

UNDERSTANDING THE INTERNATIONALISATION MOTIVATION AND FRANCHISING STRATEGY: A STUDY OF AN INDONESIAN STREET FOOD SME IN MALAYSIA

Fadhilla Khansa¹
Ramona Blanes²
Zurina Mohaidin³

¹Adam Smith Business School, University of Glasgow (UoG), United Kingdom,
(E-mail: Fprasastya@gmail.com)

²Adam Smith Business School, University of Glasgow (UoG), United Kingdom,
(Email: Ramona.Blanes@glasgow.ac.uk)

³Graduate School of Business, Universiti Sains Malaysia (USM), Malaysia, (E-mail: mzurina@usm.my)

Article history

Received date : 16-11-2020
Revised date : 9-5-2022
Accepted date : 3-6-2022
Published date : 1-9-2022

To cite this document:

Khansa, F., Blanes, R. & Mohaidin, Z. (2022).
Understanding The Internationalisation Motivation and
Franchising Strategy: A Study of An Indonesian Street
Food SME in Malaysia. *Journal of Islamic, Social,
Economics and Development (JISED)*, 7(47), 1 - 11.

Abstract: *This paper is the findings from a study that explores the internationalisation motivation and process, including models, the country selection and franchise strategy, as well as the critical success factors of Indonesian street food SME in Malaysia. The emergence of SMEs in developing countries is a contributing driver of economic development and employment. Malaysia as a neighbouring country has a very similar character of society and culture becomes the first country for an Indonesian business that wants to expand internationally. The purpose of this research is to provide a framework to create a clear understanding about the internationalisation motivation and franchising strategy of Indonesian street food SME in Malaysia. The data were collected from a single case study of Kebab Turki Baba Rafi, an Indonesian street food SME that has successfully expanded internationally to nine countries with more than 1200 outlets. The result shows that market seeking is the main motivation for Kebab Turki Baba Rafi in internationalising to Malaysia. The company adopts a network approach and chooses the franchise strategy as the entry mode strategy to Malaysia to minimise risks. The company has particular criteria in selecting the destination country for internationalisation and its master franchisee.*

Keywords: *Internationalisation Motivation, Internationalisation Process, Franchise, International Business, SME, Indonesian SME, Malaysian SME*

Introduction

In the past few years, there has been increasing interest in conducting research related to SMEs from various aspects, in terms of development, strategy, internationalisation, and other things related (Pangarkar, 2008). This study focusses on why and how an Indonesian street food SME internationalises to Malaysia. The emergence of many organisations that support the growth of SMEs by providing many workshops, training, and seminars a driving factor in the rapid growth of SMEs in Indonesia (Tambunan, 2013). The government also supports this development by facilitating all related permits and also reducing the tax rate for SMEs (Nurhalim, 2014).

The purpose of this research is to provide a framework to create a clear understanding about the internationalisation motivation and franchising strategy of an Indonesian street food SME in Malaysia.

Literature Review

Internationalisation Motivation

The topic of motivation for international business can be classified as one of the most popular topics in the business world (Dunning 1992; Oviatt and McDougall 2005). One of the most popular studies from Dunning (1988), stated that the motivation of internationalisation for firms could be categorised into four points including; market seeking, assets seeking, efficiency, and resource seeking. Other than that, Dunning (1988) also stated that there are three advantages identified in conducting internationalisation, namely ownership, location, and internalisation (OLI).

Another critical study is the small-scale technology theory (Wells, 1977), which stated that enterprises in developing countries obtain three kinds of advantages in doing internationalisation, such as, small-scale technology, national products and low-price products. Other than that, some studies show another factor that motivates the internationalisation of companies, namely network positions and markets (Fletcher 2008; Liuhto and Jumpponen 2003).

Many researchers have examined the motivation of companies to expand internationally (Johanson and Vahlne 1990; Berra et al. 1994; Calof and Viviers 1995; Crick et al. 2001), but most of these studies focus on large companies in developed countries (Miskinis and Reinbold, 2010). Moreover, the motivation for the internationalisation of SMEs in developing countries might be different (Liuhto and Jumpponen, 2003; Zhou et al. 2007).

Market Seeking as Motivation

Company readiness is one of the driving factors for the emergence of motivation and success of the internationalisation of business (Zhou et al. 2007). The company readiness is influenced by internal factors of the company such as resources, competencies, capabilities, attitudes, orientations and commitments owned by a company (Lages et al., 2005). This kind of motivation is relevant to the real condition when a company has mastered one area and ready to approach new market to seek more potential market and sales.

As a company, it is common to meet opportunities to expand the market and this motive is one of the biggest motivations for a company to internationalise (Aaby and Slater, 1989). The entrepreneur has a characteristic who sees opportunity and is not easily satisfied with the

achievements that have been passed before. Newmarket searches usually start with the surrounding market close to the headquarter or have other supporting factors such as having the same market characteristics as the market that is currently being worked on.

Internationalisation Process

The internationalisation process is a dynamic study since it might be different for every kind of business (Agndal and Chetty, 2007). There are two critical decisions in the internationalisation process which are those related to the selection of the foreign market (Eckman and Hyllegard, 2007) and the strategy of entry mode (Brouthers and Nakos, 2004).

Traditional Model

According to Laghzaoui (2011), there are at least three categories of the traditional models of the internationalisation of SME, which are models based on stages approach, economical approach and networks approach.

The stage model presents four stages that firms must follow in order to internationalise traditionally (Roberts, 2006). Two different methods can be used to analyse the internationalisation process through this model, namely the Uppsala Model (U-M) and the Innovation Based Model (I-M) (Laghzaoui, 2011).

The Uppsala model is known as one of the critical studies for the internationalisation process, which developed by Johanson and Vahlne in the Uppsala University (Ruzzier et al., 2006). The framework consists of four critical parts, which are market knowledge, commitment decisions, market commitments, and current activities (Johanson and Vahlne, 1990).

According to Johanson and Wiedersheim-Paul (1975), the internationalisation with this model must follow these stages:

1. No regular export activity;
2. Export through independent agents;
3. Overseas sale subsidiary set up;
4. Overseas production and manufacturing.

Firms that want to expand internationally are required to go through these stages to get a full understanding of the market knowledge and network before their own business abroad (Johanson and Vahlne, 1990).

The Innovation Based Model describes internationalisation as a process that consists of stages while doing the product adaptations (Johanson and Vahlne, 2009). According to Johanson and Wiedersheim-Paul (1975), companies usually start to internationalise in a similar market with the home market, and after those companies would enter markets that were more different in terms of psychic distance.

According to Andersen (1993), the internationalisation with this model must follow these stages:

1. Management has no interest in exporting;
2. Management is willing to fill unsolicited orders, but make no effort to explore the feasibility of active exporting;
3. The firm exports on an experimental basis to some close psychological country;
4. The firm becomes an experienced exporter;

5. Management explores the feasibility of exporting to other, more psychologically distant countries.

The main difference between these two models is when the Uppsala model forces the internationalisation process of the company depends on its understanding of the foreign markets (Bell et al., 2004), while on the other hand, the Innovation-related model allows the company to export through a number of stages (Oviatt and McDougall, 1997).

The theory of stages models (Johanson and Vahlne, 1990) also gets criticism because it is considered too deterministic (Fina and Rugman, 1996), not suitable for the modern rapid development (Gankema et al. 2000), companies often pass some of the stages because there are many other ways to internationalise the business such as by acquisitions (Forsgren, 1990) and franchise (Aydin and Kacker, 1990). Another reason why stage models are criticised is the emergence of the born global or international new ventures, which already "think" internationally right from the inception (McDougall et al., 1994).

In the development of Uppsala Model theory, scholars recognise the importance of networks in the process of internationalisation (Johanson and Vahlne, 1990). The importance of network has been added to the model as well as the addition of learning, creating and trust-building (Johanson and Vahlne, 2009). According to Zain and Ng (2006), networks have considerable impacts in terms of internationalisation such as trigger knowledge opportunities and motivation (Andersen, 1996), influence market selection and entry mode decision (Coviello and Munro, 1995), discover new channels (Welch, 1992), access to local market knowledge (Hamilton, 1991), and minimise the risks of internationalisation (Coviello and Munro, 1995).

Selection of Foreign Market and Entry Mode Strategy

The selection of targeted foreign market for the internationalisation of a company is very crucial to be analysed and decided (Agarwal and Ramaswami, 1992). In determining the foreign market selection to conduct international business expansion, several tools can help an entrepreneur to analyse a foreign market such as PESTLE (Political, Economic, Social, Technology, Legal and Environment), Porter Five Forces and SWOT analysis (especially for opportunity and threat points) (Ellis, 2000).

In conducting internationalisation, a company can choose various strategies in terms of entry mode (Agarwal and Ramaswami, 1992). Different choices can be taken, such as franchise, license, joint venture, direct investment, and other entry mode strategies. Several factors influence the decision making related to the entry mode, namely resource commitment, level of experiential knowledge, profit prospects, degree of risk involvement, degree of control, nature of product and external market requirements, and resource availability (Bell et al., 2004). The selection of entry mode strategy is an essential issue and element in the process of global strategy configuration (Hill et al., 1990). According to Root (1994), franchising is selected to be the entry mode strategy with the characteristics of the low extent of investment and risk.

Franchising has known as one of the most popular development strategies of doing business both in the domestic and international area (Rosado-Serrano et al., 2018). According to Knott et al. (2008), a franchise is a business agreement that gives the right to market the product or use the brand and method of operating the business to someone in return for a fee. International franchising is known to have a more complex agreement than domestic or national franchises (Rosado-Serrano et al., 2018). One topic that is often discussed is the reason for a company

chooses to implement a franchise strategy in its business to minimise the risk, rather than expanding its business independently (Elango and Fried, 1997).

There are three major differences between domestic and international franchise, namely, the legal context, level of control in the system, relationship-based (Rosado-Serrano et al., 2018). In international franchises, there will be more complicated monitoring systems which lead to the need for good cooperation with the local partner or franchisee (Buchan, 2014).

One of the primary motives that makes a franchisor decide to expand the business to other countries is the desire to gain an advantage over the potential market and to develop a brand name in that country (Rosado-Serrano et al., 2018).

Critical Success Factors of SME Internationalisation

Various factors can influence the success of the internationalisation of an SME, both internal and external factors. Internal factors can be things that are owned by the company such as size, management commitment, capabilities, technology, network, knowledge of operational and also foreign markets. On the other hand, external factors that can drive the success of the internationalisation of SME are one of them is the opportunity of foreign markets in the form of market demand (Aaby and Slater, 1989). According to Lages et al. (2005), the most critical factors that make a company successful in foreign markets are product and service quality, price competitiveness and relationships with local parties.

Kubíčková et al. (2010) also concluded that there were four groups which were the driving factors for the success of a company in internationalising, namely key employees, internationalisation rates, internationalisation of marketing and performance. Another key literature that can be categorised into four groups, namely innovation, entrepreneurship, relationship networks and knowledge of external markets (Galimberti and Dorion, 2011).

Methodology

The study will discuss the internationalisation motivation, process and franchise strategy of an Indonesian street food SME in Malaysia with two methods. The first method is the primary data collection in the form of 9 interviews with representatives from companies in Indonesia and Malaysia and 2 sessions focuses group discussions consist of 8 consumers of companies in Indonesia and Malaysia. These methods used to compare and create a clear understanding based on the company and its consumers in Indonesia and Malaysia. The second method is the analysis of secondary data sources in the form of company documents related to stores in Indonesia and Malaysia. The interviewee will be selected through the purposive sampling method followed by the snowball method. These methods are chosen so the informants will be identified by the prospective people who are very capable of having the information needed (Creswell, 2007). The founder and the representatives of Kebab Turki Baba Rafi as the key figures were interviewed and also eight customers were discussed in two separate focus group discussions.

Three main things become the object of this study, namely internationalisation motivation, internationalisation process (including the selection of foreign markets and entry mode strategy which is franchise strategy) and critical success factors in conducting internationalisation. The expected outcome of this study is a practical business framework that can be used by entrepreneurs in Indonesia to expand their business internationally, especially to Malaysia as an initial step.

Kebab Turki Baba Rafi was chosen as a case study because it has been successfully expanded internationally. According to their official website, Kebab Turki Baba Rafi has more than 1200 outlets in 9 countries (Indonesia, Philippines, Malaysia, China, Sri Lanka, Singapore, Brunei Darussalam, Netherlands, Bangladesh).

Finding and Discussion

The founder and the representatives of Kebab Turki Baba Rafi as the key figures were interviewed and also eight customers were discussed in two separate focus group discussions to draw perspectives both from company and consumers. The findings from nine face-to-face interviews and eight face-to-face focus group discussions have been triangulated with the secondary data of the company and also the literature.

Internationalisation Motivation of Kebab Turki Baba Rafi

In the theme of internationalisation motivation, both the theories discussed in the previous literature review chapter and research findings are relevant. According to the primary research that has been conducted with the representatives of the company, the motivation of the internationalisation of Kebab Turki Baba Rafi is following the theory, namely in the framework of market seeking. This happened with the encouragement of conditions where Kebab Turki Baba Rafi was satisfied with the Indonesian market and was ready to look for additional markets outside Indonesia.

Kebab Turki Baba Rafi's motivation in finding additional markets is also supported by the fact that in Indonesia, they have thousands of branches that are widespread in various cities. From this achievement, the company feels ready to seek additional market and experience by expanding internationally. As a neighbouring country with similar characteristics and short distances, Malaysia is considered to be a suitable first step for Kebab Turki Baba Rafi in conducting internationalisation.

Internationalisation Process of Kebab Turki Baba Rafi

According to the interview with the company's representatives, the internationalisation process carried out by Kebab Turki Baba Rafi does not follow a traditional stages approach that requires companies to follow a certain set of stages. The company chose a franchise strategy to be able to enter other countries. This is in line with various criticisms given to the traditional stages approach where this theory is considered too deterministic (Fina and Rugman, 1996), not suitable for the modern rapid development (Gankema et al. 2000), companies often pass some of the stages because there are many other ways to internationalise the business such as by acquisitions (Forsgren, 1990) and franchise (Aydin and Kacker, 1990).

On the other hand, the network approach (Johanson and Vahlne, 1990) is considered quite relevant with what was done by Kebab Turki Baba Rafi in the process of participating in various countries' franchise exhibitions to find master franchisees who could be positioned as their network in the country. According to Zaid and Ng (2006), networks can help a business in terms of knowledge opportunities, influence market selection, discover new channels, give access to local market knowledge, and minimise the risk of internationalisation. This is in line with the main focus of Kebab Turki Baba Rafi who is looking for a local partner in the destination country to become a master franchisee and help them in the matter mentioned above.

Malaysia was chosen by Kebab Turki Baba Rafi as their first step in internationalisation. With a distance that is still close to Indonesia and a market characteristic that has many similarities, Kebab Turki Baba Rafi ventured to join the franchise exhibition in Malaysia with the aim of finding a master franchisee who can be a network and partner in the internationalisation of the business in the country. That way, the theory according to Ellis (2000) is considered quite relevant to what was experienced by Kebab Turki Baba Rafi who carried out a partial analysis of PESTLE, Porter 5 Forces and also SWOT from Malaysia.

Franchise Strategy as Entry Mode Strategy of Kebab Turki Baba Rafi

According to both primary and secondary research, Kebab Turki Baba Rafi is expanding both in Indonesia and in other countries through a franchise strategy. Minimising the risk is one of the main reasons in choosing this strategy. Armed with experience in expanding nationally with a franchise strategy, the company finally decided to carry out the same strategy in other countries. This shows relevant findings in research, as explained in the chapter literature review (Root, 1994).

Kebab Turki Baba Rafi chooses to have a master franchisee in each destination country, including Malaysia. The strategy of having a master franchisee is intended to provide convenience in accessing local market knowledge, networks and other influential things that will facilitate the business development in the country. It is expected that this master franchisee will help minimise the gap in knowledge regarding legal, culture, consumer behaviour knowledge, and other vital things that apply in the country with the company Kebab Turki Baba Rafi. The strategy of having a master franchisee is also considered as a relevant response to the theory discussed in the literature review chapter that a company will face challenges in terms of international management, cultural, legal and other differences in the destination countries of expansion (Elango and Fried 1997; Laufs and Schwens 2014; Rosado-Serrano et al. 2018).

Kebab Turki Baba Rafi is very concerned to the selection of master franchisees from the countries of expansion. There are some criteria for the master franchisee desired by Kebab Turki Baba Rafi, namely, have the same vision, strong ambition, excellent management skills and high commitment to the business. Kebab Turki Baba Rafi expects that the master franchisee figure will help minimise the gap in knowledge regarding legal, cultural, consumer behaviour knowledge, and other vital things that apply in the country.

To provide and maintain the same quality and taste of various Kebab Turki Baba Rafi stores, franchisor distributes secret spices and recipe from the central production house in Indonesia to be cooked with other raw materials. This is considered to be very easy and helpful for both the franchisor and the franchisee to maintain the taste and quality of Kebab Turki Baba Rafi's products.

Success Factors and Barriers Affecting the Internationalisation of Kebab Turki Baba Rafi

According to the research, success factors which affect the internationalisation of Kebab Turki Baba Rafi are divided into two groups, namely management related and selection of entry mode strategy. Management-related, which is meant here, is the ability and commitment of the management that runs the business in the country. This includes the presence of business innovation, networks and knowledge about the international market that is being addressed, international business ethics, excellent communication skills, and also a high level of confidence as an entrepreneur in expanding his business internationally. The commitment of

each party, both the franchisor and the franchisee, is also vital that drives the success of the internationalisation of a business in another country.

The second factor is related to the selection of entry mode strategy in the targeted country. Kebab Turki Baba Rafi chose a franchise strategy as an entry mode strategy in expanding its business. After choosing a franchise strategy in terms of entry mode strategy, Kebab Turki Baba Rafi is also very concerned about the selection of master franchisees from the countries of expansion. This has led to the emergence of several specific criteria from Kebab Turki Baba Rafi for candidates interested in becoming master franchisees from Kebab Turki Baba Rafi. The criteria for the master franchisee desired by Kebab Turki Baba Rafi are partners who have the same vision, strong ambition, excellent management skills and high commitment to the business.

Furthermore, in terms of the legality of the cooperation between both franchisor and master franchisees or other franchisees, Kebab Turki Baba Rafi and its partner make a clear and transparent cooperation contract. The commitment from both parties has also become a crucial factor in carrying out cooperation in conducting international business expansion. After the franchisor gives various support, the franchisee is expected to run the business smoothly. To control the business of Kebab Turki Baba and discuss important issues, regular meetings and reviews are carried out by both parties.

Conclusion

Based on the research, the internationalisation motivation of an Indonesian street food SME in Malaysia was market seeking. The process of internationalisation occurs using a network model in which a company-owned network will be a vital driver of the success of internationalisation. The choice of destination countries for the internationalisation is based on several factors such as distance and similarity in market characteristics. In the case of Kebab Turki Baba Rafi, the company chose to use a franchise strategy to enter Malaysia by having a master franchisee that would help all business processes in the country both in terms of knowledge transfer, market access, and other things. Moreover, critical success factors which affect the internationalisation of Kebab Turki Baba Rafi are divided into two groups, namely management related and selection of entry mode strategy.

There are some limitations found in this study such as, the single case study approach which may not be generalised for the entire population, but only for specific populations with the same business characteristic. It has been chosen due to the time limitation, and also there is still a small number of Indonesian SME who are internationalising with the same category. Other limitation is the possibility of not getting access to the informant or the company. Moreover, when the role of the interviewer is crucial during the interview and the data processed to avoid misinterpretation.

The business framework in Figure 1 consists of four main parts in the form of stages in expanding internationally using franchise strategies and four additional parts in the form of motivation to internationalise, critical success factors, and things that can be considered in the selection of the destination country and master franchisee.

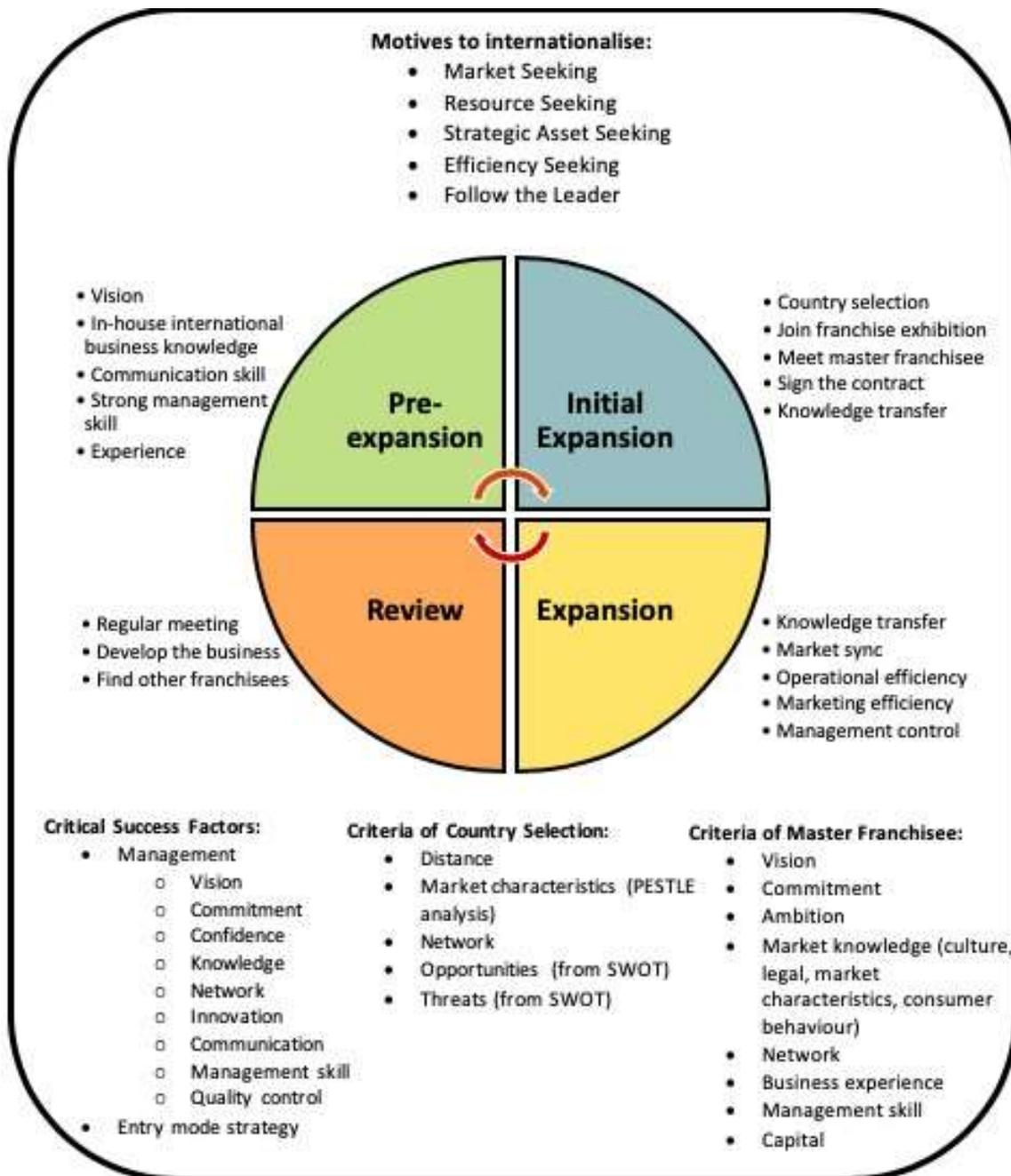


Figure 1. Internationalisation Framework of Kebab Turki Baba Rafi

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