships with other businesses. Like personal networks, professional ties can also provide crucial information and resources that could be vital to cope with LOF.

As professional contacts can be helpful, the founder of IT2 indicated that they make an effort to develop such networks.

> *I think business is all about collaborations and partnerships so you can network with people [and] have an understanding. So, once I got different experiences of working with different companies like Godrej, Datamatics in Bombay, I [got a] good network. So, the only thing you need to do is network, speak to different people. And you have to be constantly on your toes. Usually, whenever we go to these tech shows, the idea is to accumulate more business clients or connecting to few sets of people. Effort in Networking! Networking! Networking! is all it is! Because you need to understand different set of people, different mindsets, culture and try to see how you can match it to them.* – **IT2**

The above comment indicated the firms' increased reliance on professional networks (developed via founders' previous work experiences, partnerships, collaborations, and tech shows). The discussion also highlighted that the SME was able to increase its understanding of the host market's culture and customers' preferences because of the information received from these network ties. As emerging market SMEs may lack international experience, the knowledge acquired from professional networks can be valuable in conducting detailed market research and offsetting uncertainties and unfamiliarity hazards.

Other interviewees also highlighted the importance of professional networks to lower SMEs' LOF hurdles.

> *I didn't face any kind of hurdle because I am into this line [for] 25 years, and I have very good contacts [from] where I was working. And because I have very good corporate customers, when I started, immediately I got the orders and everything from them and they supported me because of the old relations and the way I supported them in the past. When I was working for some other companies, [they were] happy with all the services I had given. So, for that I got more than 10-15 corporate customers to survive.* – **MFG7**

> *There are no family networks as I am the first-generation entrepreneur. I got [network connections] from my previous experience for the company where I was working. There were clients that said that I only want to work with you whether you have a factory or not I don't care, but I know that if I put my trust in you, you will not let me down I didn't*

have to look for the first client. You know the base was already there for me. [Did] not have 50 clients at that point of time [but] 1-2 clients were already ready because they said that they want to work only with me. So, the initial push was already there, and I had to only built up. – **FOOD2**

Both the above excerpts demonstrated how SMEs access networks developed via previous work experiences during their early internationalization phase. As the managing director of MFG7 had developed a good rapport with the clients in his previous job, these clients were the first customers of MFG7 who helped kickstart the business. The second excerpt also describes a similar situation. Contacts established by working in previous job roles were FOOD2's, initial customers. Overall, networks developed via previous work experiences help to tackle uncertainties with foreignness.

5.6.6 Role of Home Country Institutional Networks

Besides personal and professional network ties, institutional networks can play an important role in influencing the international activities of the emerging market SMEs. (Yiu et al., 2005; Garg & Delios, 2007; Gaur et al., 2014). Institutional networks (e.g., export promotion councils, trade associations) can continuously provide essential resources such as market information, financial support, and business contacts, which could help reduce the LOF. For instance, the CEO of FOOD2 indicated receiving extensive support from the Agricultural and Processed Food Products Export Development Authority (APEDA) to manage and promote their business.

We get a lot of support from APEDA, which is agriculture export promotion council where we are members, and we are among the top five members. So, anybody [can] inquire with them directly for the kind of products we are manufacturing. Our company gets recommended by them that [we] are the first three top manufacturers. So go to them. That person (foreign client) did not know anything about frozen [food], so he straight went to APEDA, and [they] directed him to the companies. So, this is how our networks [are] getting used. – **FOOD2**

As SMEs are more resource-constrained than large enterprises, the CEO of FOOD2 said that they received incentives to build the necessary infrastructure and participate in trade fairs.

The export procedures [are different] for different countries [and] the subsidy that they give for building infrastructure. I will give you an example now. Once I buy 50 lakh machine, 10 lakh rupee is provided to me directly, so that is one of the financial assistances that is also available. In addition to that, I exhibit under their (APEDA's) umbrella, so what they do is in every trade fair they will hire a place in totality. Say 10,000 square feet is what they are going to hire, and then they will be distributed to various exporters like us at [a] subsidized rate. Even in product testing etc., they are giving subsidies to test the residues in our products. So, for every 10 lakh rupees or 10,000 they will provide you a subsidy of 2500, which is almost 25% of your cost. – **FOOD2**

The initiative from APEDA (a home country institution) to promote and connect the SME with potential foreign clients helps the firm reduce its marketing costs and overcome network deficiencies. Moreover, the subsidized rates offered help exporting firms reduce the costs associated with internationalization. Thus, LOF, such as unfamiliarity and uncertainties, can be lowered by exploring the support available for SMEs through home country trade associations.

Similarly, the interviewees from MFG5 and MFG4 commented that they obtained knowledge from seminars and trade exhibitions organized by home country trade and industry associations.

These types of networks do help us and in fact we keep on updating our knowledge domain. it is normally exhibitions, seminars, domestic and global level. - **MFG5**

We are registered with the FIEO (Federation of Indian Export Organization), that is the only association we are having, and they conduct seminars on various whatever GST came into effect last year, so they conducted class about that. So, these kinds of things are [the] only support we get. – **MFG4**

The importance of networks developed at government trade associations was also highlighted by the interviewee at TXT2.

Sir (referring to the founder) has been chairman for apparel exports promotion councils, which is an autonomous body under the textile Ministry government of India. We have been an active member of this apparel promotion export council. So, this is *the way he has got a vast experience dealing with the government departments like you know wherever the support is required in the textiles or the garment sector. So, all these things he is quite experienced, you know. He has got a lot many contacts and understanding with the government bodies. So, it becomes a little easier for us to function.* – **TXT2**

It is interesting to note that establishing contacts with government officials in India makes it easier for the firm to conduct its international business activities. As there are institutional hurdles to internationalizing (e.g., red tape), SMEs can use their contacts with institutional authorities to navigate the perils of reaching beyond their domestic borders. Additionally, SMEs can access resources to lessen LOF if they know how to leverage and utilize institutional bodes within India.

In addition to government associations, non-government institutions such as federations and chambers of commerce, and professional institutes can provide support services to internationalizing SMEs. For instance, the main focus of non-government associations is to strengthen the collaboration among members (Wang and Gooderham, 2014). This can be an excellent platform for members of the associations to meet new partners and develop new connections. SMEs that are a part of private associations can tap foreign market knowledge from other members, which otherwise can be challenging for EMFs to acquire (Khanna & Palepu, 1997; Ghemawat & Khanna, 1998). Emphasizing the importance of non-government associations, the CEO of IT2 discussed the following:

It is not the government. There is a group called young Indians [and] it is part of this CII (Confederation of Indian Industry). So young Indians have got about 36 chapters across India. And it is one of the most vibrant entrepreneurial one kind of an ecosystem where a lot of entrepreneurs in the region come together to do national building and all the stuff. So that was something, which actually gave me much more liberty and international reach. Young Indians they have something close to 4500 members in terms of the platform. They are part of the G20 part of the cry summit, and I could get access to more different locations. I was in London to receive the innovative Asian healthcare award from the commonwealth countries. So that was good for us. So, we see a bit of grant accumulation whenever we go out, and last year also, I was in the UK for the India UK tech summit. So, I am already talking with the department of international trade, UKTI and partners. Most of them are known to me. The British *council generals are in India. They have visited us in Trivandrum (now Thiruvananthapuram). So, there is a lot of support from the UK part also, but I was actually looking for a good partner to go to the UK market.* – **IT2**

The comment from IT2 portrays the advantages of becoming a member of non-government associations in India. As SMEs are presumed to lack knowledge and international experience, the diverse contacts developed through such associations at home can be sources of knowledge that inform firms about the host market environment. The networks developed through these establishments can also assist SMEs in optimizing their business activities according to the host country's environment. Additionally, SMEs could access the grants available through them, which can reduce the higher costs associated with doing business in foreign markets (e.g., costs of travel, communication, unfamiliarity costs). The quote from the interviewee at IT2 also highlighted the support received from the UK's trade associations.

Similarly, the representative of MFG8 noted facing fewer hurdles internationally due to support from home country institutions.

Yeah, we get [support] from FICCI. They are the international support agencies that are in international markets. If you go from the proper channels, then generally, nobody avoids you or stops you. They always welcome you. – **MFG8**

5.6.7 Importance of Trade Fairs

Interviewed SMEs also discussed the importance of trade fairs to overcome firms' lack of understanding of foreign markets. For instance, trade exhibitions were found to be an excellent platform to build networks, meet new clients, promote business activities, identify business opportunities, and understand the nature of competition in the market.

> *[From] trade fairs we can come to know what is the latest trend in the market and what the people are looking for, maybe when you roam around you feel like you know you are just roaming around like any other kids but there are lots of things to learn. –* **MFG6**

Similarly, the interviewee of MFG7 indicated that trade fairs were beneficial in developing networks and understanding customers' needs.

> *We are the members with CII. They also organize the exhibitions. So there also we participate, and this is twice in a year, so in that exhibition, you get [a] very good exposure. Trade fairs we get a lot of good customer base. Whenever you visit these things, they interact. They will understand you, what you are selling. You will understand what they are looking for. So, if you have something in your basket, you can approach them. So that is a good platform for us. –* **MFG7**

The CEO of FOOD2 also highlighted the importance of meeting new customers through international trade fairs.

> *You know the international trade fairs, of course, give you a lot of exposure to the international markets. We have been getting our new customers from the trade fairs like AMILA from Dubai, Paris, in the US so that's where we participate and that's where we participate, and this is where our customers are coming from. Trade fairs helped in being in touch with the buyers and the supermarkets. –* **FOOD2**

In a similar vein, the CEO of IT2 emphasized the importance of the social aspect of meeting potential customers at the international technology summit for high-tech SMEs.

> *I was in the UK for the India-UK tech summit. Usually, whenever we go to these tech shows, the idea is to accumulate more business clients or connecting to few sets of people. So that way, I have been in the UK met a lot of people ready to help and start-*

up my company there. They said that we can take care of all the legal regulations and all. So, this has been the benefit of coming to the tech show. – **IT2**

The advantages of attending trade shows or technology summits include the relatively low costs to promote the firm and establish new connections that could assist SMEs in foreign markets. These networks could potentially develop into partnerships as the firm develops trust and legitimacy. Moreover, by establishing social relationships at trade fairs, SMEs can reduce their costs of gathering foreign market information. The new relationships can also offset difficulties SMEs confront in finding buyers in foreign markets. Furthermore, trade fairs improve firms' understanding of the business environment in the host market and whether the firm has the scope to grow in that country.

In addition to building relationships, the representative of MFG8 indicated the importance of international trade fairs to launch new products.

We had participat[ed] in the international exhibition known as the BAUMA. That exhibition is held in Munich. This is the biggest exhibition and we had participat[ed] with our very proud Indian product reversible mixture. Then our product was proven, and then we started into the international market, to export our products. If one company is going international, one part is very important, i.e., exhibitions, trade fairs which plays [a] very important role, whenever you are launching any product. So, trade fair is the place where both get benefitted visitors as well as the participants because under one roof, participants get lot many visitors and same under one roof visitors get [a] lot many products under one roof. So, wherever we go, we always enter through trade fairs because that helps everyone to understand clearly. Clear [our] concept to the market and we also get knowledge what is going in the market around you. – **MFG8**

The comment suggests that trade fairs provide a platform for SMEs to test the suitability and demand of their products in foreign markets. Therefore, participating in trade fairs reduces the risks, such as product failure due to lack of demand, before launching it in international markets.

5.6.8 Recruiting Local Employees

Existing studies have found that foreign firms can lower the LOF by hiring locals (Cao & Alon, 2021; Goodall & Roberts, 2003; Newenham-Kahindi & Stevens, 2018). It is because natives can provide vital information about the local markets, which can be beneficial to tackle unfamiliarity and informational hazards (Cao & Alon, 2021; Patel et al., 2018). In line with the literature, a business development manager of MFG2 indicated hiring experienced locals as one of their crucial strategies.

> *The guy who we have employed there [in Brazil], he speaks a little bit of English. He is good [at] written communication; probably, he is using some translator. He is a local guy. He has exposure to this kind of industry [and] he has 15 plus years of experience. Right now, only one [person] in Brazil, probably Jan [2019] I will be going [there] to hire some more about 3-4 [new people]. [In] China we have three people working. –* **MFG2**

The above excerpt from MFG2 highlights the local hiring strategy of the SME for its offices in China and Brazil. By hiring a native for the firm's office in Brazil, the firm benefits from employees' accumulated knowledge of the local market and the industry. Moreover, the employees' proficiency in the local language assists the SME in overcoming language barriers while doing business in a foreign market. As this SME could reduce its foreign market unfamiliarity (in Brazil and China) by utilizing the local employees' knowledge, it intends to follow the same strategy of hiring more locals to expand its business operations in Brazil. The representative of MFG2 further added that they hired locals because of the institutional policies set by the foreign government authorities.

> *Because every country has its own set of rules, so completely built units (CBUs) are generally not welcome in many countries, particularly in developing countries. They want some content of work done in the same [place]. For example, Indian companies working in Bangladesh or Nigeria or even South Africa. So, they supply their products like motorcycles, scooters, mopeds, cars in semi-finished state so [that] some value addition is done there. So, you [the Indian firm] can employ local people. So that's the idea. Similarly, when we are going out same challenges are there. In Brazil also they will not encourage the whole equipment is shipped from India. They would want to add some value. The government would want us to add some value there. So, we create some employment, some kind of awareness, knowledge base. There are so many*

intangible benefits of dealing with overseas employees. You get an insight into the Modus Operandi, the technological know-how [and] lot of information. It's a multi-faceted growth. It is not only monetary or employing 4-5 Indian people for them, [but also] learning for the company. It is our policy that the local people's engagement has to be there for a long-term perspective. Manufacturing will be done from here in Pune, but inspection and all will happen there. For long term sustainability, that's the only way. - **MFG2**

LOF increases the cost associated with operating in an unfamiliar environment due to differences in the host markets' economic, administrative, geographic, and cultural attributes. SMEs' lack of knowledge and unfamiliarity with the foreign market could be compensated by hiring locals. By practicing a local hire strategy, SMEs could receive deeper insights into the ways of operating in the host market. Moreover, as foreign firms intend to build long-term relationships in the host market, SMEs can display their commitment to foreign institutional authorities by hiring locals.

5.6.9 Engaging in Local Adaptations

A recommended approach to reduce LOF is to engage in continuous learning and adaptation. Foreign firms often pursue a local modification strategy to fit in the host markets. They tend to adapt their products and processes to the specificities of the local business environment (including customer needs, management styles, business ethics, etc.) (Petersen & Pedersen, 2002). The foreign firm's willingness to learn and adapt helps in reducing LOF stemming from the host market environment (Petersen & Pedersen, 2002). Making adaptations to seem more local is especially important when host market customers display ethnocentrism or have biases towards products offered by domestic firms. This section discusses how the interviewed SMEs adapted their business model, products, and services to suit international market requirements.

The managing director of MFG7 noted that they had to differentiate and adapt their products to compete with other Indian and local companies in Bangladesh, offering the same products at a much lower price.

If we don't make it different than [other] Indian manufacturers, then nobody will entertain you because of the cost barrier. So, we have to take care of these things. We have to compete [with] their prices. We have to see our profitability and we have to see *the quality. So, this is the major hurdle for us, and these are always. [It] is not only the one product we have more than 1000 products. So, for everything, we have to do all [adaptations] so that we can compete with the local player.* – **MFG7**

The interviewee further added that they try to adapt their manufactured products according to the varying conditions of the foreign markets (e.g., the temperature in a particular country).

So that [European] atmosphere is different. You know the temperature is -4 this time. So, whatever the room temperature there or room temperature in India or room temp in Bangladesh, [they are] different. Room temp in the UK, if we are making the [some chemical] that is maximum is 15 degrees. Whereas the room temp in India is 35 degrees. And when it is in Bangladesh, it is 45 [degrees]. So, we have to see the product. If the products could run [at] that temperature. There are some different chemistries where [we] did this kind of rectifications so [that] in the higher temperature it should work. If it works in the UK atmosphere only so it is tough to work on this thing, and the problem started, so we did some amendments. Some changes [were also done] in the product to penetrate into this [Bangladesh] market. - **MFG7**

Although it can be difficult for a small firm to adapt its products to suit foreign market conditions due to resource limitations, MFG7 made the changes to outperform its competitors. Thus, by pricing its products in line with other companies in the host market, this SME gained legitimacy and decreased the LOF from customers and competitors.

The literature suggests that EMFs may not survive in developed markets due to the intense competition from local competitors (Barnard, 2010). As a result of the pressure to survive the competition in developed markets, EMFs tend to differentiate their business offerings from local competitors by adapting their products or services. The CEO of IT1 highlighted how its firm adapted and differentiated its services from competitors in the UK.

Definitely, there were a lot of local competitors, but the thing we found out was that all were very, very bad at customer service. So, they all wanted their customers to come online and do things with a digital portal only but never talk to a human. And we bought that human touch in the UK market. [Later] that is how every other hosting service provider started putting live chat and telephone support and all those things. Prior to our business, there was no one else doing this, but we made it mandatory that customers *should be given real-time support, live chat support, telephone support and whenever there is a problem, customers should be able to ring our people and talk to them.* - **IT1**

The strategy followed by this firm was to address the service gap in the developed market. Thus, they differentiated their services by introducing an online portal that offered real-time support to customers. This approach enabled IT1 to offset its competitive disadvantages in the UK.

Concerning the topic of business adaptations to overcome LOFs, other interviewees also reported modifying their products, packaging, and processes according to the requirements of the host countries.

We do adapt the products accordingly. That's why I said whatever the products we started is obsolete today and we don't manufacture that kind of products any longer now. Today the case is different. Today what [customers] want is this, my specifications are this, and price should be this. That [is how] I can get an entry into the market. There is a price, and we separate them according to their pricing. That's what we have been doing it. – **MFG6**

As far as the standards are concerned, what changes is the logistics and also the packaging, so we don't differentiate as such, but definitely we face a lot of things. We have to keep on upgrading. One thing is that we have to continuously keep reviewing the methods and the process. We have to keep on changing and our processes, all the processes. It is not only the manufacturing process, even the business processes [such as] the way in which we buy the material, the way in which we develop our product, the way in which we send the quotation, our commercial offer. So, there is a continuous review and update. – **MFG5**

The excerpt from MFG6 indicated how they adapted their products' specifications and prices according to the foreign customers' requirements. Similarly, in the case of MFG5, they constantly monitored, adapted, and reviewed their manufacturing processes according to the needs of the host markets. Therefore, overcoming LOF depends on the flexibility and capability of the firm to modify, adapt and improve its products or processes according to the specificities of the host market customers.

Furthermore, firms also tend to adapt themselves to comply with the institutional rules of the host market. It has been asserted that adapting organizational practices to match the host markets' institutional requirements can decrease the LOFs (Petersen & Pedersen, 2002; Ramachandran & Pant, 2010). A CEO of MFG3 indicated adapting its products as per the rules of the host country.

> *All our products are third-party certified. That is the minimum requirement we have. When you are talking about international markets, we should have all norms perfect than whatever environment norm that particular country is adopting we follow that and accordingly we change our processes or materials. If a certain country does not allow that particular material to be used. We adapt according to the requirements.* – **MFG3**

The comment from MFG3 suggests that firms could avoid liabilities stemming from the regulatory institutions of the host market by complying with their requirements. By better understanding location-specific regulations, firms can avoid paying fines and penalties for their lack of understanding and familiarity with the local rules and regulations. Thus, conforming to the host market institutional environment by adapting the products is likely to result in fewer regulatory missteps (Wu & Salomon, 2017).

5.6.10 Cost Effective Strategies

LOF is conceptualized as additional costs associated with doing business in unfamiliar foreign environments. Firms incur additional costs due to the geographic, economic, institutional, and cultural disparities between the home and the host markets. In addition, firms may incur additional expenses to tackle the varying preferences of foreign customers. For instance, customers in emerging markets are more price-sensitive than customers in developed markets. Due to price sensitivity in developing economies, IT1 used cost-effective strategies, such as downsizing its infrastructure facilities, to meet the expectations of emerging market customers.

> *South Asia is a very, very price-sensitive market, so you are relevant to this market only as long as you are very, very economical. You cannot demand a premium from the customers here, the UK you can get premium from the customers, the Middle East, you can get premium from the customer, Japan, South Korea you can get premium from the customers but India, Bangladesh, Nepal, Myanmar, Bhutan or Sri Lanka you will never get premium. That's the reason we came up with our products because it is cost-efficient. So, by cutting down the infrastructure sizing by 70%, the hardware we require*

at the back end is 70% lesser than our competition. That is how we have been able to survive and grow in this market because economically, we are very, very cost-effective to our customers. Whether we give a good service or not but the customers her want the cheapest and our mission has been to give greatest of the greatest service to our customers. But the customers here want the cheapest. All the time thinking about costs only. The customer in entire Southeast Asia doesn't want quality to be number one. [They] want price to be number one and then comes the quality and service and everything else. – **IT1**

By offering affordable services and products to customers in emerging markets, the firm could cope with the competition in the industry. Moreover, foreign firms can overcome discriminatory hazards and achieve legitimacy in price-sensitive emerging markets when they provide affordable products and services.

Similarly, the CEO of MFG1 indicated that one of their strategies to tackle the difficulties in foreign markets has been to offer good quality and economical products that are delivered to foreign customers on time.

I have learned only one thing in this business - your product has to be cost effective and your delivery has to be on time. These are the two things that I have learned in the industry that your product has to be cost-effective, your product has to have an amazing quality, and your product has to be delivered on time. – **MFG1**

Similarly, the interviewee at MFG7 discussed that they had to promote themselves amongst foreign clients by showcasing their reasonably priced products while maintaining quality.

Brochures that will not help. So, we do the training program for them (clients). We make some presentation for them, and as you know [in] any marketing, first of all, everybody will ask you the cost-effectiveness [and] how it is. So, while making the training for them, we have to take care of those things apart from the quality. You have to see the cost-effectiveness and environmentally friendly. So, we have to do the cost analysis also along with the benefits. And when you talk about the cost-effective(ness) and the quality increase, everybody will appreciate [it]. So, this 'fundas' (principles) we are doing very honestly. – **MFG7**

By conducting presentations for foreign clients, the firm demonstrated the cost-effectiveness of its products and environment-friendly practices adopted in its manufacturing process. This approach helps the firm to display its capabilities and develop a positive image amongst foreign customers. It also helps lessen discriminatory hazards (e.g., stereotypical views towards EMFs) from foreign clients.

5.6.11 Conducting Research and Development

The literature suggests that firms with intensive research and development (R&D) capabilities tend to alleviate LOF and enjoy a more effective international expansion (Li, 2008a). Although this has been discussed in the context of large firms using R&D capabilities to offset disadvantages, less is known about the R&D capabilities of small firms being useful to offset foreignness. R&D involves planning and developing new products, improving existing products, providing solutions to firms' current way of conducting business, and understanding the needs of the market (Davcik, Cardinali, Sharma, & Cedrola, 2021). The representative of TXT2 indicated that they relied on the market analysis conducted by the R&D team and their suggested strategies for international business decisions.

> *We have a strong design and product merchandising research team around 25 to 30 senior people are working so do you normally travel globally and then they get their strategy ideas fashion ideas from the world and then work accordingly. Then we have our R&D section, who work on mostly work motion time and study motion and all that.* – **TXT2**

Similarly, the interviewee at MFG7 indicated relying on the R&D team's inputs to predict the demands of existing and new products in foreign markets. Such information can be essential to avoid product redundancies. Moreover, the predictions from the R&D team can assist the SME in overcoming market uncertainty and reduce the risks of missing out on foreign business opportunities.

> *Our R&D team always work what will be the next demand of the market. It's technical [research]. So, we see what the future demand of the market is [because] the products need to be not outdated. It should be accepted in the market.* – **MFG7**

Likewise, the CEO of IT1 indicated creating an R&D team in their firm to receive recommendations and innovative solutions to sustain their business in international markets.

Growth brought another kind of challenge, [such as] how to sustain? Then customers started also going out because of some or the other reason. So, I wanted to stop that. Then [we] came up with the idea that ok, let us come up with some product (software solutions) of ours, which will help the customers avoid any downtime. So, during the [festive] seasons [like] Christmas, New Year, Good Friday [or] Halloween, their websites would crash, and then they would blame us! They would blame us that you didn't give us the rightly sized virtual machine or the dedicated server because of that there is so much load on our website and that the business is crashing. Then I created an R&D team because by that time, we had accumulated some money, so I created an R&D team and asked them to work on this. We had toppers from different colleges [and] universities. Gave them this assignment that now you need to come up with the platform of our own where customers can get scalability and flexibility. That is how our cloud platforms got conceptualized. They came up with real-time, vertically and automatically scalable platform. So that was a big innovation we did in 2010. – **IT1**

The competition among firms offering software services in developed markets can be challenging for an SME to tackle. Thus, by hiring recent IT graduates for R&D activities, the firm innovated and offered improved services to its foreign clients. Due to firms' improvisation, they could sustain themselves in foreign markets. Therefore, firms must engage in continuous learning, local modification strategy, and improvisation of their services to offset the LOF (Petersen & Pedersen, 2002).

5.7 Mitigating Intra-country Liabilities

In section 5.5, the study indicated that SMEs faced increased intra-country liabilities while doing business in different Indian states due to subnational variations (e.g., language, culture, and institutional differences). As disparities within India impose intra-country liabilities on SMEs, this section points out some of the approaches used by the firms to mitigate intra-country challenges.

In section 5.6.4, we saw that firms obtained globally recognized certifications to show their capability to comply with international institutional standards. Similarly, to tackle the intra-country liabilities, the interviewee at MFG3 indicated using local certificates valued in India to demonstrate their capability to domestic customers.

> *There are a lot of benefits of getting this certificate (a gold certificate that the company received for paying taxes on time). We have been given 100 percent toll-free all over India. So, there are a couple of advantages of this certificate. We need to show this certificate. we don't do this, but the government has given us.* – **MFG3**

All firms that pay annual taxes on time receive a certificate of appreciation. This certificate offers travel perks to businesses. As the costs of transporting products in geographically distant and institutionally different Indian states can be high, this SME used the certificate to avoid paying toll charges in various states and reduce logistics costs. Additionally, this certificate helps the firm show that it has paid all its taxes on time, increasing its reputation in India.

Acquiring legitimacy can be challenging for firms operating within India's vastly varying subnational regions. The interviewee of MFG4 indicated that by publicly listing the SME in the Bombay Stock Exchange's (BSE) junior trading market (lists only MSMEs), the firm gained legitimacy amongst Indian customers.

> *BSE is here for us as an SME. BSE they are a catalyst for bringing the company to the public platform. So, they help us in putting the company in the public domain. Definitely, when you say that [we are listed on BSE] - the biggest boards in India, then it is better than anything. People can value BSE listed company[ies] better than NSE. If you want to migrate to the bigger level platform, [then as a] listed company on BSE, helps and smoothens [the process]. Acceptability by the public will also be there.* - **MFG4**

Although achieving legitimacy through various means can help SMEs lessen discrimination from native customers, tackling the complexities of subnational variations requires external help. For small firms that lack resources, distributing products across India can be expensive due to the lack of proper infrastructure facilities. As a result, SMEs rely on their distributors' networks to supply their products in different parts of India. Similar to the benefits of using distributors abroad, assistance from domestic distributors can be beneficial in informing SMEs about the demand changes within India. Moreover, a reliable distributor can provide accurate information and assist the firm in overcoming intra-country liabilities. The interviewee at MFG7 discussed how distributors assisted them in understanding requirements within India.

> *See, India itself is a big country. So, every part we have a distributor. Sitting over here, you cannot do all these things. So, we have different distributors in all the places. More than around 8-10 distributors we have in India. They made us understand, they educate us, what kind of taste of a market [has, and] what they are actually looking for. So, this the work our distributor does. If you have a very good network, its easy in India also. Everywhere we have the network. Everywhere we have the technical guide.* – **MFG7**

Regarding networks assisting firms in overcoming domestic hurdles, the representative of MFG2 indicated that his contacts in the industry helped the firm develop a reputation. The interviewee also highlighted that their domestic business sales depended on existing customer networks.

> *I know all the line builders. Everybody I know in the industry. I worked in a very responsible position. So that goodwill is always there. If I want to meet an important person within the client, [then], he will be happy and say you may come any day. Then the word-of-mouth publicity is always there and basically about as of now more than 50% of business is a repeat from the existing customer. So, it is the goodwill that has been created over the period of time by supplying so many projects and up to the mark and exceeding the mark sometimes.* – **MFG2**

Similarly, the interviewee at MFG7 indicated the importance of networks to mitigate intra-country disadvantages.

> *Indian markets have a lot of challenges rather than international markets. If you have a very good network its easy [to do business] in India also.* - **MFG7**

By relying on the manager’s goodwill and contacts, the SME earns a reputation and repeat business in the domestic market. As such, managerial networks help overcome the challenges of operating within India.

5.8 Linkage Between Qualitative Interviews and Quantitative Survey

As outlined earlier in this chapter, the key purpose of conducting interviews was to seek initial validation of the conceptual model and inform the survey instrument. The exploratory and semi-structured interviews helped to improve the criterion validity of the survey instrument. The findings from the interviews supported the broader arguments that were raised in theoretical discussions in Chapter 2 and Chapter 3. In particular, the interviews were useful for understanding the disadvantages SMEs experienced in international markets and their approaches to tackling LOF. Mainly SMEs confronted challenges emerging due to unfamiliarity, discriminatory behavior, and varying institutional environment of the host market. In order to mitigate the LOF, SMEs used several approaches. Some strategies included utilizing the knowledge and experience of the founders/CEOs/managers, embracing network ties, developing legitimacy by adhering to international standards, engaging in local adaption, and implementing cost-effective strategies. Additionally, the findings indicated that the SMEs encountered intra-country liabilities while doing business in India due to the dissimilarities between Indian states.

Furthermore, the interview findings were used to develop the survey instrument. For instance, it helped to structure the questionnaire to collect data on the challenges the firms face within and outside India. Emerging themes from the interviews, such as institutional liabilities, discrimination, and SMEs utilizing network ties, previous work experiences, and support from business associations to mitigate LOFs, were also used to adapt the constructs drawn from previous studies and improve the newly operationalized LOF construct. The findings from the interviews were also helpful in the discussion of quantitative results and in drawing conclusions for the study, which are outlined in Chapters 7 and 8. Therefore, consistent with the mixed methods approach of this study, the results from the interviews were integrated with the findings from the quantitative survey instrument (please see Chapter 7).

5.9 Chapter Summary

As the first step in the mixed methods approach, this thesis conducted semi-structured and exploratory interviews with the CEOs/founders/managers of 15 internationally active SMEs based in India. A purposive sampling approach was used, and SMEs were selected that differ in size, industry sector, and international market selection. The in-depth interview session took an average of one hour (except for one interview that lasted approximately three hours). The interviews were conducted face-to-face or by phone, depending on the interviewees' availability. The key themes from the interviews are summarized in Table 5.3.

Table 5.3: Summary of Key Themes for the Interviews

Identifying the SMEs' LOF		
Topic	**Issue**	**Selected illustrative quotes**
Unfamiliarity hazards	- Cultural unfamiliarity - Institutional unfamiliarity	*"Bangladesh, they have a different culture. Sri Lanka has a different culture. If you go to Vietnam, that is a different culture. So being an Indian over there, we have to understand things [such as] what kind of culture they are following. Otherwise, lots of the European companies they have failed in Bangladesh because of this. We also lost money somewhere because of our lack of knowledge, and we suffered a lot during that time, but we slowly understood."* - ***MFG7*** *"The only challenge is regarding the products we exported. You know, due to the ingredients, the entire material was stopped there in Europe. They, in fact, even sent back the container saying that there is 10% of your items contain milk which is not allowed into Europe. So, the whole consignment had to come back, and then the milk items had to be removed, and then we had to export. And then you know we had an issue with the packaging, not with the product. Now the pulp that we had exported somehow had torn packs, due to which the client refused to accept it. So, the entire thing had to be bought back. [We had to] again re-pack and re-export it."* - ***FOOD2***
Discriminatory hazards	- Stereotypical views - Liability of emergingness - Lack of legitimacy - Lack of trust	*"Fighting with [associated perception] the bureaucracy, fighting with the bad name India has for product quality."*- ***MFG3*** *"I have been traveling all around the world. I was always being treated differently."* - ***FOOD1*** *"The moment I say health informatics, people are so scared about their data. How [do] we store it? And who has access to it? And all the stuff. So that what was something which was very, very critical and then the next thing is my customers were like do you really understand this space? And do you think you can you deliver? So those were the kind of questions that were asked."* - ***IT2***

Institutional hazards	- High taxes for foreign firms - Adhering to various international standards	*"Sri Lanka has put up so high barriers. Their duties are like 60% for Indian food products. They are protecting their own companies; otherwise, we can kill their companies."* – ***FOOD1*** *"Trading between India and the UK is very, very difficult, very challenging. Taxes are also high. There is no transparency. If you have to transfer money out of India to the UK, you have to deduct 15% TDS and which the UK company cannot claim. So, any money that goes from India to the UK, 15% is lost straight away, and then there are local taxes over there. So, there are [a] lot of complications between the UK and India. If the government looks into it, those can be sorted because there is a lot of synergy between the countries. But because of the complicated tax laws, both countries are not able to improve their sharing of knowledge and innovation. All this can help both the countries to grow significantly."* – ***IT1*** *"When I sent some small team of my people from my company to the UK for some installation, it is very difficult for my people to really work there because of the industrial rules, timing, safety aspect, time logs, all the standards."* ***- MFG2***
Financial hazards	- Payment delays from foreign clients - Bankruptcy - Limited capital resources	*"The challenge, the main thing was only the payment thing. For the payments, while dealing internationally, some payment issues are there. While working in Thailand, we got a payment issue. So, once we are stuck in for payments, then we need to approach our embassy to proceed, which took very long time for us. Like instead of providing any services, if we are doing some trade, then it is much more secure than providing services. Services [are] like - 100% payment will be received after providing the services. On the credit there [are] 30 days or 45 or 60 days but when it's stuck then that's the main issue."*- ***OIL*** *"There was a period [of] difficult situation. I was assuming that these customers will pay. But those customers stopped paying for some or the other reason. So, there was a period from March 2006 till Nov 2006 when the business, which was very, very small at that time, was on the verge of bankruptcy because it didn't have anything left. Neither there was any money left in the bank account, neither there was anything left with me, and my father was just a banker he didn't have enough money to fund my business."* ***- IT1***
Foreign market competition	- Intense competition from domestic and foreign competitors	*"Bangladesh, they don't have any own manufacturers, but lots of the big players are there. Lots of the Indian manufacturers are there. For the local manufacturer, they don't have to pay the extra duties. So that 20-25% margin already they are getting it, saving it. If we don't make it different than other Indian manufacturer then, nobody will entertain you because of the cost barrier. So, we have to take care of these things. We have to compete with their price."* - ***MFG7***

Mitigating the SMEs' LOF		
Topic	**Strategy**	**Selected illustrative quotes**
Experiences and knowledge	- Increased understanding of market requirements - Overcoming host market unfamiliarity and uncertainty	*"We know what is the requirement of the customer (referring to foreign customer) because I am in this field for more than 25 years and I have worked in various positions in different companies. So, I have knowledge about the demand, requirement of the customer, so we always rather than selling a product we always sell a system to the company." -* ***MFG7*** *"I have started a lot of my career into scratch companies, starting from scratch. Buyer or supplier to taking it (a previous firm) up to a particular level. Let us say 10 million dollars to 15 million dollars step by step. That's how I have worked out things. So, I have seen a lot of challenges domestically and internationally at all levels. See, I am what 50 years old, and I have been in this industry for 25 years. So started from scratch. From agricultural businesses to all these other companies."-* ***FOOD1***
Examining competitors	- Overcoming local competition	*"When [we] started, I had a lot of testing problems. You know I had to face a lot of big competitors, and I really was not aware of these competitors, but when I started visiting the hotels and when I started visiting the institutions. They told me that these are the companies that are manufacturing these lines of products. I made a very detailed study about these products. I bought these products in cash. These competitive brands, I would say, I bought them in cash, and I studied them knowing how the efficacy of the product was on my personal level. I studied how the competitive brands are moving in the market. How efficient these products are on the hard water stains, and I really came to know that these products are not as effective as [they] should have been. I made it a point that we should be better than this." –* ***MFG1***
Partnerships	- Overcoming knowledge and resource limitations - Developing capabilities	*"We have also tied up with one Korean company recently for technical collaboration kind of thing. It is not financial in any nature [as] they do not want any stake in us [our company] nor we hold any stake in theirs [the Korean company]. So that is an independent company which is 20 years old. We have joined hands to club the resources very recently. I joined in the month of September 2018, and last month (Nov 2018), we signed the JV (joint venture). I would say technical [joint venture]. When we are pitching for larger projects, there are certain areas of expertise where we are too low, where we don't know in that domain. So, these people have already worked in that. So, the idea is that we will jointly pitch for a project so there will be*

		[an] appropriation of the project cost. So, something will go directly to them, something will go directly to us, but we jointly deliver the product to our customer, so that's our strategy." - ***MFG2*** "*We have collaborated with the German company. I don't have to go for the marketing. Our marketing cost have come down. No added expense, no exhibitions or anything. I cater to their networks. I don't have to worry about tapping the market." -* ***MFG6***
Marketing and credit practices	- Increase host market familiarity - Overcome outsider status - Develop legitimacy	*"They (foreign customers) all have a large enterprise kind of mindset. So [if] they all want to deal with large enterprise, that is how you create a marketing impact by making the customers feel that you are a very large enterprise and by positioning some very expensive sales guys who are highly branded and right from the top to the bottom they have the impact of working for large enterprise so all those things. So, it is all about branding and marketing in the US. They say that they are a technology-loving country, but actually, the US is not a techno-savvy country. For a trend to be adopted in the US, you just need to do the right marketing and they will accept it, whether it is technologically number three or number four or number five. Product doesn't matter. It doesn't need to be technically number one [only] well communicated. So, when Google started becoming popular, that was the time we also became very, very popular on google. So marketing is the most important thing. Without marketing, your internet business cannot survive."* ***– IT1*** *"Initially, when we started, there was no brand name. People questioned what is this? We never heard about this. So, for [overcoming] that, we had to take the challenge. We had to convince them [by saying] you run it for a month [and] if you are not happy [then] you don't pay me. If you will be happy then only you pay me. So, like that, we did for the six months. Then the customers understood the product is good. Then slowly, we created a brand by entering into good corporate houses and all these things. So that helped us a lot. So, six months I did that [and] finally now we are through."-* ***MFG7***
Certifications	- Overcoming institutional hazards	*"We have something called as CAA certificate of analysis, which is provided by our quality team as well as an external person that yes everything as per the [foreign] client is there, and now the product is good to go. We are certified under [the] British retail consortium, a guideline that is created by all the big European supermarkets such as Tesco, ASDA [and] Sainsbury. Without this certification, we actually do not have entry into any of the supermarkets or any of the country, whether it is Costco in Australia, or you know any of the UK big brands like Sainsbury, etc. So, they deal with us only because we are certified as per the latest edition of 2017. So that's the first and most important step that we have to do to have sales in our company."* ***- FOOD2***
Networks – Personal,	- Overcome knowledge deficiencies	*"My elder brother who is in the USA, he is an MS from John Hopkins so this [is the] collaboration. It is the technical assistance that is given by him, which is the latest molecule in the market. You [the firm] should*

professional and home country institutional networks	- Acquire information about host market customers and their needs - Overcome financial hazards	*try this, and the same thing is formulated in India, manufactured and marketed in India. Only the technical background is given by him, the technical assistance [such as] this is a new molecule in the market. So [that] the formulation is done at our end. The sampling is done from our end. He is the one who is not a major player here. But writing in technical collaboration with [him] is a marketing Gimmick. It makes an impact on the minds of the people. He is very much free to answer if anyone asks him anything about the product." -* ***MFG1*** *"I think business is all about collaborations and partnerships so you can network with people [and] have an understanding. So, once I got different experiences of working with different companies like Godrej, Datamatics in Bombay, I [got a] good network. So, the only thing you need to do is network, speak to different people. And you have to be constantly on your toes. Usually, whenever we go to these tech shows, the idea is to accumulate more business clients or connecting to few sets of people. Effort in Networking! Networking! Networking! is all it is! Because you need to understand different set of people, different mindsets, culture and try to see how you can match it to them." -* ***IT2*** *"The export procedures [are different] for different countries [and] the subsidy that they give for building infrastructure. I will give you an example now. Once I buy 50 lakh machine, 10 lakh rupee is provided to me directly, so that is one of the financial assistances that is also available. In addition to that, I exhibit under their (APEDA's) umbrella, so what they do is in every trade fair they will hire a place in totality. Say 10,000 square feet is what they are going to hire, and then they will be distributed to various exporters like us at [a] subsidized rate. Even in product testing etc., they are giving subsidies to test the residues in our products. So, for every 10 lakh rupees or 10,000 they will provide you a subsidy of 2500, which is almost 25% of your cost." -* ***FOOD2***
Trade fairs	- Overcoming informational hazards - Finding foreign customers - Increasing understanding of host market	*"You know the international trade fairs, of course, give you a lot of exposure to the international markets. We have been getting our new customers from the trade fairs like AMILA from Dubai, Paris, in the US so that's where we participate and that's where we participate, and this is where our customers are coming from. Trade fairs helped in being in touch with the buyers and the supermarkets."* ***- FOOD2***
Hiring locals	- Acquiring host market knowledge - Overcoming language barriers	*"The guy who we have employed there [in Brazil], he speaks a little bit of English. He is good [at] written communication; probably, he is using some translator. He is a local guy. He has exposure to this kind of industry [and] he has 15+ years of experience. Right now, only one [person] in Brazil, probably Jan [2019] I will be going [there] to hire some more about 3-4 [new people]. [In] China we have three people working."* ***- MFG2***

Product adaptations	- Overcome competition - Geographical variation	*"Definitely, there were a lot of local competitors, but the thing we found out was that all were very, very bad at customer service. So, they all wanted their customers to come online and do things with a digital portal only but never talk to a human. And we bought that human touch in the UK market. [Later] that is how every other hosting service provider started putting live chat and telephone support and all those things. Prior to our business, there was no one else doing this, but we made it mandatory that customers should be given real-time support, live chat support, telephone support and whenever there is a problem, customers should be able to ring our people and talk to them."* ***- IT1*** *"So that [European] atmosphere is different. You know the temperature is -4 this time. So, whatever the room temperature there or room temperature in India or room temp in Bangladesh, [they are] different. Room temp in the UK, if we are making the [some chemical] that is maximum is 15 degrees. Whereas the room temp in India is 35 degrees. And when it is in Bangladesh, it is 45 [degrees]. So, we have to see the product. If the products could run [at] that temperature. There are some different chemistries where [we] did this kind of rectifications so [that] in the higher temperature it should work. If it works in the UK atmosphere only so it is tough to work on this thing, and the problem started, so we did some amendments. Some changes [were also done] in the product to penetrate into this [Bangladesh] market."* ***- MFG7***
Cost effective strategy	- Coping with price sensitive customers in emerging and less developed markets	*"I have learned only one thing in this business - your product has to be cost effective and your delivery has to be on time. These are the two things that I have learned in the industry that your product has to be cost-effective, your product has to have an amazing quality, and your product has to be delivered on time."* – ***MFG1*** *"South Asia is a very, very price-sensitive market, so you are relevant to this market only as long as you are very, very economical. You cannot demand a premium from the customers here, the UK you can get premium from the customers, the Middle East, you can get premium from the customer, Japan, South Korea you can get premium from the customers but India, Bangladesh, Nepal, Myanmar, Bhutan or Sri Lanka you will never get premium. That's the reason we came up with our products because it is cost- efficient. So, by cutting down the infrastructure sizing by 70%, the hardware we require at the back end is 70% lesser than our competition. That is how we have been able to survive and grow in this market because economically, we are very, very cost-effective to our customers. Whether we give a good service or not but the customers her want the cheapest and our mission has been to give greatest of the greatest service to our customers. But the customers here want the cheapest. All the time thinking about costs only. The customer in entire Southeast Asia doesn't want quality to be number one. (They) want price to be number one and then comes the quality and service and everything else."* ***– IT1***

Research and development	- Unfamiliarity hazards - Uncertainty hazards	*"Our R&D team always work what will be the next demand of the market. It's technical [research]. So, we see what the future demand of the market is [because] the products need to be not outdated. It should be accepted in the market." –* ***MFG7*** *"We have a strong design and product merchandising research team around 25 to 30 senior people are working so do you normally travel globally and then they get their strategy ideas fashion ideas from the world and then work accordingly. Then we have our R&D section, who work on mostly work motion time and study motion and all that."* ***– TXT2***

Intra-country Liabilities		
Topic	**Issue**	**Selected illustrative quotes**
Intra-country discriminatory hazards	- Negative perception towards SMEs - Favorable attitude towards foreign product	*"Perception was a major hurdle. We have faced hurdles as far as housekeeping brands are concerned. Even today, there are a lot of companies and a lot of hotels, lot of institutions. There are a lot of foreign chains that are available in India which are running in India, and they do not allow us to put our elbow in. Now you tell me if we want to make an edge over them, how are we going to do it? Later on, if you don't allow us to show us our performances, how are we going to grow? And how is an SME going to grow? Now the biggest threat to what I have found is that we Indians do not trust our own products. That is the biggest threat we face as SMEs. They would not like to learn [about our product], they just like to show-off with a foreign brand. Whether the brand works, whether the brand has given results, no one has cared." –* ***MFG1*** *"Especially in India what happens, there is a psychology [that] imported is good. When my product goes to UK and US and comes back as made in USA product, people use it. But if I offer them directly, they say no no it is a substandard product."* ***– MFG3***
Intra-country social hazards	- Language differences - Cultural variations	*"When we go [to] south, the communication is non-verbal. It is all written down. The moment we go north, it is all verbal and not written down. So those are the two different ends. So, we are in between, actually. We do partially verbal and partially written communication, but up north, written communication doesn't really matter. They see the person, they trust the person, and award the business."–* ***MFG2*** *"The food habits change every hundred kilometers, which is a fact. In Maharashtra itself, we have the Konkan region, we have the Marathwada region, and we have the Ghat region. So, every language is different. So, within a state, language is different culture is also different. Konkan region doesn't like to be associated with others. The reason I am telling you this is because I am married to a Konkan person, and their culture is totally different from this end. Totally irrelevant. A Punekar is totally different. He doesn't consider himself to be a part of Maharashtra only. So, he is a Peshwa. So, the eating habits are different. So, within Indian itself, state itself, there are regional differences, casteism. So, within Indian*

		itself, state itself, there are regional differences, casteism. So, whoever (businesses) has mastered these intricacies they have been successful."– ***FOOD1***
Intra-country institutional hazards	- Bureaucracy - Corruption - Administrative hurdles - State government regulatory hurdles	*"Because when you start making money then different government organizations, they start looking at you in a very different way. Then they think we can make a lot of money out of this company. Government departments they come behind you and start harassing you to make money. They will start identifying that you made a mistake here and now you made a mistake in GST returns. You made a mistake in VAT returns, and then they start charging you extra and they start penalizing you. They start identifying soft spots where they can make their impact and make money out of you, which is a wrong culture, and which needs to change. Start-ups need to be supported."* - ***IT1*** *"Yes, corruption in Indian. You cannot stop corruption. Corruption is there worldwide, but in foreign country, corruption is there at a higher level but here starts from passing your paper from a door. I told in Mysore by my dealer that sir any hotel you go they ask for 10% (commission). You go to the hotel and executive housekeeper. Even if she is a lady, she will say, give me 10% I will start [using] your product. [For] the railways, recently we did a demo - a successful one. I asked my dealer what happened. He said, sir I don't think we can work with the railways because they are asking 30%. We cannot speak about these issues, you know. So, my dealer told me it is not possible for me to take. If it was 10% it would have been ok. So, corruption is at the lower level."*– ***MFG1*** *"We never bothered about dealing in South. We had certain problems always in the south. In terms of the distribution, regional distribution. So, we are well off in we have a decent distribution in Tamil Nadu, in Karnataka, very poor distribution in Kerala. [It is] because of the rules and regulations and dealings with them. Establishing a distribution over there is now a very difficult because of the cultural part of it. There is communist government"* – ***FOOD1***
Intra-country environment hazards	- Geographical variations - Logistical challenges - Transportation issue - Inadequate infrastructure facilities	*"A product which may work in Mumbai's soil may not work in the Northern parts of India. Because of the water conditions, because of the soil and [there are] many parameters involved. So, understanding the demographics [of India], one has to formulate a product, to be in this competitive market."* – ***MFG1*** *"Whenever the machinery comes, so there are two things. One is the volume, and another is the weight that matters. Our equipment weight is not a big thing, but the volume is big. So, it requires separate logistics transportation. Suppose if we are manufacturing in Pune and supplying to Delhi or the north part of Rajasthan or any part of Gujarat, the cost is very big. So, the transportation and the logistics part matter a lot. So, that is the constraint we are facing."*– ***MFG8***

Mitigating Intra-country Liabilities		
Topic	**Strategy**	**Selected illustrative quotes**
Developing intra-country legitimacy	- Certifications - Listing on domestic stock exchange	*"There are a lot of benefits of getting this certificate (a gold certificate that the company received for paying taxes on time). We have been given 100 percent toll-free all over India. So, there are a couple of advantages of this certificate. We need to show this certificate. we don't do this, but the government has given us." –* ***MFG3*** *"BSE is here for us as an SME. BSE they are a catalyst for bringing the company to the public platform. So, they help us in putting the company in the public domain. Definitely, when you say that [we are listed on BSE] - the biggest boards in India, then it is better than anything. People can value BSE listed company[ies] better than NSE. If you want to migrate to the bigger level platform, [then as a] listed company on BSE, helps and smoothens [the process]. Acceptability by the public will also be there."-* ***MFG4***
Networks	- Acquiring intra-country knowledge and through distributors' networks - Utilizing industry networks	*"See, India itself is a big country. So, every part we have a distributor. Sitting over here, you cannot do all these things. So, we have different distributors in all the places. More than around 8-10 distributors we have in India. They made us understand, they educate us, what kind of taste of a market [has, and] what they are actually looking for. So, this the work our distributor does. If you have a very good network, its easy in India also. Everywhere we have the network. Everywhere we have the technical guide." –* ***MFG7*** *"I know all the line builders. Everybody I know in the industry. I worked in a very responsible position. So that goodwill is always there. If I want to meet an important person within the client, [then], he will be happy and say you may come any day. Then the word-of-mouth publicity is always there and basically about as of now more than 50% of business is a repeat from the existing customer. So, it is the goodwill that has been created over the period of time by supplying so many projects and up to the mark and exceeding the mark sometimes."–* ***MFG2***

CHAPTER 6

QUANTITATIVE ANALYSIS

This chapter provides the results of the analysis of the responses from a web-based survey that of Indian SMEs. It presents an overview of the data preparation and reliability procedures prior to data analysis and outlines the descriptive statistics of key variables used in the study. The chapter includes testing of the hypotheses using independent sample *t*-tests and outlines the statistical analyses to address the research questions. It concludes with a summary of the quantitative findings.

6.1 Introduction

As indicated in Chapter 4, the thesis adopts a mixed methods approach with qualitative interviews and a subsequent questionnaire-based survey. This chapter outlines the analysis and the findings from the survey, which was administered from August 2020 to March 2021. Table 6.1 gives an overview of the statistical analysis for the quantitative part of the thesis.

Table 6.1: Overview of the Statistical Analyses

Issue	Statistical analysis
Hypothesis testing (No interstate experience SMEs)	- Independent sample *t*-tests
Hypothesis testing (Interstate experience SMEs)	- Independent sample *t*-tests
Additional research findings - Comparing means between: 1. Foreign advertisement adaptation and LOF 2. Interstate personal networks and LOF 3. Interstate external networks and LOF 4. Interstate government support and LOF 5. Interstate knowledge of channels of distribution and LOF	- Independent sample *t*-tests

6.2 Survey Response

The response rate of web-based survey is summarized in Table 6.2. A total of 32,342 questionnaires was distributed to SMEs in India via email containing a web link to allow participants to complete the survey on Qualtrics (please see Section 4.4.4. for more details). Out of the total distributed questionnaires, 669 surveys were returned. From 669 surveys, 601 questionnaires were either from firms that did not meet the SME criterion or were missing key data. The total number of usable questionnaires was 68.

The quantitative part of the thesis is very exploratory, as the number of completed questionnaires was lower than expected. Given the small number of usable responses, the decision was taken that the planned two-stage least squares regression would be replaced by comparing means using independent samples *t*-test.

Table 6.2: Summary of the Response Rate

	Number of surveys	Percentage (approximate)
Total survey emails sent to potential participants	32,342	100%
Surveys returned	669	2%*
Out of surveys returned, surveys were not completed due to: a. Not being an international company	106	16%**
b. Non-usable surveys	493	74%**
c. Non-SMEs	2	0.3%**
Fully completed surveys	68	10%**

*Percentage for surveys returned was derived from the total survey emails sent.
**Percentages representing the number of surveys not completed and fully completed were derived from the number of surveys returned, which is 669.

Amongst the 669 surveys that were received, the 106 firms that indicated they did not operate in foreign markets (see question 6 in Appendix F) were directed to the end of the survey. Thus, data were not collected from SMEs that were not operating internationally.

6.3 Data Preparation

Before conducting statistical analysis, the survey data were checked. The procedures are outlined below.

6.3.1 Non-response Bias

Non-respondents may differ substantially from respondents with respect to attributes such as demographics, motivation to do business and behavior, which may affect the study's results and create non-response bias (Groves, 2006). Thus, early and late respondents are often compared according to key demographics: firm characteristics such as industry, age, international experience, percentage of international sales, head-office location (e.g., Maharashtra, Gujarat); and the position of the respondent (e.g., owner, manager). The research methods literature suggests that the later respondents can proxy non-respondents as they would have likely not responded had there not been extensive follow-up (Groves, 2006). Early responses are defined as surveys returned soon after sending them, and late responses reflect the surveys received after the reminder emails were sent (Sousa, Ruzo, & Losada, 2010). There were no clear distinctions between the early and late respondents. Following the survey invitations, 31 firms completed the questionnaire quickly, and were classified as early respondents. However, after sending multiple reminders, there was an increase in the number of firms that completed the questionnaire. The extensive follow-up approach saw 37 additional firms completing the questionnaire; these are considered as late respondents.

6.4 Descriptive Statistics

As mentioned in section 6.2, a total of 669 surveys was received, with 68 usable responses, all of whom were from SMEs that were internationally active. The sample firms comprised 32 SMEs that did not have interstate experience and are termed as 'no interstate experience SMEs'. SMEs that conducted business within India alongside their international business are denoted as 'interstate experience SMEs'. The sample included 36 SMEs with interstate experience.

Participants were also asked to indicate the size of their firm: micro, small, or medium (see question 43 in Appendix F). As this question was asked towards the end of the survey, a few missed answering the question. Table 6.3 provides information regarding the distribution of survey responses by firm size.

Table 6.3: Distribution of Sample SMEs by Firm Size

Type of firm	Number of responses
Micro enterprises	38 (57.6%)
Small enterprises	23 (34.8%)
Medium enterprises	5 (7.6%)
Total	**66 (100%)**

It can be seen from Table 6.3 that the usable survey responses were mainly from micro and small enterprises. This is consistent with the findings presented in the Indian MSME Ministry's 2020-21 annual report, which indicated the existence of more than 63 million micro and small enterprises, compared only 5000 that fall under the category of medium-sized (Financial Express, 2021).

In Table 6.4, the distribution of sample SMEs by size and industry type is summarized.

Table 6.4: Distribution of Micro, Small and Medium Enterprises by Industry Type

Industry	Micro enterprises	Small enterprises	Medium enterprises	Subtotal
Agriculture, forestry and fishing	23	3	3	29 (43.9%)
FMCG	10	5	3	18 (27.3%)
Pharmaceuticals	5	5	3	13 (19.7%)
Engineering	2	5	2	9 (13.6%)
Auto components	1	5	2	8 (12.1%)
Manufacturing	3	5	0	8 (12.1%)
Healthcare	2	3	2	7(10.6%)
Information technology (IT)	3	2	2	7 (10.6%)
Automobiles	1	3	1	5 (7.6%)
Textile	2	1	2	5 (7.6%)
Construction	2	1	1	4 (6.1%)
Oil and Gas	1	1	2	4 (6.1%)
Metal and Mining	1	0	2	3 (4.5%)
Media and entertainment	2	0	1	3 (4.5%)
Retail	2	0	1	3 (4.5%)
Consumer durables	0	1	1	2 (3.0%)
Financial and insurance services	1	0	1	2 (3.0%)
Professional, scientific and technical services (e.g., consulting)	1	0	1	2 (3.0%)
Real estate	1	0	1	2 (3.0%)
Steel	1	0	1	2 (3.0%)
Cement	0	0	1	1 (1.5%)
E-commerce	0	0	1	1 (1.5%)
Education and training	0	0	1	1 (1.5%)
Gems and jewelry	1	0	0	1 (1.5%)
Infrastructure	0	0	1	1 (1.5%)
Power	0	0	1	1 (1.5%)
Renewable energy	0	0	1	1 (1.5%)
Telecommunications	0	0	1	1 (1.5%)
Tourism and hospitality	0	0	1	1 (1.5%)
Other	1	1	2	4 (6.1%)
Total	**38 (57.6%)**	**23 (34.8%)**	**5 (7.6%)**	**66 (100%)**

Totals and percentages are based on number of respondents.

The agricultural industry, which includes firms belonging to forestry and fishing, represents the largest overall proportion of responses (43.9%), followed by other industries such as FMCG (27.3%), pharmaceuticals (19.7%) and engineering (13.6%). As agriculture is the primary source of livelihood for about 54.6% of India's population (IBEF Report, 2022), the sample appears to demonstrate representativeness with respect to the population. In addition to these top three industries, the questionnaire was completed by firms belonging to automobile components (12.1%), manufacturing (12.1%), healthcare (10.6%) and IT (10.6%) industries, reflecting SME dispersion across various other industries.

Table 6.5 displays the distribution of the sample firms' annual revenue in 2019 by their industry type.

Table 6.5: Distribution of Sample SMEs by Industry and the Company's 2019 Annual Revenue[5]

	Company's annual gross sales in 2019[6]			
Industry	**Turnover under US$630k (INR 5 crores)**	**Turnover between US$630k and US$6.2 million (INR 5 crore and 50 crores)**	**Turnover between US$6.2 million and US$12.5 billion (INR 50 crore and 100 crores)**	**Subtotal**
Agriculture, forestry, and fishing	23	5	1	29 (43.3%)
FMCG	10	6	1	17 (25.4%)
Pharmaceuticals	5	5	2	12 (17.9%)
Engineering	1	6	1	8 (11.9%)
Manufacturing	3	5	0	8 (11.9%)
Auto components	1	5	1	7 (10.4%)
Healthcare	2	3	2	7 (10.4%)
Automobiles	2	3	1	6 (9.0%)
Information technology (IT)	2	3	1	6 (9.0%)
Construction	1	2	1	4 (6.0%)
Oil and Gas	2	1	1	4 (6.0%)
Textile	2	1	1	4 (6.0%)
Media and entertainment	2	0	1	3 (4.5%)
Retail	2	0	1	3 (4.5%)
Consumer durables	0	1	1	2 (3.0%)
Financial and insurance services	1	0	1	2 (3.0%)
Metal and Mining	0	1	1	2 (3.0%)
Professional, services (e.g., consulting)	1	0	1	2 (3.0%)
Real estate	1	0	1	2 (3.0%)
Steel	0	1	1	2 (3.0%)
Cement	0	0	1	1 (1.5%)
E-commerce	0	0	1	1 (1.5%)
Education and training	0	0	1	1 (1.5%)
Gems and jewelry	1	0	0	1 (1.5%)
Infrastructure	0	0	1	1 (1.5%)
Power	0	0	1	1 (1.5%)
Renewable energy	0	0	1	1 (1.5%)
Telecommunications	0	0	1	1(1.5%)
Tourism and hospitality	0	0	1	1 (1.5%)
Other	2	2	0	4 (6.0%)
Total	**37 (55.2%)**	**28 (41.8%)**	**2 (3.0%)**	**67 (100%)**

Totals and percentages are based on number of respondents.

[5] As per the 2020 guidelines of Indian Ministry of MSMEs, the classification of the MSMEs is based on their investment in plant and machinery or equipment, and annual turnover.
[6] INR to USD conversions are based on August 2022 exchange rates.

Table 6.5 shows that the largest proportion of the responding companies reported less than USD 630K annual revenue, consistent with the fact that most of the firms in the MSME sector are micro and small enterprises (MSME Report, 2020).

As the study separates the sample SMEs into two different categories, i.e., interstate experience SMEs and no interstate experience SMEs, Table 6.6 displays the distribution of the sample firms by industry and this key locational categorization.

Table 6.6: Distribution of Sample SMEs by their Industry Type

Industry	Interstate experience SMEs	No interstate experience SMEs	Subtotal
Agriculture, forestry and fishing	12	19	31 (44.9%)
FMCG	8	9	17 (24.4%)
Pharmaceuticals	8	5	13 (18.8%)
Engineering	8	1	9 (13.0%)
Auto components	7	1	8 (11.6%)
Manufacturing	3	5	8 (11.6%)
Healthcare	3	3	6 (9.0%)
Information technology (IT)	4	3	7 (10.1%)
Automobiles	4	1	5 (7.5%)
Oil and Gas	2	2	4 (6.0%)
Textile	1	4	5 (7.2%)
Construction	3	1	4 (5.8%)
Metal and Mining	2	1	3 (4.3%)
Media and entertainment	1	2	3 (4.3%)
Retail	3	0	3 (4.3%)
Consumer durables	2	0	2 (2.9%)
Financial and insurance services	1	1	2 (2.9%)
Professional, scientific, and technical services (e.g., consulting)	1	1	2 (2.9%)
Real estate	1	1	2 (2.9%)
Steel	1	1	2 (2.9%)
Cement	1	0	1 (1.4%)
E-commerce	1	0	1 (1.4%)
Education and training	1	0	1 (1.4%)
Gems and jewelry	1	0	1 (1.4%)
Infrastructure	1	0	1 (1.4%)
Power	1	0	1 (1.4%)
Renewable energy	1	0	1 (1.4%)
Telecommunications	1	0	1 (1.4%)
Tourism and hospitality	1	0	1 (1.4%)
Other	3	2	5 (7.2%)
Total	**36 (53.7%)**	**31 (46.3%)**	**67 (100%)**

The agriculture industry (17.9% for interstate experience SMEs and 28.4% for no interstate experience SMEs) and FMCG industry (11.9% for interstate SMEs and 13.4% for no interstate experience SMEs) represented the largest proportions for both categories, followed by the pharmaceutical industry (11.9% for interstate experience SMEs and 7.5% for no interstate experience SMEs).

Furthermore, Table 6.7 shows the annual revenues for the sample SMEs. It can be seen that nearly all of the SMEs with interstate experience had annual revenues between $630K and $6.2 million. Moreover, the majority of the SMEs without interstate experience had annual revenue under $630K, making them micro-enterprises (with revenues under $630K). In comparison, the majority of the subset of SMEs that had interstate experience were small enterprises (with revenues between US$630K and US$6.2 million).

Table 6.7: Distribution of Sample SMEs based on Annual Revenue

Annual revenue	Interstate experience SMEs	No interstate experience SMEs	Subtotal
Turnover under US$630K (INR 5 crores)	16	21	37 (55.2%)
Turnover between US$630K and US$6.2 million (INR 5 crore and 50 crores)	21	7	28 (41.8%)
Turnover between US$6.2 million and US$12.5 million (INR 50 crore and 100 crores)	1	1	2 (3.0%)
Total	**38 (56.7%)**	**29 (43.3%)**	**67 (100%)**

Totals and percentages are based on number of respondents.

Participants were asked to indicate their 2019 sales percentages in their home state, in other Indian states, and in international markets. As shown in Table 6.8, most of the sample SMEs had 20-40% sales within India (home state and other Indian states) and 60-100% sales outside of India.

Table 6.8: Distribution of Sample SMEs by their Annual Gross Sales in 2019

Companies' Percentages of Sales in 2019		Micro enterprises	Small enterprises	Medium enterprises	Subtotal
Sales in firms' home state	20%	26	21	3	50 (75.8%)
	40%	7	2	2	11 (16.7%)
	60%	1	0	0	1 (1.5%)
	80%	3	0	0	3 (4.5%)
	100%	1	0	0	1(1.5%)
Subtotal					66 (100%)
Sales in other Indian states	20%	23	17	1	41 (62.1%)
	40%	12	5	4	21 (31.8%)
	60%	1	0	0	1 (1.5%)
	80%	1	1	0	2 (3.0%)
	100%	1	0	0	1 (1.5%)
Subtotal					66 (100%)
Sales in international markets	20%	7	1	0	8 (12.1%)
	40%	3	0	1	4 (6.1%)
	60%	12	8	3	23 (34.8%)
	80%	6	9	0	15 (22.7%)
	100%	10	5	1	16 (24.2%)
Subtotal					66 (100%)
Total		**38 (57.6%)**	**23 (34.8%)**	**5 (7.6%)**	**66 (100%)**

The questionnaire also collected information on the number of full-time employees. Table 6.9 outlines the distribution of full-time employees for the sample SMEs according to the five constructed categories (0-100,100-499,500-999,1000-4999,5000-9999). The majority (approximately 60%) of the sample firms employed fewer than 100 people.

Table 6.9: Distribution of Sample SMEs by Number of Full-Time Employees

Number of full-time employees[7]	Interstate experience SMEs	No interstate experience SMEs	Subtotal
0-99	25	15	40 (59.7%)
100-499	4	5	9 (13.4%)
500-999	0	5	5 (7.5%)
1,000-4,999	1	10	11 (16.4%)
5,000-9,999	0	2	2 (3.0%)
Total	**30 (44.8%)**	**37 (55.2%)**	**67 (100%)**

[7] For classification purposes, many countries define SMEs based on the number of employees in the firm. However, Indian SMEs are defined based on their annual turnover and initial investment.

Table 6.10 displays the number of sample firms in terms of six different age categories. More than 60% of the total firms are between 0-15 years old. Compared to SMEs with interstate experience, SMEs without interstate experience were more likely to be younger.

Table 6.10: Distribution of Sample SMEs by Company Age

Company age (In years)	Interstate experience SMEs	No interstate experience SMEs	Subtotal
0-5	9	18	27 (40.3%)
6-10	3	5	8 (11.9%)
11-15	4	3	7 (10.4%)
16-20	9	1	10 (14.9%)
21 and above years of age	11	4	15 (22.4%)
Total	**36 (53.7%)**	**31 (46.3%)**	**67 (100%)**

Table 6.11 provides an overview of the distribution of sample firms by their years of international experience.

Table 6.11: Distribution of Sample SMEs by their International Business Experience

Years of doing international business	Interstate experience SMEs	No interstate experience SMEs	Subtotal
Less than 1 year	2	2	4 (6.0%)
1	5	7	12 (17.9%)
2	2	2	4 (6.0%)
3	1	6	7 (10.4%)
4	0	2	2 (3.0%)
5	1	1	2 (3.0%)
6	1	0	1 (1.5%)
7	0	1	1 (1.5%)
8	3	1	4 (6.0%)
9	0	1	1 (1.5%)
10	0	1	1 (1.5%)
11	1	0	1 (1.5%)
12	1	1	2 (3.0%)
13	0	0	0 (0.0%)
14	1	1	2 (3.0%)
15	2	0	2 (3.0%)
17	3	0	3 (4.5%)
18	1	1	2 (3.0%)
19	2	1	3 (4.5%)
20	2	0	2 (3.0%)
21 years and over	8	3	11 (16.4%)
Total	**36 (53.7%)**	**31 (46.3%)**	**67 (100%)**

The table above displays that 23.9% of the respondents (16 SMEs) indicated that they have up to one year of international business experience. Compared to SMEs without interstate experience, more SMEs with interstate experience had at least 21 years of international business experience (3 vs. 8 SMEs, respectively).

Table 6.12 displays the distribution of the sample SMEs by the location of their first international markets. It is important to understand which markets were chosen by Indian SMEs as their first international markets because the literature suggests that firms tend to internationalize in neighboring countries to reduce LOF.

Table 6.12: Distribution of Sample SMEs by Location of Company's First International Markets

Country	Interstate experience SMEs	No interstate experience SMEs	Subtotal
UAE	22	10	32 (48.5%)
UK	12	7	19 (28.8%)
USA	11	8	19 (28.8%)
Germany	9	5	14 (21.2%)
Bangladesh	11	1	12 (18.2%)
Singapore	5	4	9 (13.6%)
Sri Lanka	7	1	8 (12.1%)
China	3	4	7 (10.6%)
Malaysia	4	4	8 (12.1%)
Japan	5	3	8 (12.1%)
Hong Kong	3	2	5 (7.6%)
Thailand	4	1	5 (7.6%)
Nepal	4	0	4 (6.1%)
Vietnam	3	0	3 (4.5%)
South Korea	2	1	3 (4.5%)
Other	3	13	16(24.2%)

Note: Quite a few of the responding SMEs indicated multiple countries as their initial international markets.

The three most frequently entered first main foreign markets for SMEs, both with and without interstate experience were UAE (48.5%), UK (28.8%) and USA (28.8%). By far, these foreign countries were the popular choices, which is expected, as they are identified as large markets with substantial ethnic Indian populations and have similar legal systems to India's. In particular, the sample SMEs may have selected UAE as their first main foreign market due to its close proximity to India and very large Indian diaspora. Of course, the UK and India have strong historical ties.

Table 6.13 illustrates the distribution of survey respondents by their position. Most of the respondents that participated in the survey were owners and founders of the SMEs.

Table 6.13: Distribution of Sample SMEs by Survey Respondents

Position	Interstate experience SMEs	No interstate experience SMEs	Subtotal
Owner	24 (35.8%)	22 (32.8%)	46 (68.7%)
Founder	26 (38.8%)	16 (23.9%)	42 (62.7%)
Marketing/Export Manager	4 (6.0%)	3 (4.5%)	7 (10.4%)
Other	3 (4.5%)	6 (9.0%)	9 (13.4%)
Total	**36 (53.7%)**	**31 (46.3%)**	**67 (100%)**

Note: Many respondents indicated that they were acting in multiple roles.

6.5 Reliability

This section provides an overview of the dimension reduction and reliability procedures conducted prior to the statistical analyses. The primary procedure followed for developing multi-item constructs is exploratory factor analysis. Additionally, reliability analysis is carried out to examine the internal consistency of the identified scale items.

6.5.1 Exploratory Factor Analysis

Exploratory factor analysis (EFA) is a widely-employed approach for investigating the underlying structure of a set of variables (Field, 2005). It enables researchers to combine variables, to create a manageable and interpretable of factors that captures the underlying dimensions (Cavana et al., 2001; Field, 2005). By reducing the number of variables, factor analysis "achieves parsimony by explaining the maximum amount of common variance in a correlation matrix using the smallest number of explanatory concepts" (Field, 2005, p. 620). This technique also allows us to utilize multi-item measures and facilitates the development of useful inputs for hypothesis testing.

As previously indicated, the dataset comprises responses from Indian micro-, small- and medium-sized companies operating in international markets. The data revealed two kinds of SMEs: (1) companies that operated internationally without having operated across state borders in India and (2) companies that operated in various Indian states alongside foreign markets. The second type of firm is denoted as *interstate experience SME*s, distinguishing them from *no interstate experience SMEs.* Therefore, the data are split according to these two categories, in order to try and tease out distinctions between firms that have inter-state experience and those that do not. It should be noted that separate factor analyses have been carried out for each construct, for each subsample, rather than placing all the items together in a single factor analysis. This is to allow for the potential that the two subsets of the data have different underlying structures.

The EFA undertaken in this study is based on principal component analysis with varimax rotation, and factors are extracted based on the criterion of eigenvalues greater than 1 (Kaiser, 1960). The scree plot provides a graphical representation of the number of factors to be retained, based on the inflection of the curve (Cattell, 1966). Please refer to Appendix I for the results of the factor analyses. There are consistent factors identified for all of the theoretically-driven constructs across the two subsets (with and without interstate experience). Table 6.14 provides preliminary information regarding the number of factors created for each of the constructs used in the study. The two subsets (with and without interstate experience) demonstrated extremely similar factor structures, and were combined for the final exploratory factor analyses, in order to benefit from the larger number of observations.

Table 6.14: Factors Created from Factor Analyses

Number of factors	Constructs	Items and survey questions
One factor	Personal networks	Five items, survey question 13
	External networks	Six items, survey question 16
	Foreign institutional support	Four items, survey question 10
	Distributors' capabilities	Four items, survey question 23
	Technological capabilities	Five items, survey question 18
Two factors	Liability of foreignness - Institutional LOF - Unfamiliarity LOF	 Six items, survey question 8 Two items, survey question 8
Five factors	Foreign market knowledge - Customers' knowledge - Competitors' knowledge - Normative environment knowledge - Regulatory environment knowledge - Knowledge of distribution channels	 Four items, survey question 14 Two items, survey question 14 Three items, survey question 14 Three items, survey question 14 Four items, survey question 14

All of the items pertaining to the second dependent variable, international performance, loaded onto a single factor. However, the decision was taken to examine each of the financial performance items – sales, sales growth, return on investment, net profit, and international profit to sales ratio – separately, in order to tease out more subtle nuances. Before answering the international performance questions, respondents were asked if they had at least five years of international business experience (filter survey question 28, Appendix F). Participants were then asked to rate their satisfaction with their firm's international performance. Respondents with *less than five years* of international business experience indicated their satisfaction with the firm's performance up to the present, and those from firms with *at least five years* of international business experience rated their satisfaction with the firms' performance for both the first five years and most recent five years (please see survey question 29, Appendix F). As the study examines the effects of LOF on the firms' recent performance, the 'up *to the present'* (for the younger firms) and *'the most recent five years'* (for the older firms) answers were considered; in this way, the recent performances of all of the SMEs in the sample are studied. A similar approach was adopted for the perceived international success question (survey questions 30 and 31, Appendix F).

The descriptive statistics for the questionnaire items used in the study, following the EFA process, are summarized in Table 6.15. The factors were created using factor scores.

Table 6.15: Descriptive Statistics for Variables Used in the Analysis

Sample type	Construct items	N	Min	Max	Mean	Median	Std. dev
Foreign market knowledge: Customers							
Interstate experience SMEs	• Demographics and segments	25	4	7	5.40	5.00	0.95
	• Needs and preferences	26	3	7	5.81	6.00	1.05
	• Trends in customers' needs and preferences	26	2	7	5.73	6.00	1.15
	• Identifying potential new customers	26	3	7	5.54	6.00	1.06
No interstate experience SMEs	• Demographics and segments	23	2	7	5.39	6.00	1.34
	• Needs and preferences	24	3	7	6.04	6.00	1.08
	• Trends in customers' needs and preferences	24	4	7	6.04	6.00	1.08
	• Identifying potential new customers	24	1	7	5.21	6.00	1.71
Foreign market knowledge: Competitors							
Interstate experience SMEs	• Foreign competitors	26	2	7	5.38	6.00	1.20
	• Competitive strategies employed by other firms	26	2	7	4.96	5.00	1.37
No interstate experience SMEs	• Foreign competitors	26	1	7	5.38	6.00	1.44
	• Competitive strategies employed by other firms	24	1	7	4.96	5.00	1.65
Foreign market knowledge: Normative environment							
Interstate experience SMEs	• Values and norms	26	2	7	4.92	5.00	1.294
	• Business practices	26	2	7	5.42	5.00	1.238
	• Impact of cultural differences on business	26	1	7	5.12	5.00	1.451
No interstate experience SMEs	• Values and norms	25	1	7	5.40	6.00	1.50
	• Business practices	25	3	7	5.60	6.00	1.15
	• Impact of cultural differences on business	22	2	7	5.09	5.00	1.34
Foreign market knowledge: Regulatory environment							
	• Legal systems	26	3	7	5.50	6.00	1.27

Interstate experience SMEs	• Risks associated with doing business	26	1	7	5.50	6.00	1.53
	• Government rules and regulations	26	2	7	5.77	6.00	1.14
No interstate experience SMEs	• Legal systems	23	2	7	4.43	5.00	1.64
	• Risks associated with doing business	24	4	7	6.13	6.00	0.90
	• Government rules and regulations	24	3	7	5.54	6.00	1.31
Foreign market knowledge: Channels of distribution							
Interstate experience SMEs	• Available distribution channels	24	3	7	5.21	5.00	1.17
	• Appropriateness of existing distribution channels to your firm	25	3	7	5.24	5.00	1.09
	• Quality of existing distribution channels	25	3	7	5.20	5.00	0.95
	• Logistical requirements	26	3	7	5.69	6.00	1.01
No interstate experience SMEs	• Available distribution channels	24	1	7	5.00	5.50	1.74
	• Appropriateness of existing distribution channels to your firm	24	1	7	5.38	6.00	1.83
	• Quality of existing distribution channels	24	1	7	5.29	6.00	1.78
	• Logistical requirements	24	1	7	5.38	6.00	1.40
Technological capabilities							
Interstate experience SMEs	• Better than our competitors’	25	2	7	4.92	5.00	1.68
	• Our competitive advantage	25	1	7	5.28	5.00	1.56
	• Result of our heavy investment in research and development (R&D).	25	1	7	4.72	5.00	1.83
	• Designed using complex and specialized assets	25	2	7	4.96	5.00	1.39
	• Protected by patents, copyrights and/or trade secrecy	25	1	7	4.96	6.00	1.74
No interstate experience SMEs	• Better than our competitors’	25	1	7	5.80	6.00	1.50
	• Our competitive advantage	24	4	7	6.04	6.00	1.04
	• Result of our heavy investment in research and development (R&D)	22	1	7	5.82	7.00	1.76
	• Designed using complex and specialized assets	20	2	7	5.35	6.00	1.56

	• Protected by patents, copyrights and/or trade secrecy	21	2	7	5.33	6.00	1.82
Distributors' capabilities							
Interstate experience SMEs	• Setting prices	17	4	7	5.94	6.00	1.02
	• Selling	17	4	7	6.53	7.00	0.87
	• Collecting market information	17	1	7	5.53	6.00	1.46
	• Arranging local shipping	16	1	7	5.94	7.00	1.69
No interstate experience SMEs	• Setting prices	15	3	7	5.27	6.00	1.48
	• Selling	14	2	7	5.64	6.00	1.59
	• Collecting market information	15	3	7	5.40	6.00	1.35
	• Arranging local shipping	12	2	7	5.33	6.00	1.82
Personal networks							
Interstate experience SMEs	• Family, relatives, and/or personal friends of decision-makers	26	1	7	4.15	5.50	2.37
	• Past work colleagues and/or business contacts decision-makers	25	1	7	4.60	5.00	2.16
	• Past and/or current business associates of company	25	1	7	4.24	5.00	1.92
	• Family, relatives and friends of company staff	24	1	7	3.42	3.50	2.14
No interstate experience SMEs	• Family, relatives, and/or personal friends of decision-makers	25	1	7	5.16	6.00	2.17
	• Past work colleagues and/or business contacts decision-makers	24	1	7	5.42	6.00	1.76
	• Past and/or current business associates of company	23	1	7	5.17	6.00	2.12
	• Family, relatives and friends of company staff	22	1	7	4.55	5.50	2.19
External networks							
Interstate experience SMEs	• Trade fairs	25	4	7	6.24	6.00	0.723
	• Industry associations	23	2	7	5.48	6.00	1.44
	• Ethnic and/or diaspora communities	24	1	7	5.46	6.00	1.58
	• Government	24	1	7	5.33	6.00	1.55
	• Academic/research institutes	22	1	7	4.00	5.00	1.87
	• Professional institutes	25	1	8	3.72	3.00	2.18

No interstate experience SMEs	• Trade fairs	25	2	7	6.40	7.00	1.08
	• Industry associations	21	2	7	5.86	6.00	1.38
	• Ethnic and/or diaspora communities	20	1	7	4.40	5.00	2.34
	• Government	21	1	7	5.52	6.00	1.77
	• Academic/research institutes	22	3	7	5.45	6.00	1.43
	• Professional institutes	20	1	8	5.20	6.00	2.21
Foreign institutional support							
Interstate experience SMEs	• Implemented the policies and programs that have been beneficial to our business operations	25	3	7	4.92	5.00	1.32
	• Provided information on applicable technologies or services	24	2	7	4.58	5.00	1.47
	• Provided important market-related information	25	1	7	4.48	5.00	1.78
	• Assisted us to obtain trading licenses	24	1	7	4.04	5.00	1.98
No interstate experience SMEs	• Implemented the policies and programs that have been beneficial to our business operations	22	1	7	4.95	6.00	1.86
	• Provided information on applicable technologies or services	19	1	7	5.00	6.00	1.85
	• Provided important market-related information	22	1	7	4.41	5.00	1.94
	• Assisted us to obtain trading licenses	18	1	7	4.89	6.00	1.99
Liability of foreignness: Institutional LOF							
Interstate experience SMEs	• Challenges due to different rules (e.g., laws, procedures).	28	1	7	5.18	6.00	1.88
	• Cost due to corruption	27	1	7	4.11	4.00	2.02
	• Cost due to different views in the society (e.g., values, beliefs, norms, culture).	28	1	7	4.50	5.00	1.91
	• Cost due to the Indian government's restrictions related to international business (e.g., limitations on sales to certain countries).	28	1	7	4.18	5.00	1.82

	• Unfavorable or biased treatment by local consumers	28	1	7	4.54	5.00	2.13
	• Unfavorable or biased treatment by local governments.	28	1	7	4.39	5.00	1.87
No interstate experience SMEs	• Challenges due to different rules (e.g., laws, procedures).	23	1	7	4.17	5.00	2.14
	• Cost due to corruption	21	1	6	2.48	2.00	1.36
	• Cost due to different views in the society (e.g., values, beliefs, norms, culture).	21	1	6	2.95	2.00	1.96
	• Cost due to the Indian government's restrictions related to international business (e.g., limitations on sales to certain countries).	22	1	7	3.45	2.50	2.17
	• Unfavorable or biased treatment by local consumers	20	1	7	3.55	4.00	1.93
	• Unfavorable or biased treatment by local governments.	22	1	7	3.36	2.50	2.17
Liability of foreignness: Unfamiliarity LOF							
Interstate experience SMEs	• Cost for gathering location-specific information or knowledge	27	1	7	4.89	5.00	1.71
	• Cost to build reputation and goodwill.	27	1	7	5.67	6.00	1.75
No interstate experience SMEs	• Cost for gathering location-specific information or knowledge	24	1	7	4.58	6.00	2.16
	• Cost to build reputation and goodwill.	24	1	7	4.79	6.00	2.06
International performance (Perceived financial)							
Interstate experience SMEs	• International sales	35	1	7	5.31	6.00	1.84
	• International sales growth	34	1	7	5.15	6.00	1.52
	• International return on investment	35	1	7	4.94	5.00	1.45
	• International profit to sales ratio	35	1	7	5.05	5.00	1.34
	• International net profit ratio	33	1	7	5.42	6.00	1.47

No interstate experience SMEs	• International sales	29	1	7	5.52	6.00	1.61
	• International sales growth	29	1	7	5.00	6.00	1.77
	• International return on investment	27	1	7	5.25	6.00	1.85
	• International profit to sales ratio	27	1	7	5.29	6.00	1.65
	• International net profit ratio	27	1	7	5.37	6.00	1.57
International performance (Perceived success)							
Interstate experience SMEs	• Satisfaction with the firm's international performance	36	1	7	5.44	6.00	1.36
No interstate experience SMEs	• Satisfaction with the firm's international performance	31	1	7	5.25	6.00	1.61

6.5.2 Reliability Analysis

Reliability analysis is used to study the properties of measurement scales and the items that compose the scales (IBM, 2021). Broadly, researchers use four types of reliability analyses: test-retest, inter-rater or inter-observer, parallel-forms, and internal consistency (Field, 2005). This study employs internal consistency reliability analysis, which provides an understanding of the degree to which the items that make up the scale are homogeneous and "hang together" (Pallant, 2001, p. 85). Therefore, it assesses whether the items of a scale or factor measure the same underlying construct (Pallant, 2001; Field, 2005). Cronbach's alpha is used as an indicator of internal consistency reliability.

Table 6.16 shows the reliabilities of the created factors. All of the factors, apart from foreign market knowledge of competitors (α=0.65) and unfamiliarity liability (α=0.67), show Cronbach's alphas above the generally accepted threshold of α=0.70 (Nunnally, 1978; Hair et al., 2006). According to Hinton (2014), Cronbach's alpha between 0.50 and 0.70 shows moderate reliability. Therefore, a value slightly lower than 0.70 is viable, especially for an exploratory study such as this.

Table 6.16: Summary of Created Factors and Cronbach's Alpha

Construct	Variance explained (%)	Total variance explained (%)	Cronbach's alpha
Foreign market knowledge: Customers (4 items) Competitors (2 items)	 56.7 18.7	75.4	 0.89 0.65
Normative environment (3 items) Regulatory environment (3 items	55.8 17.9	73.7	0.82 0.85
Channels of distribution (4 items)	80.2	80.2	0.92
Technological capabilities (5 items)	56.2	56.2	0.80
Distributor's capabilities (4 items)	68.1	68.1	0.83
Personal networks (4 items)	62.5	62.5	0.79
External networks (6 items)	54.4	54.4	0.82
Foreign institutional support (4 items)	71.9	71.9	0.86
Liability of foreignness: Institutional liability (6 items) Unfamiliarity liability (2 items)	 48.2 13.9	62.1	 0.85 0.67
International performance (5 items)	82.1	82.1	0.94

6.6 Hypothesis Testing

As indicated in Chapter 4, independent samples *t*-testing is used to test the hypotheses. This analytical approach is used to compare the means of two groups, to assess whether there is statistical evidence that the population means are significantly different (Pallant, 2001; Field, 2013). The *p*-value is used to judge the statistical significance of observed differences in the sample means of the two groups. Often, the critical significance level, or alpha (α) value, against which the *p*-value is compared, is set to 5% (α=0.05), suggesting 95% confidence in the interpretation, or 10% (α=0.10), suggesting 90% confidence in the interpretation. Given the exploratory nature of this study and the small sample size, a 90% confidence threshold is used in this study (e.g., Fisher, 1992). Therefore, *p*-values lower than 0.10 are taken as indicating statistically significant results in the hypothesis testing process. (It should be noted that the α level is an arbitrary cut-point and is not intended as an absolute threshold (Thiese et al., 2016).)

The *t*-tests are conducted to compare the sample means for the interstate SMEs and no interstate experience SMEs subsamples. As indicated in Chapter 3, the study has two dependent variables: LOF (institutional and unfamiliarity) for hypotheses 1-4, and international performance for hypothesis 5.

6.6.1 Testing Hypotheses 1-4

Hypotheses 1-4 predict that literature-derived independent or explanatory variables (foreign market knowledge, technological capabilities, distributor's capabilities, personal and external networks, foreign institutional support) mitigate or reduce the LOF pertaining to institutional and unfamiliarity hazards (please see the conceptual model and details related to each of the hypothesized relationships in Chapter 3). (As indicated previously, two types of LOF factors, i.e., institutional and unfamiliarity, emerged from the factor analyses.) Independent sample *t*-tests are conducted between the explanatory variables and each type of LOF as the dependent variable. In order to operationalize the *t*-tests aimed at gaining insight into the nature of the relationship between LOF (institutional and unfamiliarity) and the independent variables (foreign market knowledge, technological capabilities, distributor's capabilities, personal and external networks, foreign institutional support), the independent variables are discretized into 'High' and 'Low', using the median as the cut-point. Although median as the cut-point is not typically used in the context of *t*-testing to compare the means, the nomenclature of 'independent' and 'dependent' variables is employed, in order to reflect the nature of the conceptual model.

6.6.1.1 Testing Hypothesis 1

As discussed in Chapter 3, foreign market knowledge is considered an important resource because it allows the firm to deal with the risks and uncertainties encountered while doing business internationally. Thus, hypothesis 1 proposes that foreign market knowledge mitigates LOF. As indicated in Table 6.14, five factors pertaining to foreign market knowledge emerged from the exploratory factor analysis. Each of these five foreign market knowledge factors is tested with each of the two types of LOF. The associated *t*-test results are displayed in Tables 6.17 (for firms without interstate experience) and 6.18 (for firms with interstate experience).

Table 6.17: *t*-test results for Foreign Market Knowledge and LOF (Testing Hypothesis 1) (No interstate experience SMEs)

Dependent variable	Independent variables	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Foreign customers' knowledge								
LOF institutional environment	>= 0.329	9	-0.042	1.287	-0.423	1.185	0.254	Equal variances assumed	Not supported
	< 0.329	8	-0.658	0.748					
LOF unfamiliarity hazards	>= 0.329	9	-0.499	1.230	-0.096	-0.163	0.873	Equal variances assumed	
	< 0.329	8	-0.403	1.193					
	Foreign competitors' knowledge								
LOF institutional environment	>= 0.376	8	-0.556	1.123	-0.423	-0.795	0.439	Equal variances assumed	Not supported
	< 0 .376	9	-0.132	1.071					
LOF unfamiliarity hazards	>= .0376	8	-0.755	1.324	-0.568	-0.995	0.335	Equal variances assumed	
	< 0.376	9	-0.187	1.028					
	Foreign normative environment knowledge								
LOF institutional environment	>= 0.347	9	-0.392	1.342	-0.129	-0.238	0.810	Equal variances not assumed	Not supported
	< 0.347	8	-0.263	0.781					
LOF unfamiliarity hazards	>= 0.347	9	-0.338	1.261	0.247	0.421	0.679	Equal variances assumed	
	< 0.347	8	-0.585	1.142					
	Foreign regulatory								

	environment knowledge								
LOF institutional environment	>= -0.102	9	-0.365	1.326	-0.072	-0.133	0.896	Equal variances assumed	Not supported
	< -0.102	8	-0.293	0.816					
LOF unfamiliarity hazards	>= -0.102	9	-0.300	1.311	0.329	0.563	0.582	Equal variances assumed	
	< -0.102	8	-0.628	1.062					
	Foreign channels of distribution knowledge								
LOF institutional environment	>= 0.528	9	-0.314	1.307	0.037	0.069	0.946	Equal variances assumed	Not supported
	< 0.528	8	-0.351	0.853					
LOF unfamiliarity hazards	>= 0.528	9	-0.331	1.288	0.260	0.444	0.664	Equal variances assumed	
	< 0.528	8	-0.592	1.105					

Table 6.18: *t*-test results for Foreign Market Knowledge and LOF (Testing Hypothesis 1) (Interstate experience SMEs)

Dependent variable	Independent variables	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Foreign customers' knowledge								
LOF institutional environment	>= 0.129	14	0.137	1.036	-0.356	-0.939	0.357	Equal variances assumed	Not supported
	< 0.129	13	0.492	0.922					
LOF unfamiliarity hazards	>= 0.129	14	-0.150	1.104	-0.537	-1.694	0.109	Equal variances not assumed	
	< 0.129	13	0.388	0.420					
	Foreign competitors' knowledge								
LOF institutional environment	>= 0.376	11	0.027	1.031	-0.426	-1.141	0.264	Equal variances assumed	Not supported
	< 0.376	17	0.453	0.921					
LOF unfamiliarity hazards	>= 0.376	11	0.257	1.031	0.169	0.484	0.633	Equal variances assumed	
	< 0.376	17	0.088	0.817					
	Foreign normative environment knowledge								
LOF institutional environment	>= 0.005	14	0.371	0.827	0.170	0.458	0.651	Equal variances assumed	Not supported
	< 0.005	14	0.200	1.120					
	>= 0.005	14	0.147	1.039	-0.014	-0.042	0.967		

LOF unfamiliarity hazards	< 0.005	14	0.162	0.757				Equal variances assumed	
	Foreign regulatory environment knowledge								
LOF institutional environment	>= 0.224	14	0.054	1.162	-0.462	-1.275	0.216	Equal variances not assumed	Not supported
	< 0.224	14	0.516	0.700					
LOF unfamiliarity hazards	>= 0.224	14	0.070	0.970	-0.169	-0.496	0.624	Equal variances assumed	
	< 0.224	14	0.239	0.834					
	Foreign channels of distribution knowledge								
LOF institutional environment	>= 0.060	14	-0.152	1.097	0.037	-2.784	**0.011**	Equal variances not assumed	**Supported with respect to institutional LOF, but not unfamiliarity LOF**
	< 0.060	12	0.794	0.594					
LOF unfamiliarity hazards	>= 0.060	14	0.239	0.894	0.260	-0.009	0.993	Equal variances assumed	
	< 0.060	12	0.241	0.777					

For SMEs without interstate experience, no significant differences are observed in the means for either type of LOF, for high vs. low levels of any of the aspects of foreign market knowledge, thereby offering no support for H1 for this subset of SMEs. Considering the subset of the data with interstate experience, the data provide evidence that, on an average, stronger knowledge of foreign distribution channels is associated with lower institutional related LOF (p<0.05). This finding provides support for the hypothesized relationship for this aspect of the LOF. Apart from the result for foreign channels of distribution and institutional LOF, though, the results for SMEs with and without interstate experience are very similar, and do not offer much support to H1.

6.6.1.2 Testing Hypothesis 2a and 2b

As indicated in Chapter 3, hypothesis 2 proposes that SMEs having vital resources such as technological (H2a) and distributors' capabilities (H2b) will be in a better position to mitigate LOF. Table 6.19 (no interstate experience SMEs sample) and Table 6.20 (interstate experience SMEs sample) show the *t*-tests result for the hypothesized relationship between technological capabilities and LOF. Similarly, Table 6.21 (no interstate experience SMEs sample) and Table 6.22 (interstate experience SMEs sample) display the *t*-test results for the hypothesized relationship between distributor's capabilities and LOF.

Table 6.19: *t*-test results for Technological Capabilities and LOF (Testing Hypothesis 2a) (No interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Technological capabilities								
LOF institutional environment	>= 0.704	7	-1.018	0.782	-1.167	-2.528	**0.023**	Equal variances assumed	**Supported**
	< 0.704	10	0.149	1.027					
LOF unfamiliarity hazards	>= 0.704	7	-0.170	1.406	0.483	0.778	0.454	Equal variances not assumed	Not supported
	< 0.704	10	-0.653	1.015					

Table 6.20: *t*-test results for Technological Capabilities and LOF (Testing Hypothesis 2a) (Interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Technological capabilities								
LOF institutional environment	>= -0.320	14	0.529	0.688	0.487	1.348	0.189	Equal variances assumed	Not supported
	< -0.320	14	0.042	1.164					
LOF unfamiliarity hazards	>= -0.320	14	0.477	0.784	0.645	2.020	**0.054**	Equal variances assumed	**Contradicted**
	< -0.320	14	-0.168	0.903					

From Table 6.19, the data provide evidence that, on an average, stronger technological capabilities are associated with lower institutional LOF ($p<0.05$), providing some support for H2a among SMEs that have not had inter-state experience. For SMEs with interstate experience (Table 6.20), the data provide evidence that, on average, stronger technological capabilities are associated with greater unfamiliarity LOF ($p<0.10$), contradicting the H2a. Thus, it can be said that H2a is partially supported when tested on firms that do not have interstate experience.

As distributors' capabilities are regarded as an important organizational resource, it was hypothesized in Chapter 3 that they can enable SMEs to mitigate LOF. Tables 6.21 and 6.22 display the *t*-test results for the hypothesized relationship between distributors' capabilities and LOF (H2b). For SMEs without interstate experience (Table 6.21), the data provides no evidence that distributors' capabilities enable SMEs to mitigate LOF. On the contrary, for SMEs with interstate experience (Table 6.22), the data provide evidence that, on average, stronger distributors' capabilities are associated with higher unfamiliarity hazards ($p<0.10$). The result contradicts the hypothesized relationship for this aspect of unfamiliarity LOF. Therefore, H2b is not supported when tested on SMEs without interstate experience and contradicted when tested on the subset of SMEs having interstate experience.

Table 6.21: *t*-test results for Distributors' Capabilities and LOF (Testing Hypothesis 2b) (No interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. Deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Distributors' capabilities								
LOF institutional environment	>= 0.215	4	-0.857	0.422	-0.852	-1.921	0.103	Equal variances not assumed	Not supported
	< 0.215	5	-0.005	0.872					
LOF unfamiliarity hazards	>= 0.215	4	0.185	1.104	0.847	1.053	0.327	Equal variances assumed	Not supported
	< 0.215	5	-0.662	1.266					

Table 6.22: *t*-test results for Distributors' Capabilities and LOF (Testing Hypothesis 2b) (Interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Distributors' capabilities								
LOF institutional environment	>= 0.516	9	0.807	0.533	0.381	1.012	0.331	Equal variances not assumed	Not supported
	< 0.516	9	0.425	0.997					
LOF unfamiliarity hazards	>= 0.516	9	0.768	0.333	0.646	2.000	**0.073**	Equal variances not assumed	**Contradicted**
	< 0.516	9	0.122	0.909					

In summary, the study found mixed results for H2a. The data suggest that SMEs without interstate experience that had more robust technological capabilities were better at mitigating institutional related LOF. This could imply that stronger technological competencies enable firms to overcome institutional-related challenges in foreign markets that may constrain less technologically advanced SMEs. This finding is consistent with studies that highlight technological capabilities can be advantageous in helping foreign firms tackle challenges in foreign markets (Knight & Cavusgil, 2004). With regard to the subset of SMEs with interstate experience, the results contradicted the hypothesis. It suggested that, despite more robust technological competencies, firms faced increased unfamiliarity related LOF. Perhaps, mitigating firms' unfamiliarity with the foreign environment requires other types of capabilities (e.g., experience in foreign markets) than technological competencies. Also, if interstate SMEs conduct business mostly within India, they may be less familiar with leveraging technological capabilities to their advantage in foreign markets. Moreover, if foreign firms have a limited understanding of foreign markets, unfamiliarity related LOF could be higher because they may be unaware of the prerequisites to adhere to before deploying their technological capabilities in foreign markets.

Furthermore, H2b posited that distributors' capabilities would help mitigate LOF. For the subset of SMEs without interstate experience, the data did not find any support for the hypothesized relationship. However, for SMEs with interstate experience, the data indicated that, on average, stronger distributors' capabilities increased the unfamiliarity related LOF for these internationally-active firms, contradicting the hypothesis. Perhaps, this may reflect the possibility that processes that work well for dealing with Indian distributors are not readily transferable to working with foreign distributors.

6.6.1.3 Testing Hypothesis 3

The host market's institutional environment can play a huge role in providing a safe and thriving environment for foreign operating businesses. The literature asserts that foreign firms can overcome host market challenges with appropriate support from the host's regulatory institutions (Lu, Liu, Wright, & Filatotchev, 2014). Thus, similar to previous hypotheses, H3 posits that foreign institutional support will enable SMEs to mitigate LOF. Table 6.23 and Table 6.24 provide the *t*-testing results. As indicated by the *p*-values, H3 was not supported for either subsample of the data. The lack of support hints that the tackling of LOF requires more than just host market support.

Table 6.23: *t*-test results for Foreign Institutional Support and LOF (Testing Hypothesis 3) (No interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Foreign institutional support								
LOF institutional environment	>= 0.535	10	-0.017	1.049	0.007	0.018	0.986	Equal variances assumed	Not supported
	< 0.535	12	-0.024	0.885					
LOF unfamiliarity hazards	>= 0.535	10	-0.844	1.094	-0.642	-1.480	0.155	Equal variances assumed	Not supported
	< 0.535	12	-0.201	0.944					

Table 6.24: *t*-test results for Foreign Institutional Support and LOF (Testing Hypothesis 3) (Interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Foreign institutional support								
LOF institutional environment	>= -0.005	16	0.418	0.883	0.319	0.870	0.391	Equal variances assumed	Not supported
	< -0.005	17	0.099	1.187					
LOF unfamiliarity hazards	>= -0.005	16	0.179	0.936	-0.083	-0.270	0.789	Equal variances assumed	Not supported
	< -0.005	17	0.262	0.836					

6.6.1.4 Testing Hypothesis 4a and 4b

As highlighted in chapter 5, the interviews suggested that networks, both personal and professional, played an important role in assisting SMEs to tackle the unfamiliarity and uncertainties associated with operating in foreign markets. The IB and IE literatures, too, have long advocated that foreign firms that are disconnected from relevant networks can encounter more intense challenges than those embedded in networks. Moreover, when networks are used effectively, they can provide firms with accurate information and knowledge, allowing SMEs to learn about business opportunities and hurdles in foreign markets (Xie & Amine, 2009). As such, H4a and H4b posit that networks (personal and external, respectively) will enable SMEs to mitigate LOF. The results from the independent sample *t*-tests for H4a are displayed in Table 6.25 (no interstate experience SMEs sample) and Table 6.26 (interstate experience SMEs sample), while the results for H4b are displayed in Table 6.27 (no interstate experience SMEs sample) and Table 6.28 (interstate experience SMEs sample).

Table 6.25: *t*-test results for Personal Networks and LOF (Testing Hypothesis 4a) (No interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Personal networks								
LOF institutional environment	>= 0.378	9	-0.337	1.227	-0.184	-0.353	0.729	Equal variances assumed	Not supported
	< 0.378	9	-0.153	0.968					
LOF unfamiliarity hazards	>= 0.378	9	0.138	1.103	1.085	2.233	**0.040**	Equal variances assumed	**Contradicted**
	< 0.378	9	-0.947	0.953					

Table 6.26: *t*-test results for Personal Networks and LOF (Testing Hypothesis 4a) (Interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	Personal networks								
LOF institutional environment	>= 0.235	12	0.088	1.110	-0.274	-0.741	0.465	Equal variances assumed	Not supported
	< 0.235	17	0.362	0.881					
LOF unfamiliarity hazards	>= 0.235	12	0.437	0.686	0.482	1.459	0.156	Equal variances assumed	Not supported
	< 0.235	17	-0.044	0.985					

Table 6.27: *t*-test results for External Networks and LOF (Testing Hypothesis 4b) (No interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	External networks								
LOF institutional environment	>= 0.685	8	-0.216	1.330	0.058	0.103	0.919	Equal variances assumed	Not supported
	< 0.685	9	-0.274	0.974					
LOF unfamiliarity hazards	>= 0.685	8	-0.179	1.163	0.566	1.049	0.311	Equal variances assumed	Not supported
	< 0.685	9	-0.744	1.061					

Table 6.28: *t*-test results for External Networks and LOF (Testing Hypothesis 4b) (Interstate experience SMEs)

Dependent variable	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	External networks								
LOF institutional environment	>= 0.009	14	0.423	0.964	0.374	0.879	0.389	Equal variances assumed	Not supported
	< 0.009	11	0.049	1.166					
LOF unfamiliarity hazards	>= 0.009	14	0.432	0.624	0.379	1.178	0.280	Equal variances not assumed	Not supported
	< 0.009	11	0.052	0.981					

For the subset of SMEs not having interstate experience, Table 6.25 provides the results for the hypothesized relationship between the presence of personal networks in foreign markets and LOF. Considering LOF-related unfamiliarity hazards, the data provide evidence that, on average, stronger personal networks are associated with higher LOF ($p<0.05$). This result contradicts the hypothesized relationship for this aspect of unfamiliarity LOF. For SMEs with interstate experience, the data presented in Table 6.26 offered no support to H4a. Therefore, the result for H4a partially contradicted, such that stronger personal networks in foreign markets appear to increase the unfamiliarity related LOF only for firms that have not had inter-state experience in India. Perhaps, stronger networks limit how far the firms with less-diverse experience look to mitigate unfamiliarity related LOF.

The study also investigated the relationship between LOF and the presence of external networks in foreign markets, such as connections developed via ethnic diaspora, industry association networks, etc. (see survey question 16 in Appendix F). However, the results provide no support for H4b (see Tables 6.27 and 6.28).

6.6.2 Testing Hypothesis 5 - LOF and International Performance (Perceived Financial Performance Indicator)

One of the objectives of the thesis is to understand how LOF affects the international performance of Indian SMEs. In this section, the study examines the hypothesized relationship between LOF and international performance.

Chapters 2 and 3 argued that LOF elements such as unfamiliarity, relational, discriminatory, distance, and institutional hazards reduce the firm's performance due to the associated costs and risks (Denk et al., 2012; Lu, Ma & Xie, 2021). As discussed earlier in this chapter, two LOF-related factors emerged from the exploratory factor analysis. The first denoted the liabilities arising from institutional hazards, and the second represented unfamiliarity hazards faced by foreign firms. Therefore, based on consistent views in the literature and the interview findings, H5 hypothesizes that both institution-related LOF and unfamiliarity-related LOF are associated with weaker international performance. As earlier, *t*-tests are used to test the hypotheses.

Table 6.29: *t*-test results for LOF Institutional and International Performance (Testing Hypothesis 5) (No interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	LOF institutional								
International sales	>= -0.814	9	5.000	1.658	-1.333	-1.812	**0.093**	Equal variances assumed	**Supported**
	< -0.814	6	6.333	0.816					
International sales growth	>= -0.814	9	4.111	2.027	-2.055	-2.769	**0.018**	Equal variances not assumed	**Supported**
	< -0.814	6	6.167	0.753					
International profit to sales ratio	>= -0.814	9	4.667	1.658	-1.667	-2.265	**0.041**	Equal variances assumed	**Supported**
	< -0.814	6	6.333	0.816					
International ROI	>= -0.814	9	4.444	1.944	-1.889	-2.592	**0.024**	Equal variances not assumed	**Supported**
	< -0.814	6	6.333	0.816					
Net profits from international operations	>= -0.814	9	4.889	1.453	-1.444	-2.197	**0.047**	Equal variances assumed	**Supported**
	< -0.814	6	6.333	0.816					

Table 6.30: *t*-test results for LOF Institutional and International Performance (Testing Hypothesis 5) (Interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	LOF institutional								
International sales	>= 0.347	16	6.062	1.063	2.335	3.112	**0.008**	Equal variances not assumed	**Contradicted**
	< 0.347	11	3.727	2.328					
International sales growth	>= 0.347	16	5.625	1.025	2.079	3.086	**0.008**	Equal variances not assumed	**Contradicted**
	< 0.347	11	3.545	2.067					
International profit to sales ratio	>= 0.347	16	5.625	0.885	1.807	2.889	**0.013**	Equal variances not assumed	**Contradicted**
	< 0.347	11	3.818	1.940					
International ROI	>= 0.347	16	5.188	1.109	1.369	1.990	**0.067**	Equal variances not assumed	**Contradicted**
	< 0.347	11	3.818	2.089					
Net profits from international operations	>= 0.347	16	5.625	1.360	1.534	2.197	**0.043**	Equal variances not assumed	**Contradicted**
	< 0.347	11	4.091	2.023					

Tables 6.29 and 6.30 show comparisons of the mean levels of specific performance measures, which are hypothesized to be affected by institutional LOF. For SMEs without interstate experience (Table 6.29), the results suggest that, on an average, greater institutional LOF is associated with weakened international performance ($p<0.05$) (i.e., sales, sales growth, profit to sales ratio, ROI, and net profits from international operations). This provides support for H5 for this aspect of institutional LOF.

Considering the sample of SMEs that had interstate experience, the results contradicted the hypothesis (see Table 6.30). The data provide evidence that, on an average, higher institutional LOF is associated with greater international sales and sales growth ($p<0.01$), profit to sales ratio and net profits ($p<0.05$), and ROI ($p<0.10$). Emerging market SMEs that have experience of handling institutional complexities in their home market may be able to better navigate difficult conditions or similar problems in foreign markets (Cuervo-Cazurra & Genc, 2008). Such firms would be at less disadvantage, as they might have the edge over other firms in foreign markets based on expertise developed with respect to addressing different business environments within their home country (Cuervo-Cazurra & Genc, 2008). This might explain why the foreign sales and profits of SMEs with interstate experience are, on average, higher in the face of higher institutional LOF.

Table 6.31: *t*-test results for LOF Unfamiliarity and International Performance (Testing Hypothesis 5) (No interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contracted?
	LOF unfamiliarity								
International sales	>= 0.061	8	1.909	0.675	-0.607	-0.768	0.456	Equal variances assumed	Not supported
	< 0.061	7	0.900	0.340					
International sales growth	>= 0.061	8	4.500	2.449	-0.928	-0.986	0.349	Equal variances not assumed	Not supported
	< 0.061	7	5.429	0.976					
International profit to sales ratio	>= 0.061	8	4.750	1.982	-1.250	-1.703	0.125	Equal variances not assumed	Not supported
	< 0.061	7	6.000	0.577					
International ROI	>= 0.061	8	4.625	2.200	-1.232	-1.406	0.189	Equal variances not assumed	Not supported
	< 0.061	7	5.857	1.069					
Net profits from international operations	>= 0.061	8	5.000	1.773	-1.000	-1.507	0.167	Equal variances not assumed	Not supported
	< 0.061	7	6.000	0.577					

Table 6.32: *t*-test results for LOF Unfamiliarity and International Performance (Testing Hypothesis 5) (Interstate experience SMEs)

Dependent variables	**Independent variable**	***n***	**Mean**	**Std. deviation**	**Mean difference**	***t***	***p*-value**	**Variance assumption**	**Supported or contradicted?**
	LOF unfamiliarity								
International sales	>= 0.453	13	5.769	1.964	1.269	1.683	0.105	Equal variances assumed	Not supported
	< 0.453	14	4.500	1.951					
International sales growth	>= 0.453	13	5.3077	1.797	1.022	1.487	0.150	Equal variances assumed	Not supported
	< 0.453	14	4.2857	1.773					
International profit to sales ratio	>= 0.453	13	5.461	1.561	1.104	1.814	**0.081**	Equal variances not assumed	**Contradicted**
	< 0.453	14	4.357	1.598					
International ROI	>= 0.453	13	4.846	1.676	0.417	0.634	0.532	Equal variances assumed	Not supported
	< 0.453	14	4.429	1.741					
Net profits from international operations	>= 0.453	13	5.692	1.493	1.335	2.043	**0.052**	Equal variances assumed	**Contradicted**
	< 0.453	14	4.357	1.865					

Tables 6.31 and 6.32 show results for the hypothesized relationship between unfamiliarity-related LOF and international performance. Considering the subset of data for SMEs without interstate experiences (Table 6.31), the data offered no support for H5 received no support for this subset of the sample.

For SMEs with interstate experience, though, the results contradicted the hypothesized relationship. The data provide evidence that, on an average, greater unfamiliarity LOF is associated with a higher profit-to-sales ratio and net profits (p<0.10). As mentioned earlier, SMEs with interstate experience may face fewer difficulties in international markets due to their experience in managing complexities within their home market (Cuervo-Cazurra & Genc, 2008). The disadvantages, such as uncertainties and unfamiliarity SMEs experience within India, could become advantageous for dealing with LOF in foreign markets. Perhaps, the capabilities of handling similar problems at home might explain why the international performance of SMEs with interstate experience was stronger despite higher unfamiliarity related LOF.

In summary, the results were mixed for the hypothesized relationship between LOF and international financial performance. H5 was only partially supported, with the finding that greater institutional LOF was associated with lower international performance among SMEs without interstate experience.

6.6.2.1 Testing LOF and Perceived International Success (Non-financial Performance Indicator)

As indicated in Chapter 3, the study uses both financial and non-financial performance measures to provide a more holistic assessment of the SMEs' international performance. The perceived success construct was derived from Style (1998), and was used to obtain information about the respondents' satisfaction with the success of their firms' international business, relative to key competitors, in the last five years (see questions 30 and 31 in Appendix F). The results from the independent sample *t*-tests are displayed in Table 6.33 (no interstate experience SME sample) and Table 6.34 (interstate experience SME sample).

Table 6.33: *t*-test results LOF and Perceived International Success (Testing Hypothesis 5) (No interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	LOF institutional								
Perceived success	>= -0.081	7	4.142	2.340	-1.746	-1.863	0.102	Equal variances not assumed	Not supported
	< -0.081	9	5.888	0.927					
	LOF unfamiliarity								
Perceived success	>= 0.061	8	4.500	2.329	-1.250	-1.387	0.197	Equal variances not assumed	Not supported
	< 0.061	8	5.750	1.035					

Table 6.34: *t*-test results LOF and Perceived International Success (Testing Hypothesis 5) (Interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Supported or contradicted?
	LOF institutional								
Perceived success	>= 0.347	16	6.062	0.771	1.645	3.159	**0.007**	Equal variances not assumed	**Contradicted**
	< 0.347	12	4.416	1.676					
	LOF unfamiliarity								
Perceived success	>= 0.453	13	5.769	1.165	0.769	1.405	0.172	Equal variances assumed	Not supported
	< 0.453	15	5.000	1.647					

Tables 6.33 and 6.34 provide results for the hypothesized relationship between perceived success, i.e., managerial satisfaction with the firms' international performance, which is hypothesized to be negatively affected by LOF (H5). For the subset of firms without interstate experience (Table 6.33), the data did not find any support for the hypothesized relationship. Considering the subset of SMEs with interstate experience, the results presented in Table 6.34 contradicted the hypothesis. The data provide evidence that, on average, greater institutional related LOF is associated with increased managerial satisfaction with the firms' international success ($p<0.01$). As previously stated, the unexpected result could be because this subset of SMEs has internationalized from broad experience in a complex home country institutional environment, where states differ from one another in terms of regulatory environment. With their experience of managing conditions that foster liabilities comparable to LOF in their home country, these SMEs may have developed capabilities for tackling challenges stemming from host markets' institutional environment, allowing them to flourish in foreign environments. This is in line with the argument by Cuervo-Cazurra and Genc (2008) that emerging market firms can experience fewer disadvantages and be successful in foreign markets because they can easily understand and adapt to countries with greater disadvantages. The results suggest that SMEs that experience multiple institutional environments within India are more able to benefit from this aspect of their emerging market home country. As the number of responses to this question is relatively low, more data are needed to substantiate the results.

Therefore, H5 received no support, but some contradiction, such that greater institutional LOF is associated with higher managerial satisfaction with the firm's international success for the subset of SMEs with interstate experience.

6.6.3 Additional Findings

From the interviews, interesting themes emerged which could not be incorporated into the conceptual model. Some of the themes were the importance of SMEs' adaptation techniques and of interstate networks, support of governments, and interstate knowledge that helped SMEs to tackle challenges in foreign markets. A decision was made to incorporate additional data via the questionnaire to collect further insights on these themes. In the next section, t-tests are used to examine the relationship between each of the above themes and LOF.

6.6.3.1 Adaptation in Foreign Markets to Mitigate LOF

The literature has argued that foreign firms overcome LOF by adapting their routines, technologies, products, and process in the host markets (Petersen & Pedersen, 2002; Ramachandran & Pant, 2010; Bangara et al., 2012; Zhou & Guillen, 2015; Wu & Salomon, 2017). The interviewed SMEs also discussed adapting their business in foreign markets (see Chapter 5). Based on this finding, the survey incorporated a question to understand what aspects of the business SMEs had to adapt in foreign markets (see survey question 26 in Appendix F). Three factors emerged from the factor analysis: price adaptation, service adaptation and advertisement adaptation. Independent sample *t*-tests were conducted between each factor and LOF (institutional and unfamiliarity). However, out of the three factors, the data found significant findings only between foreign advertisement adaptation and unfamiliarity related LOF. Please note that only statistically significant or contradictory results are discussed and shown in Table 6.35.

Table 6.35: *t*-test results for Foreign Advertisement Adaptation and LOF (Interstate experience SMEs)

Dependent variable	**Independent variable**	***n***	**Mean**	**Std. deviation**	**Mean difference**	***t***	***p*-value**	**Variance assumption**	**Consistent or contradicted?**
	Foreign advertisement adaptation								
LOF institutional environment	>= -0.340	12	0.290	1.012	0.065	0.155	0.878	Equal variances assumed	Not significant
	< -0.340	13	0.226	1.075					
LOF unfamiliarity hazards	>= -0.340	12	0.435	0.783	0.685	1.983	**0.059**	Equal variances assumed	**Contrary to expectation**
	< -0.340	13	-0.250	0.930					

Based on Table 6.35, the data provide evidence that, on an average, stronger adaptation to foreign advertisement or promotion techniques are associated with greater unfamiliarity related LOF($p<0.10$) for the subset of SMEs with interstate experience. This suggests that overcoming unfamiliarity related hazards in foreign markets requires more than just making adaptations to the advertisement (e.g., mode of advertisement, budget, promotion objectives).

6.6.3.2 Interstate Network Ties to Mitigate LOF

As indicated in Chapter 4, survey participants were asked to rate the importance of interstate network ties to overcome the foreign market challenges (see questions 13 and 16 in Appendix F). It has been asserted that home-country network ties can help emerging market firms pursue business overseas (Yiu, Lao, & Burton, 2007). As SMEs tend to lack resources, legitimacy, and credit history in foreign markets, they may find it difficult to survive overseas. Therefore, SMEs tend to rely on their home-based, pre-existing links with personal (e.g., friends, family) and external networks (e.g., industry associations, government officials) to overcome their inadequacies and LOF, and be successful internationally (Zhou, Wu & Luo, 2007). Using the survey responses, the study examines if interstate networks (personal and external) mitigate LOF for both the sample SMEs. The results are summarized in Tables 6.36, 6.37 and 6.38.

Table 6.36: *t*-test results for Interstate Personal Networks and LOF (Interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Consistent or contradicted?
	Interstate personal networks								
LOF institutional environment	>= 0.265	14	0.392	1.109	0.278	0.764	0.452	Equal variances assumed	Not significant
	< 0.265	15	0.114	0.843					
LOF unfamiliarity hazards	>= 0.265	14	0.448	0.495	0.567	1.816	**0.085**	Equal variances not assumed	**Contrary to expectation**
	< 0.265	15	-0.119	1.096					

Table 6.37: *t*-test results for Interstate Personal Networks and LOF (No interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Consistent or contradicted?
	Interstate personal networks								
LOF institutional environment	>= 0.004	9	-0.811	0.759	-1.162	-2.726	**0.015**	Equal variances assumed	**Consistent with expectation**
	< 0.004	9	0.351	1.030					
LOF unfamiliarity hazards	>= 0.004	9	-0.574	1.290	-0.309	-0.569	0.578	Equal variances not assumed	Not significant
	< 0.004	9	-0.266	0.990					

Table 6.38: *t*-test results for Interstate External Networks and LOF (Interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Consistent or contradicted?
	Interstate external networks								
LOF institutional environment	>= -0.401	14	0.341	0.927	0.226	0.611	0.546	Equal variances assumed	Not significant
	< -0.401	15	0.115	1.057					
LOF unfamiliarity hazards	>= -0.401	14	-0.176	0.984	-0.738	-2.415	**0.025**	Equal variances not assumed	**Consistent with expectation**
	< -0.401	15	0.563	0.603					

For the subset of SMEs with interstate experience (Table 6.36), the data provided evidence that, on an average, stronger personal networks within India are associated with greater unfamiliarity related LOF (p<0.10). This is an unexpected result because home-country personal networks are presumed to provide information about the foreign markets and lower firms' foreign market unfamiliarity. References from personal networks are also supposed to help develop goodwill and overcome outsider status (Zhou, Wu & Luo, 2007). An alternate explanation could be that rather than strong ties, such as with friends and family, weaker and less dense networks could be useful in lowering the LOF (e.g., Lu & Hwang, 2010). For instance, family and friends referring firms in foreign markets could be mostly based on goodwill and mutual trust rather than profits. If the SME compromises itself in the foreign market, it may be the end of a personal relationship because the reputation of the person referring the SME is at stake. Knowing that SMEs often struggle to survive and sometimes fail in foreign markets, personal networks could be hesitant to introduce or refer the firm. In such instances, weaker ties established in the home country could assist SMEs in overcoming LOF. SMEs might also be less worried and obligated towards maintaining weaker relationships. Though this may not specifically apply to firms with inter-state experience or SMEs, weaker ties, in general, might be more beneficial than strong personal ties in assisting firms to overcome LOF.

Considering the subset of SMEs without interstate experience (Table 6.37), the data provided evidence that, on an average, stronger interstate personal networks are associated with lower institutional LOF (p<0.05). This suggests that ties with home country personal networks assisted the sample SMEs in overcoming foreign institutional liabilities. Perhaps, the family, friends, and relatives might facilitate SMEs by providing them with information and sharing experiences about the foreign institutional environment. Hence, SMEs' personal networks within India could be another valuable tie to lower institutional LOF.

Table 6.38 shows the relationship between interstate external networks and LOF. The data provide evidence that, on an average, stronger interstate external networks are associated with lower unfamiliarity related LOF (p<0.05) for SMEs with interstate experience. External networks include ties with home country industry associations, government officials, academic and professional institutes, and ethnic communities. Linkages with home country external networks can provide market information, which could enable the subset of SMEs with interstate experience to access international markets with reduced misinformation, unfamiliarity and uncertainty.

6.6.3.3 Interstate Institutional Support to Mitigate LOF

Home country governments can shape emerging market firms' internationalization by creating useable and supportive infrastructure for SMEs, eliminating corruption, introducing export assistance programs and policies that promote SMEs' international activities (Foroudi et al., 2021). In addition, home country institutions that offer information and resources to internationalizing domestic firms can assist them in overcoming LOF (Gaur, Kumar, & Sarathy, 2011). Therefore, the study examined if the support offered by interstate institutions of the home country enables SMEs to overcome LOF.

The results for the subset of SMEs with interstate experience are displayed in Table 6.39. The data provided evidence that, on average, stronger support from interstate institutions is associated with lower unfamiliarity related LOF ($p<0.05$). This suggests that support from various state institutions, such as implementing favorable policies and programs, providing information pertaining to foreign markets, technologies and services, and assisting SMEs to obtain trade licenses, lowered unfamiliarity related LOF. As SMEs with interstate experience could have better linkages with various state institutions, they might be using these ties to lessen risks that might occur due to firms' lack of understanding and prior international experience (Foroudi et al., 2021; Lu, Liu, Wright, & Filatotchev, 2014). This finding provides evidence that support from the home country's interstate institutions can be important for SMEs to overcome LOF.

Table 6.39: *t*-test results for Interstate Institutional Support and LOF (Interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Consistent or contradicted?
	Interstate institutional support								
LOF institutional environment	>= -0.437	17	-0.044	.932	-0.328	-0.932	0.358	Equal variances assumed	Not significant
	< -0.437	20	0.284	1.167					
LOF unfamiliarity hazards	>= -0.437	17	-0.021	1.039	-0.588	-2.081	**0.048**	Equal variances not assumed	**Consistent with expectation**
	< -0.437	20	0.567	0.570					

6.6.3.4 Interstate Knowledge of Distribution Channels to Mitigate LOF

The literature argues that EMFs rely on their home market experiences and knowledge to deal with foreign market challenges (Cuervo-Cazurra & Genc, 2008; Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Foroudi et al., 2021). As the institutional, political, cultural, regulatory, social, and geographic characteristics within India can differ substantially, SMEs have the opportunity to develop rather diverse experience in dealing with the home market's complexities. Respondents were asked to rate the importance of home market knowledge, allowing for an examination of whether or not `home country knowledge of distribution channels helps SMEs to mitigate LOF.

For the subset of SMEs with interstate experience (Table 6.40), the data provide evidence that, on average, stronger knowledge of distribution channels (e.g., quality, appropriateness and logistical requirements) are associated with lower institutional and unfamiliarity related LOF ($p<0.10$). In a diverse economy like India, every Indian state has some autonomy to set its own rules and regulations. The Indian subnational regions vary due to infrastructure issues, language and geographical variations (e.g., climate conditions), which could affect the distribution methods within the country. As a result, interstate SMEs often have experience in dealing with distribution obstacles at home, which may assist them in tackling similar challenges in foreign markets. The results suggest that more extensive knowledge of distribution channels within India allows SMEs to face lower LOF.

Table 6.40: *t*-test results for Interstate Knowledge of Channels of Distribution and LOF (Interstate experience SMEs)

Dependent variables	Independent variable	*n*	Mean	Std. deviation	Mean difference	*t*	*p*-value	Variance assumption	Consistent or contradicted?
	Interstate knowledge of channels of distribution								
LOF institutional environment	>= 0.161	13	-0.079	1.085	-0.676	-1.930	**0.065**	Equal variances assumed	**Consistent with expectation**
	< 0.161	15	0.599	0.760					
LOF unfamiliarity hazards	>= 0.161	13	-0.174	0.932	-0.613	-1.900	**0.069**	Equal variances assumed	**Consistent with expectation**
	< 0.161	15	0.439	0.776					

6.7 Summary of the Quantitative Findings

The findings from the quantitative analysis are summarized in this section. An overview of the results for the hypotheses pertaining to LOF and international performance is shown in Table 6.42, while additional findings regarding foreign advertisement adaptation, the role of home country networks, interstate institutional support, and knowledge of distribution channels at home helping the sample SMEs to mitigate LOF are summarized in Table 6.43.

Table 6.41: Summary of the Results for Testing Hypotheses 1-4

Hypotheses	Constructs used in *t*-tests	Results No interstate experience SMEs		Results Interstate experience SMEs	
		LOF institutional	**LOF unfamiliarity**	**LOF institutional**	**LOF unfamiliarity**
H1: Foreign market knowledge mitigates the liabilities of foreignness for SMEs.	Knowledge of customers	Not supported	Not supported	Not supported	Not supported
	Knowledge of Competitors	Not supported	Not supported	Not supported	Not supported
	Knowledge of normative environment	Not supported	Not supported	Not supported	Not supported
	Knowledge of regulatory environment	Not supported	Not supported	Not supported	Not supported
	Knowledge of channels of distribution	Not supported	Not supported	**Supported**	Not supported
H2a: Technological capabilities mitigate the liabilities of foreignness for SMEs.	Technological capability	**Supported**	Not supported	Not supported	**Contradicted**
H2b: Distributors' capabilities mitigate the liabilities of foreignness for SMEs.	Distributors' capability	Not supported	Not supported	Not supported	**Contradicted**
H3: Foreign institutional support mitigates the liabilities of foreignness for SMEs.	Foreign institutional support	Not supported	Not supported	Not supported	Not supported
H4a: Foreign personal networks mitigate the liabilities of foreignness for SMEs.	Personal networks	Not supported	**Contradicted**	Not supported	Not supported
H4b: Foreign external networks mitigate the liabilities of foreignness for SMEs.	External networks	Not supported	Not supported	Not supported	Not supported

Table 6.42: Summary of the Results of the Hypothesis 5 – International Performance (Financial and Non-financial)

Hypotheses	Constructs used in *t*-tests	Results LOF institutional		Results LOF unfamiliarity	
		No interstate experience SMEs	**Interstate experience SMEs**	**No interstate experience SMEs**	**Interstate experience SMEs**
H5: Liabilities of foreignness are negatively related to international performance for SMEs.	Financial performance	**Supported**	**Contradicted**	Not supported	**Contradicted**
	Perceived success	Not supported	**Contradicted**	Not supported	Not supported

Table 6.43: Summary of Additional Research Findings

Topic	Findings
Foreign advertisement adaptation	- Contrary to expectation, SMEs with interstate experience encountered greater unfamiliarity related LOF despite stronger adaption to their advertisement or promotion techniques in international markets.
Interstate personal networks	- Consistent with expectation, SMEs without interstate experience experienced lower institutional LOF due to their strong personal networks within India. - Contrary to expectation, SMEs with interstate experience encountered greater unfamiliarity related LOF despite stronger personal networks within India.
Interstate external networks	- Consistent with expectation, SMEs with interstate experience faced lower unfamiliarity related LOF due to their stronger ties with external networks such as home government officials, diaspora, professional institutes, etc.
Interstate institutional support	- Consistent with expectation, SMEs with interstate experience encountered lower unfamiliarity related LOF due to stronger support from the inter-state institutions.
Interstate knowledge of channels of distribution	- Consistent with expectation, SMEs with interstate experience faced lower institutional and unfamiliarity related LOF due to more extensive knowledge of dealing with distribution channels within India.

In the next chapter, these findings and their potential implications will be discussed in-depth.

CHAPTER 7

DISCUSSION

This chapter presents the discussion of the results of this study. To this end, the outcomes from the qualitative interviews and quantitative survey instrument are integrated, in line with the mixed methods approach. The chapter concludes with a summary of the key findings from the qualitative and quantitative parts, and highlights the main implications of the study.

7.1 Introduction

This study has three main research objectives: (1) to examine the LOF encountered by Indian SMEs in foreign markets, (2) to investigate the approaches used by Indian SMEs to mitigate LOF, and (3) to observe the influence of LOF on Indian SMEs' international performance. A mixed methods approach with exploratory interviews and a subsequent questionnaire-based survey was employed to increase the depth and robustness of this study. As Chapter 4 indicates, the main reasons for incorporating a mixed methods approach were development (using findings from one method to develop or inform the other method) and initiation (using the results from each method to increase the breadth and depth of the interpretations) (Greene et al., 1989). The conceptual model of this study includes the newly operationalized LOF construct that was identified by conducting a thorough literature review and further refined after the interviews, which are discussed in Chapter 5. Many studies have suggested that a single theory is not sufficient to fully understand the complexity of the LOF phenomenon (Denk et al., 2012; Lu et al., 2021; An et al., 2022; Luo & Mezias, 2002; Zaheer, 2002). Therefore, this study incorporated multiple theoretical lenses – the resource-based view (RBV) (Barney, 1991), the knowledge-based view (KBV) (Kogut & Zander, 1992), institutional theory (North, 1990; 1991), and the network-based view of internationalization (Johanson & Mattson, 1988; Sharma & Blomstermo, 2003) – to achieve the main research objectives. This chapter integrates and discusses the findings from the qualitative interviews and quantitative survey data.

7.2 Liabilities of Foreignness Encountered by Indian SMEs

The first research question aimed to identify the nature of the LOF that Indian SMEs experience in foreign markets. The exploratory interviews uncover answers to this research question. An overview of the interview findings pertaining to the first research question are presented in Figure 5.1. The interviewed SMEs identified numerous disadvantages that they experienced in foreign markets due to unfamiliarity, discrimination, institutional characteristics, financial issues, host market competition, and home-country influences. The study found that the disadvantages experienced by Indian SMEs align with those noted in other LOF studies. This section discusses the results pertaining to this first research question.

The LOF literature asserts that foreign firms will face unfamiliarity-related disadvantages due to differences between the home and the host markets (Eden & Miller, 2004; Gaur et al., 2011). Although this suggests that large geographical distances between countries be associated with firms experiencing unfamiliarity hazards in host markets, the interviews indicated that SMEs doing business in neighboring countries also experienced unfamiliarity-related challenges. For instance, the managing director at MFG7 said they were unfamiliar with the cultural attributes of neighboring countries such as Sri Lanka and Bangladesh. This SME "lost money… because of [its] lack of knowledge…and…suffered a lot" before fully understanding the culture persisting in neighboring markets. Furthermore, firms' lack of understanding of foreign markets tend to increase due to geographical distances between countries (O'Grady & Lane, 1996). The CEO and founder of FOOD2 indicated that their firm faced challenges due to a lack of understanding of the European import standards and packaging requirements. As a result of limited knowledge of international standards, this firm had to incur additional costs to "re-pack and re-export" its products.

Compared to local firms, foreign firms could be treated differently by the host market's consumers and the government, who may be unfamiliar with the foreign firms entering their market, especially when considering SMEs (Bell et al., 2012; Eden & Miller, 2004). Many interviewees reported being discriminated against in international markets due to the host market's unawareness of the SME. For instance, the founder of IT2 said that foreign customers had difficulty trusting the firms' capabilities in cloud computing and data storage ability. The founder revealed that the foreign customers questioned if the firm "really understands this space", implying that they were concerned about their data being handled by an emerging market small firm. Due to such stereotypical perceptions, it can be challenging for emerging market SMEs to gain trust and legitimacy in foreign markets. Along these lines, the export manager of FOOD1 revealed that one of the "major challenge[s] is the trust factor" because Indian firms "cheat" and "are bothered about cost," which is why they "try to sell cheap" in foreign markets. Similarly, the founder of MFG3 indicated that they were constantly "fighting with the bad name India has for its product quality" in foreign markets. Despite MFG3's competencies to produce technologically advanced and unique products, this firm faced skepticism due to negative perceptions of Indian firms amongst foreign clients and consumers.

LOF also stems from the institutional differences between the home and the host market (Eden & Miller, 2004), which mean that adapting business according to the foreign environment's rules, regulations, and standards can be difficult for SMEs with limited experience and resources. A business development manager of MFG2 shared a situation where the team encountered difficulties in adjusting its working methods due to "industrial rules, timing, safety aspect, time logs, [and] the standards" that needed to be followed in the UK market. A small manufacturing firm in India usually has unstandardized processes in place, and the working approaches of SMEs can be uneven and relatively informal. As a result, when Indian SMEs internationalize to advanced economies such as the UK, they may struggle to cope with and abide by the host country's industrial rules and regulations (e.g., stringent health and safety rules for manufacturing firms in the UK). Other interviewed SMEs indicated facing institutional challenges because they had to acquire certifications according to the host market requirements to show that their manufactured products meet international standards. For MFG2 to supply products to European clients, "all automation had to be CE marked." Similarly, FOOD1 had to adhere to "each and every requirement of each and every FDA in the world" before packaging and exporting its products to various countries. Furthermore, interviewees at IT1 and FOOD1 discussed confronting institutional challenges due to barriers between countries. The founder of IT1 indicated that the "trading between India and the UK is very, very difficult, very challenging [because] taxes are high [and] there is no transparency." Similarly, the export manager interviewed at FOOD1 stated that in Sri Lanka, "duties are like 60% for Indian food products", which caused hindrances to this SME.

In addition to the traditional LOF challenges, SMEs also experience problems receiving payments from foreign clients. The CEO of MFG4 stressed that among the major "issues are only with the delays in the payments" from foreign clients. Similarly, an interviewee at IT2 revealed that "there was a period from March 2006 till November 2006 when the business [was] on the verge of bankruptcy because… customers stopped paying for some or the other reason". The founder of OIL also indicated that the main challenge "was only the payment," and in order to sort out the issue with a foreign client in Thailand, they had "to approach [Indian] embassy, which took [a] very long time." SMEs, in general, may experience payment delays from foreign clients. This can be due to several reasons, such as firms' lack of credibility, stereotyping issues, and lack of clout to demand prompt payments that might be making firms vulnerable to deferred payments from foreign clients. Due to limited resources and experience SMEs may not be carefully screening the credibility of the foreign clients and, therefore, experience issues receiving payments. Another explanation could be the liability of smallness; foreign clients may take undue advantage of a small firm. Since SMEs may have limited resources, they might not find it feasible to legally chase foreign clients due to missed or delayed payment issues.

The interviews also suggested that intense competition in the host market was one of the many challenges SMEs experienced. The managing director of MFG7 discussed that they faced competition from a "lot of Indian manufacturers in neighboring countries, such as Bangladesh". Due to extensive competition from Indian firms in Bangladesh, this SME had to adapt itself to "compete with the price" offered by other Indian manufacturers. A similar experience was shared by FOOD2, which exports frozen foods and ingredients worldwide. The founder highlighted that they faced severe competition from low-cost food manufacturers and exporters in Vietnam, Malaysia, China, Pakistan, and Bangladesh.

Home-country governments can also impose challenges on firms operating in foreign markets (Eden & Miller, 2004; Gaur et al., 2011). The institutional environment and lack of support from the government at home can impose difficulties that affect SMEs' international initiatives (Cuervo-Cazurra et al., 2018). For instance, the founder of MFG3 complained about the inadequate support offered by the Indian government to SMEs. The founder revealed that "there is no encouragement to made in India products by the government" and that "multinational [companies] are coming in India, they are investing and sucking small scale" enterprises. The interviewee implied that the Indian government was more interested in attracting foreign multinationals to do business in India than in supporting the growth of small firms. Similarly, the interviewee at MFG6 pointed out that there are limited initiatives available from the Indian government for SMEs.

Interviewees also complained about the lack of funding and financial support available for small businesses that require funds to support their internationalization. SME managers discussed their struggle to receive business loans from Indian banks because of inadequate provisions to help small businesses. For instance, the founder of FOOD1 indicated, "bankers lend money only to those who have enough money," implying that a financially constrained SME will find difficulty accessing business loans. Similarly, the interviewee at MFG3 recalled that "no bank allowed him to enter [the] manager's room" because the founder "didn't have experience" and banks had a hard time "believing the degree" acquired from [an] overseas university. This shows that internationalizing SMEs encountered LOF stemming from their home market.

Continuing the discussion of the challenges experienced by SMEs due to home-country institutional rigidities, interviewee at MFG1 complained that “things are very cumbersome” while exporting. It was noted by other interviewees that there is “no proper channel to get the right information” for doing business in the foreign market (MFG7). An exception to these views was the opinion of the founder and director of MFG5, who indicated “the government had supported [them] in terms of monetary [and] some subsidy for manufacturing of machinery and technology”; however, the interviewee acknowledged that “the promotion of the schemes is not up to the mark [and firms] have to really find out what type of scheme is available” for their benefit.

7.2.1 Exploring LOF Distinctions: Large vs. Small Firms

The previous section discussed the LOF encountered by the interviewed SMEs. However, it is useful to highlight potential differences between the LOF experienced by larger vs. smaller firms. Although this study did not explicitly examine LOF in the context of large firms, the discussion in this section draws on the existing literature pertaining to larger firms and integrates it with the interview-based findings related to SMEs.

As indicated previously, past LOF literature has primarily examined the disadvantages experienced by large firms in foreign markets, and found that LOF can negatively influence MNEs’ performance (Denk et al., 2012; Lu et al., 2021; An et al., 2022). Much attention has also been given to identifying how MNEs mitigate LOF (Fiedler et al., 2022). Large firms generally have more resources and experience, relative to small firms, for navigating the challenges associated with operating in foreign markets (Yildiz & Fey, 2012). However, they may still face several types of LOF, which may be complicated by their size and internal operational complexity. MNEs usually have complex operations and international supply chains, making it challenging for them to navigate the cultural, institutional, and regulatory challenges in foreign markets. Their larger presence in a foreign market means that MNEs can also be subject to more intense regulatory scrutiny than comparable small firms (e.g., labor-related lawsuits), which can increase costs and make it more challenging to compete internationally (Mezias, 2002b). Moreover, MNEs generally work with many suppliers, distributors and partners in various countries. This coordination challenge can be particularly acute for MNEs that operate in multiple sectors and have diversified product lines, as they may have to manage different teams, processes, and systems across different global locations. The costs arising from challenges associated with spatial distance and coordination across time zones can increase the risks of miscommunication, quality control issues, and supply chain disruptions, leading to MNEs' experiencing potentially-severe LOF (Wan et al., 2020; Sethi & Judge, 2009). Furthermore, MNEs' corporate strategy at the headquarters level can constrain subsidiaries' operations in host markets. Much more than SMEs, MNE subsidiaries may lack autonomy, which can hinder their approaches to tackling uncertainties and complicate their ability to tackle LOF.

From the interviews, it is clear that a key strength of internationalizing SMEs is their ability to quickly adapt their products and services according to market changes and consumer preferences (see section 5.6.9 in Chapter 5). However, large firms may lack such flexibility, due to the complexity of their operations (Sethi & Judge, 2009; Denk et al., 2012). Additionally, compared to SMEs, MNEs may face liabilities stemming from political and institutional conditions in foreign markets, which can disrupt their large-scale operations and affect their international performance (Eden & Miller, 2004). Such liabilities can cause firms to bear the costs of monitoring and coping with trade policies (Sethi & Judge, 2009; Denk et al., 2012; Zaheer, 1995; Zaheer & Mosakowski, 1997). Furthermore, MNEs may face discrimination by locals and regulators, who may view them as relatively easy targets for generating their own political capital. Large firms' actions (e.g., ethics and social responsibility standards) could be closely scrutinized by media, NGOs and local stakeholders (Crilly & Jiang, 2015). These disadvantages suggest that MNEs might be subject to liabilities of multinationality, in addition to foreignness.

Although MNEs can face substantial challenges when operating internationally, some foreignness-related difficulties can be more pronounced for smaller firms. SMEs can experience liabilities of smallness (e.g., limited resources, capital, experience) and emergingness (e.g., stereotyping) in addition to foreignness (e.g., institutional and unfamiliarity hazards). However, some of these may be mitigated by the intra-country liabilities identified in this study (see Chapter 5). The within-country challenges described by SME interviewees were strikingly similar to LOF. While the benefits of intra-country operations that force firms to confront regulatory, language and cultural differences are not inherently limited to SMEs, it is reasonable to assume that smaller firms, with less expansive international experience, may derive more benefit with respect to LOF mitigation.

7.3 Determinants of LOF

As indicated in Chapter 2, LOF emerges from various sources, such as due to the firm's unfamiliarity with the target market's culture, customer needs, societal norms, and institutional environment, along with its own lack of resources, networks, and legitimacy in the foreign market (Denk et al., 2012) and other differences and distance between the home and the host market (Eden & Miller, 2004; Lu et al., 2021). Despite the progress of the LOF literature, studies have struggled to operationalize LOF, because it is challenging to develop a measure representing the myriad potential disadvantages experienced by the firm (Sethi & Guisinger, 2002). Due to this, there is inconsistency in how LOF is measured in research studies (Denk et al., 2012; Lu et al., 2021). For instance, studies have used profits, costs, survival, owners' nationality, and the number of expatriates working in the organization as proxies for LOF (see Chapter 3).

This study is among the first to operationalize an holistic measure for LOF. As indicated in Chapter 4, the thesis uses key literature to develop an inclusive construct for LOF (e.g., Mezias, 2002; Qian, Li, & Rugman, 2013; Zaheer, 1995; Zaheer & Mosakowski, 1997). Initially, the construct included items that represented various hazards, such as spatial distance, discrimination, relational, unfamiliarity, institutional, and disadvantages emerging from the home market environment. Exploratory factor analysis helped to combine these variables to create an interpretable and manageable set of factors that captured the aspects of the underlying dimension (Cavana et al., 2001; Field, 2005). Two factors representing institutional and unfamiliarity-related liabilities emerged through this process (please see Appendix I). These two factors were also checked for their reliability. The institutional LOF and unfamiliarity LOF factors are used as dependent variables while examining H1 to H4b. Additionally, they are used as the independent variable while testing H5.

7.4 The Role of Foreign Market Knowledge

Foreign market knowledge is viewed as an antecedent of LOF. Based on the literature review, the study predicted that foreign market knowledge would mitigate the LOF encountered by SMEs. The factor and reliability analysis performed on the survey data resulted in five factor that represented foreign market knowledge (1) foreign customer's knowledge, (2) foreign competitor's knowledge, (3) foreign normative environment knowledge, (4) foreign regulatory environment knowledge, and (5) foreign channels of distribution knowledge. H1 predicted that foreign market knowledge will mitigate LOF. For most of the foreign market knowledge factors, the quantitative results indicated no support for this relationship when tested on SMEs with and without interstate experience (see Table 6.17 and Table 6.18 in Chapter 6). However, the subsample of SMEs with interstate experience that had stronger knowledge of the foreign distribution channels experienced lower institutional LOF (see Table 6.18 in Chapter 6). Therefore, H1 was supported for this aspect of institutional LOF. Potential reasons for the findings related to H1 are discussed below in detail.

The lack of support for H1 contradicted studies that suggested a positive association, i.e., foreign market knowledge of the firms offsetting LOF (Denk et al., 2012; Musteen et al., 2014; Petersen, Pedersen & Lyles, 2008). This could be due to the limitations associated with the small sample size, which also caused methodological constrains. Besides limited data, perhaps, the foreign market knowledge of the managers did not help mitigate LOF because SMEs might be relying on other sources of knowledge to deal with these challenges. For instance, rather than depending on managerial knowledge of foreign markets, SMEs may acquire knowledge concerning customers, competitors, institutional environment, and distribution requirements of the foreign market through partners, social contacts, and distributors. Often, these networks can be well informed and have updated knowledge of international markets. The literature surrounding the resource-based view and resource dependency theory has asserted that small firms, who often lack resources (e.g., knowledge), tend to depend on the capabilities of others to fuel their internationalization (Child, Karmowska, & Shenkar, 2022). Therefore, the knowledge resident in these networks may be compensating for inadequate managerial knowledge of foreign markets with respect to overcoming LOF. If the responding SMEs depend on others to acquire information about foreign markets, to deal with LOF, this could explain the relative lack of significant findings regarding the relationship between foreign market knowledge factors and LOF.

The hypothesized relationship between managerial knowledge of foreign distribution channels and institutional LOF received partial support among the subset of SMEs that had interstate experience. The quantitative results signified that, on average, SMEs with interstate experience that possessed more robust knowledge of foreign distribution channels experienced reduced institutional LOF. This suggests that managers' understanding of the characteristics and appropriateness of international distribution channels helped with reducing institutional LOF for this subsample of firms. Managers with foreign distribution knowledge (e.g., quality, relevance, and availability) were better able to handle liabilities from the foreign institutional environment. Using the literature on exports and institutions in conjunction with the logistics and distribution management field might offer a fruitful starting point for researchers interested in understanding how managerial knowledge could play a vital role in mitigating LOF.

The interviews provided quite a different view of the role of foreign market knowledge in mitigating SMEs' LOF; managers indicated that they acquired knowledge about foreign markets through previous overseas work experience, which assisted in tackling LOF. For example, it was the managerial knowledge of host markets, from previous foreign work experience, that helped MFG7 to establish its international business. Similarly, the export manager at FOOD1 commented that "starting [a] career from scratch companies (start-ups)" enabled him to "see a lot of challenges domestically and internationally at all levels." The export manager's experience of over 25 years, which included international experience helped the firm to understand various key elements of foreign markets. The views expressed by the interviewees align with the literature that suggests knowledge accumulated by managerial staff through previous work experience can be vital in dealing with the challenges prevailing in foreign markets (Musteen et al., 2014). Moreover, the acquired experiences of managers or founders could also help them to better anticipate uncertainties in foreign markets, use tried and tested approaches, and provide improved strategic solutions to tackle LOF. Overall, the interview findings suggested that managers' foreign market knowledge can help SMEs tackle LOF.

7.5 The Role of Technological Capabilities

Based on the resource-based view (e.g., Barney, 1991), this thesis considers organizational capabilities and their role in mitigating LOF. As indicated in Chapters 2 and 3, studies have highlighted the importance of technological capabilities for small firms' success in international markets (Knight & Cavusgil, 2004; Lee et al., 2001). They have been identified as critical organizational resources that contribute to sustainable competitive advantage (Dierickx & Cool, 1989; Nelson & Winter, 1982; Ortega, 2010), by enabling SMEs to outperform local incumbents.

Hypothesis 2a predicted that SMEs will be able to mitigate LOF by leveraging their technological capabilities. For the subset of SMEs that did not have interstate experience, the data indicated that, on an average, stronger technological capabilities were associated with lower institutional LOF (see Table 6.19 in Chapter 6).

Although studies have suggested that technological capabilities improve firms' international performance, supporting the firm to be more globally dispersed and providing competitive advantage (Asmussen & Goerzen, 2013, Dierickx & Cool, 1989; Knight & Cavusgil, 2004; Lee et al., 2001; Nelson, 1991 Ortega, 2010), its role has not been examined in the context of LOF. The research, so far, has proposed that firms with strong assets, such as technological capabilities, may be able to overcome LOF by deploying their assets in foreign markets (e.g., Asmussen & Goerzen, 2013; Nachum, 2003). Hymer (1976) also asserted that technological capabilities can allow firms to achieve monopolistic advantage, supporting their international success. As indicated above, the survey data provide some support to the proposed view, suggesting that stronger technological capabilities helped to reduce institutional LOF for the subsample of SMEs that did not have interstate activities. Often, foreign government and their institutions see substantial potential for positive value generation from small entrepreneurial firms with strong technological capabilities (Bhanji & Oxley, 2013) wanting to do business in their country. As such, host market policies and regulations might favor such firms, lessening their disadvantages.

Furthermore, when small firms own advanced technological competencies, they have greater potential to be flexible in facilitating lower-cost production and more efficiently serve niche market needs (Knight & Cavusgil, 2004), relative to larger firms that tend to be rigid with their processes. Moreover, technological prowess may allow SMEs to receive external endorsements, which might improve the perceived quality of their products or services among host market consumers (Asmussen & Goerzen, 2013). The interviews provided evidence that SMEs acquired certifications as external evidence to showcase their technological capabilities to foreign clients. For example, according to the CEO of MFG8, they are the only firm in India that uses robotic welding to produce superior products for foreign clients. Given the nature of their business, they rely extensively on industry certifications so that their manufactured products are "approved and appreciated" and "accepted internationally." By attaining certifications for the technology used in developing unique products, the SME enhanced the perceived quality of their products in host markets. Therefore, certifications have the potential to help foreign firms demonstrate their technological capability and lessen the discrimination (cognitive and normative) by the host market institutions and customers.

The quantitative analysis showed no evidence that technological capabilities helped to mitigate unfamiliarity related LOF for firms without interstate experience; however, opposite was indicated amongst firms with interstate experience. The data indicated that, on an average, stronger technological capabilities were associated with greater unfamiliarity related LOF for the subset of SMEs with interstate experience (see Table 6.20 in Chapter 6). Given small sample size, more data could be useful to substantiate the contradicting results.

In the interviews, it was apparent that the participating SMEs used their superior technological capabilities to overcome host market unfamiliarity. For instance, the managing director of MFG7 indicated that, when foreign customers and clients were unfamiliar with the firm, they leveraged their technological competencies to overcome locals' unfamiliarity. MFG7 invested in educating foreign customers and clients so that they would understand how the firm's technologies can provide quality products and reduce costs, compared to the outdated technologies of their competitors. Showcasing technologies to unfamiliar foreign customers benefited this firm, increasing its reputation and decreasing the host market's unfamiliarity with it. The interviewee at IT1 also discussed the importance of communicating their technologies to foreign customers. This founder indicated that, in the USA, where customers prefer cutting-edge technologies, the product "does not need to be technologically number one" but rather "well-communicated," and without marketing their capabilities, "the business cannot survive" internationally. Conversely, the founder of MFG3 indicated that they have "never done any marketing", as the founders' credentials, and the quality and durability of the manufactured products, using advanced technology, enabled the firm to achieve legitimacy amongst foreign clients. Therefore, it can be said that SMEs having robust technological competencies have the potential to leverage it to attain foreign market familiarity.

Overall, the empirical evidence from the quantitative part of the study only partially supported H2a, suggesting that SMEs without interstate experience encountered lowered institutional LOF associated with their strong technological capabilities.

7.6 The Role of Distributors' Capabilities

Strong relationships that SMEs develop with their distributors can help to pave the way for the firms to use their capabilities to overcome LOF. Given that most SMEs are presumed to be resource-constrained, they tend to internationalize via exporting. A key strategy used by many small firms is to rely on the capabilities of their distributors for their internationalization, which helps firms to mitigate uncertainties associated with operating in foreign markets (Knight & Cavusgil, 2004).

Hypothesis 2b predicted that strong distributors' capabilities will enable SMEs to mitigate LOF. The results were contradicted when H2b was tested on SMEs with interstate experience (see Table 6.22 in Chapter 6). Given their interstate experience, this subsample of SMEs may have been able to depend on other sources, such as government, industry associations, and social contacts, to offset disadvantages stemming from host markets' institutional environment. In that case, distributors' capabilities might not be critical in reducing institutional LOF for these SMEs. This may also reflect an issue such that foreign distributors handling numerous clients may hold biases towards emerging market SMEs. The export manager of FOOD1 – a manufacturer of Chinese food ingredients (e.g., soy sauce, noodles) – described confronting difficulties due to foreign distributors' stereotypical perceptions of this firm's products. The firms' foreign distributors perceived the SMEs' products as appealing only to Indian customers. As a result of these views and unawareness of the SME, products of FOOD1 were shelved in the Indian isle and not with other Chinese and Japanese international brands such as Lee Kum Kee and Kikkoman. This suggests that the firm was subject to some liabilities of origin. It may also reflect the fact that not everyone in the world knows that Indian Chinese food is a thing. Moreover, as the interviewed SME did not have a reputed brand, they encountered liabilities stemming from distributors unfamiliar with the firm and suffered due to lack of status in foreign markets.

Furthermore, no support was found when H2b was tested on the subset of SMEs without interstate experience (see Table 6.21 in Chapter 6). Overall, the lack of strong support for H2b is inconsistent with the literature, which suggests that small firms rely on the competencies of their foreign distributors to help them deal with uncertainties (Bowersox & Cooper, 1992; Chen, 2006, Hernández-Espallardo et al., 2011; Knight & Cavusgil, 2004; Rosson & Ford, 1982). Perhaps, this issue could be explored by conducting further research that involves more extensive quantitative work.

7.7 The Role of Foreign Institutional Support

Studies have provided evidence that host markets' stringent institutions affect foreign businesses (Denk et al., 2012). However, studies have yet to explore how host market institutions may support foreign firms to overcome LOF (Ahlstrom & Bruton, 2002; Peng, 2000). Drawing on the institutional theory (e.g., Scott, 1995), this study examined whether host market institutions' support could mitigate SMEs' LOF.

Foreign institutional support refers to the extent to which the host market government and regulatory environment support foreign firms (Nuruzzaman, Singh, & Gaur, 2020). It has been asserted that foreign firms can thrive in countries where the government provides a favorable institutional environment, including information, education, and training required to operate effectively in the market (Lu, Liu, Wright, & Filatotchev, 2014). Consistent with this line of reasoning, it was hypothesized that foreign institutional support mitigates SMEs' LOF. The evidence from the quantitative findings indicated that H3 received no support (see Table 6.24 and 6.24 in Chapter 6).

The challenges inflicted by host market institutions do not seem to have been offset by the support on offer, for the firms responding to the questionnaire.

The results from the interviews might explain the lack of quantitative support for this hypothesis. The export manager at FOOD1 revealed that "…the challenge [is] adhering to the international standards for a small and medium enterprise." The rules and regulations imposed by host market institutions differ substantially between countries, and can, at times, be difficult to predict. If host market institutions do not have adequate measures to help foreign firms cope with the institutional environment, SMEs may view the host market institutions more as inflicting constraints than offering support to ease business operations. For instance, in terms of the liabilities emerging due to host markets' regulatory frameworks, the founder of IT1 commented that transferring money from India to the UK for business purposes is extremely difficult because of "the complicated tax laws," "local taxes" and lack of "transparency." Even in neighboring countries, the manager of FOOD1 discussed facing difficulties because the duties on Indian food products are 60%, as host markets are "protecting their own companies" from foreign competitors. These issues may shed some light on the lack of support for H3.

7.8 The Role of Networks

Grounded in the network-based view of internationalization, this thesis considers how networks help to mitigate SMEs' LOF. As identified in Chapter 3, managers' personal and external networks provide resources (e.g., foreign market information, references) that can be critical in helping SMEs offset the LOF.

Hypothesis 4a predicted that leveraging management's personal networks will assist SMEs to mitigate LOF. For the subset of SMEs without interstate experience, the data provided evidence that, on average, stronger personal networks were associated with greater unfamiliarity related LOF (see Table 6.25 in Chapter 6), contradicting the hypothesis. The quantitative findings found no support indicating that personal networks mitigated institutional LOF for this the subsample of SMEs (see Table 6.25 in Chapter 6). No support was found when H4a was tested on SMEs with interstate experience (see Table 6.26 in Chapter 6). Potential reasons for the findings related to H4a are discussed below in detail.

The quantitative findings are inconsistent with the literature that suggested assistance from personal networks (e.g., market information and resources) helps reduce the challenges of operating in foreign markets (Xie & Amine, 2009). An explanation for the result contradicting and lack of support for this hypothesis could be that rather than strong personal ties, such as with friends and family, weaker and less dense networks could be helpful in lowering the unfamiliarity (e.g., Lu & Hwang, 2010). For instance, family and friends referring the SME in foreign markets could be based on goodwill and mutual trust rather than profits. If the SME compromises itself in foreign markets, it may be the end of personal relationships As SMEs tend to struggle to survive in foreign markets, their personal contacts could be hesitant to introduce or refer the firm. Therefore, weaker ties could be less fragile than personal networks, and may assist SMEs to overcome LOF. Firms may also have less obligation to perform well, to maintain weaker relationships. Perhaps exploring this premise could help us understand if weaker ties help SMEs to mitigate LOF, instead of personal networks.

As indicated previously, the quantitative findings found no support showing that personal contacts helped the subset of SMEs with interstate experience to mitigate institutional and unfamiliarity. Given the small sample size, it is difficult to rationalize the quantitative results. However, the lack of support may be because personal ties of these SMEs could have less understanding of the foreign markets and, therefore, could not help in mitigating LOF related challenges. It is recommended that collecting more data and conducting extensive quantitative analyses may help to substantiate the findings.

Though the quantitative data did not find that the personal networks of the managers or founders helped lower LOF for either of the sample SMEs, the evidence gathered during the interviews suggested that personal contacts were, in fact, helpful in tackling foreign market uncertainties. For instance, the managing director of MFG7 indicated facing fewer hurdles in international markets by leveraging contacts developed through previous work experience. These long-standing personal ties helped MFG7 to find business clients and survive initially in foreign markets. Similarly, the founder of MFG1 discussed that a close family member residing overseas helped to promote the technical aspects of the business in foreign markets. These findings are consistent with the studies suggesting that social contacts of SMEs can play a vital role in helping firms overcome internationalization obstacles (Coviello & Munro, 1997; Chandra, Styles, & Wilkinson, 2009; Johanson & Vahlne, 2015; Khanna & Palepu, 1997, 2000).

Hypothesis 4b proposed that SMEs' external networks will help mitigate the LOF. External networks include contacts that are established through trade fairs, industry associations, government departments, and academic or professional institutes (Tang, 2011). Firms that are not insiders in these networks risk suffering from the liability of outsidership (Johanson & Vahlne, 2015). External networks can provide firms with knowledge and insider information required to conduct business in less-familiar foreign environments. As such, it was hypothesized that these networks will be useful to mitigate the LOF.

The evidence at hand from the quantitative analysis offered no support for this hypothesis (see Table 6.27 and 6.28 in Chapter 6). It may be that the SMEs' external networks' support may not be adequate for dealing with LOF (unfamiliarity and institutional). For example, the firms' particular external networks may provide general information about foreign markets, which may not be specific enough to help in tackling liabilities stemming from foreign institutional environments and unfamiliarity related uncertainties. Mitigating the challenges emerging from the host market's institutional environment may require a different approach. The lack of support for this relationship may also indicate that the sample SMEs may be relying on other sources to deal with the institutional and unfamiliarity related complexities of foreign markets (e.g., partners or political networks). Future researchers interested in examining the role of networks could investigate how different networks, in addition to personal networks, might help mitigate LOF.

The exploratory interview findings provided different insights. The interviewed SMEs that attended trade fairs or technology shows reported that they benefited from the networks developed through such platforms. For instance, the founder of IT2 indicated that their mantra has always been “Networking! Networking! Networking!”, because it is essential to “understand different sets of people, different mindsets, [and] cultures”. The founder of IT2 also indicated that the contacts developed in technology shows helped the firm to sort out the legal and regulatory obstacles to setting up business in the UK (see Chapter 5, section 5.6.7). As such, IT2 attended such events to “accumulate more business clients.” Similarly, interviewees at MFG7 and FOOD2 indicated that contacts developed at trade fairs helped them to understand the characteristics of international markets.

In addition to trade fairs, interviewed SMEs mentioned receiving support from the networks developed within industry associations at home. Gathering clients or customers can be challenging when SMEs have limited networks in foreign markets. Connections developed through APEDA (an agricultural export promotion body set up by the Indian government) helped FOOD2 to reach out to international buyers. Similarly, the representative of TXT2 indicated that the chairman’s contacts with government officials, such as those working in the Indian apparel promotion export council, facilitated the firm in its international activities. Along similar lines, the CEO of MFG8 indicated that they received support from Federation of Indian Chambers of Commerce & Industry (FICCI) and that nobody “avoids or stops” the firm if they internationalize through the network of home country institutions. These findings emphasized the importance of external networks, such as home country institutional networks that can lessen the challenges associated with LOF.

7.9 The Role of Other Determinants

During the interviews and in the survey, the study gathered additional insights which enhance our understanding of how SMEs approach LOF. This section is dedicated to the additional findings from the interviews and data.

7.9.1 Partnerships

Although the study incorporated the role of networks in the conceptual model, it could not entirely incorporate the role of other types of relationships that might help SMEs to overcome LOF. The importance of partner firms' assistance emerged during the interviews. For instance, collaborating and working with partners on a project, MFG2 entered into a partnership with a Korean-based enterprise to pitch together for a project. The partner firm shared its knowledge in areas where the MFG2 was lacking. Similarly, in aspects where the Korean firm did not have the necessary know-how, MFG2 offered its expertise. Collaborating with other firms to mutually deliver a project for customers/clients was one of the many strategies that this SME applied to overcome LOF (e.g., lack of knowledge and reduction in additional costs).

Emphasizing the importance of partnerships while doing business in foreign markets, the founder of IT2 specified that one of their customary internationalization strategies was to find an excellent local partner from a similar industry because "it makes life easier". Likewise, the founder of IT1 suggested that partners with strong local experience help the SME to identify opportunities and understand the characteristics of the market and customers (see section 5.6.3 in Chapter 5). Similarly, the CEO of MFG8 indicated that, by collaborating with a German firm, they were "able to cater to their networks" and "not worry about tapping the market". Moreover, due to the existing reputation of the German firm, MFG8 "did not have to go for marketing... or exhibitions," which reduced their international marketing costs. Therefore, partnerships have the potential to help SMEs to overcome their internal deficiencies, provide access to networks, improve legitimacy, and reduce some of the expenses (e.g., image building, advertisement, and trade exhibition costs) that foreign firms can incur in host markets.

7.9.2 Building Legitimacy

Foreign firms frequently face challenges because the host market is unfamiliar with the foreign firm and its reputation (Denk et al., 2012). Discrimination can also emerge due to consumer ethnocentrism and stereotyping behavior toward firms from emerging markets (Eden & Miller, 2004). In order to reduce such hazards from, attaining certifications from international agencies were mentioned as useful. Certifications provide a formal confirmation, assuring foreign customers and institutional authorities that the SME has complied with the specific standards (Zhang et al., 2019). Interviewees indicated that certifications mattered because “it is the Indian brand [we] are selling in international markets” (MFG8) and this “ascertains that [the firm] is [following] the standards” (FOOD1). As Indian firms have a reputation for supplying inferior quality products, acquiring certifications can reduce liabilities due to stereotyping and SMEs’ lack of legitimacy. Certifications can also help build confidence amongst foreign business clients and customers because it provides evidence that they are dealing with a legitimate firm that adheres to the benchmarks appreciated by the host country’s environment. Therefore, international certifications may assist in reducing the LOF encountered by small firms that lack history and reputation in host markets.

Additionally, the literature suggests that foreign firms could lower LOF by hiring locals, because they can provide vital information about the host market environment, which can be beneficial in tackling unfamiliarity hazards (Cao & Alon, 2021; Goodall & Roberts, 2003; Newenham-Kahindi & Stevens, 2018; Patel et al., 2018). Consistent with past research, MFG2 hired a local employee for its office in Brazil, to help the firm understand the language, policies, and characteristics of the Brazilian market. Moreover, by hiring a domestic employee, the SME showed the institutional authorities that they are committed to employing people from the local community. This approach seemed to have helped the SME to build legitimacy within the host market.

Furthermore, the literature asserts that foreign firms frequently pursue local modification strategies to adapt to the host market (Petersen & Pedersen, 2002). In line with this, the interviewee at MFG7 indicated that they engaged in local adaptations “to compete with the local player”. This enterprise also generally modifies its products depending on the country’s climate conditions because they (frozen foods) are sensitive to temperature changes. For instance, MFG7 alters products so that they can withstand different climate conditions and temperature changes (e.g., the UK, European countries, and Bangladesh).

LOF can also emerge from intense competition in the host market. IT1, a service-oriented firm operating in the UK, adapted its business model by incorporating real-time customer support for cloud services (e.g., data storage facility), to outperform competitors who were not offering after-sales support to their customers. Fulfilling this service gap not filled by other firms in the UK's IT industry gave IT1 a competitive advantage.

The adaptation technique can also be used to overcome institutional liabilities. For example, the founder of MFG3 explained that "whatever environment norm [a] particular country [has], we follow that and accordingly change our processes or materials". Similarly, the founder of MFG5 noted that the firm "continuously keeps reviewing the methods and the process" to adapt its business according to the foreign market. These views highlight that overcoming LOF hazards can involve being flexible with respect to adjusting processes and products, according to the idiosyncrasies of the foreign environment.

Additional data gathered via the questionnaire indicated that greater adaptation to foreign advertisement was associated with higher unfamiliarity related LOF among SMEs with interstate experience (see Chapter 6, section 6.6.3.1). This suggests that altering advertising approaches, such as changing the channels of advertisement, budget, promotion objectives, and advertisement themes, tended to increase unfamiliarity related LOF, rather than decreasing it. This finding seems to contradict the literature, which suggests that adaptation to marketing approaches, such as advertising, can play a critical role in lowering disadvantages in foreign markets (Bangara et al., 2012; Petersen & Pedersen, 2002; Ramachandran & Pant, 2010; Wu & Salomon, 2017; Zhou & Guillen, 2015). There are several potential explanations for this finding. Not every foreign firm can understand the host market's characteristics well enough to adapt accordingly. If an SME lacks understanding, its advertising approach could have detrimental effects. Alternatively, SMEs that have gone to the trouble of adapting their advertising campaigns may be more aware of unfamiliarity related LOF. The low number of responses to this question means that more data are needed to tease out the subtleties of this issue.

Furthermore, the interview findings showed that MFG1, MFG7, and IT1 all employed a cost-effective strategy to penetrate price-sensitive markets, while maintaining the quality of their offerings. This strategy enabled the firms to cope with local competition, attract more customers, lessen discriminatory hazards, and build legitimacy.

7.10 Effect of LOF on SMEs' International Financial Performance[8]

The third research question in this study aimed to investigate the effect of LOF on the international performance of SMEs. As indicated in Chapters 2 and 3, studies have noted a reversal in the foreign firms' performance due to the various elements of LOF (e.g., uncertainty, distance, discrimination, institutional hazards). For instance, studies have found that LOF negatively impacts foreign firms' performance, including growth, profitability, profit per employee, return on assets and return on sales (Denk et al., 2012; Miller & Eden, 2006; Zaheer, 1995; Mezias, 2002a). Recall that the existing LOF literature has mainly examined the influence of LOF on the performance of large firms rather than SMEs. To demonstrate that LOF exists, studies have examined the differences between the average performance of local firms and foreign subsidiaries in specific host markets (Elango, 2009; Nachum, 2003; Zaheer, 1995) and found that local firms outperformed foreign firms. On the basis that LOF is viewed as impeding the international performance of large foreign firms, this study hypothesized that LOF would negatively impact the international performance of SMEs as well.

Hypothesis 5 proposed that LOF will have a negative impact on the performance of SMEs. The financial performance indicators include perceptions regarding sales, sales growth, profit-to-sales ratio, return on investment (ROI), and net profit from international operations. As indicated in Chapter 6, the relationship between each financial item and LOF was examined. The focus was on recent – the most recent five years, or up to the present for firms with less than five year of international experience – performance in foreign markets.

For SMEs without interstate experience, the data indicated that, on average, greater institutional LOF is associated with weaker international performance (see Table 6.29 in Chapter 6), providing some support for H5. On the other hand, for SMEs with interstate experience, greater institutional LOF was associated with stronger international performance

[8] Please note the interviewees were not comfortable discussing the firms' international performance. Hence this section does not include qualitative evidence.

(see Table 6.30 in Chapter 6), contradicting the hypothesis. An explanation for the contradicting results for this subsample of firms may pertain to their experience in handling complexities within India. It has been asserted that emerging market SMEs handling institutional complexities in their home market are better able to navigate difficult conditions overseas, relative to firms without such home-based experience dealing with home country complexities (Cuervo-Cazurra & Genc, 2008). Therefore, the contradicting results for the two subsets of Indian SMEs could hint at within-India experiences helping firms to mitigate institutional LOF, with positive implications for their international performance.

The study also examined if unfamiliarity related LOF affects SMEs' international performance, consistent with the literature (Eden & Miller, 2004; Zaheer & Mosakowski, 1997). For SMEs without interstate experience, H5 was not supported for this aspect of LOF. For SMEs with interstate experience, the data indicated that higher unfamiliarity related LOF, on average, was associated with higher international profit to sales ratio and net profits (see Table 6.32 in Chapter 6), which contradicts the hypothesis. This is, however, consistent with these SMEs' acquired experiences within India. Given the substantial variations between Indian states, these firms already have experience in dealing with unfamiliar situations at home. As such, unfamiliarity issues encountered in foreign markets may not have weaken their international profit-to-sales ratio and net profits; rather, these experienced firms are able to leverage the unfamiliarity in foreign markets.

7.11 Effect of LOF on SMEs' International Performance (Non-Financial)[9]

The perceived non-financial measure has been employed to understand the extent to which managers are satisfied with their firm's international performance, relative to their competitors, during the most recent five years. For SMEs lacking interstate experience, the data did not indicate that unfamiliarity and institutional related LOF is associated with lower levels of managerial satisfaction with international success (see Table 6.33 in Chapter 6), offering no support to H5. In addition, the study found that SMEs without interstate experience often internationalized to the UAE (see Chapter 6, Table 6.12), which is geographically close to India and is home to a very large Indian population, offering relative familiarity with respect to a customer base.

The situation is a bit difference when considering the subset of SMEs with interstate experience (see Table 6.34 in Chapter 6). H5 is contradicted with respect to institutional LOF among the subset of SMEs with interstate experience; on average, greater institutional related LOF was associated with higher managerial satisfaction with international success. These SMEs are more likely to have encountered institutional related challenges at home, allowing them to develop capabilities for managing uncertain situations abroad (Cuervo-Cazurra & Genc, 2008). As such, the experience acquired by dealing with complexities across states within India may mitigate the expected negative effects of institutional LOF.

Overall, H5 received no support, but some contradiction. As the responses to this question were rather few, there remains much to explore in future research.

[9] Please note the interviewees were not comfortable discussing the firms' international performance. Hence this section does not include qualitative evidence.

7.12 Additional Findings: The Role of Intra-country Experiences

The interviews revealed that local SMEs encountered intra-country liabilities within India that are similar to the LOF encountered by foreign firms in foreign markets. Interviewees mentioned intra-country liabilities arising from discriminatory, social, institutional, and environmental hazards, due to often-substantial dissimilarities among Indian states (see chapter 5, Figure 5.2). For instance, the culture, languages, informal and formal rules, regulatory environment, infrastructure, geographic conditions, and consumer preferences that differ across Indian states can contribute to intra-country liabilities. As SMEs operating in multiple states are exposed to complexities due to subnational variations within the home market, they learn to deal with difficult situations even without internationalizing (Hutzschenreuter, 2020). These home country experiences can be beneficial for internationalizing SMEs, enabling them to reflect on and tackle similar challenges in foreign markets. Based on these interview findings, the survey instrument incorporated questions that aimed to shed light on the influence of SMEs' intra-country experiences on dealing with uncertainties in foreign markets (see Appendix F for questionnaire).

SMEs often rely on their home-based, pre-existing links with personal (e.g., friends, family) and external networks (e.g., industry associations, government officials) for overcoming LOF (Zhou, Wu & Luo, 2007). For the subset of SMEs without interstate experience, the data provided evidence that stronger personal networks in Indian states, on average, are associated with lower institutional related LOF (see Table 6.37 in Chapter 6). This implies that ties with family, friends, and relatives within India were helpful for these SMEs, in terms of reducing the liabilities emerging from host markets' institutional environments. It may be that personal contacts within India are able to share information about the foreign institutional environments, which help to firms' institutional LOF. Alternately, if members of the SMEs' domestic personal networks have strong ties in foreign markets, their referrals might be beneficial.

These findings are in contrast to those for SMEs with interstate experience, for which stronger personal networks were associated with greater unfamiliarity related LOF (see Table 6.36 in Chapter 6). There may be that, for these more experienced firms, weaker and less dense networks are more important with respect to managing LOF (e.g., Lu & Hwang, 2010).

The study also asked the survey participants about the influence of external networks (e.g., developed through interstate trade fairs, government, and industry associations) on LOF. For SMEs with interstate experience, on average, stronger external networks are associated with lower unfamiliarity related LOF (see Table 6.38 in Chapter 6). Through their within-India expansion, these firms may have developed useful ties with government departments, industry associations, and academic institutions, which provided information that helped in the development of understanding about foreign environments. These SMEs may also have developed capabilities pertaining to the development of such networks that are transferable internationally. Future research can further explore how home-country network ties may assist smaller firms in tackling various elements of LOF.

The issue of whether support from local state institutions in India helped SMEs to mitigate LOF was also investigated. On average, more such support is associated with lower unfamiliarity related LOF for SMEs with interstate experience (see Table 6.39 in Chapter 6). Thus, support from various state institutions within India, such as implementing favorable policies and programs, providing information on foreign markets, foreign technologies, and services, made it less daunting for these SMEs to operate internationally. SMEs with interstate experience have potentially been exposed to a wider range of support, from multiple states, enriching their knowledge base, and home country institutional support may serve as a capability-enhancing mechanism to limit losses due to firms' lack of understanding and prior international experience (Foroudi et al., 2021; Lu, Liu, Wright, & Filatotchev, 2014).

Also, with regard to SMEs with interstate experience, managers' stronger knowledge of distribution channels within India also seem to lead to firms' experiencing lower levels of institutional and unfamiliarity-related liabilities in foreign markets (see Table 6.40 in Chapter 6). This may reflect the likelihood that they have dealt with comparable challenges at home, including persistent distribution-related issues within India due to weak infrastructure, vehicle quality (e.g., with freezing technology), lack of connectivity in rural areas, regulatory barriers pertaining to distribution, and widely varying weather conditions. The CEO of MFG8 indicated that, if the firm is manufacturing machines in Pune and supplying to Delhi or northern areas of Rajasthan, then "transportation and logistics part matter a lot", representing a constraint, because products need to be transported using different carriers.

Social and institutional norms persisting in different Indian states can also pose challenges for distribution. The export manager at FOOD1 indicated that "establishing a distribution [in Kerela] is very difficult because of the cultural part of it" and because of "the of the rules and regulations". Such experiences could explain why SMEs with interstate experience, whose managers had knowledge of tackling distribution issues within India, experience mitigated LOF (institutional and unfamiliarity) in foreign markets (see Table 6.40 in Chapter 6).

7.13 Summary of Key Findings and Implications

A summary of the key findings of this study and their potential implications is displayed in Tables 7.1 and 7.2. In the next chapter, the conclusions and contributions of the study are highlighted.

Table 7.1: Summary of the Key Findings and Implications

Construct	Qualitative Findings	Quantitative Survey Results		Implications
		No interstate experience	**Interstate experience SMEs**	
Foreign market knowledge: Customers	Strong support, strong theme *"We know what is the requirement of the customer (referring to foreign customer) because I am in this field for more than 25 years and I have worked in various positions in different companies. So, I have knowledge about the demand, requirement of the customer" - MFG7* *"I have started a lot of my career into scratch companies, starting from scratch. Buyer or supplier to taking it (a firm) up to a particular level. Let us say 10 million dollars to 15 million dollars step by step. That's how I have worked out things. So, I have seen a lot of challenges domestically and internationally at all levels. See, I am what 50 years old, and I have been in this industry for 25 years. So started from scratch. From agricultural businesses to all these other companies."- FOOD1*	Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: NS	Managers' prior knowledge of foreign markets and experience in understanding the "demand" and "requirements of the customers" were key findings of the interviews. The lack of support in the survey results for most foreign knowledge factors could be due to dependence on the knowledge of partners, social contacts, and distributors to mitigate LOF. Managers' robust understanding of distribution channels helped SMEs with interstate experience to reduce liabilities stemming from host markets' institutional environment.
Competitors		Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: NS	
Normative environment		Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: NS	
Regulatory environment		Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: NS	
Channels of distribution		Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: **Supported** Unfamiliarity LOF: NS	
Technological capabilities	Some support *"Our company is the only company in India who uses robotic welding in our machines. What I am supplying is my technology, but it should get accepted internationally or [in] the local market. So, we have taken care [to get] certification [for] products, so that the product is approved and appreciated."- MFG8*	Institutional LOF: **Supported** Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: **Contradicted**	Despite owning technological capabilities, SMEs had to demonstrate their competence by gaining internationally approved certifications. SMEs without interstate experience that had stronger technological capabilities faced reduced institutional LOF, perhaps because host market institutions,

				customers, and other stakeholders might prefer foreign firms with strong technological capabilities. This reduces firms' uncertainties associated with the host market's cognitive, normative, and regulatory settings. SMEs with interstate experience confronted greater unfamiliarity LOF despite stronger technological capabilities, perhaps because host markets might be unfamiliar with the SME.
Distributors' capabilities	Mixed support *"The first thing that I observed was all the distributors' mindsets again typical Indian. They kept all our products in [the] pickle category. [They said] Indians come here, so we keep Indian sauces here (translated from Hindi). Our dark soya sauce was not kept in the soya sauce category [with] Lee Kum Kee and Kikkoman all these international brands. It was there (in the Indian section). So, [the] first thing it took me time to tell them [was], of course, why do you think it is Indian just because it is coming from India. It's a dark soya sauce. It is eaten by which people? And then I had a word with these people (retailers) that why are you sticking it here. It took me four to five months to get into their mindset [and convince] please do not consider these products as Indian. So, then the volume started growing phenomenally because they were in the right place." – FOOD1*	Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: **Contradicted**	Despite having distributors with strong expertise, biases could be the reason why the sample SMEs faced increased unfamiliarity related LOF.

Foreign institutional Support	Mixed support *"Trading between India and the UK is very, very difficult, very challenging. Taxes are also high. There is no transparency… If the government looks into it, those can be sorted because there is a lot of synergy between the countries (India and UK)." – IT1*	Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: NS	Foreign institutional support was inadequate to reduce the institutional and unfamiliarity-related disadvantages faced by the sample SMEs.
Foreign personal networks	Strong support, strong theme *"I think business is all about collaborations and partnerships so you can network with people [and] have an understanding. So, once I got different experiences of working with different companies like Godrej, Datamatics in Bombay, I [got a] good network. So, the only thing you need to do is network, speak to different people." – IT2*	Institutional LOF: NS Unfamiliarity LOF: **Contradicted**	Institutional LOF: NS Unfamiliarity LOF: NS	Though foreign personal networks helped the interviewed SMEs, the survey data found that these contacts were associated with increased the unfamiliarity related LOF for the subsample of SMEs without interstate experience.
Foreign external networks	Strong support *"I was in the UK for the India-UK tech summit. Usually, whenever we go to these tech shows, the idea is to accumulate more business clients or connecting to few sets of people. So that way, I have been in the UK met a lot of people ready to help and start-up my company there. They said that we can take care of all the legal regulations and all. So, this has been the benefit of coming to the tech show." – IT2*	Institutional LOF: NS Unfamiliarity LOF: NS	Institutional LOF: NS Unfamiliarity LOF: NS	Foreign external networks, such as those developed through trade fairs and industry associations, helped the interviewed firms to connect with customers and learn about the foreign markets; however, the survey data did not find evidence that it reduced LOF.

Note: Not supported is written as NS in the above table.

Table 7.2: Summary of the Key Findings and Implications: LOF and International Performance

Construct	Quantitative Survey Results		Implications
	No interstate experience SMEs	**Interstate experience SMEs**	
Institutional LOF	Perceived financial performance: **Supported** Perceived success: NS	Perceived financial performance: **Contradicted** Perceived success: **Contradicted**	Liabilities emerging from the institutional environment of the host market are associated with poorer financial performance of the sample SMEs without interstate experience. Perhaps this could be because they do not have experience tackling institutional complexities within India. Liabilities emerging from the host market's institutional environment are associated with improved performance of SMEs with interstate experience, indicating that the sample firms' interstate experiences could be helping them to lessen the disadvantages. Liabilities emerging from the institutional environment of the host market were associated with increased managerial perceptions of firms' success in international markets for SMEs with interstate experience.
Unfamiliarity LOF	Perceived financial performance: NS Perceived success: NS	Perceived financial performance: **Partially contradicted** Perceived success: NS	SMEs with interstate experience that confronted unfamiliarity related challenges experienced stronger profit-to-sales ratio and net profits, partially contradicting the expectations. Their experiences of tackling unfamiliarity within India might be helping them to tackle issues stemming due to foreign market unfamiliarity.

Note: Not supported is written as NS in the above table.

CHAPTER 8

CONCLUSION

This chapter presents the conclusions of the study. The theoretical, managerial, and policy contributions of the study are highlighted, followed by an acknowledgement of the limitations of the thesis.

This study examined the LOF experienced by Indian SMEs, and the approaches used by these firms to overcome these challenges. Additionally, the study examined the influence of LOF on the international performance of SMEs. As indicated in Chapter 1, SMEs represent an important type of firm and contribute substantially to the overall growth of economies worldwide. Despite emerging market SMEs' growing presence in international markets, there is a clear gap in our understanding of such firms (Yamakawa et al., 2008; Child & Rodrigues, 2005; Mathews, 2006; Tung, 2005). The reviews conducted on LOF showed how studies have generally focused on understanding LOF as experienced by developed market MNEs (Denk et al., 2012; Lu et al., 2021; An et al., 2022). Yildiz & Fey (2012) indicated that, while MNEs can leverage their multinationality to balance the additional costs arising due to LOF, this may not be feasible for SMEs. Therefore, the objective of this study was to fill three crucial research gaps: (1) What is the nature of the LOF encountered by SMEs in foreign markets? (2) How do SMEs deal with LOF in foreign markets? and (3) How does LOF affect SMEs' international performance?

While existing IB studies have made wide use of the LOF concept, few concerted efforts have been made to operationalize this idea (Denk et al., 2012; Lu et al., 2021; Zaheer, 2002). This study addresses this gap, and thus contributes to the literature by developing a measure for LOF. Denk et al. (2012) recommended that future researchers should consider the "mitigation strategies" used by foreign firms for reducing LOF (p.329). Heeding their call, this study delves into understanding the approaches used by SMEs to tackle LOF. Additionally, in light of the very limited attention to LOF encountered by small firms from emerging markets (Pant & Ramachandran, 2012), this thesis uses India as the context from which to add new insights to the LOF phenomenon. A key insight developed from the interviews is the intra-country liabilities that SMEs encounter within India. Adopting a comparative perspective between SMEs with and without interstate experience, this study contributes by providing insights into how the two groups mitigate LOF and perform internationally. Furthermore, recent reviews have highlighted the need for mixed methods research designs for investigating LOF (see An et al., 2022; Lu et al., 2021); this study contributes by incorporating a sequential mixed methods approach. Lastly, Luo and Mezias (2002) advocated the need for theoretical pluralism to enhance our understanding of LOF. Addressing their call, this thesis incorporated the RBV, the KBV, institutional theory, and the network perspective on internationalization in developing the conceptual model. Though the network perspective on internationalization was included based on the interview findings, its importance has been emphasized in Zaheer (2002).

That commentary indicated that “wisdom in network and networking theories can provide an overarching view on conditions, processes, and results of using networks to curtail LOF” (Zaheer, 2002; p.220). Picking up on Zaheer’s (2002) highlighted avenues for research, this study contributes by incorporating the network perspective on internationalization.

The key findings from the thesis can be summarized as follows. Consistent with the literature, the exploratory interviews found that managers’ sound understanding of foreign markets, such as awareness of customers’ needs, competitors the institutional environment, and distribution channels, were helpful in mitigating LOF. However, the quantitative findings suggested the opposite. For most of the foreign market knowledge factors (e.g., customers, competitors, normative and regulatory environment knowledge), the quantitative results signified that foreign market knowledge, on an average, did not lower institutional and unfamiliarity related challenges for SMEs with and without interstate experience. However, the subsample of SMEs with interstate experience that had stronger knowledge of the foreign distribution channels tended to experience lower institutional LOF. The role of technological capabilities in mitigating LOF received some support and some contradiction. Consistent the view that foreign firms leverage their technological capabilities to mitigate LOF, the quantitative analysis revealed that, on average, stronger technological capabilities were associated with lower institutional LOF for the subset of SMEs without interstate experience. For SMEs with interstate experience, the quantitative results indicated that stronger technological capabilities, on average, were associated with greater unfamiliarity LOF. The reasons for this contradictory finding have been discussed in Chapter 7.

The study also examined the role of distributors’ capabilities in mitigating LOF. For SMEs with interstate experience, the quantitative findings indicated that stronger distributors’ capabilities tend to be associated with greater unfamiliarity related LOF. This result is contrary to the hypothesized relationship, and suggests that distributors’ expertise may not mitigate LOF.

Furthermore, the study found that support from host market institutions did not necessarily help SMEs to mitigate LOF. Another important finding was related to the role of networks. The interviews suggested strongly that SME managers’ personal networks helped firms to overcome challenges in foreign markets. However, the survey data indicated that, on average, stronger personal networks were associated with greater unfamiliarity related LOF for firms that have not had interstate experience. Perhaps theses SMEs may benefit from weaker ties, rather than relying on strong personal ties, such as with families and friends, in terms of overcoming difficulties in foreign markets. Furthermore, the study also examined whether external networks, such as those established through trade fairs, industry associations, government departments, and academic or professional institutes, helped SMEs to tackle LOF. Though the interviews revealed that external networks were critical in assisting SMEs to navigate the challenges in foreign markets, the quantitative findings did not reveal significant results.

Considering the influence of LOF on international performance, the survey data provided evidence that, as predicted, greater institutional liabilities tend to weaken the international performance of SMEs without interstate experience. On the other hand, the result for the subset of SMEs that had interstate experience suggested that greater LOF – both institutional and unfamiliarity – was associated with stronger international performance. Moreover, for SMEs with interstate experience, the data indicated that, on average, greater unfamiliarity related LOF was associated with higher managerial satisfaction with international performance. These unexpected findings may imply that these SMEs' interstate experience equipped them to handle institutional complexities and unfamiliar conditions in an effective manner. In contrast, greater institutional LOF tended to yield lower managerial satisfaction with performance among SMEs without interstate experience.

8.1. Contributions to Theory/Literature

The thesis's contribution to the literature can be categorized into two sections: (1) theoretical contributions, and (2) contributions in terms of the selected research methodology. This study makes three key theoretical contributions. First, the study developed an integrated LOF model to examine emerging market SMEs. Second, the study examined the role of inter-state experiences that tend to assist SMEs to overcome LOF. Third, the thesis incorporated multiple theoretical lenses to understand the influence of LOF on emerging market SMEs. The study also contributes to the LOF literature in terms of the selected research methodology. For instance, the thesis operationalized and examined LOF measures in the context of SMEs. Furthermore, there are limited LOF studies that have used mixed methods research design (Lu et al., 2021). As such, this study contributed by adopting mixed methods research design for studying LOF. The study also used a comparative perspective between SMEs with and without interstate experience to understand the distinctive approaches of these subsamples to mitigate LOF and examine the influence of LOF on their international performance. Each of these contributions is discussed in the following sections.

Operationalization and examination of LOF measure in the context of SMEs

A key contribution that this study makes to the literature pertains to the operationalization of the liabilities of foreignness construct. LOF is a widely recognized and employed concept in the IB and IE literatures. However, very few studies have attempted to operationalize this important idea. Sethi and Guisinger (2002) argued that researchers have not attempted to operationalize LOF, due to the difficulty of comprehending and developing a measure that adequately represents foreign firms' disadvantages in host markets. Recent reviews on the LOF concept have pointed out that, with the absence of an operationalized LOF construct, studies have tried different ways to proxy the notion, including comparisons with foreign firms' profits, firm survival, poor performance, additional costs, and X-efficiency (An et al., 2022; Denk et al., 2012; Lu et al., 2021). Due to the resulting variability and inconsistency across LOF-related studies, researchers have argued the need for developing a measure that represents the challenges that foreign firms face when operating internationally (An et al., 2022; Denk et al., 2012; Lu et al., 2021; Sethi & Guisinger, 2002). Addressing that call, this thesis has attempted to operationalize LOF, building on the existing literature and the findings from the qualitative portion of the study.

Two factors emerged from the exploratory factor analysis, leading to LOF's being represented as arising due to the foreign market's institutional environment and hazards pertaining to the foreign firm's unfamiliarity with the market. These two factors have been used to operationalize LOF and examine the hypothesized relationships. This study thus contributes to the IB and IE fields by providing a useful construct for evaluating LOF. Moreover, this study's more integrated approach to operationalizing LOF offers more nuance, relative to the usual utilization of a single, composite measure for this multifaceted concept (e.g., Miller & Richards, 2002; Zhou & Guillen, 2015). The newly developed LOF construct is used to analyze two types of internationalizing Indian SMEs – those with and without interstate experience – to observe how each group tackles both aspects of LOF (institutional and unfamiliarity) and the effect of LOF on the firms' international performance.

Exploring LOF in a different context, and identification of the role of intra-country experience in assisting SMEs' internationalization

This thesis makes contributions to the literature in two key areas. Firstly, it examines LOF in a different context, in terms of SMEs and an emerging market home base. The LOF encountered by emerging market firms, particularly the disadvantages faced by small firms in foreign markets, has not been investigated extensively (Lu et al., 2021; Pant & Ramachandran, 2012). Recent reviews on foreignness have called upon researchers to investigate LOF as experienced by emerging market firms (An et al., 2022; Lu et al., 2021; Denk et al., 2012), which this study does by examining the LOF faced by Indian SMEs. Secondly, this work identifies intra-country liabilities encountered by the SMEs within India, due to the considerable dissimilarities among Indian states (e.g., with respect to culture, languages and regulatory environments). The challenges that interviewees mentioned arising from subnational variations were similar to the international disadvantages experienced by foreign firms. Due to the often-vast differences between Indian states mean that the interviewed SMEs felt that they were 'strangers in their own land'; this is analogous to the effect of LOF, which makes foreign firms feel like 'strangers in a strange land'. Specifically, the interviewed firms discussed experiencing challenges within India that were due to discriminatory behavior (e.g., negative perceptions towards SMEs), social and cultural norms (e.g., language and cultural differences), regulatory obstacles (e.g., bureaucracy and varying rules), and environmental hazards (e.g., weather conditions and infrastructure issues). The interviewees also highlighted the approaches that they used to tackle intra-country liabilities. For instance, listing on national stock exchanges and acquiring domestic certifications provided the SMEs with legitimacy and reduced discrimination hazards while doing business in different Indian states. Networks developed through local distributors and industry associations provided information and knowledge, which helped firms to conduct business at the subnational level. Managerial contacts provided references, which helped the SMEs' business within and outside of India. The quantitative part of the study revealed how SMEs with and without interstate experience tackled LOF. For instance, SMEs with interstate experience experienced greater unfamiliarity related LOF despite possessing stronger technological and distributors' capabilities. This suggests that SMEs operating within India might struggle to overcome unfamiliarity related hazards in foreign markets, despite having within-country experiences and capabilities, or it may suggest that these experienced firms were more aware of LOF.

Due to the conventional assumption that individual nations are broadly homogenous with respect to their business environments, within-country heterogeneity and its influence on firms' internationalization has seldom been considered by international business researchers (Hutzschenreuter et al., 2020; Ma et al., 2016). Recent studies have recommended researchers to examine the role of subnational-level variations in large and diverse economies (Hutzschenreuter et al., 2020; Lenartowicz et al., 2003; Ma et al., 2016; Zhang et al., 2017). By identifying intra-country liabilities within India, and their influence on SMEs' LOF mitigation strategies, this study adds a new perspective to the extant literature on LOF. By providing evidence that SMEs gained learnings at home that are applicable for their international activities, the findings corroborate studies that highlight the importance of home country experiences (e.g., Cuervo-Cazurra et al. 2018; Cuervo-Cazurra & Genc, 2008).

Comparative perspective between SMEs with and without interstate experience

Another key contribution to the literature pertains to the comparative perspective between firms with and without interstate experience in India. The extant LOF literature suggests that foreign firms can offset or reduce LOF by using their prior international experiences, resources, managerial expertise and networks (Denk et al., 2012; Lu et al., 2021). However, learnings gained from the home market's subnational variations have not previously been addressed (Hutzschenreuter et al., 2020; Ma et al., 2016); this gap is particularly evident in light of the LOF literature's heavy focus on large firms from developed market firms (An et al., 2022; Denk et al., 2012; Lu et al., 2021).

The interview findings helped to identify that SMEs face substantial liabilities within their home market. Therefore, the study incorporated questions in the questionnaire that sought to develop a deeper understanding of how intra-country liabilities encountered within India may affect SMEs' approaches to tackling LOF. The survey respondents included SMEs that had interstate experience and SMEs who had done business only in a single state, enabling an examination of how the two groups tackled LOF and how LOF influenced their international performance. For instance, managers of SMEs with interstate experience were able to use their foreign distribution knowledge to mitigate institutional related LOF. With respect to international performance, the disadvantages created due to institutional LOF seemed to weaken the outcomes for SMEs without interstate experience, while the performance of SMEs with interstate experience was higher in the presence of stronger institutional LOF. Please see Table 7.1 in Chapter 7, which summarizes the key findings of the study and also provides a comparative perspective between the two types of SMEs. Overall, this study contributes to the IB and IE literatures by adopting a comparative perspective to shed light on the underexplored area of how SMEs leverage their home country experiences to mitigate LOF and improve their performance in foreign markets. The insights offered by this study provide a clearer understanding of how learning acquired in the home country can facilitate firms' success in foreign markets.

Development and testing of an integrated LOF model for SMEs

Additionally, the thesis contributes by developing and testing an integrated model that includes factors assumed to affect LOF and examines the influence of LOF on the international performance of SMEs.[10] The extant LOF literature has not considered the home country's subnational experiences on firms' LOF mitigation strategies and performance (Cuervo-Cazurra et al., 2007; Cuervo-Cazurra & Genc, 2008; Lu et al., 2021). However, this study has discovered that subnational difference at home matter for SMEs' international business activities. On this basis, the conceptual model incorporated a consideration of the moderating effect of intra-country experience on each of the hypothesized relationships (H1-H5). In the first stage, the analysis examines the factors that are expected to mitigate SMEs' LOF, with and without interstate experience. In the second stage, the performance differences between the two groups of SMEs are examined. For a more holistic examination of LOF, the model is based on a multi-theoretic approach.

Based on the KBV and RBV frameworks, the model incorporated foreign market knowledge and both technological and distributors' capabilities as factors that are expected to mitigate LOF. The qualitative findings suggested that managers' knowledge and experiences in international markets were valuable for offsetting LOF. Although the quantitative findings did not provide strong support for this view, the data indicated that managers' knowledge of foreign distribution channels was useful for mitigating institutional LOF among SMEs with interstate experience. The findings also revealed that tackling LOF requires more than just owning robust technology and having access to distributors' capabilities. Grounded in institutional theory, the model incorporated a foreign institutional support construct to examine if host-market support assisted SMEs in offsetting LOF. Though the study did not find any

[10] While the original intent was to test the conceptual model in an integrated manner, using two-stage least squares, the small usable sample precluded the use of this more holistic testing approach.

conclusive evidence to support this hypothesized relationship, there is a clear need for future research to collect more data to investigate the roles that host market institutions can play in support foreign firms to tackle LOF. Although previous studies have used RBV, KBV and institutional theory, this study included the network perspective on internationalization for a more holistic examination of LOF. Consistent with the entrepreneurship literature, the interviews revealed that SMEs relied on personal and professional networks to increase their understanding of foreign markets and mitigate LOF. By incorporating this theoretical perspective, the study addresses the call by Zaheer (2002) to use networking theories to provide overarching views on how networks could curtail LOF.

The conceptual model also aimed to understand if LOF negatively affects the international performance of SMEs. For SMEs without interstate experience, the findings indicated that institutional LOF has a negative impact on international performance and managerial satisfaction with international success. This outcome lends support to Denk et al. (2012), Zaheer (1995), Mezias (2002a), and Miller and Eden (2006), who asserted that LOF weakens foreign firms' performance. Interestingly, for SMEs with interstate experience, the findings contradicted the expectations, despite greater LOF pertaining to unfamiliarity and institutions, managers of SMEs that had interstate experience were more satisfied with their firms' international success. The unexpected result is consistent with, and adds nuance to, Cuervo-Cazurra and Genc's (2008) suggestion that emerging market firms can be successful in foreign markets due to their experience managing challenging situations in their home country. Given the experience of tackling complexities across multiple states within India, these SMEs appear to have developed capabilities for tackling LOF-type issues and thus performed better in foreign markets. To this end, a key contribution of this thesis has been to comprehensively develop and test an integrated model. The study's model deepens our understanding of the interconnectedness between the sample SMEs' LOF mitigation strategies, their international performance and the implications of home country experiences on firms' international activities.

Adoption of mixed methods research design for studying LOF

The study contributes to the literature through its methodological approach. This thesis adopted a mixed methods approach, with a sequential research design of qualitative interviews and a subsequent quantitative survey instrument (Tashakkori & Teddlie, 1998). Most LOF studies have adopted either a purely quantitative or a purely qualitative approach (Denk et al., 2012;

An et al., 2022). For instance, in a systematic review, Lu et al. (2021) found that, of 126 papers, 73 were quantitative, 17 qualitative and 34 purely conceptual. Only two LOF related studies, Balabanis & Diamantopoulos (2016) and Crilly et al. (2016), used mixed methods research designs. Thus, there is a clear scarcity of studies using a mixed methods approach, which offer the potential for the development of new insights into LOF. In the broader context of IB literature, studies using mixed methods design are also in the minority. For instance, Hurmerinta-Peltomäki and Nummela (2006) examined four major international business journals and found that, of 484 articles, only 68 (14%) used a mixed methods design. Therefore, scholars have called for wider adoption of mixed method research design in the areas of management and international entrepreneurship (e.g., Bazeley, 2008; Hohenthal, 2006; Hurmerinta-Peltomäki & Nummela, 2006; Rialp et al., 2005). The interview findings helped to uncover the notion of intra-country liabilities, inform the development of questions for the web-based survey, operationalize LOF, and refine other constructs used in the study. Moreover, combining the qualitative and quantitative findings led to a deeper and richer examination of LOF, including strategies used by SMEs to tackle LOF and the influence of LOF on SMEs' international performance. By using a mixed methods design, this study adds variation to the conventional research designs used in the LOF literature. Therefore, for this study, the adoption of mixed methods was intended to increase both robustness and rigor, thus enhancing validity.

Incorporation of multiple theoretical lenses to understand the influence of LOF on SMEs

Finally, the thesis also contributes to the literature by including multiple theories for a more holistic picture of how SMEs are affected by LOF, along with the approaches that can be used to mitigate its impact. LOF consists of several elements, such as disadvantages stemming from outsidership, emergingness, origin, smallness and newness. Firms face these liabilities in host markets due to various factors such as unfamiliarity, discrimination, regulatory obstacles, and limitations pertaining to resources and network access. Many past studies have been based on relatively restricted theoretical underpinnings in the effort to understand LOF, which is a complicated and a composite concept (Lu et al., 2021). Past researchers have called for theoretical pluralism, on the basis that a single theoretical lens may not be sufficient to understand to complexity and heterogeneity of LOF (see Denk et al., 2012; Luo & Mezias, 2002; Zaheer, 2002). Addressing their call, this study incorporated multiple theoretical lenses – RBV, KBV, institutional theory and the network perspective – to offer new insights into emerging market SMEs' experiences with LOF.

To the best of the author's knowledge, this is the first study to use such theoretical pluralism to tackle this issue. In line with the resource-based view, the findings from the interviews indicated that SMEs entered into partnerships with foreign firms to acquire resources, information, and knowledge about foreign markets. Furthermore, consistent with the KBV, the interviewed managers discussed leveraging their knowledge acquired through previous work experiences to overcome LOF. A basic premise of institutional theory is that firms conform to institutional rules, norms, traditions, and societal influences to reduce challenges from the institutional environment. Consistent with this theoretical framing, the qualitative findings suggested that, when SMEs confront challenges due to the host market's institutional environment, they adapt their business according to the requirements of the host market. Moreover, to reduce stereotyping and discrimination by host market players, SMEs obtained internationally accepted certifications and marketed themselves intensively. This finding is in line with the literature that suggests that foreign firms are often compelled to conform to local institutional norms to achieve legitimacy and sustain themselves in foreign markets (Davis, Desai, & Francis, 2000; Kostova & Zaheer, 1999). With respect to the network perspective of internationalization, the interviews indicated that SMEs frequently relied on help from personal (e.g., families, friends) and professional (e.g., previous work colleagues) networks to acquire information and resources for their foreign business. The interviewees also discussed relying on external networks (e.g., industry associations and networks developed at trade fairs) to overcome their lack of understanding of the foreign environment. However, the quantitative part of the thesis suggested that the personal and external networks of SMEs with interstate experience did not help in overcoming LOF. Interestingly, though, for SMEs without interstate experience, the quantitative findings indicated that stronger personal networks were associated with greater unfamiliarity related LOF. Perhaps these firms would do well to look at other networks, such as partner firms, to tackle their unawareness liabilities in foreign markets. Therefore, the four theoretical perspectives contributed uniquely to extend our understanding of LOF and the mitigation strategies of SMEs originating in India.

8.2 Managerial Contributions

In addition to the theoretical advances, the study offers managerial contributions. The interview results highlighted that, like other foreign firms, Indian SMEs also encountered liabilities in international markets. However, interviewees reported facing discrimination due to stereotyping behavior of local players in the host market. Some of the discrimination hazards arose because foreign clients and customers found it difficult to trust emerging market SMEs that lacked legitimacy. This was a key theme in the interviews, as managers expressed concern about being treated differently due to stereotyping and the host market's unfamiliarity with SMEs. To overcome this, it is critical for the managers of internationally operating SMEs to enhance their firms' reputation in foreign markets. According to the interviews, strategies such as advertising their business according to the characteristics of foreign markets can be important in overcoming LOF hazards. For instance, interviewees indicated that promoting the business via experienced and professional sales personnel can affect the perception of customers in developed markets. Through heavy marketing, foreign consumers may develop a positive perception of the SMEs' products and services, which can be beneficial in reducing the biases that can arise due to the liabilities of emergingness and foreignness. Moreover, offering products on credit, adapting prices according to local competitors, and asking customers to pay if satisfied with the product or services were some of the legitimacy-building strategies highlighted by the interviewees. The evidence from the interviews also suggested that SMEs need to be careful to develop quality products and services when doing business internationally, to increase their reputation and avoid being stereotyped for providing inferior quality. Another approach recommended in the interviews was to enter culturally similar markets such as South Asian, Middle East and MENA regions, where SMEs can quickly build relationships with the customers having similar cultures. Firms may find that consumers and business clients in these countries can be more open and welcoming toward Indian firms. By operating in these countries, SMEs can also benefit from the Indian diaspora, which may allow them to save on the costs required to build legitimacy and increase familiarity in these countries (e.g., marketing, advertising).

Furthermore, the qualitative findings revealed that SMEs frequently encountered challenges due to host market institutional factors. In order to offset the disadvantages emerging from a foreign institutional environment, managers of SMEs might benefit from obtaining internationally recognized certifications. Through such certifications, SMEs can demonstrate that they can deliver products and services that meet international standards. This can help them to increase legitimacy and reduce regulatory obstacles and discriminatory behavior from customers, suppliers, and government authorities in foreign markets.

The interviews also suggested approaches that may help to mitigate disadvantages due to intense competition in foreign markets. For instance, SME managers should do their research and carefully analyze competitors' strengths, weaknesses and capabilities, to enable SMEs to adapt and improve their business in the host country. Business adaptation, consistent with the demands and requirements of the foreign market could be a good approach to overcoming competitors. Furthermore, managers may seek to leverage their contacts with friends, family, and previous work colleagues, to increase their foreign market familiarity and compensate for their lack of resources. Networks of managers, either professional or personal, can be helpful in overcoming liabilities pertaining to outsidership. Additionally, the interviews indicated that managers' relationships with home-country industry associations and government institutions (e.g., export promotion councils) helped to increase their firms' familiarity with foreign markets. These home country acquaintances, especially with domestic institutions that are responsible for overseeing SMEs' growth and development, could help lower uncertainty in foreign markets. However, the quantitative findings did not suggest that managerial networks (personal or external) helped to reduce LOF, or that networks were necessarily helpful in offsetting LOF. Clearly, there is not a single, one-size-fits-all approach, so managers would do well to keep open minds about sources of advantage.

Another outcome pertains to the role of technological capabilities in tackling LOF. Although the qualitative findings implied that technical competencies were somewhat useful for lessening the disadvantages, the evidence from the quantitative part of the thesis offered more nuanced insights. Specifically, SMEs without interstate experience that leveraged their technological capabilities faced fewer hurdles due to institutional LOF. However, technological capabilities did not seem to help reduce unfamiliarity related LOF for SMEs with interstate experience; rather, they were associated with greater unfamiliarity LOF. This demonstrates the notion that technological capabilities do not serve as a panacea; their value for addressing LOF may depend on other considerations, such as industry.

Other supplementary findings from the quantitative part of the study (see Table 6.43) suggested that managers of SMEs without interstate experience used personal networks developed within India to mitigate institutional LOF. On the other hand, SMEs with interstate experience that had strong ties with external networks tended to experience lower unfamiliarity related LOF. Therefore, managerial networks developed within India may be advantageous for offsetting LOF. In addition, managers' interstate knowledge of distribution channels may be useful for tackling institutional related LOF; managers who have acquired knowledge related to handling distribution channels while facing the complexities of inter-state variations may face lower institutional hazards in foreign markets. Furthermore, the Indian state institutions' support and networks within local institutions (e.g., Indian state government, and industry associations) helped to reduce unfamiliarity related LOF among SMEs with interstate experience.

As managers of SMEs that operate across state borders within India have knowledge of handling intra-country liabilities at home, their international performance may be less affected by LOF. Therefore, managers of SMEs without interstate experience should be proactive and creative about developing approaches that can effectively deal with LOF and reduce its negative effect on international performance.

8.3 Policy Contributions

SMEs are the backbone of many countries' economies and contribute substantially to GDP and employment. For example, in the OECD countries, SMEs are a predominant form of enterprise, accounting for almost 99% of all firms in 2018. Approximately 60% of the total employment was created by SMEs, which contributed more than one-third of GDP in emerging and developing economies, accounting for 34% to 52% of formal employment (OECD, 2018). According to the SME Chamber of India, the total contribution of MSMEs toward India's GDP is approximately 38%. As per the information available on the website of the Confederation of Indian Industry (CII), MSMEs employ approximately 120 million people in India and contribute around 45% to the country's overall exports. To boost India's competitiveness, recent government initiatives, such as 'India Export Initiative' and 'IndiaXports 2021 Portal', were launched to enhance exporting firms' growth (IBEF Report, 2022). Furthermore, the National Small Industries Corporation (NSIC) has decided to increase its support to MSMEs, working under the Agricultural and Processed Food Products Export Development Authority (APEDA), by offering the latest technology, developing skills, and helping firms to improve the quality of their products. Overall, rendering support for the growth of MSMEs tends to be of great interest to Indian policymakers, like many other countries around the world (European Commission, 2020).

The study offers several contributions to policymakers. Specifically, policymakers should focus on boosting SMEs' confidence, promoting their growth, and increasing their international competitiveness. The empirical results of this study indicated that many SMEs lacked understanding of foreign markets (e.g., unawareness of host market rules and regulations, competitors). While the role of international trade fairs was not assessed quantitively, the qualitative evidence suggested that some SMEs use trade fairs to increase their familiarity with foreign markets, learn about foreign customers and clients, evaluate the competition, and establish important networks for internationalization. Policymakers may build on this finding by encouraging and supporting current and prospective internationalizing SMEs to attend such trade fairs. Another avenue for the Indian state and national governments may be to actively organize international trade fairs within India. Among the greatest challenges is ensuring that SMEs have complete and correct information about the internationalization process. Policymakers could develop initiatives to increase SMEs' knowledge regarding internationalization and foreign market regulations, which could help increase their awareness. This could enable firms to better assess the challenges and benefits of internationalization. Indian state governments could also offer personal assistance, or educate the SMEs about the specificities of conducting business internationally through regular workshops and seminars.

Furthermore, the study found evidence that SMEs face stereotyping and discrimination in foreign markets. Policymakers could invest in promoting and marketing the capabilities of SMEs, which might be helpful in building a positive image in the mindsets of foreign customers. Many governments, worldwide, have launched scale-up programs that provide comprehensive support (e.g., finance, mentorship, networks, promotion) to small firms. For instance, TURQUALITY, a state-funded scale-up program in Turkey launched in 2004, supports SMEs with strong brands, capabilities, and high potential, to help to transform them into global players (McKinsey & Co Report, 2020). The Indian government could also develop such programs for SMEs that have the potential to be successful in global markets. Additionally, Indian state governments could improve their existing initiatives to promote local SMEs; for instance, simplifying SMEs' access to local networks, resources, and business support services could help them to improve their abilities and compete more effectively both domestically and internationally.

Aspects of lack of support from the home country government and issues such as corruption and bureaucracy as hindering the internationalization of SMEs were mentioned in the qualitative portion of the study. Interviewees raised concerns including obstacles to understanding export procedures, registering the business, complexities in tax structures, and a lack of support services for internationalizing SMEs. Policymakers could intervene, in terms of facilitating the business registration process for SMEs interested in exporting. For instance, Thailand has reduced the time required to start a business from 27.5 days to 4.5 days by simplifying procedures, removing unnecessary requirements, and reducing costs. Comparatively, it takes approximately 18 days to start a business in India (World Bank Data, 2019). Therefore, simplifying the registration, tax structure, and facilitating the filing of tax returns through an e-filing system can benefit resource-constrained SMEs.

Furthermore, the needs of SMEs with interstate experience and those without interstate experience appear to differ. For instance, SMEs with interstate experience may be more prepared to cope with the complexities presented by foreign markets, compared to those who have operated solely within one state. Policymakers could provide additional assistance to internationalizing SMEs that lack interstate experience, to assist them in overcoming challenges associated with diverse and complex host markets (e.g., market information, regulatory knowledge). As such, state and national policymakers could tailor and customize the support according to the needs and requirements of SMEs.

The interviews also indicated that SMEs had difficulty accessing credit or loans from home-country banks for their international ventures because of “trust” issues. Although the government’s provision of formal credit through a credit guarantee scheme is a widely used program that improves SMEs’ access to loans, setting up government-backed venture capital funds would potentially provide more benefits. The government-led ecosystem can flourish if it can attract investors from the private sector. Policymakers could learn from the South Korean government’s initiative that has managed to gather US$2.8 billion as a passive investment strategy to support early-stage start-ups and growth-stage SMEs (McKinsey & Co Report, 2020).

Overall, the evidence from this study provides evidence that assistance from policymakers, in terms of trade fairs, promotion initiatives, simplifying procedures, and providing funding, could enable SMEs to lessen their challenges and achieve greater international success.

8.4 Limitations of the Study

As an empirical study, this thesis has some limitations. It provides only a snapshot of the LOF phenomenon that is being studied, rather than being a longitudinal investigation. A longitudinal research design may have provided additional and rich insights into the complexities SMEs deal with internationally, and the longer-term effects of LOF on SMEs' international performance. The longitudinal approach could also be useful for drawing clearer distinctions between the LOF mitigation approaches of SMEs with and without interstate experience, and understanding the flow-on effects of LOF on international performance.

The qualitative part of the study is somewhat limited with respect to the geographic location of the interviewed SMEs. Out of 15 companies, 14 were from Maharashtra, and one firm was from Gujarat. As with any qualitative research, the findings from the interviews are not readily generalizable. Furthermore, the data collected for the quantitative portion of the thesis represent a substantial limitation. While invitations to participate in the web-based questionnaire were sent to as many internationally operating SMEs, across India, as could be identified, and numerous reminders were sent, response rate was disappointingly low. In addition, many of the responses were not usable, which created a sample size that was too small to support the planned use of two-stage least squares to estimate the conceptual model in an integrated manner. This limits the conclusions that could be drawn and both the strength and the generalizability of the findings.

The data constraints meant that it was not feasible to examine the influence of LOF on SMEs from different industries and in different markets. These are interesting issues for further research. In addition, although the quantitative portion of the study compared SMEs with and without interstate experience, the qualitative findings are primarily based on firms that have conducted business on an interstate basis. While interviews with SMEs that have operated within single states might have strengthened the empirical results, the fact that the interviews were conducted mainly with SMEs with inter-state experience, uncovered the existence of intra-country liabilities and how interstate experiences were helpful for SMEs.

8.5 Directions for Future Research

As outlined in Chapters 1 and 2, research on emerging market SMEs' experiences with LOF, and its influence on their international performance, is not fully developed. Therefore, there is considerable research scope and potential for future studies.

One worthy area of future research pertains to the LOF encountered by SMEs in other developing or emerging markets. The interview findings revealed that SMEs faced challenges in less developed markets such as Bangladesh, Sri Lanka, and various African countries. Based on this finding, the study recommends that future researchers examine how emerging market firms going to other such markets overcome LOF. Denk et al. (2012) called on researchers to speculate on this area, and subsequent studies have started investigating the LOF faced by emerging market firms in other emerging markets (e.g., Bhaumik et al., 2016; Chen et al., 2017; Jiménez et al., 2017; Moraes & da Rocha, 2014; Newenham-Kahindi & Stevens, 2018). However, few of these studies have examined the approaches taken by emerging market SMEs to mitigate foreignness in less developed markets. There is considerable scope for researchers to provide deeper insights.

Another fruitful area for future researchers pertains to understanding how SMEs operating in less developed economies learn from their home country's complexities and utilize that knowledge to navigate challenges in other markets. In order to advance this area, it would be interesting to use organizational learning theory to observe how SMEs gradually learn from dealing with the numerous complexities (e.g., lack of infrastructure, regulatory issues) persisting in emerging economies to tackle LOF. Additionally, organizational learning theory could be used to examine how SMEs from emerging countries that have internationalized to more advanced economies use their learning to deal with complexities in other markets. As per the literature review conducted in Chapter 2, only seven studies have used organizational learning theory to explore LOF. Future studies could use this theoretical lens to shed light on how learning helps firms to develop strategies to deal with LOF.

Out of 68 SMEs that participated in the survey, 62 were export-oriented. Therefore, the quantitative findings are based heavily on the views of managers or founders of exporting firms. Future researchers could examine how different market entry approaches (e.g., export, greenfield, acquisition) and ownership styles (e.g., joint venture vs. full ownership) are more or less beneficial for emerging market SMEs in terms of coping with LOF. Furthermore, the interviews indicated that SMEs had to incur additional costs to adapt themselves in foreign markets. It may be interesting to examine how SMEs entering developing and less developed markets adapt themselves to tackle LOF. Additionally, researchers could investigate which LOF hazards are especially costly to deal with, and which are less so.

Another potential area for future research is to examine other economies that have diverse subnational characteristics. It could be interesting to understand if firms from such countries develop specific capabilities and strategies to tackle LOF and how this affects their international performance. To gain additional insights, future researchers could undertake comparative research designs to understand the strategy and performance differences between SMEs from different diverse economies.

The qualitative portion of the study also uncovered insights into the strategies that SMEs use to achieve legitimacy in foreign markets (e.g., appearing isomorphic, adaptation techniques). In this respect, future studies could explore the consequences of SMEs' approaches to attaining legitimacy. For instance, do imitation and appearing isomorphic in foreign markets help to reduce the LOF?

This study has adopted a broader approach to operationalizing LOF, including aspects pertaining to institutional and unfamiliarity issues. The quantitative findings indicated that these two aspects are related differently to the international performance of SMEs with and without international experience. It would be interesting to examine these nuances in more detail. The role of managers' relationships with the home country government and other local institutions appears to have received limited attention in the LOF literature. Future studies could investigate how managerial contacts with home institutions or government officials help SMEs to mitigate some of the challenges associated with operating in foreign markets.

Furthermore, this study adopted multiple theoretical lenses and answered calls for theoretical pluralism to deeply understand LOF (e.g., Denk et al., 2012; Zaheer, 2002). Future research may apply other theoretical frameworks to the examination of LOF; Table D in Appendix A shows the least used theories in the LOF literature. An interesting theoretical perspective to use for understanding LOF could be effectuation theory (Sarasvathy, 2001), which focuses on how entrepreneurs deal with the challenges when the means (e.g., resources) are limited and the situation is unpredictable. This makes it particularly suitable for investigating firms' decision-making under uncertainty, especially SMEs (Sarasvathy, 2001; Sarasvathy & Dew, 2008). As small, entrepreneurial firms are often subject to resource constraints, examining entrepreneurs' thinking and rational decision-making while dealing with LOF may provide useful insights.

8.6. Concluding Remarks

SMEs are important enterprises that contribute the most to economies, worldwide (OECD, 2021). The aim of this thesis was threefold. First, it examined the nature of the LOF encountered by Indian SMEs in foreign markets. Second, it investigated the strategies that SMEs use to overcome LOF. Third, it studied the influence of LOF on SMEs' international performance. The findings from this study emerge from both qualitative and quantitative findings. Among the key findings from the interviews are that SMEs experience LOFs mainly due to discrimination, unfamiliarity, and institutional hazards. In order to overcome these hazards, the SMEs relied on managerial experiences and knowledge, networks, developing legitimacy (e.g., by achieving certifications and promoting themselves), and engaging in partnerships. Moreover, the SMEs have overcome liabilities due to competition by adapting their products and services according to the needs and requirements of foreign customers. One of the most crucial findings in the qualitative portion of the study was the identification of intra-country liabilities due to subnational differences within India, and how SMEs tackled them on a regular basis. The study highlights that SMEs' experience in dealing with inter-state obstacles – subnational level complexities – facilitates their tackling of LOF in foreign markets.

For the quantitative part of the study, distinctions were drawn between SMEs that had interstate experience and those that did not. The key findings from this part of the study included the results that SMEs without interstate experience, but with strong technological capabilities, were able to mitigate institutional LOF. The study also found that stronger managerial knowledge about foreign distribution channels was associated with lower institutional LOF for SMEs with interstate experience. The quantitative results also indicated that institutional liabilities weakened the international performance of SMEs without interstate experience, and that managers of this group of SMEs tend to be less satisfied with the firms' success in international markets when they are faced with higher levels of institutional LOF. Additional findings that were not a part of the conceptual model indicated that SMEs without interstate experience were likely to use inter-state personal networks to mitigate institutional LOF. These managers were also able to lower the impact of institutional LOF by leveraging strong ties with personal networks within India. On the other hand, SMEs with interstate experience lower unfamiliarity related LOF by using their strong ties with external networks within India. Furthermore, strong support from interstate institutions helped SMEs with interstate experience to observe less unfamiliarity related LOF.

Overall, the study examined LOF in the context of emerging market SMEs. It is also one of the first to operationalize a more nuanced and firm-driven measure for LOF. The study's findings were useful in understanding SMEs' approaches to mitigating LOF, which were often influenced by their interstate experiences at home. Additionally, the study demonstrated that an integrated approach with mixed methods design can be useful for studying this complex issue. Given the growing interest of scholars in emerging markets and small enterprises, the question of LOF in these contexts is, by its nature, a dynamic topic to explore. Therefore, recommendations made in this study should present an exciting area for academics and be of interest to policymakers and managers alike.

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Appendix A: Systematic Literature Review of EMF-LOF Studies

Table A
Article selection process

Process description	Articles appearing in Scopus database
Initial search for articles, using the following search words in abstract, title, or keywords[1]: "liabilit* of foreign*", "liabilit* of origin*", "liabilit* of outsider*", "disadvantage* of foreign*", "disadvantage* of origin*", "disadvantage* of outsider*", "liabilit* of emerging*", "barrier*", along with "emerging econom*", "emerging countr*", "developing econom*", "developing countr*", "emerging market*", "develop* market*"	1143
First stage of filtering: Consider only peer-reviewed journal articles (exclude book chapters, books, and conference papers)	913
Second stage of filtering: Shortlist articles from peer-reviewed journals with impact factor greater than 1 (Clarivate Analytics, 2020); full list of journals considered shown in Appendix.	194
Final stage of filtering: Fully read remaining articles to remove irrelevant ones	75

[1]Business, management and accounting category, publication during 1995-2021

Table B
Articles included in the review

Authors	Journal [11]	Theoretical perspectives[12]	Home market(s)	Host market(s)	Sample[13]	Industry/Sector	Firm type[14]	Method[15]	Dependent variable	LOF measurements
Luo (2000)	*JWB*	Dynamic capabilities	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Conceptual paper	Not applicable	Not applicable
Chen (2006)	*JBR*	Internationalizatio n, resource based view	Taiwan	Various[16]	3 firms	Electronics	MNE	Case study	Not applicable	Not applicable
Thomas (2006)	*JBR*	Internalization, organizational learning	Mexico	US	386 firms	Exporting firms	Not specified	Hierarchical regression	Performance	International diversification (foreign sales to total sales), Geographic distance
Garg and Delios (2007)	*JIM*	Institutional, resource based view	India	Various (undisclosed)	110 firms with 250 foreign subsidiaries	Various	MNE	Cox regression	Subsidiary survival (exit)	Business group affiliation, subsidiary location (developed vs. emerging)
Cuervo-Cazurra and	*JIBS*	Resource based view	Various developing countries	Various less-developed countries	44 subsidiaries	Various	MNE	Tobit	Prevalence of developing-country MNEs	Political stability and absence of

[11] *JIBS*: *Journal of International Business Studies*, *IBR*: *International Business Review*, *JIM*: *Journal of International Management*, *GSJ*: *Global Strategy Journal*, *JWB*: *Journal of World Business*, *JBR*: *Journal of Business Research*, *MIR*: *Management International Review, APJM: Asia Pacific Journal Management, JBE: Journal of Business Ethics, IJHRM: International Journal of Human Resource Management; JIMKT: Journal of Intentional Marketing; MD: Management Decision; BH: Business Horizons; MOR: Management Organization Review; SMJ: Strategic Management Journal; LRP: Long Range Planning Journal*
[12] FSA: Firm-specific advantages, CSA: Country-specific advantages, LLL: Linkage, leverage and learning, OLI: Ownership, location and internalization
[13] EMs: Emerging markets
[14] MNE: Multinational enterprise, INV: International new venture, SME: Small and medium enterprise, DMNE: Developed market multinational enterprise
[15] OLS: Ordinary least squares, GLS: Generalized least squares, GEE: Generalized estimating equation, SEM: Structural equation modeling, fsQCA: Fuzzy-set qualitative comparative analysis
[16] Belgium, France, Czech Republic, Germany, Ireland, Italy, Netherlands, Poland, Russia, Spain, Sweden, UK

Genc (2008)[a]										violence, governance, corruption, regulatory quality
He and Lyles (2008)	*BH*	Internationalization	China	US	3 firms	IT, appliance, oil	MNE	Conceptual paper	Not applicable	Not applicable
Perez-Batres and Eden (2008)[17]	*JIM*	Institutional	Mexico	Mexico	872 banks	Banking	Large and small banks	Cox hazard model	Exit	Liberalization
Oetzel and Doh (2009)	*JWB*	Spillover perspective	Not applicable	Not applicable	Not applicable	Not applicable	MNE	Conceptual paper	Not applicable	Not applicable
Zhou et al. (2010)	*JIBS*	Entrepreneurship	China	Various (undisclosed)	436 firms	Various[18]	INV	SEM	International sales	International sales growth
Luo et al. (2010)	*JWB*	Political economy	China	Unspecified	Not applicable	Not applicable	Not applicable	Conceptual paper	Not applicable	Not applicable
Barnard (2010)	*JIM*	FSA	Various[19]	US	53 firms	Services; low-, medium-, and high-research intensive manufacturing	MNE	OLS	Center of excellence status	Center of excellence
Boehe (2011)	*JIM*	Resource based view, network perspective	Brazil	Africa, Europe, North and South America	Single-firm case study	Banking	MNE	Case study (7 interviews)	Not applicable	Not applicable
Cardoza and Fornes (2011)	*APJM*	LLL	China	Unspecified	125 firms	Manufacturing, construction and real estate	SME	Multivariate regression	Export intensity	Internal and external barriers
Wood et al. (2011)	*JSBM*	Resource based view	China, India, Mexico and South Africa	Unspecified	275 firms	Manufacturing and knowledge intensive industries	INV	OLS	International sales intensity	Founders' prior start-up experience, managerial and

[17] Mexico is both home and host market for this article, which examines liabilities faced by firms due to entry of foreign firms in the home market, i.e., Mexican banks facing liabilities due to foreign entrants. The origins of the foreign banks are unspecified in the article

[18] Textile, garment, footwear, or accessory manufacturers; toys and crafts; hardware and electronic appliances; machinery equipment

[19] Brazil, Chile, China, Hong Kong, India, Israel, Mexico, Pakistan, Panama, Philippines, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, UAE, Venezuela

										technological knowledge
Bangara et al. (2012)	*JWB*	Institutional	India	Various[20]	4 firms	Business and development, data imaging and mortgage services, retailing of leather goods, digital media	SME	Case study	Not applicable	Not applicable
Hilmersson and Jansson (2012)	*IBR*	Network	Denmark, Estonia, Lithuania, Sweden,	Finland, Germany, Latvia, Poland	4 firms	Trawls and nets for fishery, portioning machines for meat and fish, waste collectors, grinding material, construction	SME	Case study	Not applicable	Not applicable
Klossek et al. (2012)	*JWB*	None used	China	Germany	7 firms	Banking, manufacturing, consumer electronics	SME	Case study	Not applicable	Not applicable
Madhok and Keyhani (2012)	*GSJ*	FSA	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Conceptual paper	Not applicable	Not applicable
Perez-Batres et al. (2012)	*MIR*	Institutional	Asia, Europe, South America, US,	Mexico	448 firms (267 local, 181 foreign)	Multiple industries[21]	MNE	Logistic regression	Clean industry program, transparency	Dummy variables for "foreign" and "American"

[20] Australia, China, Hong Kong, Malaysia, Middle East, New Zealand, Russia, Singapore, South Africa, Western Europe, UK, US

[21] Metal mining, oil and gas, non-metallic minerals except fuels, general building contractors, heavy construction ex. building, food and kindred products, tobacco products, apparel and other textile products, paper and allied products, printing and publishing, chemicals and allied products, rubber and misc. plastic products stone, clay, and glass products, primary metal industries, fabricated metal products, industrial machinery & equipment electronic & other electronic equipment transportation equipment, misc. manufacturing industries railroad transportation, local & interurban passenger transit trucking and warehousing transportation services, transportation by air, transportation services communications, electric, gas & sanitary services, miscellaneous retail-medical equipment, building materials & garden supplies, general merchandise stores, food stores, automotive dealers & service stations, apparel and accessory stores, furniture and home furnishing stores, eating and drinking places, miscellaneous retail, depository institutions, security and commodity brokers insurance carriers, real estate, holding & other investment offices hotels and other lodging places personal services, business services, motion pictures, amusement & recreation services health services

Pant and Ramachandran (2012)	*GSJ*	Institutional	India	US	5 firms, 1software governing body	Software services	MNE	Case study	Not applicable	Not applicable
Zhou et al. (2012)	*JIMKT*	Organizational learning	China	Brazil, Canada, China, France, India, Indonesia, Mexico, Russia, South Africa, US	159 firms	Manufacturing, textiles, telecommunications, pharmaceuticals, chemicals, food produce	INV/SME	Heckman and mediated regression	International growth	Marketing capabilities
Deng (2013)	*MOR*	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Systematic literature review	Not applicable	Not applicable
Bae et al. (2013)	*JIBS*	Accounting	Various[22]	US	550 credit rating initiatives	Not specified	MNE	Instrumental variable regression	Total accrual component of earnings	Credit rating
Wang et al. (2014)	*JIBS*	Springboard perspective	China	Africa, Asia, Europe, Latin America, US, other	240 firms	Various[23]	MNE	Hierarchical regression	Autonomy delegation	Perceived domestic institutional constraints
Moraes and da Rocha (2014)	*MD*	Internationalization process	Brazil	Africa, Latin America	Single firm	Software	MNE	Case study	Not applicable	Not applicable
Newburry et al. (2014)	*JIM*	Marginalization	Various[24]	Argentina Brazil, Chile, Mexico, Peru	76,191 respondents in 80 firms	Telecom, financial, energy, retail, food/ beverage	MNE	Hierarchical linear modeling	Organizational attractiveness	Foreign location of headquarters, degree of internationalization
De Beule et al. (2014)	*JIM*	Institutional	Various[25]	Italy	451 acquisitions by foreign firms (93 from Ems)	Manufacturing	MNE	Ordered probit	Degree of ownership	Nationality of the acquiring firm,

[22] Argentina, Brazil, Chile, Greece, India, Indonesia, Israel, Mexico, Malaysia, Philippines, Poland, Portugal, Russia, South Korea, Taiwan, Turkey, Thailand, South Africa
[23] Electronics, textiles and clothing, energy, machinery manufacturing, equipment manufacturing, food processing, construction, computer components, chemicals, other
[24] Canada, France, Germany, Luxembourg, Spain, Switzerland, UK, US
[25] Sample includes 93 acquisitions from 19 emerging markets; most deals are from Brazil, China, India, and Russia.

										institutional distance
Buckley (2014)	*JIBS*	Knowledge	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Conceptual	Not applicable	Not applicable
Anderson and Sutherland (2015)	*JWB*	Internationalizatio n, psychic distance	China	Canada	156 FDI transactions	Various[26]	MNE	GLS and negative binomial	FDI by province	Investment promotion activity in China
Gubbi (2015)	*LRP*	Resource dependence	India	Various[27]	979 firms	Various[28]	Large and medium firms	Probit	Governance choice (wholly owned subsidiaries or not)	Performance
Chittoor et al. (2015)	*MIR*	Behavioral	India	Various	437 firms, 3477 observations	Various	MNE	Probit	International acquisitions	CEO's international experience
Nair et al. (2015)	*MIR*	Knowledge	India	Australia, Brazil, China, France, Germany, Singapore, South Africa, US, UK	101firms	IT, pharmaceuticals, automotive	MNE	OLS	Reverse knowledge transfer	Knowledge complexity on liabilities of emergingness
Liao (2015)	*MD*	OLI paradigm	Taiwan	China	2200 firms	Manufacturing	MNE	GEE regression	Performance	Unspecified
Zhou and Guillen (2015)	*SMJ*	Institutional, learning	China	Not specified	738 foreign subsidiaries	Not specified	MNE	Logistic regression	Foreign direct investments	Cultural, demographic, political and administrative distance; firm's previous foreign experience

[26] Oil and gas, metals and mining, industrials, high-tech, financial, telecommunications, consumer products and services, retail, professional services, healthcare and consumer staples
[27] Australia, Canada, China, France, Germany, Italy, Malaysia, Singapore, South Africa, UAE, US, UK, others
[28] Computer software, drugs & pharmaceuticals, automobile ancillaries, chemicals, steel, trading, plastic packaging goods, organic chemicals, telecommunication services, infrastructural construction, pesticides, plastic furniture, floorings, other

Bhaumik et al. (2016)	*IBR*	Internalization, FSA/CSA	Developed countries and China	Emerging economies	1310 firms, 65535 observations	Computer, electronic and optical products manufacturing	MNEs and non-MNEs	Stochastic frontier analysis	Firm productivity	Technical progress, scale economies
Li et al. (2016)	*JWB*	None used	Brazil, China, India Russia	US	232 firms	Not specified	Not specified	OLS	Investor IPO valuation – offer price	Returnee independent director
Stoian and Mohr (2016)	*IBR*	Institutional, investment development path	Various[29]	Not specified	29 firms over 17 years	Not specified	MNE	Pooled OLS with random effects	OFDI flows	Protectionism, corruption, bureaucracy
Husted et al. (2016)	*JIBS*	Institutional	Mexican firms with manufacturing subsidiaries abroad, plus foreign firms from various markets in Mexico	Mexico	451 plants (1804 plant-year observations)	Automotive suppliers	MNE	Event history	Clean industry or CSR certification	Gaining national certification
Kotabe and Kothari (2016)	*JWB*	Organizational learning, competitive advantage	India, China	Various developed markets	16 firms	Various[30]	MNE	Historical longitudinal analysis	Not applicable	Not applicable
Demirbag et al. (2016)	*IBR*	Institutional, transaction costs	Turkish firms dealing in global markets, foreign and	Turkey	462 domestic firms (438 private, 24 public), 138 foreign firms	Bank-affiliated securities	MNE	Regression	Organizational efficiency	Firm affiliation, firm ownership and political constraints

[29] Argentina, Brazil, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Estonia, Hungary, India, Indonesia, Jordan, Kazakhstan, Lithuania, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, Slovak Republic, South Africa, Taiwan, Thailand, Turkey, Ukraine, Venezuela

[30] Information technology services and business process outsourcing, pharmaceuticals, automotive equipment, consumer and IT components, consumer electronics, home appliances, telecommunication equipment

			domestic firms							
Wu and Salomon (2016)	*SMJ*	Institutional	Various[31]	US	170 foreign subsidiaries	Banking	MNE	Regression	Foreign subsidiary performance	Institutional distance and isomorphism strategy
Zhou and Guillen (2016)	*GSJ*	OLI paradigm	China	Developing and developed economies	649 subsidiaries	Not specified	Not specified	Logistic regression	Market-, efficiency-, strategic asset-, or natural resource-seeking	Cultural, economic, demographic, political distance; political hazard, administrative distance
Chen, Li, and Fan (2017)	*GSJ*	Institutional, resource based view, industry based view	China	Various[32]	75 firms	High-tech manufacturing	MNE	fsQCA	Not applicable	Institutional distance
Jiménez et al. (2017)	*MIR*	Institutional	Various foreign-based investors[33]	Various[34]	1185 projects	Infrastructure and development	Not specified	Logistic regression	Project success	Corruption
Fiaschi et al. (2017)	*JWB*	Neoinstitutional	Brazil, Mexico	Unspecified	29 Brazilian and 15 Mexican firms	Various[35]	MNE	Random effects two-stage least squares	Corporate social irresponsibility	Host country speech and press freedom,

[31] Australia, Brazil, Canada, Colombia, Denmark, France, Germany, Greece, India, Ireland, Israel, Italy, Japan, Mexico, Netherlands, Philippines, Portugal, Slovenia, South Korea, Spain, Switzerland, Taiwan, UK, Venezuela, Yugoslavia

[32] Australia, Brazil, Canada, Denmark, Egypt, France, Germany, India, Indonesia, Italy, Japan, Malaysia, Mexico, Netherlands, Philippines, Poland, Russia, Slovakia, Singapore, South Africa, South Korea, Spain, Sri Lanka, Thailand, UAE, UK, US, Uzbekistan

[33] Argentina, China, Czech Republic, Greece, Hungary, Korea, Malaysia, Philippines, Russia, Saudi Arabia, Turkey

[34] Armenia, Azerbaijan Belarus, Bulgaria, Georgia, Kazakhstan, Kyrgyz Republic, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan

[35] Metals and mining, banking, electricity and other utilities, food and beverages, telecommunications, aerospace, chemicals, pharmaceuticals, cosmetics, heavy industry, pulp and paper, real estate, retail

Hsu et al. (2017)	*IBR*	Resource based view, institutional	Taiwan	China	357 subsidiaries	Electronics	MNE	GLS	Foreign subsidiary performance	Entry timing and local density of firms
Kolk and Curran (2017)	*JBE*	Non-market strategies	China	Europe	2 firms	Solar energy	MNE	Case study	Not applicable	Not applicable
Marano et al. (2017)	*JIBS*	Neoinstitutional	Various[36]	Developed countries	157 firms	Various	MNE	GEE, negative binomial regression	CSR reporting intensity	Home-country institutional voids
Marques et al. (2017)	*BH*	Internationalizatio n	China, Brazil	Switzerland	2 firms	Banking	MNE	Case study	Not applicable	Not applicable
Wu and Salomon (2017)	*JIBS*	Institutional	Various[37]	US	189 foreign subsidiaries	Banking	MNE	Logistic regression	Enforcement actions, industry-specific and location-specific regulations	Foreign or local bank, host market experience, quality of human capital
Newenham-Kahindi and Stevens (2018)	*JIBS*	Institutional	Various EM and DM[38]	Sub-Saharan Africa	8 firms	Mining	MNE	Semi-structured interviews, observation, archival data	Not applicable	Not applicable
Alkire and Meschi (2018)	*MIR*	Country-of-origin, human resource management	China, India	France, Germany, US	252 managers	Various[39]	Not specified	Manipulated -scenario questionnair e, hierarchical	Likelihood of resigning	Acquiring firm's country of origin

[36] Argentina, Brazil, China, Egypt, Hong Kong, India, Kuwait, Malaysia, Mexico, Philippines, Qatar, Russia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, UAE, Venezuela

[37] Australia, Brazil, Canada, Colombia, Denmark, France, Germany, Greece, Hong Kong, India, Ireland, Israel, Italy, Japan, Korea, Mexico, Netherlands, Philippines, Portugal, Slovenia, Spain, Switzerland, Taiwan, UK, Venezuela, Yugoslavia

[38] The paper studies eight foreign mining MNEs in Sub-Saharan Africa. As it does not include information about the origins of these eight foreign MNEs, we contacted the first author to confirm this information.

[39] Services, manufacturing, high-tech and communication, food and beverages, aerospace, energy, medical and pharmaceutical, engineering and construction, luxury and consumer goods

								linear modelling		
Cooke et al. (2018)	*JBR*	None used	China	Various	Not applicable	Not applicable	Not applicable	Review	Not applicable	Not applicable
Cuervo-Cazurra et al. (2018)	*JWB*	Institutional, learning	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Conceptual	Not applicable	Not applicable
Dash and Ranjan (2019)	*JIM*	Effectuation	India	Various[40]	8 firms	Various[41]	MNE	Case study	Not applicable	Not applicable
Estrin et al. (2018)	*JWB*	OLI paradigm	Various[42]	Various[43]	1,644,226 observations	Manufacturing	MNE	Conditional logistic regression	Investment location choice	Home-host distance, weak IPR protection, diaspora
Held and Bader (2018)	*IJHRM*	Image and signaling	China, Russia, US	Germany	287 student applicants	Academia	MNE	Repeated-measures ANOVA, hierarchical regression	Organizational attractiveness	Country image, time in country
Khan and Lew (2018)	*IBR*	Dynamic capabilities	Pakistan	Asia, Australia, Middle East, Western Europe, US	8 firms	IT software services	INV	Case study	Not applicable	Not applicable
Liu and Yu (2018)	*JBR*	Institutional, resource-based view	China	Not specified	496 projects of 312 firms	Not specified	MNE	Hierarchical logistic regressions	Establishment mode choice	Joint effect of international experience and institutional quality of host country, institutional

40 Bangladesh, Canada, China, Germany, Middle East, Singapore, South Africa, Sri Lanka, Sweden, Thailand, UK, US
41 Automobiles, forging and metals, telecom, industrial goods, financial servicing, packaged foods, personal care, education services
42 Brazil, Canada, China, France, Germany, India, Japan, Mexico, South Africa, Spain, Turkey, UK, US
43 Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, South Korea, Spain, Slovakia, Slovenia, Sweden, Switzerland, UK, US

										quality of home market
Mata and Alves (2018)	*SMJ*	Upper echelons	Various[44]	Portugal	1197[45]	Not specified	Small firms	Cox regression and log-logistic	Time elapsed between firm creation and exit	Immigrant, local labor market experience, community size
Patel et al. (2018)	*JBR*	Golden triangle framework	India	Australia	15 firms	Information technology	Small, medium, and large firms	Semi-structured interviews	Not applicable	Not applicable
Shen and Puig (2018)	*MIR*	Internationalization, country of origin	China	Germany	162 firms	Various[46]	MNE	Logistic regression	Entry mode, ownership structure	Origin and industry clusters
Tashman et al. (2018)	*JIBS*	Neoinstitutional	Various emerging markets[47]	Various (not specified)	333 firm-year observations from 93 MNEs	Various non-financial	MNE	Random effects regression	CSR decoupling	Home country institutional voids, internationalization
Tupper et al. (2018)[48]	*JWB*	None used	China, Canada, Greece, Israel	US	549 IPO firms & matched pair of 42 firms	Not specified	Not specified	Pooled hierarchical OLS regression	Shareholder returns	Difference between foreign and domestic firms' performance (CMLOF)
Montiel et al. (2019)	*JBE*	Institutional, resource-based view	Mexico	Not specified	97 exporting firms	Agriculture	Various sizes	Logistic regression	Certification to voluntary standard	Information sources
Brache and Felzensztein (2019)	*IBR*	Network	Chile	Not specified	116 exporting firms	Manufacturing, service, agriculture and fishing, mining	Various sizes	General linear model regression	International intensity and percentage of profit	Trade association engagement and environmental

[44] Brazil, China, Estonia, India, Hungary, Mexico, Czech Republic, Philippines, Russia, Turkey
[45] The article examines survival of domestic and immigrant owned businesses in Portugal, however, we consider only immigrant owned firms' LOF
[46] Wholesale and retail; manufacturing; professional, scientific and technical activities; information and communication; transportation; storage
[47] Brazil, China, Egypt, Hong Kong, India, Malaysia, Mexico, Russia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, UAE
[48] We included this study because out of 140 foreign firms listed on US stock exchanges, 75 were from China

									generated by exports	uncertainty on customer needs
Baik et al. (2019)	*APJM*	Institutional	Korea	China	223 firms	Various[49]	Various sizes	OLS, ordered probit	Community involvement	Host country experience, trust in supplier relations
Rabbiosi et al. (2019)	*JIM*	Internationalizatio n	India	Not specified	2608 firms	Various[50]	Large and medium firms	Tobit	Export intensity, cross border acquisitions	Diaspora ownership
Ellimäki, et al. (2021)	*IMM*	None used	Various[51]	Not specified	1484 firm- year observations from 292 firms	Various[52]	Not specified	GLS regression	Environmental disclosure, environmental performance	Interregional internationalizat ion
Bai et al. 2021	*JIM*	Institutional	Brazil, China, Poland, Italy, and Sweden,	Not specified	758 firms	Manufacturing	SME	Multiple regression	Non predictive strategy	Institutional distance, cultural differences
Cao and Alon (2021)	*JBR*	Resource dependence theory, LLL and institutional theory	China	Poland, Hong Kong	43 interviews with 7 MNE	Not specified	MNE	Case study	Not applicable	Not applicable

[49] Electronic components, radio, television, communication equipment, apparatus, other machinery and equipment; chemicals and chemical products; metal products, wholesale, rubber and plastic goods; clothing accessories and articles of fur; textiles (except sewn wearing apparel); motor vehicles, trailers, and semitrailers and basic metals
[50] High-technology- computers and office machinery, electronics, communication, pharmaceuticals; medium-high technology- industrial machinery, electrical machinery, transport equipment; medium-low technology- plastics, cement and glass, metal, manufacturing articles, construction, minerals; low-technology- agricultural products, irrigation, vegetable oils and products, food products, textiles, leather products, wood, paper products
[51] Australasia, Central Asia, Eastern Asia, Eastern Europe, Latin America, Melanesia, Northern America, Northern Europe, Southeastern Asia, Southern Africa, Southern Asia, Southern Europe, Western Asia, Western Europe.
[52] Coal, Electric utilities, Independent power producers Integrated oil & gas, Multiline utilities, Natural gas utilities, Oil & gas drilling, Oil & gas exploration and production Oil & gas refining and marketing, Oil & gas transportation services, Oil related services and equipment, Renewable energy equipment & services, Renewable fuels, Uranium

Saeed et al. (2021)	*IBR*	Institutional	Various[53]	US, UK, Australia, Nigeria, Mauritius[54]	1047 foreign subsidiaries and 8062 observations	Not specified	MNE	Hierarchical GMM, 2SLS	TMTs Women percentage	Home markets' institutional voids, institutional gender parity, control of corruption
Alyadi et al. (2021)	*IBR*	Institutional	Qatar	Palestine	1 MNE, 15 interviews with 11 managers	Telecom	MNE	Case study	Not applicable	Not applicable
Tan and Yang (2021)	*MOR*	None used	China	US, Australia	None used	Not specified	Not specified	Conceptual	Not applicable	Not applicable
Zhang (2021)	*IBR*	Institutional	Various[55]	Not specified	27,648 EMNE acquisitions	Not specified	MNE	Probit	CBA completion	Economic LOE, institutional LOE, host institution, host unemployment

53 Argentina, Brazil, Chili, China, Colombia, Czech Republic, Egypt, Greece, Hungry, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, UAE

54 The sample included foreign subsidiaries operating in 32 host countries. Firms were mainly operating in the US (16%), the UK (11%), Australia (8%), Nigeria (6%) and Mauritius (5%)

55 Brazil, Russia, India, China, and South Africa, Argentina, Azerbaijan, Chile, Colombia, Egypt, Indonesia, Kuwait, Malaysia, Mexico, Morocco, the Philippines, Peru, Qatar, Saudi Arabia, Thailand, Turkey, Ukraine, United Arab Emirates and Vietnam.

Table C
Research questions and key findings

Authors	Research questions or aims	Data type	Major findings
Luo (2000)	Role of EMFs' dynamic capabilities in international markets	Conceptual paper	The success of EMFs does not only depend on the returns generated, but on the ability to deploy and upgrade critical capabilities to deal with liabilities in uncertain foreign markets.
Chen (2006)	Examine cases of Taiwanese firms operating in Europe, where linkages with local resources are vital to overcoming LOFs	Case study	Taiwanese firms established WOS rather than equity joint ventures to enter distant European markets, suggesting that they are eager to exploit firm-specific advantages rather than exploring local resources. Case analysis suggests that Taiwanese firms planned to become more locally responsive by opting for control, enabling them to capitalize on the European market dynamics and overcome LOFs.
Thomas (2006)	Examine the relationship between international diversification strategies and performance of Mexican firms	Secondary data	There is an inverted U-shaped relationship between international diversification and firm performance, suggesting that Mexican firms initially experience negative performance as they expand internationally, due to LOFs. However, after gaining experience/knowledge through organizational learning, they eventually receive the benefits from international expansion.
Garg and Delios (2007)	Investigate the role of business group affiliation on survival rates of Indian MNEs' foreign subsidiaries	Secondary data	The influence of business groups affiliation on the survival chances of subsidiaries is context related; – affiliation reduces LOFs and increases survival when the subsidiary of the affiliated firm is founded in a developing market, rather than in a developed market.
Cuervo-Cazurra and Genc (2008)	How do home-country institutions and similarity between home- and host-country institutional environments influence the overseas competitive behavior of EMFs?	Secondary data	The disadvantages of being a developing country MNE can become a source of advantage to mitigate liabilities in less-developed countries (LDCs). Based on home-country experience firms are better able to predict the economic profile of the LDC consumers, how to serve them better, and how to deal with poor regulatory conditions and corruption. To safeguard their business and reduce uncertainties, EMFs may prefer venturing into LDCs with stronger IPR protection.
He and Lyles (2008)	Examines the OFDI by Chinese firms, its history and challenges faced in US market	Conceptual paper	Chinese firms learn the American way of doing business through their US partners operating in China, which assists them to adapt themselves in US market. However, Chinese firms face political liability of foreignness due to their lack of in-depth knowledge of US culture and market.
Perez-Batres and Eden (2008)	If foreign firms suffer from LOF when they enter a host market, might domestic firms suffer from liability of localness (LOL)?	Secondary data	Local firms in emerging economies face added costs called, "liabilities of localness", when economies undergo major shifts in the competitive landscape that change the rules of the game for local firms. Liberalization of the market eases the entry of foreign firms, increasing competition and creating survival issues for local firms. Local firms face additional costs of competing under the new rules and must develop additional capabilities to survive in the market.
Oetzel and Doh (2009)	Can collaboration between MNEs and NGOs offer promote economic development in host countries?	Conceptual paper	The study critiques the spillover and LOF perspectives and proposes alternative frameworks for EMFs to establish stronger relationships in the host country. Collaboration between NGOs and EMFs could generate positive returns for firms, overcoming the liabilities by working with and for the community.

Zhou et al. (2010)	How can young international firms leverage entrepreneurial dynamics and network capabilities for international growth?	Survey	Young entrepreneurial firms achieve international sales success rapidly through the ability to develop international networks and absorb international market knowledge via learning. The risk-taking orientation of entrepreneurial ventures leads to better knowledge and capabilities, which drive performance.
Luo et al. (2010)	Understand the role of emerging-market governments and their policies in promoting OFDI	Conceptual paper	Weak institutional environments at home encourage firms to invest abroad (institutional escapism). Less institutionally-embedded, but favorable, government policies (government support) co-exist and push EMFs to expand.
Barnard (2010)	How do EMF subsidiaries manage the demands of a technologically- and economically-developed host country?	Survey	EMFs in developed markets are able to develop useful capabilities by using skilled employees and suppliers. Market-based resources in the host location are more important than firm capabilities for overcoming LOF, and the purchase of knowledge via contractual relationships is an accessible mechanism.
Boehe (2011)	Why, and under what conditions, can service firms exploit their international affiliate networks at home?	Case study	For service firms, international networks help to compensate for barriers, e.g., providing access to contacts, finance, and information, which reduce costs.
Cardoza and Fornes (2011)	Study the facilitators and barriers to internationalization for SMEs from one of the least-developed regions of China	Survey	SMEs from Ningxia, unexpectedly, faced fewer barriers to their international expansion, due to government ownership and support loans provided by state-owned banks, the government, and private sources.
Wood et al. 2011	Why in the face of legitimacy obstacles associated with their newness and foreignness, do strategic early internationalizers from emerging markets pursue the high risk strategy of entering international markets early in their life cycle? How does becoming a strategic early internationalizer affect their ability to compete in international markets compared to other internationalizers who enter without intent and/or later in their life?	Survey	Internationalizing early and with clear strategic commitment allows new ventures from emerging markets to acquire legitimacy, a powerful resource in combating the twin liabilities i.e., LON and LOF. Founders with prior start-up and foreign work experience were more likely to make early internationalization a strategic priority upon founding a new venture.
Bangara et al. (2012)	How do emerging-market SMEs build their legitimacy in western markets, to accelerate their internationalization?	Case study	Indian service-oriented, high-technology small ventures use different legitimacy gaining tactics to overcome LOF, such as establishing a physical presence in the US, gaining endorsements, establishing networks, undertaking high-profile FDI initiatives, and entering into partnerships and distribution agreements.
Hilmersson and Jansson (2012)	How do SMEs reduce their liability of network outsidership in foreign business networks?	Case study	SMEs rely on their international experience for entering a network. They search for different entry nodes to initiate the international network extension process, which involves three stages: exposure, formation, and sustenance.
Klossek et al. (2012)	How entry mode choice impacts the strategies adopted by the Chinese firms to cope or not to cope with the specific institutional and competitive	Case study	Chinese firms differed in their strategy to mitigate LOF. Acquirers often used measures such as market analysis, communication and division of responsibilities to build reputation and show reliability, whereas, greenfield investors did not rely on these measures. Mitigating LOF through

	hurdles in Germany and how they mitigate their specific liability of foreignness?		prior experience was a strategy that was observed in all the investigated cases, showing the importance of previous experiences with developed market firms to overcome the LOFs irrespective of the establishment mode.
Madhok and Keyhani (2012)	What explains the phenomenon of internationalization through acquisitions in developed economies?	Conceptual paper	EMNEs overcome LOE by investing in capability development through overseas acquisitions in combination with some of their capabilities stemming from their origins such as cost innovation and frugal innovation.
Perez-Batres et al. (2012)	What are the factors influencing firms' decisions to follow local sustainability initiatives?	Secondary data	Global sustainability initiatives such the UN Global Compact (UNGC) influence firms' decisions to get involve in local sustainability initiatives. Participation in such initiatives reduces liabilities and builds legitimacy.
Pant and Ramachandran (2012)	How do developing country MNCs acquire cultural-cognitive legitimacy in developed country markets?	Case study	EMNEs threefold challenges such as liability of foreignness, origin and advantage are mitigated using the five core legitimation dynamics – reassurance, measurement, co-option, collective action and validation as strategies to overcome the challenges in developed market.
Zhou et al. (2012)	Examine the role of young entrepreneurial firms' marketing capabilities successful early and rapid internationalization	Survey	Marketing capabilities are an enabling factor for driving international growth among young firms. They can be better equipped to mitigate liabilities of outsidership through acquiring marketing and internationalization knowledge within relevant networks.
Deng (2013)	Systematically review the literature on the internationalization of Chinese firms	Literature review	This paper reviews the 2001-2012 literature on Chinese outward investment, which highlights LOF-specific studies related to the Chinese context.
Bae et al. (2013)	Examine the role of credit rating and certifications in mitigating LOF for EMFs	Secondary data	Upon securing an S&P rating, EMFs use new financing to fund further international expansion in the form of JVs and M&As, increasing their foreign sales.
Wang et al. (2014)	How does foreign subsidiary autonomy help EMFs to overcome their LOF in a foreign market?	Survey	Subsidiary autonomy delegation assists firms to learn the functions that are necessary to overcome resource and institutional voids. Subsidiaries reduce LOF when they are away from parent firms' negative institutional heritage. Subsidiary autonomy delegation was found mostly amongst those EMFs that rely on foreign markets to acquire strategic assets.
Moraes and da Rocha (2014)	Discuss the internationalization process of EMFs from the software industry	Case study	To overcome LOF, EMFs engage with local accounting firms to understand the differences in law and taxation between home and target markets. They catered their services to SMEs and adapted their products to customers' needs, which provided an advantage over global MNEs who were slow to adapt due to organizational rigidity.
Newburry et al. (2014)	Are MNEs headquartered outside their host nation disadvantaged in employee recruitment in local markets?	Survey	Spanish employers faced greater LOF, relative to Latin American firms, with regard to attracting employees. US, EU and non-Spanish firms faced less LOF.
De Beule et al. (2014)	Understand the acquisition behavior of MNEs from emerging and advanced markets in Italy	Secondary data	EMFs acquire lower ownership in high-tech industries than DMFs, remaining more flexible to deal with market uncertainties. EMFs face liabilities due to endogenous uncertainties caused by different knowledge bases and lack of cooperation among partners.
Buckley (2014)	Perspective paper discussing the importance of historical and geographical context in business dealings and decisions	Conceptual paper	Emerging markets may be culturally closer to some advanced economies. E.g., due to colonial roots. Firms rely on cultural brokers (expatriates) to overcome unfamiliarity in the host country. In case of acquisitions, EMFs rely on the knowledge of foreign investors or associated partners.

Anderson and Sutherland (2015)	How does the presence of developed-market investment promotion agencies (IPAs) in emerging markets aid EMFs' FDI?	Secondary data	Canadian IPAs based in China act as important agents to facilitate the legitimacy of Chinese firms. IPAs helped Chinese firms to mitigate transaction costs and psychic distance when entering physically-distant Canadian market.
Gubbi (2015)	Do EMFs engaged in cross-border acquisitions have weaker bargaining power in international markets because of LOFs?	Secondary data	Facing LOF in advanced markets, EMFs concede ownership rights in return for target firms' collaboration and knowledge sharing. EMFs performing well at home face fewer challenges when trying to expand internationally.
Chittoor et al. (2015)	Why do EMFs in the early stages of internationalization undertake risky foreign expansion paths through overseas acquisition?	Secondary data	Firms undertake acquisitions due to prior experience of the CEO, existing resources and capabilities, and business group affiliations. To overcome liabilities, EMFs gain knowledge and resources for their acquisitions through foreign investors.
Nair et al. (2015)	What roles do subsidiary-level competencies and capabilities play in persuading EMF parents to initiate reverse knowledge transfer to overcome LOF?	Survey	Reverse knowledge transfer between Indian parent firms and their overseas subsidiaries facilitates capability development, leading to lower LOF.
Liao (2015)	Understand the role of cluster characteristics in overcoming LOF	Secondary data	Cluster's size and technological knowledge spillover directly impacts the performance of foreign firms. Local ownership ties with the local partners help Taiwanese firms to improve their perception, attain legitimacy and increase opportunities to access resources and knowledge from other local partners and clusters in China which improves their performance.
Zhou and Guillen (2015)	Examine how the firm's home country loses its relevance as it invests abroad and gains experience in more countries, helping to mitigate LOFs	Secondary data	MNE strategies are driven by the characteristics of each of the countries in which they operate, so the liabilities faced by firms from the same home country in the same host country will differ. The diversity of prior foreign experiences helps firms to overcome LOFs.
Bhaumik et al. (2016)	How do EMFs benefit from their country specific advantages (CSAs)?	Secondary data	Firms' CSAs are more useful than firm-specific resources for mitigating LOF and achieving growth in foreign markets. EMFs cope better than DMFs in other emerging markets, using their CSAs.
Li et al. (2016)	How do foreign IPO firms build legitimacy among stock market investors in new, developed economies and overcome these key liabilities?	Secondary data	Hiring returnee independent directors represents a legitimacy building strategy. It helps foreign IPO firms originating from countries with weak investor protection to mitigate LOF and LON in capital markets.
Stoian and Mohr (2016)	How do regulative voids affect OFDI? How do firms' competitive advantages moderate the relationship between regulative voids and OFDI?	Secondary data	EMFs from complex institutional environments develop routines and processes to deal with institutional challenges in other markets. Firms from home countries with high corruption are less deterred by high corruption in host countries, turning competitive disadvantages into competitive advantages.
Husted et al. (2016)	Explore the impact of local legitimacy on imitation certification by foreign and domestic firms	Secondary data	Emerging market subsidiaries imitate the national certifications of geographically-proximate firms to overcome LOF, while domestic firms imitate the global certifications of proximate firms to overcome the disadvantages of localness.
Kotabe and Kothari (2016)	What factors influence EMFs' competitive advantage? How do EMFs learn and manage knowledge as they compete in and out of emerging markets?	Case study	EMFs' learning and knowledge capabilities represent a key source of advantage for overcoming LOFs, competing and achieving better performance in host markets. Developing breakthrough innovations for emerging markets and transferring them to developed markets helps firms to overcome the liability of emergingness.

Demirbag et al. (2016)	Explore liabilities of foreignness and localness among securities firms in Turkey	Secondary data	Irrespective of the size of the foreign firm, bank affiliations affect its efficiency, providing legitimacy to the firm and security to its clients, and helping to reduce LOF.
Wu and Salomon (2016)	Examine whether isomorphism mediates the relationship between distance and performance	Secondary data	Imitation improves MNE performance at first; however, with experience, this strategy may decrease performance.
Zhou and Guillen (2016)	What are the different types of LOF, and how do they relate to different dimensions of cross-national distance and influence the choice of foreign entry?	Secondary data	Firms face different types of LOF according to their motivations for engaging in FDI; hazards relate to the cultural, economic, demographic, and political environments of host markets, which then influence foreign entry decisions.
Chen et al. (2017)	Under what conditions do manager's personal connections with the home and host governments facilitate EMFs expansion to institutionally-distant countries?	Survey, plus secondary data	Networking with home and host country government officials is helpful for addressing formal institutional differences during the early process of entry, where differences are arguably the most salient.
Jiménez et al. (2017)	Understand the role of host-country corruption and local investors in the success of private participation projects in Central and Eastern Europe	Secondary data	Corruption presents a major disadvantage, and is associated with higher failure rates of private projects when foreign firms are involved with large domestic firms. Including local investors or firms in the project appears to reduce the impact of the corruption.
Fiaschi et al. (2017)	Investigate how host countries' speech and press freedoms influence CSR	Secondary data	To overcome poor reputation due to weak home-country institutions, EMFs build global legitimacy by adopting CSR activities. In countries characterized by strong press freedom, and where irresponsible acts are reported, EMFs engage in CSR initiatives and are more responsible.
Hsu et al. (2017)	Examine the effects that two dimensions of local conditions (location-bound advantages and local density) have on subsidiary performance and test whether the relationship between local conditions and foreign subsidiary performance varies with entry timing	Secondary data	EMFs' subsidiaries are likely to face reduced LOFs by entering a location early and taking advantage of the low density of foreign firms competing for resources.
Kolk and Curran (2017)	Explore the role of public policy and business representation in the EU-China solar panel anti-dumping dispute	Case study	Chinese EMFs in the EU overcome threats to their business through support from their home government, active participation in the public debate, and partnering with NGOs.
Marano et al. (2017)	Examine the link between institutional voids in emerging markets and use of CSR for creating legitimacy in foreign markets	Secondary data	CSR reporting strategies can improve EMFs' legitimacy and reputation. By maintaining transparency, EMFs reduce origin-related liabilities.
Marques et al. (2017)	Examine the challenges faced by Chinese and Brazilian banks in Switzerland	Case study	Chinese banks struggled due to unclear business plans, lack of understanding of the local environment, and China's global image. Brazilian banks had difficulties due to more sophisticated banking systems and lack of experience, but comparatively less than Chinese banks.
Wu and Salomon (2017)	Investigate whether foreign subsidiaries face LOF due to regulatory factors in the host country, and, whether foreign firms are less effective in	Secondary data	Foreign banks with stronger human capital and more host-country experience are able to reduce regulatory liabilities.

	complying with host country regulations than domestic competitors		
Newenham-Kahindi and Stevens (2018)	How can firms overcome LOF by means other than isomorphic conformance to host country institutions?	Case study	Foreign firms overcome LOF in emerging markets by co-creating new institutional logics, rather than conforming to existing ones. Local employees embedded in both sets of competing institutional logics act as key intermediaries to facilitate institutional entrepreneurship and mitigate LOF.
Alkire and Meschi (2018)	To what extent would western managers be likely to resign if their company were taken over by a foreign multinational? Would their intention be stronger if the acquisition were by a Chinese or Indian company?	Survey	Western managers indicate stronger intention to leave if the company is acquired by an EMF, preferring acquisition by firms that are culturally closer. Despite managers' positive prior experiences in dealing with Chinese or Indian firms, the origin bias towards EMFs appears to dominate. Executives are more likely to leave the organization when the acquiring firm is from China, rather than India, presumably due to past acquisition failures.
Cooke et al. (2018)	Examine the post-acquisition challenges of Chinese EMFs	Review paper	Chinese MNEs face both the liabilities of emergingness that are generic to all EMFs and a liability of Chineseness.
Cuervo-Cazurra et al. (2018)	To what extent does the home country of an EMF matter?	Conceptual paper	Home-country characteristics influence EMFs behavior and facilitate internationalization more than firm-specific characteristics. However, the home country also creates liabilities for EMFs.
Dash and Ranjan (2019)	How do managerial decision logics differ across EMFs, and what types help EMFs to mitigate disadvantages?	Case study	EMF managers carefully create capabilities in the face of liabilities, e.g., entering into cautious partnerships with selected stakeholders and balancing opportunities with the losses that they can afford. Managers' decisions that are based on heterogeneous experiences are essential for modifying liabilities into opportunities.
Estrin et al. (2018)	Compare the determinants of location choice between EMFs and developed-market MNEs	Secondary data	EMFs face increased LOFs in developed markets due to their country of origin. They are more attracted to developed markets because the advanced host location can make up for their home-country deficiencies; they prefer markets that offer better IPR protection.
Held and Bader (2018)	Understand the role of country image in employer attractiveness	Survey	Applicants' perceptions are crucial to their evaluation and screening of future employers. LOFs are observed in applicants' lower attraction to Chinese and Russian firms and stronger attraction to US companies as future employers.
Khan and Lew (2018)	How do emerging market international new ventures (INVs) survive after internationalization?	Case study	Weak home-country institutions increase entrepreneurs' commitment to internationalize and survive in a more stable market. Prior experience of the entrepreneurs helps to overcome LOF, and international networks are more critical for survival than home-country networks.
Mata and Alves (2018)	Investigates the survival of firms created by immigrant and native entrepreneurs to identify the effect of LOF among individual entrepreneurs	Secondary data	Immigrant owned firms are more likely to exit than those created by natives. These firms' LOF reduces with increase in the length of local work experience and by starting firms in large native communities.
Liu and Yu (2018)	How do intra-national institutional differences affect EMFs' foreign entry mode choices?	Survey, plus secondary data	Prior international experience helps Chinese firms to mitigate liabilities by predicting changes in the foreign market. Regional institutional development at home and the quality of the host-country institutional environment help to overcome the challenges of greenfield investment.
Patel et al. (2018)	How do Indian IT MNEs transfer their HRM practices to their subsidiaries in developed countries?	Interviews	Indian MNEs transfer their-home country HR practices to Australia, with some localization. They apply a blend of host- and home-country practices that allow the subsidiary to be locally

			responsive, such as employing skilled home-country expats to maintain internal consistency as well as hiring locally.
Shen and Puig (2018)	How might a colocation strategy influence the entry mode choices of foreign investors?	Secondary data	Collocating with home-country firms provides ethnic networks, develops high-trust relationships, provides legitimacy, and facilitates knowledge regarding sensitive cultural and institutional aspects of the host country, allowing foreign firms to learn about the host context and overcome LOF.
Tashman et al. (2018)	Understand the role of EMF CSR practices in gaining legitimacy in host markets	Secondary data	EMFs engage in CSR reporting to overcome negative home-country perceptions; the CSR is not aimed just a reputation, but is motivated by socially responsibility and maintaining reliability for the business in the host environment.
Tupper et al. (2018)	How long does CMLOF lasts for foreign IPO firms? Does CMLOF turn into capital market advantage of foreignness for IPOs over time? Does the global financial crisis of 2008 influence CMLOF of IPO firms? How do some foreign IPO firms mitigate CMLOF after they list in the U.S.?	Secondary data plus content analysis	Liabilities faced by foreign firms listed on capital markets can last up to a year before diminishing. After firms consistently releases performance information through reports and develops trading history, information asymmetry between investors and foreign IPO firms diminishes, and liability starts to turn into advantage. IPO firms also have to establish good media/public relations to alleviate LOF.
Montiel et al. (2019)	What are the sources of uncertainty for certifiable sustainability standards, and how does this uncertainty affect EMFs' decisions of EMFs to adopt such standards?	Survey	Food exporters/suppliers in Mexico face customer demands to adopt different sustainability standards. Strong customer pressures for certification to standards acts as a barrier to EMFs, with firms adopting a wait-and-see strategy to overcome short-term uncertainties and preferring to adopt at least one standard if the uncertainty is long-term.
Brache and Felzensztein (2019)	Under what circumstances is a relationship with an overseas trade association beneficial or harmful for export performance? Why are firms motivated to engage with foreign networks? What factors deter firms from engaging with an overseas trade association? How are formal institutional networks (such as foreign trade associations) and local informal social networks intertwined? Which networks contribute to export performance?	Survey	Stronger engagement with trade associations in an export market is positively related to export performance. Environmental uncertainty regarding customers' needs is an export performance barrier that is only reduce negligibly by engaging with trade associations.
Baik et al. (2019)	How do factors determining the need for legitimacy affect foreign subsidiaries' community involvement? And how can these relationships be moderated by perceived trust in local business relationships?	Survey	Foreign subsidiaries with greater foreign parent ownership and less host market experience engage in corporate community involvement (CCI) to improve legitimacy and overcome LOF.
Rabbiosi et al. (2019)	How diaspora (and other foreign) non-controlling owners can facilitate the internationalization of domestic firms?	Secondary data	Diaspora owners (while continuing to reside elsewhere) can facilitate internationalization of their home country firms by contribution their knowledge, expertise, network connections and other types of non-financial resources that reduce the liability of foreignness.
Ellimäki, et al. (2021)	Examines different effects of interregional internationalization on environmental disclosure	Secondary data	Firms with increased interregional internationalization are influenced by the global stakeholders, global norms, and global legitimating actors to disclose their environmental behavior voluntarily.

	and performance, while also analyzing the moderating role of firm's home country (liabilities of origin) on these relationships.		Disclosing environmental information and environmental performance is an effective way for firms from institutionally weak home countries to manage and maintain legitimacy in institutionally distant host countries.
Bai et al. 2021	Under what circumstances are SMEs more likely to adopt non-predictive strategy, considering the influence of their business networks, the institutional forces they experience, and the home market background affecting their internationalization?	Survey	Business networks offer SMEs a tool to work around institutional challenges and uncertainties of internationalization. EMFs learn to act in a non-predictive way as a survival strategy and overcome foreignness and outsidership.
Cao and Alon (2021)	What are the costs and effects of the liability of foreignness for Chinese high-tech MNCs operating in Poland? How do Chinese MNCs cope with the liability of foreignness? And will the liability of foreignness decrease over time due to additional complementary resources?	Case study plus secondary data	The subsidiaries of Chinese MNCs developed mutual dependence with the headquarters to transfer internal resources to overcome LOF. The subsidiaries also depend heavily on the local stakeholders to mitigate LOF by accessing local resources through acquisition or collaboration. They use expatriates and local employees to adapt to the host country's environment.
Saeed et al. (2021)	Examines the association between the pervasiveness of institutional voids in emerging markets and the inclusion of women in top management teams (TMT) by EMNCs as a legitimation strategy.	Secondary data	The increased presence of women in TMT enables EMNCs to distance themselves from stereotypes about their home market and attain organizational legitimacy to overcome disadvantages associated with the origin.
Alyadi et al. (2021)	Which strategic responses secure MNE survival in an extremely hostile host country environment featuring institutional barriers, voids and conflict?	Case study	The MNE employed three strategic responses: acceptance, adaptation and influence to survive and deal with the complex and unstable institutional environment.
Tan and Yang (2021)	The paper discusses liability of origin resulting from geopolitical conflict between China and Western countries.	Conceptual	Western countries increasingly stereotype Chinese MNEs due to their home government involvement, state-owned firms, and businesses producing technologies with military applications. As Chinese firms are likely to be considered a threat to the host country's national security, the study outlines various strategies employed by Chinese firms to mitigate LOR.
Zhang (2021)	How and to what extent LOE impacts EMNEs' CBA completion; and how and to what extent is this impact mitigated or aggravated by host countries' economic and institutional environment?	Secondary data	LOE poses legitimacy challenges to EMNEs in their cross-border acquisition (CBA) process and can impede CBA completion. However, LOE can be mitigated in certain economic and institutional conditions in the host countries.

Table D
Theoretical perspectives and frameworks

Perspective/Framework	**Number of articles**
Institutional	28
Resource-based view	10
Learning/Knowledge	7
Internationalization	7
Internalization/Transaction costs/FSA-CSA	5
Network	3
OLI paradigm	3
Country-of-origin/Psychic distance	3
Behavioral/HRM	2
Dynamic capabilities	2
Entrepreneurship/Effectuation	2
LLL	2
Resource dependence	2
Accounting	1
Competitive advantage	1
Image and signaling	1
Investment development path	1
Marginalization	1
Non-market strategies	1
Political economy	1
Spillover perspective	1
Industry based view	1
Golden triangle framework	1
Springboard perspective	1
Upper echelons	1

Note: The occurrences sum to more than 75, as some papers use multiple theoretical lenses.

Table E
Methodological approaches

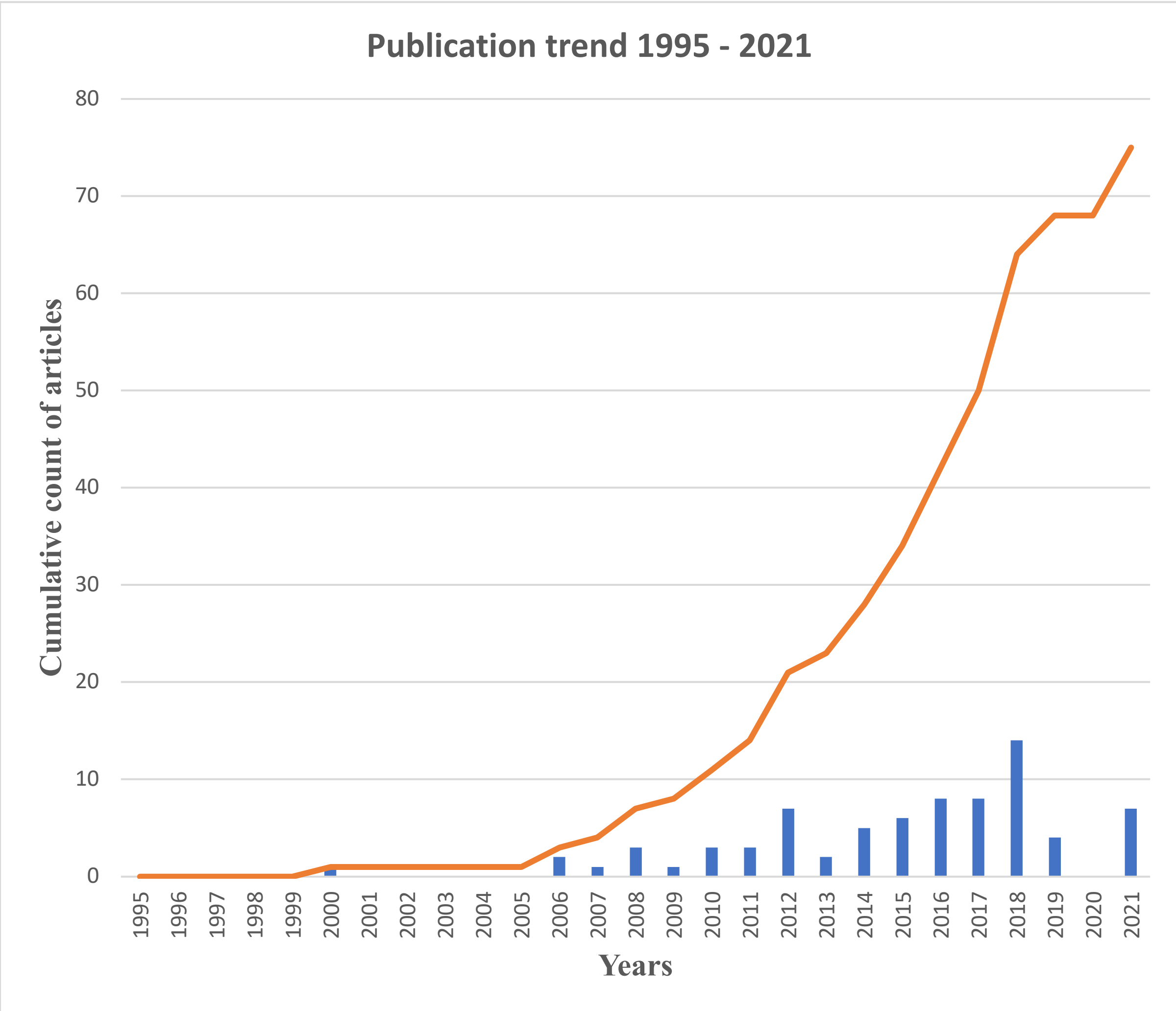
Approach[56]		**Number of articles**
Quantitative (48)	Cross-sectional regression	13
	Logistic regression	12
	Instrumental variable/2SLS	11
	Panel/nested (HLM) regression	5
	Probit	5
	Survival /event history analysis	3
	Negative binomial regression	2
	Tobit	2
	Stochastic frontier analysis	1
	SEM	1
Qualitative (27)	Case study	13
	Interviews	2
	Historical longitudinal analysis	1
	fsQCA	1
Conceptual/Review		10

[56] HLM: Hierarchical linear modeling, 2SLS: Two-stage least squares

Table F
Number of articles by journal

Journal	No. of articles
Journal of World Business (*JWB*)	13
Journal of International Business Studies (*JIBS*)	10
International Business Review (*IBR*)	10
Journal of International Management (*JIM*)	8
Journal of Business Research (*JBR*)	6
Management International Review (*MIR*)	6
Global Strategy Journal (*GSJ*)	4
Strategic Management Journal (SMJ)	3
Journal of Business Ethics (JBE)	2
Business Horizons (BH)	2
Asia Pacific Journal Management (APJM)	2
Management and Organization Review (MOR)	2
Management Decisions (MD)	2
Journal of International Marketing (JIMKT)	1
Long Range Planning (LRP)	1
International Journal of Human Resource Management (IJHRM)	1
Journal of Small Business Management (JSBM)	1
Industrial Marketing Management (IMM)	1

Figure 1.
Articles published 1995-2021



Appendix B: Invitation Email for Interview

UNIVERSITY OF LEEDS

Leeds University Business School

INVITATION TO PARTICIPATE IN THE DOCTORAL RESEARCH

Study Title: **Foreignness: An illumination in a bleak path for emerging market SMEs?**

Dear…,

You are invited to take part in a doctoral research project that is being carried out within the International Business Division at the Leeds University Business School (University of Leeds, UK). The purpose of the research is to understand how small and medium sized businesses from an emerging market (India) deal with a variety of circumstances when doing business internationally. In order to improve our understanding of this issue, I am inviting you for an interview.

The interview will involve discussion about the challenges that you and your firm have experienced in foreign market(s). It is expected to last approximately 60 minutes and will be very informal, with the goal of understanding your perspectives. All of the information collected during the interviews will be held in strictest confidence. Interviews can be arranged either face-to-face, by Skype, or by telephone or WhatsApp – depending on your convenience. Please note that participation in this study is entirely voluntary.

The attached information sheet answers some of the questions that you might have about the research. If you are willing to participate, please suggest a day, time, and format convenient to you, and I will do my best to coordinate as per your schedule. If you have any further questions, please do not hesitate to email me at bnksn@leeds.ac.uk.

Thank you very much for your time and consideration.

Karishma Nagre
Doctoral Student
Leeds University Business School
University of Leeds
LS2 9JT

Appendix C – Consent form for Interview

Leeds University Business School

UNIVERSITY OF LEEDS

Consent to take part in Doctoral thesis research: Foreignness: An illumination in a bleak path for emerging market SMEs?	Add your initials next to the statement if you agree
I confirm that I have read and understand the information sheet dated ______________ explaining the above research project, and I have had the opportunity to ask questions about the project.	
I understand that my participation is voluntary and that I am free to withdraw at any time up to the point of writing or publications, without giving any reason and without there being any negative consequences. In addition, should I not wish to answer any particular question or questions, I am free to decline. I am aware of whom to contact in case of withdrawal: Karishma Nagre – bnksn@leeds.ac.uk or +44(0)7425 353 705 After requesting withdrawal from the study, all the associated gathered data will be securely destroyed and will not be further used for any purposes.	
I give permission for members of the research team to have access to my anonymised responses. I understand that my name will not be linked with the research materials, and I will not be identified or identifiable in the report or reports that result from the research. I understand that my responses will be kept strictly confidential.	
I agree that the interview will be audio recorded	
I agree for the data collected from me to be stored and used for relevant future research purposes while maintaining anonymity. The data will be stored securely at the University of Leeds depository for a required period of time.	
I understand that other researchers may use my words in publications, reports, web pages, and other research outputs, only if they agree to preserve the confidentiality of the information as requested in this form.	
I understand that relevant sections of the data collected during the study may be looked at by auditors from the University of Leeds, where it is relevant to my taking part in this research. I give permission for these individuals to have access to this data.	
I agree to take part in the above research project, and will inform the lead researcher should my contact details change during the project and, if necessary, afterwards.	

Name of participant	
Participant's signature	
Date	
Name of lead researcher	Karishma Nagre
Signature	
Date*	

*To be signed and dated in the presence of the participant.
Once this has been signed by all parties the participant should receive a copy of the signed and dated participant consent form, the letter/ pre-written script/ information sheet and any other written information provided to the participants. A copy of the signed and dated consent form should be kept with the project's main documents, which must be kept in a secure location.

Project title	*Document type*	*Version #*	*Date*
Foreignness: An illumination in a bleak path for emerging market SMEs?	Consent form for interview		

Appendix D: Interview Guide

The interviews are semi-structured and expected to last approximately one hour. Below is an outline of the proposed interview questions.

Part 1: General information about the interviewee

- Job title or position in the firm
- Years of experience in the company
- Was the interviewee working at any other company prior to founding or joining the current venture?

Part 2: General information about the company

- Background or history of the SME
- Year of establishment
- Main industry
- Number of employees
- Information about their products or services
- Internationalization mode or method
- List of countries firms operated

Part 3: Information about the challenges firms experienced in foreign markets

- What were the challenges that your firm experienced while doing business in international markets? Could you please provide some examples of the challenges encountered while doing business overseas?
- Where did your firm encounter more challenges? Which markets were challenging to deal with?
- How difficult was it for your firm develop trust in foreign markets? (e.g., amongst foreign customers, government or business clients)
- What challenges your firm encountered due to government rules and regulations in foreign markets?
- How difficult was it for your firm to understand foreign business environment?
- To what extent your firm faced issues due to costs involved in doing business overseas?
- How challenging was it for your firm to deal with the foreign market competition? To what extent competition from domestic and foreign firms affected your business?

Part 4: Approaches used to cope with the challenges encountered in foreign markets

Managerial Knowledge and Experiences

- To what extent managerial characteristics such as previous work experiences and skills helped the firm to cope with challenges encountered in foreign markets?
- Which managerial characteristics, in particular, were important to offset the challenges?

Networks

- How useful were your networks in international markets? Which relationships, in particular were important for you're the firm's international activities?
- To what extent your networks were helpful to cope with foreign market challenges? Could you please describe how networks assisted you in foreign markets?

Partnerships

- Have your firm engaged in partnerships or collaborated with other firms?
- Could you describe how your partners were useful to cope with host market challenges?

Developing Legitimacy

- What approaches were adopted to legitimize the firm in foreign markets? How the firm acquired trust and developed reputation in foreign markets?
- What are the approaches used by the firm to avoid biases from consumers, clients and government authorities?

- To what extent your firm adapted its products/services or business activities in the foreign market? Could you please describe with examples?
- How did you cope with competitors in foreign markets?

Mitigating Institutional Hazards
- What approaches were used to cope with challenges emerging from host market's government authorities?
- How India government institutions/authorities supported your firm to cope with internationalization challenges?
- How Ministry of MSMEs, export councils, chambers of commerce supported your international initiatives? To what extent their support helped you to cope with the international challenges?
- How would you describe the support received from trade associations for your international activities?

Trade Fairs
- To what extent were trade fairs helped your business?
- How would you describe the role of trade fairs in assisting your business in foreign markets?

Learnings
- What are your learnings from the challenges encountered in foreign markets?
- How learnings helped you to shape your strategies in other markets?

Strategy
- How would you describe firm's strategy to deal with challenges faced while doing business overseas?
- Which strategies, in particular, are important and followed consistently by the firm in international markets?

International performance
- On a scale of 1-10, how satisfied are you with the international performance of the firm?

Part 5: Additional questions

- What challenges your firm faces while operating within India?
- Does your firm face more challenges within India or internationally?
- How do you cope with difficulties faced while doing business within India?
- On a scale of 1-10, how satisfied are you with the domestic performance of the firm?
- Do you have any additional information that you would like to share?

Appendix E – Survey Invitation Email

Dear Participant,

You are invited to participate in a doctoral research project that is being carried out within the International Business Division at the Leeds University Business School (University of Leeds, UK). The purpose of this study is to understand the challenges that your firm faces, with respect to business environments and performance, both in India and internationally. In order to improve our understanding of this issue, I am inviting you to complete a questionnaire.

This is a gentle request to please complete the survey and contribute your views to our research. Please ignore this email if you have already completed the questionnaire.

The survey should take about 45 minutes to complete. If you do not have time to complete it in one go, your responses will be saved and you can return to it anytime, as per your convenience. All the information that you share in the questionnaire will be strictly anonymous. This study has been approved by the University of Leeds Research Ethics Committee.

Please note that your participation is entirely voluntary. If you have any questions or have trouble accessing the survey, please feel free to email me at bnksn@leeds.ac.uk

Please ignore this email if you are not a micro, small, or medium enterprise.

Please click on the link below to begin the survey.

${l://SurveyLink?d=Take the Survey}

Or copy and paste the URL below into your internet browser:
${l://SurveyURL}

Follow the link to opt-out of future emails:
${l://OptOutLink?d=Click here to unsubscribe}

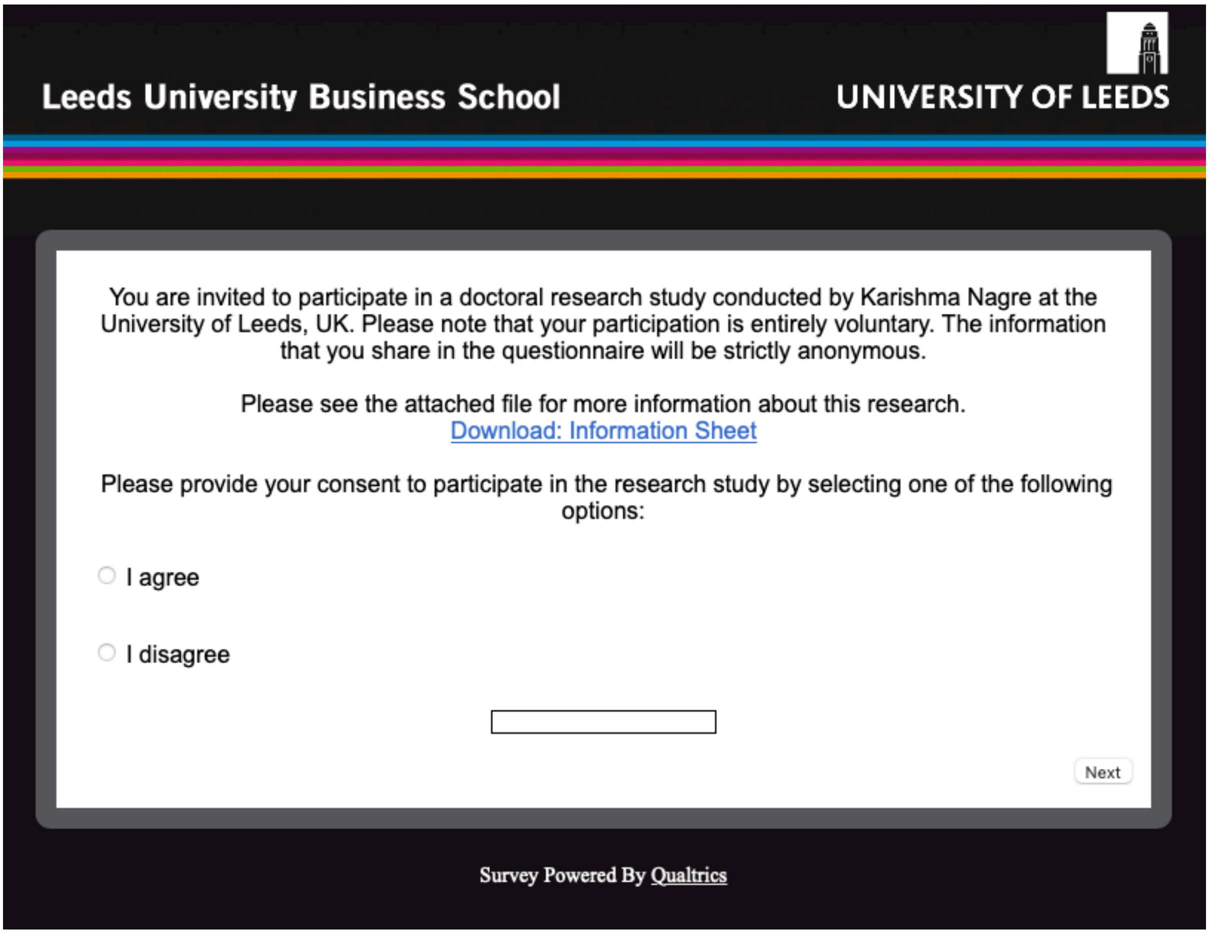
Kindly complete the survey by the end of September 2020.

Thank you very much for your time and consideration.

Kind Regards,

Karishma Nagre
PhD Student
International Business Division
Leeds University Business School
University of Leeds, UK
LS2 9JT
Email: bnksn@leeds.ac.uk

Appendix F – Web-based Survey Instrument


Leeds University Business School

UNIVERSITY OF LEEDS

You are invited to participate in a doctoral research study conducted by Karishma Nagre at the University of Leeds, UK. Please note that your participation is entirely voluntary. The information that you share in the questionnaire will be strictly anonymous.

Please see the attached file for more information about this research.
Download: Information Sheet

Please provide your consent to participate in the research study by selecting one of the following options:

- I agree
- I disagree

Next

Survey Powered By Qualtrics

Leeds University Business School

UNIVERSITY OF LEEDS

Understanding the challenges that Indian SMEs face at home and abroad

Thank you very much for participating in this study – it is much appreciated!

The survey includes questions about the challenges that your firm faces, with respect to business environments and performance, both in India and internationally.

It should take about 45 minutes to complete the survey. Please answer each question as fully and accurately as you can. There are no correct or incorrect answers to any of the questions – we are interested in your perspectives. Please be assured that your responses are completely anonymous and cannot be linked back to you or your company.

Please click on the "Next" button at the bottom of the screen to start the survey. You will also be able to navigate throughout the survey by using the "Next" and "Back" buttons at the bottom of each screen.

Kindly complete the survey by the end of September 2020.

If you would like a summary report of the findings of the study, please contact me by 30/11/2020 at bnksn@leeds.ac.uk

Next

Survey Powered By Qualtrics

For this first set of questions, please think about where your firm does business, where your firm has offices, and the factors that motivated your company to do business internationally.

1. Which of the following statements most closely describes your firm's **strategy for expanding**? (Please select one option.)

- ○ We planned to first do business within India and internationalize later.
- ○ We planned to first do business internationally and expand later within India.
- ○ We planned to first do business both within and outside of India.
- ○ Other (please specify):

2. Which of the following statements most closely describe **where your firm has office(s) in India**? (Please tick all boxes that apply.)

- ☐ Our business has office(s) in only one Indian state.
- ☐ Our business has offices in more than one Indian state.
- ☐ Other (please specify):

Back Next

3. Where is your firm's **head-office**? (Please select one option from the drop-down menu.)

Back Next

4. Please indicate the **state(s)** in which your **firm operates.** (Please tick all boxes that apply.)

- ☐ Andhra Pradesh
- ☐ Arunachal Pradesh
- ☐ Assam
- ☐ Bihar
- ☐ Chhattisgarh
- ☐ Goa
- ☐ Gujarat
- ☐ Haryana
- ☐ Himachal Pradesh
- ☐ Jammu and Kashmir
- ☐ Jharkhand
- ☐ Karnataka
- ☐ Kerala
- ☐ Madhya Pradesh
- ☐ Maharashtra
- ☐ Manipur
- ☐ Meghalaya
- ☐ Mizoram
- ☐ Nagaland
- ☐ Odisha
- ☐ Punjab
- ☐ Rajasthan
- ☐ Sikkim
- ☐ Tamil Nadu
- ☐ Telangana
- ☐ Tripura
- ☐ Uttar Pradesh
- ☐ Uttarakhand
- ☐ West Bengal
- ☐ **We do not operate in India**

Back Next

5. Which of the following statements most closely describe **where your firm has office(s) outside of India**? (Please tick all boxes that apply.)

- ☐ Our business does not have offices outside of India.
- ☐ Our business has offices(s) in only one foreign market.
- ☐ Our business has offices in more than one foreign market.
- ☐ Other (please specify):

6. Please indicate the **countries** in which your **firm operates.** (Please tick all boxes that apply.)

- ☐ UK
- ☐ USA
- ☐ UAE
- ☐ Hong Kong
- ☐ Sri Lanka
- ☐ China
- ☐ Singapore
- ☐ Malaysia
- ☐ Bangladesh
- ☐ Vietnam
- ☐ Nepal
- ☐ Germany
- ☐ South Korea
- ☐ Thailand
- ☐ Japan
- ☐ We do not operate overseas
- ☐ Other (please enter country names here):

Back Next

7. To what extent does each of the following statements reflect your firm's **motivations to conduct business outside of India**? (Please select one option for each question.)

	Strongly disagree	Disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Agree	Strongly agree
We had a unique product/service that motivated us to go abroad.							
We went abroad because of the strong competition we faced in the Indian market.							
We received an unsolicited order from an overseas customer, which triggered our international business.							
We went international because the Indian market was saturated.							
The previous international experience of our manager(s) motivated us.							
Our manager(s) or owner(s) believed strongly in the value of going abroad.							
Going international was part of the growth objective of our firm.							
Going international was our next logical step.							
We went abroad because of families or friends situated overseas.							
We went international to achieve economies of scale.							
We went abroad because we received assistance from government institutions.							
Other (please specify):							

8. To what extent do you agree with each of the following statements, in terms of the **challenges** that your company has faced while doing business **in three broad locations: in your firm's home state, in other Indian states, and outside of India**? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Relative to the competitors in that location...			
Our firm incurs distance-related costs, including transportation, coordination and administration costs.			
Our firm's networks and links with local actors – such as distributors, suppliers and customers – are less developed.			
Our firm incurs higher costs for gathering location-specific information or knowledge.			
Our firm incurs higher costs to build reputation and goodwill.			
Our firm incurs challenges due to unfavourable or biased treatment by suppliers or distributors.			
Our firm incurs challenges due to unfavourable or biased treatment by local consumers.			
Our firm incurs challenges due to unfavourable or biased treatment by local governments.			
Our firm incurs higher costs due to different rules (e.g. laws, procedures).			
Our firm incurs higher costs due to corruption.			
Our firm incurs higher costs due to different views in the society (e.g. values, beliefs, norms, culture).			
Our firm incurs higher costs due to the Indian government's restrictions related to international business (e.g. limitations on sales to certain countries).			

Back Next

9. Thinking about your firm's **challenges with the business environment**, to what extent do you agree with each of the following statements? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Dealing with corruption is part of our everyday business.			
We experience frequent political uncertainties.			
It is easy to deal with the paperwork and the time needed to hire an employee.			
We are able to set flexible working hours for our employees.			
It is relatively easy to obtain the necessary permits and licenses for our business.			
The legal fees and costs of permits and licenses are not overly expensive.			
It is easy for our business to get access to utilities (e.g. electricity, telephones, water).			
It is easy to import/export materials from/to foreign countries.			
Our firm pays very high taxes.			

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10.
To what extent do you agree with each of the following statements, in terms of the **support** that your firm has received from **different governmental institutions within India and in foreign countries?** (Please select one option from the drop-down menu for each question, **for each of the four categories**.)

	Firm's home state government	Other Indian state government(s)	Indian central government	Foreign government(s)
The government and its agencies have…				
Implemented the policies and programs that have been beneficial to our business operations.				
Provided information to protect our business (e.g. patent laws, intellectual property rights).				
Provided information on applicable technologies or services.				
Provided important market-related information.				
Provided financial support.				
Assisted us to obtain trading licenses (e.g. for export/manufacturing/services, import/export of raw materials or equipment).				

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11
Thinking about your firm's experience of **dealing with legal rules and regulations**, to what extent do you agree with each of the following statements? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Business contracts are considered to be important legal documents.			
Business contracts are not protected by local courts.			
Our business is protected by well-developed intellectual property laws.			
We can legally prosecute violations of property rights.			

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12.
Thinking about the **support received from government institutions such as business promotion councils**, please indicate how useful such programs are for your firm. (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Information about market opportunities			
Specific information about doing business with a particular firm			
General information about doing business in a particular location			
General information on how to do business			
Government reports/publications			
Business seminars and conferences			
Business training programs			
Business counselling programs			
Training on business documentation			
Language support for doing business in particular locations			
Assistance for participating in trade fairs			
Support from trade offices			

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13.

To what extent have the following **members of your personal networks helped your firm to deal with business challenges** pertaining to operating both inside and outside of India? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Family, relatives, and/or personal friends of key decision-makers			
Past work colleagues and/or business contacts of key decision-makers			
Past and/or current business associates of the company			
Family, relatives and friends of company staff			
Past work colleagues and/or business contacts of company staff			

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14.

Has your company attended **trade fairs**? (Please tick all boxes that apply.)

- ☐ Domestically-focused trade fairs
- ☐ Internationally-focused trade fairs
- ☐ We did not attend any trade fairs.

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15.

How important was each of the following **objectives for attending trade fairs**? (Please select one option from the drop-down menu for each question, **for category displayed**.)

	In firm's home state	In other Indian states	Outside of India
Identifying new business partners			
Meeting new customers			
Acquiring information about markets (e.g. product requirements)			
Identifying key players in the industry			
Establishing contacts and developing wider networks in the industry			
Evaluating the competition			
Selling products/services			
Promoting existing products/services			
Maintaining relationship with existing customers			
Enhancing company's image and profile			

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16.

How important has each of the following been in **assisting your business,** inside and outside of India? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Trade fairs			
Industry associations			
Ethnic and/or diaspora communities (e.g. Indian communities)			
Government			
Academic/research institutes			
Professional institutes			
Traditional media advertising (e.g. magazines, TV, radio)			
Social media advertising (e.g. Facebook, LinkedIn, Twitter)			

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17.

Thinking about **different business environments** inside and outside of India, please indicate your **knowledge** regarding the following aspects. (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Competitors			
Level of corruption			
Competitive strategies employed by other firms			
Values and norms			
Business practices			
Impact of cultural differences on business			
Legal systems			
Paper work/documentation			
Risks associated with doing business			
Government rules and regulations			
Customer demographics and segments			
Customer needs and preferences			
Trends in customers' needs and preferences			
Existence of unmet customer needs			
Opportunities for partnering			
Identifying potential new customers			
Available distribution channels			
Appropriateness of existing distribution channels to your firm			
Quality of existing distribution channels			
Logistical requirements			

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18.
To what extent do you agree with the following statements, in terms of your **firm's technologies and services**? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Our technology/services are…			
Better than our competitors'.			
Our competitive advantage.			
The result of our heavy investment in research and development (R&D).			
Difficult for other firms to copy.			
Designed using complex and specialized assets.			
Protected by patents, copyrights and/or trade secrecy.			
Customized for local markets.			
Acquired from other businesses.			

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19.
Has your firm **partnered** with other firms? (Please select one option.)

○ Yes

○ No

20. Has your firm **acquired** any businesses? (Please select one option.)

○ Yes

○ No

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21.

Please indicate how your firm does **business with other firms** inside and outside of India. (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
We have partnered with technologically-advanced firms.			
We have partnered with service-providing firms.			
We have acquired firms unrelated to our business.			
We have acquired firms related to our business.			
We have licensed the technology required for our firm from other businesses.			

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22.

Does your firm **use distributors**? (Please tick all boxes that apply.)

- ☐ No
- ☐ Yes, in our firm's home state
- ☐ Yes, in other Indian states
- ☐ Yes, outside of India

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23. Thinking about **your distributors**, please indicate how they **are supporting** your business inside and outside of India. (Please select one option from the drop-down menu for each question, **for category displayed**.)

	In firm's home state	In other Indian states	Outside of India
Setting prices			
Selling			
Advertising			
After-sales service			
Collecting market information			
Liaising with local government			
Cultivating business expansion			
Product modification			
Arranging international shipping			
Arranging local shipping			
Public relations			
Technical support/training of customers			
Translation (e.g. sales literature, usage instructions labelling)			

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24.

To what extent do you agree with the following statements, in terms of the **experiences and abilities of the managers** in your firm? (Please select one option from the drop-down menu for each question, **for each of the three categories**.)

	In firm's home state	In other Indian states	Outside of India
Our founder(s) or manager(s) have…			
Worked for one or more other companies.			
Worked for other companies with large networks.			
Familiarity with applicable local languages.			

25.

Please indicate **where** your firm's **founders/managers received their education**? (Please tick all boxes that apply.)

☐ In the firm's home state

☐ In other Indian states

☐ Outside of India

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26. To what extent has your firm **adapted the following aspects** of its business when operating **in other Indian states and outside of India**? (Please select one option from the drop-down menu for each question, **for each of the two categories**.)

	In other Indian states	Outside of India
Product or service brand name		
Product or service design		
Product or service label		
Product or service line		
Production process		
Advertising theme		
Channels for advertising		
Budget for advertising		
Promotion objectives		
Pricing for products or services		
Price discounts policy		
Credit policy		
Distribution network		
Distribution budget		
Transportation methods		
Business routines		

27.
When you assess the **performance of your company's main international activity**, how **important** are the following criteria? (Please select one option for each question.)

	Not at all important	Minimally important	Slightly important	Neither important nor not important	Moderately important	Very important	Extremely important	Not applicable
International sales	○	○	○	○	○	○	○	○
International sales growth	○	○	○	○	○	○	○	○
Cash flow	○	○	○	○	○	○	○	○
Return on shareholder equity	○	○	○	○	○	○	○	○
Gross profit margin from international operations	○	○	○	○	○	○	○	○
Net profit from international operations	○	○	○	○	○	○	○	○
International profit to sales ratio	○	○	○	○	○	○	○	○
Return on investment (ROI) from international business	○	○	○	○	○	○	○	○
Ability to fund business growth from international profits	○	○	○	○	○	○	○	○
Other (please specify):	○	○	○	○	○	○	○	○

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28.

For how **long** has your company been doing **business in international markets**? (Please select one option.)

○ Less than 5 years

○ At least 5 years

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29.

Please evaluate how **satisfied** you were **with the international performance of your firm**, **relative to your major competitors**, over the **first five years of international activity** and the **most recent five years**. (Please select one option from the drop-down menu for each question, **for each of the two categories**.)

	First five years	Most recent five years
International sales		
International sales growth		
Return on shareholder equity		
Gross profit margin from international operations		
Net profit from international operations		
International profit to sales ratio		
Return on investment (ROI) from international business		
Ability to fund business growth from international profits		
Other (please specify):		

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30.

How would you rate the **overall success** of your firm's **international business, relative to your major competitors**, over the **first five years of international activity** and **the most recent five years?** (Please select one option from the drop-down menu for each row.)

For the first five years	
For the most recent five years	

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31.
How would you rate the **overall success** of your **firm's international business, relative to your major competitors, upto the present**? (Please select one option.)

Extremely unsuccessful	Unsuccessful	Minimally unsuccessful	Neither successful nor unsuccessful	Somewhat successful	Successful	Extremely successful	Not applicable
○	○	○	○	○	○	○	○

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32.
Please indicate the **approximate percentages of your firm's sales in its home state, other states in India, and internationally, in 2019. (The values should sum to 100%)**

Sales in your firm's home state	0
Sales in other Indian states	0
Sales outside of India	0
Total	0

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33.
Please provide an estimate of your **firm's total annual revenue in the year 2019.** (Please select one option.)

○ Less than INR 5 crore

○ INR 5 crore - INR 50 crore

○ More than INR 50 crore - INR 100 crore

○ More than INR 100 crore

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34.
How would you assess the **availability of financial resources** for your firm's **domestic and international business**? (Please select one option from the drop-down menu for each row.)

Availability of finances for our domestic business

Availability of finances for our international business

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35.
What is your **current position** in the firm? (Please tick all boxes that apply.)

☐ Owner

☐ Founder

☐ Marketing/Export manager

☐ Other (please specify):

36.
How many years of **full-time work experience** (in this and other firms) do you have? (Please select one option.)

○ Less than 5 years

○ 5-9 years

○ 10-14 years

○ 15-19 years

○ 20-24 years

○ 25 years or more

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37.
What is your highest **education level**? (Please select one option.)

- Secondary school certificate (SSC)
- Higher secondary certificate (HSC)
- Bachelors degree
- Masters degree
- Doctorate
- Other (please specify):

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38.
Please indicate the **year** in which your firm was **established**. (Please select one option.)

2000	2011
2001	2012
2002	2013
2003	2014
2004	2015
2005	2016
2006	2017
2007	2018
2008	2019
2009	2020
2010	Other (please specify):

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39.
How many **full-time equivalent employees** are working in your firm? (Please select one option.)

- ○ Fewer than 100
- ○ 100-499
- ○ 500-999
- ○ 1,000-4,999
- ○ 5,000-9,999
- ○ 10,000 or more

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40.
What is your firm's **main industry**? (Please tick all boxes that apply.)

- ☐ Agriculture, forestry and fishing
- ☐ Automobiles
- ☐ Auto components
- ☐ Cement
- ☐ Consumer durables
- ☐ Construction
- ☐ E-commerce
- ☐ Education and training
- ☐ Engineering
- ☐ Financial and insurance services
- ☐ FMCG
- ☐ Gems and jewellery
- ☐ Healthcare
- ☐ Infrastructure
- ☐ Information technology (IT)
- ☐ Manufacturing (please specify type, e.g. machinery):
- ☐ Metal and Mining
- ☐ Media and entertainment
- ☐ Oil and Gas
- ☐ Pharmaceuticals
- ☐ Professional, scientific and technical services (e.g. consulting)
- ☐ Ports
- ☐ Power
- ☐ Real estate
- ☐ Renewable energy
- ☐ Retail
- ☐ Steel
- ☐ Telecommunications
- ☐ Textile
- ☐ Tourism and hospitality
- ☐ Other (please specify):

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41.
Please indicate the **year** during which your firm **first started** to do business **outside of India**. (Please select one option.)

- ○ 2000
- ○ 2001
- ○ 2002
- ○ 2003
- ○ 2004
- ○ 2005
- ○ 2006
- ○ 2007
- ○ 2008
- ○ 2009
- ○ 2010
- ○ 2011
- ○ 2012
- ○ 2013
- ○ 2014
- ○ 2015
- ○ 2016
- ○ 2017
- ○ 2018
- ○ 2019
- ○ 2020
- ○ Other (please specify): ______

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42.
Please indicate **where** your firm **first** began to do business **outside of India**? (Please tick all boxes that apply.)

- ☐ UK
- ☐ USA
- ☐ UAE
- ☐ Hong Kong
- ☐ Sri Lanka
- ☐ China
- ☐ Singapore
- ☐ Malaysia
- ☐ Bangladesh
- ☐ Vietnam
- ☐ Nepal
- ☐ Germany
- ☐ South Korea
- ☐ Thailand
- ☐ Japan
- ☐ Other (please enter country names here): ______

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43.

Thinking about the current Indian definitions of **firm size**, which category best describes your firm, as of today? (Please select one option.)

- ○ Micro enterprise (investment up to INR 1 crore and turnover under INR 5 crore)
- ○ Small enterprise (investment up to INR 10 crore and turnover under INR 50 crore)
- ○ Medium enterprise (investment up to INR 20 crore and turnover under INR 100 crore)
- ○ Other (please specify):

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44.

Where has your firm faced **serious business challenges outside** of India? (Please tick all boxes that apply.)

- ☐ UK
- ☐ USA
- ☐ UAE
- ☐ Hong Kong
- ☐ Sri Lanka
- ☐ China
- ☐ Singapore
- ☐ Malaysia
- ☐ Bangladesh
- ☐ Vietnam
- ☐ Nepal
- ☐ Germany
- ☐ South Korea
- ☐ Thailand
- ☐ Japan
- ☐ Other (please enter country names here):

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45.

Where has your firm faced **serious business challenges within** India? (Please tick all boxes that apply).

- ☐ Central India
- ☐ East India
- ☐ North India
- ☐ Northeast India
- ☐ South India
- ☐ Western India
- ☐ None of the above

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46.

Has your firm has faced **challenges** due to the **diversity of cultures** in India? (Please select one option.)

- ○ Yes - if "yes", then please specify in which Indian state(s).
- ○ No

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47.

In which foreign country or countries was it **relatively easy** for your firm to do business? (Please tick all boxes that apply.)

- ☐ UK
- ☐ USA
- ☐ UAE
- ☐ Hong Kong
- ☐ Sri Lanka
- ☐ China
- ☐ Singapore
- ☐ Malaysia
- ☐ Bangladesh
- ☐ Vietnam
- ☐ Nepal
- ☐ Germany
- ☐ South Korea
- ☐ Thailand
- ☐ Japan
- ☐ Other (please enter country names here):

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48.

Please indicate how your firm has **entered international markets**. (Please tick all boxes that apply.)

- ☐ Exporting
- ☐ Licensing
- ☐ Franchising
- ☐ Joint venture(s)
- ☐ Non-equity strategic alliance(s)
- ☐ Wholly-owned sales subsidiary(s)
- ☐ Wholly-owned manufacturing subsidiary(s)
- ☐ Other (please specify):

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This is the end of the survey.

Thank you very much for taking part in this survey!

Your time is very much appreciated!

If you would like a summary report of the findings of the study, please contact me at bnksn@leeds.ac.uk before 30/11/2020.

Appendix G – First Email Reminder for Survey

Dear Participant,

Recently you received an email to complete a survey for research that is being conducted at the University of Leeds, UK. The purpose of this study is to understand the challenges that your firm faces, with respect to business environments and performance, both in India and internationally. This is a gentle reminder and a request to please complete the survey. Your response is important and will help to better understand the challenges your business encounters while doing business in India and overseas.

If you have already completed the survey, a big thank you for your time and contribution. If you have not yet responded, I would much appreciate if you could take the time to participate in the survey. The survey should take about 45 minutes. Please be assured that this is an authentic email.

Please click on the link below to begin the survey.
${l://SurveyLink?d=Take the Survey}

Or copy and paste the URL below into your internet browser:
${l://SurveyURL}

Follow the link to opt out of future emails:
${l://OptOutLink?d=Click here to unsubscribe}

If you have any questions or would like a summary of the findings, please feel free to email me at bnksn@leeds.ac.uk. Thank you very much in advance.

I look forward to your participation. Stay safe!

Kind Regards,
Karishma Nagre
PhD Student
International Business Division
Leeds University Business School
University of Leeds, UK
LS2 9JT
Email: bnksn@leeds.ac.uk

Appendix H – Subsequent Email Reminders for Survey

Dear Participant,

Hope you and your business are doing well amidst the pandemic.

This email is a gentle request to please complete a survey for my PhD research project that is being conducted at the University of Leeds, UK. Please be assured that this is an authentic email.

Your views will be useful to better understand the challenges your business faces in India and in foreign markets.

If you have already completed this survey, a big thank you for your time and consideration towards my research. Please ignore this email if you have already completed the questionnaire.

If you have not previously completed the survey, this is a humble request to please share your views by filling out the survey.

Please click on the link below to begin the survey.
${l://SurveyLink?d=Take the Survey}

Or copy and paste the URL below into your internet browser:
${l://SurveyURL}

Please follow this link if you do not want to receive future emails:
${l://OptOutLink?d=Click here to unsubscribe}

If you have any questions about my research or would like a summary of the findings, please feel free to email me at bnksn@leeds.ac.uk.

Thanks a million in advance for your time.

I look forward to your participation in the survey. Please stay safe!

Kind Regards,
Karishma Nagre
PhD Student
International Business Division
Leeds University Business School
University of Leeds, UK
LS2 9JT
Email: bnksn@leeds.ac.uk

Appendix I – Factor Analysis

Foreign market knowledge: Customers and competitors' knowledge

Cumulative variance explained by the retained factors: 75.4%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.754
Bartlett's Test of Sphericity	Approx. Chi-Square	173.681
	df	15
	Sig.	0.000

Rotated Component Matrix[a]

	Component	
	Customers	Competitors
Competitors	0.155	**0.834**
Competitive strategies employed by other firms	0.191	**0.849**
Customer demographics and segments	**0.791**	0.146
Customer needs and preferences	**0.935**	0.120
Trends in customers' needs and preferences	**0.860**	0.183
Identifying potential new customers	**0.813**	0.276

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 3 iterations.

Foreign market knowledge: Normative and regulatory environment

Cumulative variance explained by the retained factor: 73.7%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.799
Bartlett's Test of Sphericity	Approx. Chi-Square	205.121
	df	21
	Sig.	0.000

Rotated Component Matrix[a]

	Component	
	Regulatory environment	Normative environment
Values and norms	0.205	**0.831**
Business practices	0.164	**0.893**
Impact of cultural differences on business	0.245	**0.777**
Legal systems	**0.812**	0.073
Paperwork/documentation	**0.724**	0.481
Risks associated with doing business	**0.814**	0.214
Government rules and regulations	**0.861**	0.269

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 3 iterations.

Foreign market knowledge: Channels of distribution

Cumulative variance explained by the retained factor: 80.2%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.815
Bartlett's Test of Sphericity	Approx. Chi-Square	173.003
	df	6
	Sig.	0.000

Component Matrix[a]

	Channels of distribution
Available distribution channels	0.930
Appropriateness of existing distribution channels to your firm	0.902
Quality of existing distribution channels	0.942
Logistical requirements	0.802

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Technological capabilities

Cumulative variance explained by the retained factor: 56.2%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.736
Bartlett's Test of Sphericity	Approx. Chi-Square	76.921
	df	10
	Sig.	0.000

Component Matrix[a]

	Channels of distribution
Better than our competitors.	0.696
Our competitive advantage.	0.732
The result of our heavy investment in research and development (R&D).	0.804
Designed using complex and specialized assets	0.799
Tech cap foreign Protected by patents, copyrights and/or trade secrecy.	0.713

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Distributors' capabilities
Cumulative variance explained by the retained factor: 68.1%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.721
Bartlett's Test of Sphericity	Approx. Chi-Square	57.555
	df	6
	Sig.	0.000

Component Matrix[a]

	Distributors' capabilities
Setting prices	0.899
Selling	0.898
Collecting market information	0.802
Arranging international shipping	0.685

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Personal networks
Cumulative variance explained by the retained factor: 62.5%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.752
Bartlett's Test of Sphericity	Approx. Chi-Square	73.501
	df	6
	Sig.	0.000

Component Matrix[a]

	Personal networks
Family, relatives, and/or personal friends of decision-makers	0.806
Past work colleagues and/or business contacts of decision-makers	0.847
Past and/or current business associates of company	0.834
Family, relatives and friends of company staff	0.664

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

External networks
Cumulative variance explained by the retained factor: 54.4%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.782
Bartlett's Test of Sphericity	Approx. Chi-Square	102.872
	df	15
	Sig.	0.000

Component Matrix[a]

	Personal networks
Trade fairs	0.751
Industry associations	0.746
Ethnic and/or diaspora communities (e.g., Indian communities)	0.778
Government	0.613
Academic/research institutes	0.717
Professional institutes	0.805

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Foreign institutional support
Cumulative variance explained by the retained factor: 71.9%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.780
Bartlett's Test of Sphericity	Approx. Chi-Square	134.588
	df	6
	Sig.	0.000

Component Matrix[a]

	Foreign institutional support
Implemented the policies and programs that have been beneficial to our business operations.	0.735
Provided information on applicable technologies or services.	0.904
Provided important market-related information.	0.899
Assisted us to obtain trading licenses (e.g., for export/manufacturing/services, import/export of raw materials or equipment).	0.844

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Liability of foreignness

Cumulative variance explained by the retained factors: 62.1%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.805
Bartlett's Test of Sphericity	Approx. Chi-Square	255.973
	df	28
	Sig.	0.000

Rotated Component Matrix[a]

	Institutional LOF	Unfamiliarity LOF
Higher costs for gathering location-specific information or knowledge.	0.248	**0.797**
Higher costs to build reputation and goodwill.	0.079	**0.883**
Different rules (e.g., laws, procedures).	**0.687**	0.151
Higher costs due to corruption.	**0.739**	0.047
Costs due to different views in the society (e.g., values, beliefs, norms, culture).	**0.680**	0.352
Higher costs due to the Indian government's restrictions related to international business (e.g., limitations on sales to certain countries).	**0.723**	0.026
Unfavourable or biased treatment by local governments.	**0.733**	0.393
Unfavourable or biased treatment by local consumers.	**0.714**	0.370

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 3 iterations.

International performance - combined up to the present' (for the younger firms) and 'the most recent five years' (for the older firms)

Cumulative variance explained by the retained factor: 82.1%

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.880
Bartlett's Test of Sphericity	Approx. Chi-Square	289.594
	df	10
	Sig.	0.000

Component Matrix[a]

	International performance
International sales	0.872
International sales growth	0.907
International profit to sales ratio	0.951
International return on investment (ROI)	0.908
International net profit	0.892

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

- THE END -