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Home country institutional impediments and international expansion of developing country SMEs

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Abstract

Though institutional contexts are critical drivers of firms' international expansion, very limited research efforts have focused on how and when these factors facilitate developing country firms' outward market activities. This study derives insights from the institution-based view and activity theory to test how perceived environmental uncertainty mediates the link between institutional impediments and international expansion. Using data from small and medium-sized firms from Ghana (N=222) and Ethiopia (N=203), the findings suggest that high levels of perceived regulatory and cognitive impediments amplify the mediation effect of perceived environmental uncertainty on the degree of SME's international expansion. Additionally, the findings suggest that, when political connections are well-developed and deployed, the potency of perceived environmental uncertainty as a driver of international expansion is attenuated. Moreover, the study finds that varying levels of home-country industry competition moderate the relationship between perceived environmental uncertainty and the degree of international expansion. Implications relating to theory and practice are discussed.

Keywords: *Institutional impediments; perceived uncertainty; degree of international expansion; SMEs; Africa; Ghana; Ethiopia.*

1. Introduction

The critical roles of home countries' macro environments and institutional contexts in driving firms' outward foreign market operations have, arguably, received adequate attention in the international business literature (Boisot & Meyer, 2008; Estrin, et al., 2016; Gammeltoft, Barnard & Madhok 2010; Krammer et al., 2018; Luiz et al., 2017; Mainela et al., 2018; Shirokova, & Tsukanova, 2013; Witt & Lewin, 2007). The consensus is that national institutional environments exert a powerful influence on how firms develop and expand into international markets (Gammeltoft et al., 2010; Townsend & Hart, 2008).

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However, despite the acknowledged influence of home-country institutional impediments on firms' internationalization process (Estrin, et al., 2016; Gammeltoft, Barnard & Madhok 2010; Krammer et al., 2018; Luiz et al., 2017), the international business literature exhibits some research gaps. First, even though the identification and subsequent pursuit of international opportunities are significantly influenced by the collective activities and beliefs of the local environmental context, most past studies have tended to investigate the drivers of international entrepreneurship from the perspective of the firm and individual characteristics (Mainela et al., 2018). As a result, the extant literature has not adequately addressed the underlying mechanisms through which home countries' institutional impediments influence the degree to which firms internationalize. This is an important gap since SMEs' internationalization is a complex behaviour that derives from individual entrepreneur characteristics and firm factors as well as the collective influences of the local institutional environment. For example, factors such as firms' technological competence and innovativeness (Auffray, & Fu, 2015; Sanna-Randaccio & Veugelers, 2007), social networks and collective history (Mainela et al., 2018), political connections (Acquaah, 2007), and levels of home country market competition (Li, Poppo & Zhou, 2008), have been identified as important determinants of firms' outward international activities. Therefore, research that focuses on elucidating the specific ways in which the nature of developing economies' environments and institutional context affect firms' international behaviour, is a legitimate agenda for international business scholars. This is because the implications of domestic environmental vulnerabilities are particularly salient for firms operating in lesser-developed and unstable institutional environments (Bruton, Ketchen & Ireland, 2013) since such environments have a significant impact on their survival, profitability, and strategic directions.

Second, this research is relevant because the literature shows that the home country's contextual idiosyncrasies tend to create doubts about potential outcomes of firms' entrepreneurial activities (Luiz et al., 2017; McMullen & Shepherd, 2006; Milliken, 1987).

However, despite the foregoing observation, the boundary conditions of the institutional environment-firm internationalization relationship have not been well-examined. Accordingly, this paper seeks to narrow this gap by testing how a core aspect of social capital – political connections – moderates the effect of perceived environmental uncertainty and international expansion. In particular, we derive insights from institutional theory (North, 1990, 1995) and activity theory (Engeström, 2014; Mainela et al., 2018) to examine critical environmental variables that can influence entrepreneurs and their firms to identify and exploit international opportunities. Arguably, political connection is an important phenomenon in international business since non-market factors significantly impact SMEs' strategic behaviour in developing economies (Acquaah, 2007; Guo et al., 2014; Zhang et al., 2015; Zhu et al., 2017). In particular, political connections may have a more pronounced role in the international venturing of SMEs in developing economies because these markets tend to have weaker regulatory institutions.

Third, the extent of domestic market competition is considered an important situational moderating factor. Empirical insights indicate that the economies of many sub-Saharan African countries have become keenly competitive. This follows on from the liberalization of these economies (UNCTAD, 1997), and the subsequent entry of Western multinational firms. Consequently, these changes have fostered greater domestic market competition in many developing countries (Yiu, Lau, & Bruton, 2007), thereby increasing the cost of doing business in the home countries. Therefore, we consider the inclusion of domestic market competition as a critical variable in the modelling of the internationalization behaviour of developing economies' SMEs. This is because it will help in examining the extent to which varying degrees of local market competition amplify or reduce the perceived uncertainty-international expansion linkage for developing economy SMEs.

This paper seeks to contribute to the international business literature in three ways. First, we extend the literature on the effects of institutional impediments on SMEs'

internationalization behaviour in developing economies (Adomako et al., 2017; De Clercq, Danis & Dakhli, 2010; Jonsson & Lindbergh, 2010; Boisot & Meyer, 2008; Witt & Lewin, 2007), by showing how specific dimensions of home-country institutional environments impact on the level of perceived uncertainty in the local market. This is deemed a worthy research agenda because, despite the enormous amount of research that has focused on the role of institutions in firm strategic performance in developing economies (Peng, 2002; Peng, Sun, Pinkham & Chen, 2009), very limited attention has been given to examining how specific institutional impediments minimize or heighten the perceived environmental uncertainty that confronts entrepreneurial managers in devising strategies regarding international market activities.

Second, the paper explores the mediating mechanisms of the link between institutional impediments and the degree of internationalization. This was achieved by drawing insights from institutional (North, 1990, 1995) and activity theories (Engeström, 2014; Mainela et al., 2018) to examine the effects of varying levels of home countries' environmental uncertainty (unaccounted for and unanticipated changes in the market) that arise as a result of institutional impediments on local firms' extent of internationalization. In this way, this study advances the institution-based view (Peng, 2002; Peng et al., 2009) and the internationalization literature (Ribau, Moreira & Raposo, 2018; Zhao, Tan, Papanastassiou, & Harzing, 2019). Such a nuanced analysis is warranted because it sheds light on how managers may address unanticipated changes in their domestic milieu to enhance their internationalization drive.

Third, the paper seeks to advance the existing international business literature (Laufs et al., 2016; Mainela et al., 2018; Maitland & Sammartino, 2015) by examining some contingencies under which the proposed predictors of internationalization may be more effective or otherwise. We attempted to achieve this by testing the moderating effects of two important situational variables – levels of home-country competition and political connections – on the linkage between perceived environmental uncertainty and firms' degree of

internationalization. We consider this moderation design an important contribution due to the lack of clarity regarding the boundary conditions of the home-country uncertainty-firms' internationalization nexus. The moderation analyses contribute to the international management literature (Herrmann & Datta, 2006; Laufs et al., 2016; Maitland & Sammartino, 2015) by drawing insights from the institutional and activity theories to examine relevant external and internal firm conditions that affect the relation between perceived home market uncertainty and SMEs' internationalization. Thus, through this modelling, we offer more insights towards a deeper understanding of how firm-level conditions (e.g., political connections) and external market conditions may reduce or increase the effect of home country's uncertainty on firms' degree of internationalization.

2. Theoretical Background and Hypotheses Development

2.1 Country institutional impediments

The literature on international business is almost settled on the view that firms confront country-specific institutional impediments (Krammer et al., 2018; Witt & Lewin, 2007; Busenitz, Gomez & Spencer, 2000; Kostova, 1997) in efforts to expand into international markets. Institutions are defined as “the rules of the game in a society or humanly devised constraints that shape human interaction” (North, 1990, p. 3), encompassing both formal and informal organizations (North, 1990; Scott, 1995). The institutional theory (North, 1992, 2005; Peng, 2010) indicates that the nature and dynamism of a country's formal institutional environment affect its economic activities and these institutions reflect “rules of the game” (North, 1990, p.3). Relatedly, institutional impediments are generally taken to mean the obstacles stemming from the institutional environment that can curtail firms' international and domestic activities (De Clercq, Danis, & Dakhli, 2010). Thus, institutions determine the rules, constraints, rewards, and incentives of socio-economic behaviours of various players in an economy. The foregoing institution-based view offers a useful spectacle through which to analyze the effects of formal and informal constraints on firms' strategies and their abilities to

capitalize on market opportunities (Adomako et al., 2019; Peng et al., 2009; Peng, Wang, & Jiang, 2008).

Instructively, institutions in Africa serve as the key characteristics that distinguish the continent from other continents and nations (Amankwah-Amoah, Boso & Debrah, 2018). Generally, the view is that sub-Saharan countries, compared to the developed North and even parts of Asian economies, have very weak institutions. Ostensibly, this weak notion of the region is credible because many economies in the sub-Saharan region are characterized by a host of uncertainties, which often emanate from their fragile political and governance systems.

Based on Scott's (1995) three conceptually distinct dimensions of the institutional environment (regulatory, cognitive, and normative), Busenitz, Gomez & Spencer (2000) developed and tested countries' institutional profiles (CIPs). The author concluded that three dimensions reflect how supportive the macro environment of a country is towards entrepreneurship. In other words, each of the three factors in a country's institutional profile represents a distinct dimension of the general efforts towards the institutionalization of entrepreneurialism in an economy. The next section explains these broad aspects of a country's institutional profile.

First, the regulatory dimension is made up of the legal system, business regulations, and governmental policies that have been put in place to support entrepreneurs' commercial activities (Busenitz et al., 2000). Favourable policies and initiatives can give entrepreneurs rights of protection for their property and investments, and competitive advantages. Conversely, overly bureaucratic licensing requirements, high cost of legal settlements, and a lack of protection for property rights can create regulatory challenges for firms (Abor & Quartey, 2010). Second, the cognitive dimension of CIP reflects the aptitudes and knowledge individuals have in a country that relate to starting and running a business (Busenitz et al., 2000). Third, the normative dimension refers to the extent to which the people of a country hold an entrepreneurial activity in high regard and place value on the innovation and the wealth

it stimulates (Busenitz et al., 2000). Collectively, a country's institutional profile represents the situational mechanisms in which firms are embedded to influence entrepreneurs' opportunities and goals.

In the context of international business, regulatory impediments in the domestic market might comprise the tax burden (Estrin et al., 2006), and the presence of unfavourable government policies that can hamper business development (Reynolds et al., 2005). For example, in developing economies, a limited government budget may call for tax increases, which can lead to challenging and uncertain environments for businesses (Danis & Shipilov, 2002). Thus, an inefficient tax system in these economies represents a significant constraint, which may contribute to perceptions of environmental uncertainty (doubt) in the minds of business leaders.

Second, the cognitive dimension refers to the extent to which knowledge concerning starting a business is available. Usually, developing economies are characterized by high variation in knowledge availability relating to starting and growing businesses (Manolova et al., 2008). Consequently, business leaders in developing economies are often confronted with the difficulty of obtaining reliable information, which is necessary to exploit new business opportunities (Spencer & Gomez, 2004). This limitation of knowledge about business start-ups in developing economies can contribute to uncertainty in the minds of individual business leaders and thereby obstruct or retard entrepreneurial activities.

Third, and finally, normative impediment reflects "values, beliefs, norms, and assumptions about human behaviour held by the individuals in a given country" (Kostova & Roth, 2002, p. 217). Generally normative impediments dwell on a social obligation to shape and constrain human interactions (Scott, 2001). Even though the institutional theory offers a palpable perspective to explain the internal domestic factors that drive firms' strategic behaviours, such as their international operations, it fails to account for an important variable that links CIP to how firms ultimately engage in international activities. For example, according

to the activity theorists (Engeström, 2014; Mainela et al., 2018), the collective beliefs of society about the local environment are critical determinants of how firms/entrepreneurs identify and pursue international activities (opportunities). According to these scholars, international entrepreneurship is a systematic process whereby the group beliefs of a society, which emanate from its history and institutional contexts, help shape the pursuit of international opportunities. Drawing from this logic, it can be extended that how entrepreneurial managers perceive the impediments in their local environments can incentivize them to seek or demotivate them from seeking international opportunities. Therefore, we conceptualize that the beliefs or perceptions about the nature of environmental uncertainty in the home market can mediate the link between the home country's institutional profile and firms' internationalization. This view provides a theoretically plausible lens to further explore the intricate mechanism through which a country's institutional profile ultimately affects firms' internationalization behaviours. The foregoing viewpoints and insights from the institutional and activity theories informed the conceptual model for this study (Figure 1 below).

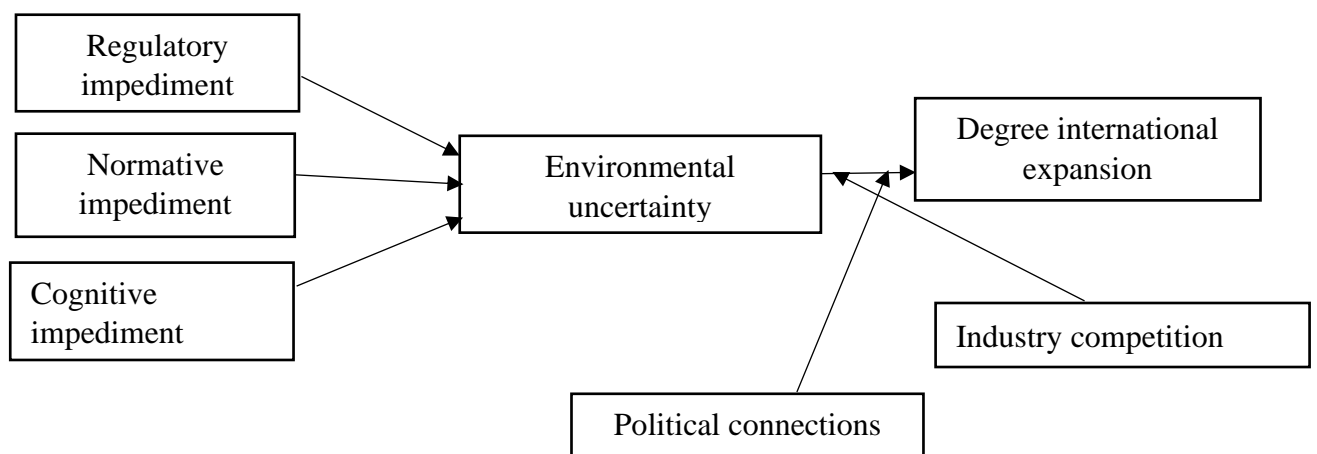


Figure 1. The conceptual model of the study

2.2 Institutional impediments and environmental uncertainty

Developing economies are generally seen as having weak institutions and rife with environmental uncertainty. Yet, few studies have investigated the institutional factors that

influence the perceptions of uncertainty (Townend & Hart, 2008), and particularly how this interaction impacts internationalization decisions. We consider this gap as a serious disconnect between the theory of and the application of SME internationalization. This is because entrepreneurs represent the economic actors who aim at conquering uncertainty (Kirzner, 1992), and their strategic decisions and actions are the primary mechanism by which uncertainty is thwarted in an economy. Moreover, even though some scholars (Mainela et al., 2018) argue that the international venturing activities of entrepreneurs are significantly impacted by social perceptions about the local business context, there is limited understanding with regard to how countries' institutional contexts combine with uncertainty to drive firms' internationalization. Consequently, research that sheds light on potential factors that interrelate with uncertainty to enhance entrepreneurs' ability to push their firms' outward expansion should be encouraged.

Milliken (1987) suggests that three types of uncertainty exist: *state* (environmental uncertainty), *effect* (shock/change uncertainty), and *response* (consequence uncertainty). Our investigation accounts for the environmental uncertainty which faces individuals who lead their firms, and how it affects their strategic decisions (McMullen & Shepherd, 2006). Based on Milliken's (1987) conceptualization, this study defines environmental uncertainty as the perceived inability to understand the direction in which an environment might be changing, the potential impact of such changes on a firm, and whether responses to the ambiguity might be successful.

We contend that institutional impediments create uncertainties in the minds of individuals who are tasked with making strategic decisions for their organizations. In contrast, it has been noted that well-established institutions provide frameworks for support and consistency (Busenitz et al., 2000), which help to reduce such uncertainties. According to McMullen & Shepherd (2006, p. 133), "uncertainty takes the form of doubt, which prevents action by undermining the prospective actor's beliefs regarding: (1) whether an

environmental stimulus presents an opportunity for someone in the marketplace, (2) whether this opportunity could feasibly be enacted by the actor, and (3) whether successful exploitation of the opportunity would adequately fulfil some personal desire”.

With regard to the role of normative dimensions in firms’ international activities, previous studies emphasize how historical antecedents (which shape normative values and beliefs) may influence an individual’s attitude towards business opportunities (Maniela et al., 2018; Ireland et al., 2008). Instructively, developing economies are characterized by higher normative impediments as business formation activities are perceived as negative (Bruton et al., 2008). For example, in Ghana, following a violent military uprising in 1979, aimed at cleansing the society of corruption in the public and business arenas (Oquaye, 1980), many of the rich entrepreneurial class went underground or migrated outside the country for fear of persecution. Even though the return to democratic governance in 1992 has led to increased entrepreneurial activities, the influence of the government and managerial political networks, arguably, still exert a dominant influence in entrepreneurial activities. Consequently, it is reasonable to expect that the normative beliefs that entrepreneurs hold about the past and present history of their society can affect perceptions of uncertainty in the home market.

Apart from the normative impediment, some scholars have observed that many business activities in developing economies are developed in the extra-legal sector (de Soto, 1989). This culture of extra-legal dealings tends to create uncertainty in investors’ minds, as new business opportunities are often considered ‘shady’ activities (Danis & Shipilov, 2002). Generally, business leaders can quantify and minimize the level of uncertainty, in part, through their knowledge of, and belief in, institutions that support entrepreneurial ventures. Consequently, based on the insights about the relationship between countries’ institutional profile dimensions and how these affect entrepreneurial perceptions and beliefs, we expect that countries that are characterized by high institutional impediments will be

associated with uncertainty. Thus, we hypothesize that:

H1a: SMEs' perceived regulatory institutional impediment is positively related to their perceived environmental uncertainty.

H1b: SMEs' perceived cognitive institutional impediment is positively related to their perceived environmental uncertainty.

H1c: SMEs' perceived normative institutional impediment is positively related to their perceived environmental uncertainty.

2.3 Environmental uncertainty and international expansion

Arguably, the link between environmental uncertainty and international expansion has received some attention in the literature. One prevailing view is that the home country's environmental context offers an array of opportunities and threats to businesses (Krammer et al., 2018; Luiz et al., 2017; Witt & Lewin, 2007), which are determined by the credibility and effectiveness of bureaucratic infrastructure (Wan & Hoskisson, 2003). In addition, North (1990) suggests that, as firms tend to capture profitable opportunities associated with the prevailing opportunity set, their international expansion strategies are likely to be influenced by the home country's market contexts or industrial circumstances (Maneila et al., 2018).

One of the often-discussed home-country contextual factors is uncertainty (Luiz et al., 2017; Kirzner, 1992; McMullen & Shepherd, 2006; Milliken, 1987). The reasoning is that uncertainty in the domestic market creates doubts about potential outcomes, and thereby stifles entrepreneurial action in the home country (Knight, 1921; Schumpeter, 1934). Consequently, individuals who are unsure of the potential rewards in the home country will forgo these and rather pursue the prospects that foreign markets could entail (McMullen & Shepherd, 2006). Thus, uncertainty or lack of knowledge prompts entrepreneurs to look for opportunities where at least some knowledge of the potential opportunity domain is known (Milliken, 1987). Some scholars have noted that environments that are characterized by government support can help firms overcome or offset some of the adverse effects of institutional infrastructure deficiencies (Li & Atuahene-Gima, 2001). This observation seems logical because the beliefs which entrepreneurs hold about their country's environment shape attitudes towards identification and pursuit of opportunities in international markets (Engeström, 2014; Mainela et al., 2018).

According to a systemic view of activity theory, opportunities are objects that give meaning and direction to how entrepreneurs pursue international opportunities. Thus, in embarking on international activities, “communities are oriented based on the collective beliefs about things that are favourable for the achievement of valuable ends” (Mainela et al., 2018, p. 537). In other words, entrepreneurs are motivated to pursue market opportunities in foreign markets depending on how they perceive their chances of success or failure. For example, where managers perceive high uncertainty or risks with investment activities in the local market relative to what pertains to foreign markets, it is reasonable to expect that they will venture into international territories. Accordingly, we expect that uncertainty in developing economies will detract firms from entrepreneurial actions in the home country but spur cross-border activities. Therefore, we suggest that:

H2: The extent of home-country environmental uncertainty is positively related to the degree of international expansion.

H3: Perceived home-country environmental uncertainty mediates the positive, indirect relationship between perceived regulatory (H3a), cognitive (H3b), and normative (H3c) institutional support and international expansion of developing economy SMEs.

2.4 Home country political connections as moderator of the uncertainty–international expansion relationship

Political connections (PCs) relate to networking relationships established with governments, bureaucrats, regulatory officials (Acquaah, 2007). Mostly, managers in developing economies develop networking ties with government officials such as politicians and officers in regulatory and industrial institutions. Also, research indicates that networking relationships with government officials can facilitate business activity in challenging environmental contexts (Peng & Shekshnia, 2001; Guo et al., 2014; Zhang et al., 2015; Zhu et al., 2017). As such, political connections may help business owners/CEOs to overcome environmental uncertainty by providing them with opportunities to navigate such challenges.

The opportunities that political connection may bestow on business managers in developing countries include government projects and contracts, financial resources, certification and approval of products, and information on new products pending authorization. For example, in Ghana, politicians have control over financial institutions, access to government contracts, and regulatory procedures related to licensing. Networking relationships with politicians can help attenuate the uncertainty in doing business in Ghana because government officials can offer SME managers easy access to finance and opportunities in terms of contracts and regulatory approvals (Acquah, 2007). Given that the enforcement capacity of formal institutions is weak, coupled with the existence of a greater underdeveloped market mechanism for fostering economic exchanges in developing economies, there is greater uncertainty about business activities in these economies. Consequently, high levels of uncertainty are likely to be reduced and be overcome through managerial action (McMullen & Shepherd, 2006) via political networks. Accordingly, we expect the relationship between uncertainty and the degree of international expansion in developing economies to be less positive when a firm's home-country political connections are greater. Thus, we suggest that:

H4a: SMEs' home-country political connections moderate the relationship between perceived environmental uncertainty and the extent of their international expansion such that the relationship is less positive.

2.5 Home-country industry competition as moderator of the uncertainty – international expansion relationship

Many developing economies have adopted economic liberalization policies that focus on outward-looking export substitution (UNCTAD, 1997). These policies have generally softened these economies' attitudes towards restrictions on inward foreign direct investment (Yiu, Lau, & Bruton, 2007). The adoption of inward foreign direct investment policies has opened these markets for large multinational companies to access the generic location advantages in developing economies. The resultant effect of this approach is intense competition in the home countries of these economies, which often creates uncertainty (Li, Poppo, & Zhou, 2008). For

example, one can argue that increasing home country competition increases the cost of doing business in the home country. Increasing domestic market competition may mean local SMEs may have to compete with their competitors, including some Western multinationals, on price, which may erode their profit margins. Alternatively, they may have to invest more in innovation and find ways to stay ahead of the competition, which may not always be possible. As Boisot and Meyer (2008) point out, once the costs of overcoming domestic barriers exceed the costs of crossing international barriers, firms are likely to internationalize. Other studies (Child & Rodrigues, 2005; Li, Poppo, & Zhou, 2008) also show how home country competition may lead to internationalization. For example, Li, Poppo and Zhou (2008) argue that, when competition increases in the local market, it negates some of the special advantages, such as managerial ties, that local firms may enjoy. Thus, home industry competition can make SMEs seek market opportunities overseas to avoid uncertainties due to competitive intensity in their home markets. Furthermore, when SMEs internationalize, they can accumulate knowledge about their strategic requirements. Thus, the stronger the home country competition, the more SMEs learn about their strategic pitfalls, and this helps them to seek solutions to mitigate how to fill those needs in international markets. Thus, home-country competition can spur uncertainty in the local market, which can propel firms to seek foreign opportunities. Therefore, it can be contended that the extent of local industry competition moderates the relationship between home-country environmental uncertainty and international expansion. Thus, we suggest that:

H4b: SMEs' home-country industry competition positively moderates the relationship between their perceived environmental uncertainty and the extent of their international expansion such that the relationship is more positive.

3. Research Method

3.1 Study settings and data collection procedure

The data used in this study were obtained from firms operating in the manufacturing industry in Ghana and Ethiopia. The two countries were purposely selected for several reasons. First,

both countries are considered low middle-income countries with similar economic conditions (World Bank, 2019) following political and economic reforms. For example, both countries have championed contemporary reforms in terms of deregulation, privatization, and liberalization to ease cultural, regulatory, and political constraints. Consequently, these reforms have helped to cultivate an atmosphere for the development and internationalization of new ventures (World Bank, 2019). Moreover, a major factor for Ghana's inclusion concerns her leading role as a pioneering democracy since 1992, following a post-colonial history (Amankwah-Amoah & Debrah, 2010). Second, Ethiopia and Ghana are two of the most prominent countries in sub-Saharan Africa in terms of economic growth. According to a recent World Bank Country report (2019), the growth rate for Ethiopia and Ghana is about 10% and 8% respectively. By and large, these growth rates are underpinned by SME businesses. In addition, the exports of goods and services contribute a substantial amount of the GDP of the two countries, accounting for 40.3% and 44.6% for Ghana and Ethiopia respectively (World Bank, 2018). Third and finally, considering the significance of SMEs in the economic growth of these two countries, it would be appropriate and interesting to see how the SMEs' internationalization and home country impediment link might be affected by relevant exogenous (level competition) and endogenous (political connections) factors.

The Ghanaian study. The sampling frame for the Ghana study was developed by following previous studies in international business (Adomako, Opoku & Frimpong, 2017; De Clercq, Sapienza & Zhou, 2014). First, the participating firms have been involved in cross-border activities (e.g., exporting, joint venture, and greenfield) since their incorporation. Second, the firms have engaged in cross-border activities within five years of their inception. Third, the selected firms had no affiliation with any other company group. Finally, the firms are manufacturers of physical products. Based on these criteria, 1,150 SMEs were randomly selected from a database containing 46,250 SMEs held by the Ghana Revenue Authority. The

Ghana Statistical Service defines SMEs as companies with 250 or fewer employees (Ghana Statistical Service, 1999).

We collected data in two waves. In wave one, all the chief executive officers (CEOs) of the 1,150 firms were contacted with a questionnaire by trained field research assistants to gather information on institutional impediments, competitive intensity, environmental uncertainty, and political connections. Informant competency was assessed by asking them to report on a 7-point Likert scale (1= 'strongly disagree' and 7= 'strongly agree') on (1) their knowledge of the issues which were under examination; (2) accuracy of the information provided; and (3) confidence in the answers to the questions (Morgan, Kaleka & Katsikeas, 2004). We received 261 responses, representing a 22.69% response rate. The results from the competency analyses revealed a mean score of 4.97 (SD=0.51) for knowledge of issues; 4.63 (SD=0.56) for accuracy of responses; and 4.21 (SD=0.59) for confidence in the answers. These outcomes show that the selected CEOs were competent in providing answers to the questions.

We contacted the finance managers of the 261 firms to capture the internationalization measures (T2). The follow-up survey with the finance managers was conducted because cross-sectional studies are often a source of common method bias (Chang, Witteloostuijn & Eden, 2010). Accordingly, a hand-delivered questionnaire was administered a year after the first survey, and 236 finance managers provided complete responses to the time-lagged internationalization questions. After discounting for missing values, 222 matched questionnaires (19.30% response rate) were used for the analyses. On average, the firms had operated for 37 years since their inception; and employ 50 full-time employees. Moreover, the average age of the CEOs who responded to the survey, was 48 years.

The Ethiopian study. The data used for the Ethiopian study were derived from the manufacturing sector. The sampling frame was developed from the Ethiopian Revenues and Customs Authority database. This database contains up-to-date information on all companies which pay tax to the Ethiopian government. The database contained 38,580 manufacturing

SMEs. The same procedures as used in the Ghana study were adopted to collect the data in two waves. In the first wave (T₁), a sample of 800 active SMEs was approached with questionnaires by a trained field research assistant to collect data on institutional impediments, environmental uncertainty, political connections, and domestic country competition. CEOs/entrepreneurs provided answers to these questions. After several visits to the CEOs/entrepreneurs, 233 useable responses were received. In T₂, we collected data from finance managers to capture the dependent variable (degree of internationalization). Two hundred and twenty (220) complete responses were received. After discounting for missing values, we obtained 203 complete responses (25.37% response rate) for the analyses. Our final sample contains firms with a mean age of 43.03 (s.d. = 67.50) years, a mean size of 54.86 (s.d. = 125.05) full-time employees, and a mean CEO age of 41.34 (s.d. = 7.65) years.

3.2 Measures

Table 1 presents details of the measures, validity, and reliability assessment. All items were measured on a 7-point Likert scale with anchors ranging from 1=strongly disagree to 7=strongly agree.

Perceived institutional impediments. In both studies, we adopted the three-dimensional country institutional profile scale (Busenitz, Gomez & Spencer, 2000) to measure perceived institutional impediments. The original items measuring the three dimensions of institutional impediments are worded such that higher values indicate a lower regulatory impediment (De Clercq, Danis & Dakhli, 2010; Reynolds et al., 2005). Accordingly, we reverse coded the responses to reflect regulatory, cognitive, and normative impediments. *Perceived regulatory impediment* was measured with five items. Four separate items were used to capture both *perceived cognitive impediment* and *perceived normative impediment*.

Perceived home-country environmental uncertainty. We adopted three items from Waldman, et al., (2001) to measure environmental uncertainty.

Home industry competition. The items measuring home-country industry competition were taken from Yiu, Lau and Bruton (2007). CEOs/entrepreneurs were asked to evaluate the extent of industry competition in the domestic market in the previous year.

Home-country political connections. We measured political connections with three items derived from previous studies (Acquaah, 2007; Yiu, Lau & Bruton, 2007). This scale measures network relationships with government officials and politicians.

Degree of international expansion. The degree of internationalization was conceptualized as the extent of a firm's activities beyond the borders of the domestic marketplace (Hitt et al., 1994). Using the scale developed by Zahra et al. (2000), a firm's degree of international expansion was measured with four items that assessed firms' degree of internationalization in the past three years. The international business literature has found this scale to be robust in measuring the intensity of a firm's international venturing activities (Yiu, Lau & Bruton, 2007).

Control variables. We controlled for six variables (family ownership, firm international experience, firm size, firm age, CEO age, and financial resources) which were considered as possible explanatory factors in both studies. For example, family ownership was included as a control variable because it can influence management strategic decisions relating to internationalization (Liu, Shi, Wilson & Wu, 2017; Lin & Shen, 2015). Family ownership was measured with a dummy variable by asking respondents to indicate whether the firm's founding member (s) hold a large portion of company shares or whether family members serve on the firm's board. This was coded 1=if family members are involved; otherwise=0. A firm's international experience was measured by using a log-transformation of the number of years a firm had operated in international markets. To measure firm size, the number of employees was used. Firm age was controlled for by using the firm's year of inception as a proxy. That is, firm age was measured as the number of years the firm has been in operation (George, 2005). CEOs' age was also controlled, as this might be an indicator of their decision-making

confidence (Oesterle, Elosge & Elosge, 2016). Finally, the availability of financial resources was controlled because the scarcity of this asset can constrain SMEs' foreign market commitment (Ripollés et al., 2012). Financial resource items were taken from existing literature (Cooper et al., 1994; Wiklund & Shepherd, 2005). CEOs were asked to indicate the extent to which their firms have enough financial resources to enter a foreign market along a 7-point Likert-like scale (1=very small extent; 7=very large extent).

4. Analyses

4.1 Potential biases, reliability and validity assessment

In both samples, a potential non-response bias was assessed by adopting the approach suggested by Armstrong and Overton (1977). Consequently, respondents and non-respondents based on firm size, firm age, and CEO age were assessed. The information on non-respondents were obtained from the databases in which the sampling frame was derived. Using Pearson's chi-square test for categorical variables (Greenwood & Nikulin, 1996), the results show that the two groups do not differ significantly in terms of family ownership, firm international experience, firm size, firm age, and CEO age. This suggests non-response bias does not have any influence on our data.

To evaluate potential common method variance in our data, the marker test (Lindell & Whitney, 2001) was conducted by choosing a variable that is not conceptually related to any of the constructs in the study as a marker variable. In both samples, "I enjoy finding solutions to complex problems", a variable considered as a measure of intrinsic interest in entrepreneurship, was used as a marker variable. The results from both samples show non-significant relationships, with correlations ranging from -0.01 to 0.05. This outcome suggests the data were not tainted by errors associated with the common method in data collection.

Furthermore, the approach suggested by Carson (2007) was followed to estimate a combined congeneric CFA measurement model for all the multi-item scales. As a result, a CFA model was estimated where all the multi-item scales, together with a common method factor, were modelled to load on all items. This approach was adopted to control for any variance and covariance introduced due to common method bias. Two competing CFA models were estimated. First, Model 1 was a trait model where each indicator loaded on its respective latent factor. The results indicate adequate fit of the model: $\chi^2/df = 1.29$; RMSEA = 0.05; NNFI = 0.95; and CFI = 0.97. Model 2 was a trait-method where a common factor links all the indicators. Results from the model also indicate good fit indices: $\chi^2/df = 1.34$; RMSEA = 0.04; NNFI = 0.96; and CFI = 0.97.

Similar results were obtained for the Ethiopian sample: $\chi^2/df = 3.28$; RMSEA = 0.06; NNFI = 0.93; and CFI = 0.92 (Model 1). Model 2 also received adequate fit for the data: $\chi^2/df = 3.99$; RMSEA = 0.05; NNFI = 0.94; and CFI = 0.95. The results from both samples indicate an adequate probability of accepting the fit of the measurement model. Additionally, when the two models were compared, the results showed that Model 2 is not materially superior to Model 1. Thus, based on triangulated analyses, it is reasonable to conclude that common method variance had no substantial influence on our results.

The LISREL 9.10 software package with the maximum likelihood estimation method was used to assess the psychometric properties of all the multi-item scales in CFA. Table 1 presents the list of items, their respective standardized factor loadings and t-values, and the results of reliability and validity tests. The results indicate the convergent validity of the measures, as the item loadings were positive and significant (Bagozzi & Yi, 2012). Furthermore, the Cronbach alpha and composite reliability scores demonstrated acceptance because they exceed the suggested threshold values of 0.70 and 0.60 respectively (Bagozzi & Yi, 2012). Also, the results of the CFA confirm the convergent validity of the scales as each factor loading was greater than the recommended cut-off value of 0.40 (Anderson & Gerbing, 1988). The results also show that the values for average variances extracted (AVE) exceeded 0.50 and were greater than the squared correlation between each pair of constructs (Bagozzi & Yi, 1988). The overall fit of the CFA measurement model was considered acceptable for the Ghanaian sample: $\chi^2/df = 1.77$; RMSEA = 0.04; NNFI = 0.97; CFI = 0.95; and SRMSR = 0.06. Similar results were obtained for the Ethiopian sample: $\chi^2/df = 1.96$; RMSEA = 0.05; NNFI = 0.98; CFI = 0.97; and SRMSR = 0.07. Therefore, these results confirm the robustness of the CFA models for both samples.

Table 1: Details of measures, validity, and reliability

Details of measures	Standardized Factor Loadings	Error Variances
	Ghana and Ethiopia	Ghana and Ethiopia
Regulatory impediment (Reverse coded): CR = 0.90; AVE =0.77; HSV =0.21		
Government organizations in this country assist individuals with starting their businesses	0.74 (1.00)	0.46 (12.78)
The government sets aside government contracts for new and small businesses	0.78 (15.55)	0.42 (13.42)
Local and national governments have special support available for individuals who want to start a new business	0.84 (17.09)	0.32 (11.78)
The government sponsors organizations that help new businesses develop	0.76 (13.70)	0.43 (12.77)
Even after failing in an earlier business, the government assists entrepreneurs in starting again	0.87 (15.52)	0.27 (8.60)
Cognitive impediment (Reverse coded): CR = 0.85; AVE = 0.58; HSV = 0.07		
Individuals know how to legally protect a new business	0.70 (1.00)	0.51 (14.01)
Those who start new businesses know how to deal with many risks.	0.76 (15.23)	0.44 (13.22)
Those who start new businesses know how to manage risk	0.84 (16.21)	0.27 (9.11)
Most people know where to find information about markets for their products.	0.76 (15.16)	0.38 (12.36)
Normative impediment (Reverse coded): CR = 0.95; AVE = 0.76; HSV = 0.32		
Turning new ideas into businesses is an admired career path in this country.	0.85 (1.00)	0.30 (13.03)
In this country, innovative and creative thinking is viewed as a route to success.	0.93 (29.27)	0.12 (8.82)
Entrepreneurs are admired in this country.	0.92 (29.04)	0.18 (10.62)
People in this country tend to greatly admire those who start their own business	0.87 (26.19)	0.23 (13.29)
Political connections: CR = 0.86; AVE = 0.56; HSV = 0.09		
Top managers in our firm have close ties with political leaders in various levels of the government	0.70 (1.00)	0.49 (13.10)
Top managers in our firm have close ties with officials in regulatory and supporting institutions	0.63 (13.60)	0.55 (14.02)
Top managers in our firm have close ties with individuals who sit on government committees related to this industry	0.93 (29.27)	0.12 (9.51)
Home industry competition: CR = 0.89; AVE =0.64; HSV = 0.05		
This industry is expanding at a rapid pace	0.69(1.00)	0.53 (13.22)
Competition is very fierce in the industry	0.82 (16.07)	0.33 (9.68)
The main competitive force in the industry is from multinational enterprises and international joint ventures	0.83 (15.50)	0.30 (9.23)
Perceived environmental uncertainty: CR = 0.87; AVE = 0.59; HSV = 0.14		
Our business environment is very dynamic, changing rapidly in technical, economic, and cultural dimensions	0.85(1.00)	0.30 (13.03)
Our business environment is very risky, one false step can mean the firm's undoing.	0.72 (15.70)	0.48 (13.27)
Our business environment is rapidly expanding through the expansion of old markets and the emergence of new ones	0.68 (13.87)	0.54 (14.02)
Financial resource availability: CR = 0.85; AVE =0.56; HSV = 0.08		
We are satisfied with the financial capital available for the business operations	0.71 (14.10)	0.50 (13.27)
Our company has easy access to financial capital to support its business operations	0.65 (13.27)	0.57 (14.16)
Our business operations are better financed than our key competitors' operations	0.84 (15.15)	0.34 (11.67)
If we need more financial assistance for our business operations, we could easily get it	0.91 (28.44)	0.18 (11.83)
International Expansion: CR = 0.87; AVE = 0.66; HSV = 0.08		
Entering new foreign markets	0.74 (1.00)	0.46 (13.20)
Expanding your international operations	0.77 (16.47)	0.40 (12.29)
Supporting start-up business activities dedicated to international operations	0.80 (17.09)	0.33 (10.90)
Financing start-up business activities dedicated to international operations	0.83(19.25)	0.36 (11.50)

t-values are in parentheses. AVE=average variance extracted; CR=construct reliability; HSV= highest shared variance with other constructs.

Table 2: Descriptive statistics and correlations

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Firm size (employees)		0.05	0.07	-0.04	0.11	0.16*	-0.11	-0.05	0.01	-0.11	0.19**	-0.09	0.17*
2.	Firm age (years)	0.07		-0.07	0.01	0.03	0.00	-0.10	-0.05	-0.09	-0.05	0.07	-0.11	0.05
3.	Family ownership	0.04	-0.03		0.00	0.02	0.11	-0.13	-0.10	-0.08	-0.05	0.16*	0.04	-0.04
4.	CEO age	-0.03	0.02	0.00		0.20**	0.09	-0.11	-0.06	-0.05	-0.08	0.26**	0.06	0.07
5.	Firm international experience	0.12	0.11	-0.12	0.22**		0.11	-0.15*	-0.09	-0.13	-0.05	0.13	0.04	0.19**
6.	Financial resource availability	0.18*	0.14	0.01	0.01	0.12		-0.16*	-0.08	-0.13	-0.12	0.26**	-0.08	0.29**
7.	Regulatory impediment	-0.09	-0.06	-0.01	-0.09	-0.03	-0.11		0.05	0.07	0.15	0.19**	0.05	0.10
8.	Cognitive impediment	-0.06	-0.04	-0.03	-0.11	-0.13	-0.07	0.01			0.14	0.14	0.13	0.05
9.	Normative impediment	-0.04	-0.11	-0.04	-0.07	-0.02	-0.10	0.05	0.05		0.03	0.08	0.05	0.13
10.	Perceived environmental uncertainty	-0.11	-0.02	-0.04	-0.08	-0.12	-0.05	0.13*	0.14	0.02		0.13	0.07	0.21**
11.	Political connections	0.15*	0.12	0.19**	0.23**	0.11	0.22**	0.18*	0.02	0.11	0.08		0.07	-0.18**
12.	Industry competition	-0.08	-0.08	0.01	0.01	-0.02	-0.05	0.07	0.03	0.12	0.03	0.06		0.23**
13.	International expansion	0.20**	0.02	-0.14	0.09*	0.28**	0.19**	0.11	0.22**	0.07	0.17*	-0.17*	0.19**	
Mean	Ghana	49.60	36.92	0.65	48.46	11.00	4.57	4.46	4.59	4.55	4.31	4.45	4.70	4.62
	Ethiopia	54.86	43.03	0.58	41.34	15.67	4.49	4.19	4.37	4.37	4.83	5.09	3.83	4.59
SD	Ghana	102.08	55.47	0.50	24.43	6.270	1.14	1.27	1.38	1.26	1.52	1.27	1.31	1.25
	Ethiopia	125.05	67.50	0.61	7.65	22.66	1.138	1.50	1.27	1.60	0.82	0.78	1.63	1.12

Correlations for the Ethiopian sample appear in the upper right half of the matrix and correlations for the Ghanaian sample appear in the lower-left half of the matrix.

SD = standard deviation

* $p < 0.05$; ** $p < 0.01$

4.2 Measurement invariance assessment across Ghana and Ethiopia

This study followed previous studies (Bollen, 1989; Steenkamp & Baumgartner, 1998) to evaluate the equivalence of measures across Ghana and Ethiopia. The results relating to configural, metric, and scalar tests are summarized in Table 3. The chi-square difference test and approximate fit heuristics were used to assess the fit of the models. For simplicity, this study only shows the procedures used for testing regulatory impediments (Table 3a) and chi-square difference tests (Table 3b). The results in Table 3b show that configural, metric, scalar, factor variance and error variance invariances exist for all items across the Ghanaian and Ethiopian samples. These outcomes indicate that the items were equally reliable across both samples. Therefore, it is safe to conclude that the measures were suitable for hypotheses testing (Steenkamp & Baumgartner, 1998).

Table 3: Establishment of measurement invariance

(a) An example of test procedure: "Perceived regulatory impediment" across Ghana and Ethiopia						
Models	χ^2	<i>df</i>	RMSEA	NNFI	CFI	CAIC
Configural invariance	3.43	2	0.03	0.95	0.98	172.43
Metric invariance	7.34	5	0.05	0.94	0.93	124.71
Scalar invariance	15.52	10	0.04	0.96	0.95	127.28
(b) Test results of all constructs across Ghana and Ethiopia						
$\Delta\chi^2$ Difference Tests						
Construct	Metric vs. configural	Scalar vs. Configural	Variance vs. Scalar	Factor variance		
Environmental uncertainty	$\Delta\chi^2(3) = 4.31, p = 0.29$	$\Delta\chi^2(6) = 5.42, p = 0.36$	$\Delta\chi^2(3) = 6.51, p = 0.07$	$\Delta\chi^2(3) = 2.44, p = 0.78$		
Political connections	$\Delta\chi^2(2) = 4.23, p = 0.41$	$\Delta\chi^2(7) = 4.38, p = 0.35$	$\Delta\chi^2(4) = 5.75, p = 0.11$	$\Delta\chi^2(5) = 5.48, p = 0.34$		
Home country competition	$\Delta\chi^2(3) = 4.13, p = 0.36$	$\Delta\chi^2(7) = 5.98, p = 0.43$	$\Delta\chi^2(3) = 3.34, p = 0.13$	$\Delta\chi^2(6) = 4.62, p = 0.69$		
International expansion	$\Delta\chi^2(3) = 3.31, p = 0.21$	$\Delta\chi^2(5) = 3.72, p = 0.25$	$\Delta\chi^2(6) = 5.28, p = 0.18$	$\Delta\chi^2(5) = 4.14, p = 0.37$		

Note: CFI = comparative fit index; NNFI=non-normed fit index; RMSEA = root mean square error of approximation; CAIC = consistent Akaike information criterion

4.3 Estimation procedure and results

In both studies, the hypotheses were tested using the path analysis procedure (Preacher, Zyphur, & Zhang, 2010) by utilizing the Mplus statistical software package (Muthén &

Muthén, 1998-2010). Specifically, a test of the statistical significance and its associated confidence interval was used to report the mediation effects (MacKinnon, 2008).

The descriptive statistics and correlations for both studies are reported in Table 2. The results are presented in Table 4 and Table 5 for the Ghanaian and Ethiopian samples respectively. The study proposed that perception of home-country regulatory institutional impediment (H1a), cognitive impediment (H1b), and normative impediment (H1c) will be positively associated with perceived environmental uncertainty. For the Ghanaian sample, the results offer support for H1a ($\gamma = 0.14$, $p < 0.05$) and H1b ($\gamma = 0.15$, $p < 0.01$). However, H1c was not supported ($\gamma = 0.04$, *n.s.*). The Ethiopian sample also yielded similar results. Specifically, H1a ($\gamma = 0.24$, $p < 0.01$) and H1b ($\gamma = 0.15$, $p < 0.01$) received support. Also, similar to the outcome of the Ghana sample, the results show no statistically significant relationship between normative impediment and environmental uncertainty ($\gamma = 0.03$, *n.s.*).

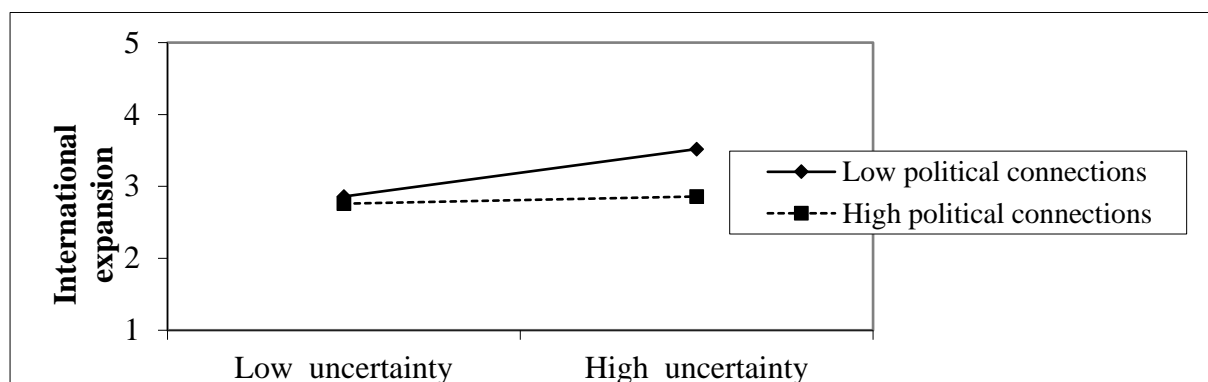
Table 4. Results of the path analysis (Ghanaian sample, N=222).

	Hypotheses	Environmental Uncertainty	International Expansion	
Controls				
Firm size (full-time employees)		-0.12*	0.24***	
Firm age (years)		-0.05	0.04	
Family ownership		-0.08*	-0.16***	
CEO age		-0.11	0.10*	
Firm international experience		-0.14**	0.29***	
Financial resource availability		-0.07*	0.12*	
Main effects				
Perceived regulatory impediment (PRI)	H _{1a}	0.14**	0.14**	
Perceived cognitive impediment (PCI)	H _{1b}	0.15***	0.23***	
Perceived normative impediment (PNI)	H _{1c}	0.04	0.10*	
Perceived environmental uncertainty (PEU)	H ₂		0.19***	
Home country political connections (HCPC)		0.05	-0.19***	
Home industry competition (HCIC)			0.22***	
PEU x HCPC	H _{4a}		-0.14**	
PEU x HCIC	H _{4b}		0.39***	
R ²		0.11	0.24	
			95% Confidence interval	
		Estimate	CI Lower end	CI upper end
Indirect effect				
PRI→ International expansion (via PEU)	H _{3a}	0.15***	0.09	0.24
PCI→ International expansion (via PEU)	H _{3b}	0.19***	0.11	0.28
PNI→ International expansion (via PEU)	H _{3c}	0.01	0.03	0.05

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$. Standardized coefficients are shown. The model was estimated simultaneously. CI=confidence interval.

Hypothesis 2, which stated that perception of home-country environmental uncertainty is positively associated with the degree of international expansion, also received support in both studies ($\gamma = 0.19, p < 0.01$) and ($\gamma = 0.24, p < 0.01$) for Ghana (Table 4) and Ethiopia (Table 5) respectively.

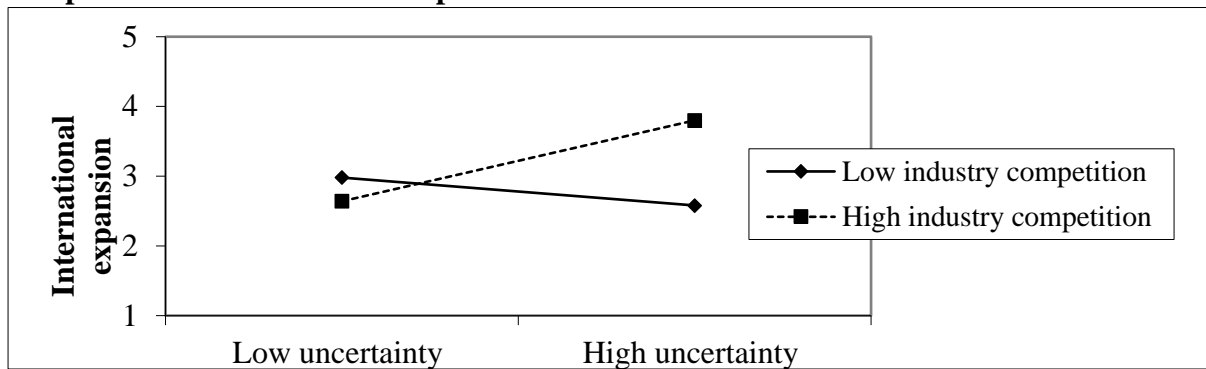
Figure 2: Interaction effect of perceived environmental uncertainty with political connections on international expansion ^a



^aThe interaction graph for the Ethiopian sample follows the same pattern as the above.

Hypotheses 3a-c stated that perceived home-country environmental uncertainty mediates the positive and indirect relationship between perceived regulatory (H3a), cognitive (H3b), and normative (H3c) institutional support and international expansion. Hypotheses 3a ($ab = 0.15, p < 0.01$; 95% CI [0.09, 0.24]) and 3b ($ab = 0.19, p < 0.01$; 95% CI [0.11, 0.28]) both received support from the Ghanaian sample. However, hypothesis 3c ($ab = 0.01, n.s$; 95% CI [0.03, 0.05]) did not receive support. Similar results were obtained for the Ethiopian sample. Specifically, hypotheses 3a ($ab = 0.14, p < 0.10$; 95% CI [0.07, 0.21]) and 3b ($ab = 0.20, p < 0.01$; 95% CI [0.13, 0.29]) both received support for the Ghanaian sample. However, hypothesis 3c ($ab = 0.02, n.s$; 95% CI [0.03, 0.06]) did not receive support.

Figure 3: Interaction effect of perceived environmental uncertainty with industry competition on international expansion ^b



^bThe interaction graph for the Ethiopian sample follows the same pattern as the above.

Hypothesis 4a stated that home-country political connections negatively moderate the relationship between perceived environmental uncertainty and international expansion. Hypothesis 4a received support ($\gamma = -0.14, p < 0.05$) and ($\gamma = -0.12, p < 0.10$) from the Ghanaian and Ethiopian samples respectively. Hypothesis 4b proposed that home-country industry competition positively moderates the relationship between perceived environmental uncertainty and international expansion. Hypothesis 4b also received support ($\gamma = 0.39, p < 0.01$) and ($\gamma = 0.43, p < 0.01$) from the Ghanaian and Ethiopian samples respectively.

To further assess the nature of the moderating effect of political connections and industry competition on the uncertainty-internationalization link, interaction plots were created with mean-centred values (Dawson & Richter, 2006). Following Aiken and West (1991), a simple slope test was conducted. The outcomes reveal that (Figure 2) high levels of political connections are associated with less international expansion than low levels of political connections, especially at higher levels of perceived environmental uncertainty. Conversely, Figure 3 shows that high levels of industry competition are related to higher levels of international expansion than low levels of industry competition, especially at higher levels of perceived environmental uncertainty.

Table 5. Results of the path analysis (Ethiopian sample, N=203)

	Hypotheses	Environmental Uncertainty	International Expansion	
Controls				
Firm size (full-time employees)		-0.10*	0.19***	
Firm age (years)		-0.04	0.05	
Family ownership		-0.05	-0.04	
CEO age		-0.11*	0.08*	
Firm international experience		-0.07*	0.22***	
Financial resource availability		-0.14**	0.33***	
Main effects				
Perceived regulatory impediment (PRI)	H _{1a}	0.24***	0.13**	
Perceived cognitive impediment (PCI)	H _{1b}	0.15***	0.07*	
Perceived normative impediment (PNI)	H _{1c}	0.03	0.15***	
Perceived environmental uncertainty (PEU)	H ₂		0.24***	
Home country political connections (HCPC)			0.11*	
Home industry competition (HCIC)		0.08*	0.23***	
PEU x HCPC	H4a		-0.12*	
PEU x HCIC	H4b		0.43***	
R ²		0.10	0.23	
			95% Confidence interval	
		Estimate	CI Lower end	CI upper end
Indirect effect				
PRI→ International expansion (via PEU)	H3a	0.14**	0.07	0.21
PCI→ International expansion (via PEU)	H3b	0.20***	0.13	0.29
PNI→ International expansion (via PEU)	H3c	0.02	0.003	0.06

* $p < 0.10$.; ** $p < 0.05$; *** $p < 0.01$. Standardized coefficients are shown. The model was estimated simultaneously. CI=confidence interval.

4.4 Supplementary analyses

To gain additional insights into the findings reported earlier, supplementary analyses were performed. First, an alternative structural model using the ratio of foreign sales to total sales (N=129) as a dependent variable (degree of internationalization) was estimated. This approach to measuring a firm's degree of internationalization has long been acknowledged in the international business literature (Annavarjula & Beldona, 2000; Oesterle, Richta & Fisch 2013). Moreover, other scholars recommend this approach, as using this measure allows for the determination of the extent of a firm's foreign market penetration (Thomas & Eden, 2004). Instructively, the results of this additional analysis replicated the prior results for all the hypotheses.

Second, the Sobel test was used to estimate the mediation hypotheses (Sobel, 1982). This test calculates the magnitude of the unstandardized indirect effect and the standard error associated with a model. In support of H3a, the Sobel tests showed that the indirect effect of regulatory impediment on the degree of international expansion ($z = 1.85, p < 0.01$) was as hypothesized, and statistically significant. Similarly, H3b indicated that the indirect influence of cognitive impediments on the degree of international expansion ($z = 1.89, p < 0.01$) was significant. Similar results were obtained for the Ethiopian sample.

Third, the data were pooled together by standardizing responses from each country to establish whether there were any common core relationships across the two countries (Song, Kawakami & Stringfellow, 2010). To remove national bias, the data sets from the two countries were standardized for each country before pooling the data. Accordingly, using the pooled data set ($N=425$), and the same procedures as those used in Study 1 and Study 2, the results replicated previous findings: H1a ($\gamma = 0.17, p < 0.01$), H1b ($\gamma = 0.19, p < 0.01$), H1c ($\gamma = 0.02, n.s$), H2 ($\gamma = 0.21, p < 0.01$), H3a ($ab = 0.17, p < 0.01$; 95% CI [0.10, 0.27]), H3b ($ab = 0.17, p < 0.01$; 95% CI [0.09, 0.27]), H3c ($ab = 0.02, n.s$; 95% CI [0.03, 0.05]), 4a ($\gamma = -0.13, p < 0.05$), and H4b ($\gamma = 0.43, p < 0.01$). Thus, these results offer support for the robustness of our initial findings.

5. Discussion

5.1 Key findings

This study considered the potential effects of perceived institutional impediments on perceptions of home market uncertainty and, ultimately, on SMEs' international expansion. We also tested the boundary conditions of the observed relationship by examining the moderating effects of political connections and domestic market competition. We validated our model with data on SMEs from two developing economies: Ghana and Ethiopia. The outcomes from the study can be categorized into three main areas. The first category relates to the effects of the

three antecedent predictor variables (regulatory, cognitive, and normative impediments) on perceived environmental uncertainty. The second category concerns the mediation effects of perceived environmental uncertainty on SMEs' degree of internationalization. The third category relates to how two key internal and external contingencies – the extent of political connections and industry competition – moderate the link between perceived environmental uncertainty and SMEs' degree of internationalization.

The results from the first category, which concerns the effects of antecedent predictors, show that two dimensions of institutional impediments (regulatory and cognitive) positively relate to perceived environmental uncertainty. However, contrary to our prior expectation, the effect of a third dimension (normative impediment) on environmental uncertainty appears not to be significant. Ostensibly, this outcome may be due to the lack of agreement among respondents about the importance of normative impediment relative to the other dimensions – regulatory and cognitive impediments. This is evident by the relatively high standard deviations (1.26 in Ghana and 1.60 in Ethiopia) on this dimension.

Second, the findings from the mediation analysis were also mixed. Thus, while the effects of home-country regulatory and cognitive impediments on SMEs' degree of international expansion seemed to be mediated by perceived environmental uncertainty, the indirect effect of normative impediments on internationalization via environmental uncertainty appeared to be insignificant.

Third, the results from the contingency analyses suggest that, in conditions of high political networking, high levels of environmental uncertainty are associated with less international expansion. However, under conditions of high levels of industry competition, the effect of environmental uncertainty on international expansion is amplified. In other words, the results indicate SMEs in developing countries are more likely to seek international opportunities when faced with high levels of domestic competition and uncertainty.

5.2 Theoretical contributions

Overall, these findings (relating to the antecedent predictors, mediator, and moderator variables) contribute to the international business literature in three main ways. First, the outcomes concerning the specific effects of the three dimensions of institutional impediments (predictor variables) on environmental uncertainty (mediator variable) help to extend prior studies on the effects of institutional impediments on firms' activities in developing economies (Adomako et al., 2017; De Clercq, Danis & Dakhli, 2010; Jonsson & Lindbergh, 2010; Boisot & Meyer, 2008; Witt & Lewin, 2007). The current finding is an important contribution because, despite a rich tradition of research on institutions in developing economies (Peng, 2002; Peng, Sun, Pinkham & Chen, 2009), there have been fewer efforts to explain how impediments emanating from institutional pillars spur uncertainty. One major reason for this 'black box' in the literature is because past research mainly focused on a direct link between environmental impediments and internationalization, without examining the potential effects of mediating variables. We attempted to address this limitation by exploring how specific dimensions of home-country institutional environments impact on the level of uncertainty in the local market. Despite the mixed outcomes regarding the effects of institutional impediments, it can be safely asserted that the findings offer important insights that can help to narrow the gap in knowledge regarding the institutional impediments-uncertainty nexus.

Second, the study contributes to closing the gap in our understanding concerning the mediating mechanism that links institutional impediments to internationalization. This was achieved by examining the indirect effects of perceived uncertainty on SMEs' internationalization from the contexts of two leading developing economies, Ghana and Ethiopia. We argue that this is an important extension of the institutional and internationalization literature because past studies failed to pay attention to the link between home country contexts and SMEs' international expansion activities (for exceptions, see

Rasheed, 2005). This omission has remained for a long time, despite the strong view that institutional pressures in the local environment may also influence SMEs' internationalization process (Cheng & Yu, 2008). Thus, this finding adds to prior perspectives from the institutional (North, 1990, 1995) and activity theories (Engeström, 2014; Mainela et al., 2018) with regard to how the home country's institutional contexts explain firms' international market development.

Third, the paper enhances the literature by exploring the specific conditions under which institutional factors (regulatory, political, and cognitive) may be more effective or otherwise in promoting SME internationalization. Before this investigation, a fundamental question in the international business literature remained unanswered; that is, "If the perception of uncertainty can spur SME internationalization, under what condition will this happen or not happen?" This is an important question because prolonged uncertainty in the face of failure will increase the financial and emotional costs of entrepreneurs if their businesses eventually fail (Shepherd, Wiklund, & Haynie, 2009). Thus, we add to the international business literature by answering this question. This was accomplished by examining two potential moderators (domestic market competition and political connections) of this relationship. Specifically, we tested an eclectic model which integrates insights from the social network theoretical perspective (Acquaah, 2007) with the role of institutions (Coleman 1990) on managerial actions, under boundary conditions relating to political connections (Acquaah, 2007; Yiu, Lau & Bruton, 2007) and competitive intensity in home markets (Child & Rodrigues, 2005; Adomako et al., 2017). In doing so, we offer both theoretical extension and empirical validation of the literature.

5.3 Practical contributions

Apart from the theoretical contributions, this study also provides some relevant practical implications for policymakers and business managers. First, given the observed effects of

institutional impediments on environmental uncertainty, policymakers can employ the instrument used in measuring the construct (i.e., institutional profile) as a dashboard to periodically measure and monitor relevant indicators in their economies. Doing this will be very useful because it will help to predict and control environmental uncertainty in their economies. For example, insights from such measurements can help governments to improve their regulatory environments by controlling or managing relevant regulatory impediments, and thereby facilitate the development of local enterprise and international business activities. In particular, the regulatory environments in many developing countries can be made more conducive through the enactment of relevant legislation and the provision of political leadership to ensure more transparency in areas such as tax administration as well as in the processes for establishing businesses. For example, one way to achieve transparency and ease of doing business will be through the digitalization of the processes and systems for tax payment and registration of new businesses. In particular, the digitization of administrative processes can contribute enormously towards the reduction of bottlenecks and bureaucratic corruption, as it will eliminate excessive human intervention.

In addition, governments can help to reduce cognitive hurdles which heighten market uncertainty by encouraging entrepreneurial education, both formally and informally. For example, within the formal educational sector, courses on entrepreneurship can be made mandatory for all students in higher institutions of learning, in addition to setting up special funds to support entrepreneurial education.

Second, the findings relating to the moderating effects of political connections and competitive intensity on SMEs' outward expansion suggest important areas where governments and state institutions which are tasked with driving investment promotions can have an influence to motivate local firms to embark on internationalization efforts. For example, given that high levels of political connections are associated with a lower degree of

SMEs' international activities, it is critical that developing economy governments that want to incentivize local firms to internationalize discourage the culture of firms leveraging political ties to gain undue advantages. A government's failure to curb such political connections may signal to the market that it is more rewarding to rely on political networks and other non-market strategies (Hillman, 2004; MacWilliams & Siegel, 2001) to navigate home market uncertainty and competition. Moreover, since political connections often lead to corrupt practices (Rose-Ackerman, 2016; Coyne, Sobel & Dove, 2010), their prevalence in developing economies can turn away much needed foreign direct investment (FDI), as well as force more efficient local SMEs into more stable foreign markets (Boisot & Meyer, 2008). Therefore, governments and policymakers must discourage the use of such non-market strategies by ensuring transparency public administration and creating equal playing fields for entrepreneurs irrespective of their political affiliations or persuasions.

Finally, this study is not only important but also timely for policymakers and entrepreneurial managers in sub-Saharan Africa as well as for those in other developing economies, since many SMEs in these markets share common structural and institutional characteristics (Fu et al., 2018; Peng et al., 2009). For example, the study's insights can support the enactment of appropriate policies that are directed towards the development of SMEs (Mamman et al., 2019).

6. Limitations and directions for future research

Our study has yielded important findings that theoretically and practically extend the international business literature with regard to how and when local institutional factors motivate or discourage SMEs' international activities. However, despite the important theoretical contributions, the study has several limitations that suggest avenues for future research. Our recommendations for future studies have been divided into three distinct but related trajectories, namely: theory, contexts, and methodology.

6.1. Future directions – theory

To date, there is a general understanding in the literature that the industrial and national contexts of firms are important drivers of their international venturing activities (Mainela et al., 2018; Paul, Parthasarathy, & Gupta). However, there are still gaps in knowledge concerning how certain important cultural orientations (Hofstede, 2001) affect the international performance of firms beyond the effects of national institutional impediments. The objectives of this paper and the need for a parsimonious model did not allow us to investigate the potential ways in which country cultural factors, which are widely acclaimed as important determinants of managerial strategic behaviours, may have accounted for variations in the SMEs' international expansion efforts. For example, to what extent do CEOs' orientations relating to cultural dimensions such as long-term orientation and uncertainty avoidance (Hofstede, 2001) account for their firms' international expansion activities? Thus, future research that explores the influence of such national cultural orientations on the market behaviour of developing country firms can help provide a more nuanced understanding of the key drivers of SMEs' internationalization. Also, technological competence and innovation are crucial drivers of internationalization (Auffray, & Fu, 2015; Sanna-Randaccio & Veugelers, 2007), especially among technology firms. Consequently, we recommend future researchers to incorporate these variables into their analytical modelling to further elucidate our understanding of how these factors interrelate with other well-known factors to explain SMEs' international expansion. For example, future research can extend the literature by integrating the extent to which SMEs' innovativeness and technological competence moderate the home-country uncertainty-internationalization nexus.

6.2. Future directions – contexts

Developing economies generally share common institutional characteristics, such as weaker institutional framework, compared to that of emerging and developed markets (Amankwah-Amoah, Boso & Debrah, 2018). However, there are nuanced differences even within these broad economic groupings. Therefore, even though the findings reported in this paper were based on data sets from two leading developing nations (Ghana and Ethiopia) in the western and eastern regions of Africa, the findings reported here may not apply to the unique contexts of some SMEs, given the wide variations across developing economies. This is because, despite the significant progress in political and institutional reforms in the developing world during the last decade, several sub-Saharan economies still lag behind in terms of democratic institutional reforms (Bruton, Ketchen & Ireland, 2013). Moreover, given the marked structural differences between developed and developing economies (Gammeltoft et al., 2010), a larger and more varied sample of SME actors from both developed and developing nations can allow for a more detailed comparative analysis.

6.3. Future directions – methodology

In this study, the degree of internationalization was captured as a firm's degree of international expansion with four items that assessed firms' degree of internationalization in the past three years. Even though this measurement is widely accepted (Yiu, Lau & Bruton, 2007; Zahra et al., 2000), the instrument did not capture the different forms of outward international activities (e.g. export, contractual, and investment modes). As there are usually unique motivations and varying degrees of risks with the various methods for international expansion, it may be more interesting to measure internationalization with more detailed and specific items that reflect the various methods used by firms for foreign market entry. For example, future researchers can extend this study by exploring how the institutional impediments-uncertainty-internationalization model relates to a different choice of entry modes for international

expansion by firms. Moreover, even though the results from a robustness check suggest that the outcomes reported in this paper were not contaminated by selectivity bias, our study was based on firms that have been successfully involved in international operations within five years of their incorporation. Thus, the sample excluded firms that may have tried to internationalize but failed or those that did not attempt to do so due to institutional constraints. Given this, we encourage future studies to address this limitation by employing sampling designs that capture firms that have successfully internationalized and those that have failed.

7. Conclusion

Despite the foregoing limitations, our analysis from a sample of Ghanaian (N= 222) and Ethiopian (N= 203) SMEs found support for the role of perceived institutional impediments on the degree of internationalization. Additionally, the findings demonstrate the contingent effects of home country competition and political connections on the relationship between perceived environmental uncertainty and the degree of internationalization. Collectively, the outcomes from this study extend the international business literature in several ways. In the main, the study contributes to theory development by providing a clearer picture of how and when the effects of home country institutional impediments and perceived environmental uncertainty enhance the extent of the international expansion of SMEs within emerging market contexts.

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