

North American entrepreneurs in Cuba: which entry mode and government affiliation strategy?

North
American
entrepreneurs
in Cuba

285

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Abstract

Purpose – To have success in newly liberalized markets, firms must have a plan of action before resources are committed. What some companies do not realize is that their own entrepreneurial orientation (EO) will dictate their strategies, and performance outcomes, in both their home market and abroad. In order to maximize firm performance in newly liberalized markets (such as Cuba), firms must be able to objectively gauge their own EO. The paper aims to discuss these issues.

Design/methodology/approach – Within this framework, the present paper will attempt to effectively measure the EO of decision-making managers from US companies that have an interest in entering the Cuban market. A final sample of 81 US managers accepted to collaborate. They were then split into two groups (high and low EO; with 41 and 35 managers in each group, respectively) and compared regarding three variables: entry mode strategy, government affiliation strategy, and performance outcomes.

Findings – The results show that EO is related with performance, but not with the two proposed variables of entry mode and government affiliation.

Originality/value – In sum, the added value of the paper is to link US managers' strategies and performance in a newly liberalized market which has been seldom studied: Cuba. The fields of entry mode strategies and government affiliation decisions in this newly liberalized market remain poorly investigated. Not all firms managed by highly entrepreneurial-orientated managers will decide to enter foreign markets and, on the contrary, domestic firms which are not interested in international markets can be run by highly entrepreneurial managers. This is due, in part, to the fact that internationalization can be driven by other factors. Therefore, this paper will attempt to demonstrate if certain entry modes will perform better than others when the foreign market is a newly liberalized economy. Additionally, the importance, and effect, of governmental relationships on performance outcomes will be tested within the research.

Keywords Risk-taking, Entry mode, Entrepreneurial orientation, Innovativeness, Newly liberalized market, Proactiveness

Paper type Research paper

Introduction

The word entrepreneur is used often in business environments (Lumpkin and Dess, 1996). From entrepreneurial attitudes, to serial entrepreneurs, the term is becoming overused. However, one phrase that is rarely heard outside of academia is entrepreneurial orientation (EO). EO refers to the entrepreneurial inclination of the strategy managers utilize when leading a company. Being comprised of three dimensions (innovativeness, proactiveness, and risk-taking), this term can seem exciting, sophisticated, or even reckless (Matsuno *et al.*, 2002). It has been correlated with higher performance outcomes by firms displaying a higher degree than their competitors

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(Lumpkin and Dess, 1996; Matsuno *et al.*, 2002; Miller and Camp, 1985; Miller, 2011; Rauch, 2009; Boso *et al.*, 2013; Zhang *et al.*, 2014; Lonial and Carter, 2015). In all, EO describes the character and nature of the decision-making executive (or manager) that governs a company. Once this variable is known, a company's internal operations, outward goals, actions, management philosophies, marketing strategies, and performance can all be estimated against its competitors.

Every firm has an EO, which is determined by its managers' entrepreneurial strategy. As previous lines have stated, companies consisting of managers exhibiting a higher EO have been proven to have more success in both their home markets and abroad. Therefore, this measure is critical to know when entering a new market. This importance cannot be understated when a firm considers entering a newly liberalized market. Newly liberalized markets are exactly as their title states. As these environments offer challenges both known and unknown, every advantageous opportunity must be seized by companies hoping to expand into these countries (Del Sol, 2010).

The purpose of this paper is to explore the relationship between EO and three concepts: a firm's entry mode strategy, government affiliation strategy, and performance outcomes. The overarching goal is to determine whether firms that are managed by more entrepreneurial executives will achieve higher levels of success than less entrepreneurial firms. Additionally, we will explore if certain entry mode strategies, and government affiliation strategies, could explain this superior success. We have decided to connect EO with entry mode strategies, governmental affiliation, and performance outcomes because several previous works (i.e. Sánchez-Escobedo *et al.*, 2016) have demonstrated that managers' attitudes (EO) will determine their future decisions (i.e. entry modes and government relationships) and consequently, their level of success (performance outcomes).

We assert that having a high EO is greatly recommended when entering newly liberalized markets (Del Sol, 2010), as high levels of innovativeness, proactiveness, and risk-taking behaviors are needed. In this vein, Cuba was selected as the newly liberalized market in our study. Although previous literature has already investigated successful entry strategies regarding newly liberalized markets (i.e. Chilean market) (Del Sol, 2010), the relevance of Cuba as a newly liberalized market is a recent phenomenon as of December 2014. New possibilities, specifically for US firms, have emerged through political breakthroughs between the USA and Cuba that have promised to eliminate the US imposed trade embargo, allowing access the island nation for American businesses for the first time in over 50 years.

In sum, the added value of our paper is to link US managers' strategies and performance in a newly liberalized market which has been seldom studied: Cuba. As Ortega *et al.* (2016) remarked "a rising number of developing countries with good economic perspectives and a better business environment encourage the need of studies that explicitly address the occurrence of firms from developed economies entering newly liberalized markets." With this need in mind, the present paper attempts to bridge this gap. Therefore, although the relationships between EO and marketing orientation strategies in Cuba have already been investigated (White and Vila, 2017), the fields of entry mode strategies and government affiliation decisions in this newly liberalized market remain poorly investigated. Although all companies entering newly liberalized markets exhibit a certain grade of EO, internationalization strategies and EO are distinct fields of study (Jones and Coviello, 2005). Not all firms managed by highly entrepreneurial-orientated managers will decide to enter foreign markets and, on the contrary, domestic firms which are not interested in international markets can be run by highly entrepreneurial managers. This is due, in part, to the fact that internationalization can be driven by other factors. Therefore, this paper will attempt to demonstrate if certain entry modes will perform better than others when the foreign market is a newly liberalized economy. Additionally, the importance, and effect, of governmental relationships on performance outcomes will be tested within our research.

The remainder of this paper is structured as follows. First, the theoretical framework is developed to provide background and insight on the topic. Second, the theoretical framework also serves to provide the reader with the research that has been previously conducted on the various topics that affect the proposed hypotheses. Furthermore, the two EO levels of high and low will be tested against each other to determine which correlates more closely to firm performance. Lastly, the results will be analyzed in order to form managerial recommendations for companies in the USA that have a vested interest in entering the (soon-to-be) newly liberalized market of Cuba.

Theoretical framework

The EO strategy

Entrepreneurship does not refer to the idea of working for oneself in terms of self-employment. Following Lumpkin and Dess (1996), we define entrepreneurship as a new entry. As such, new entry explains “what entrepreneurship consists of, and entrepreneurial orientation describes how new entry is undertaken. New entry can be accomplished by entering new or established markets with new or existing goods or services” (Lumpkin and Dess, 1996, p. 136). In this line, previous literature has used several terms to describe the concept of EO as a generalized management process (Rauch, 2009). An entrepreneurship orientation refers to the processes, practices, and decision-making actions that lead to new entry (Matsuno *et al.*, 2002, pp. 136-137). In this paper, we will use the term EO following this popular approach (Rauch, 2009).

Regarding the factors underlying this term, strategic management and EO literature list three key elements to build EO: innovativeness, risk-taking, and proactiveness (Matsuno *et al.*, 2002). These factors do not always act together. Their application may be dependent on external factors, such as the industry or business environment, or internal factors, such as the organization structure or the characteristics of founders or general managers (Lumpkin and Dess, 1996). So, the three factors may vary independently, depending on the environmental and organizational context. We will explain more in the following text.

First, with regards to “innovativeness,” it is important to note that without this concept EO might very well not exist, as “innovativeness reflects a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes” (Lumpkin and Dess, 1996, p. 142). New products or service introductions can fall into this category. Also, human resources and other financial commitments to innovation have been classified as product-market innovativeness (Lumpkin and Dess, 1996). Additionally, a firm’s innovativeness may be classified by the extent to which it emphasizes technological development and seeks to build a reputation for trying new methods and technologies (Lumpkin and Dess, 1996).

Second, with respect to “risk-taking,” we would like to remark that it is most commonly referred to in terms of the familiar risk-return trade off. From a strategic perspective, Thomas and Baird (1985) identified three types of strategic risk: venturing into the unknown, committing a relatively large portion of assets, and borrowing heavily (pp. 231-232). While managers do not always represent their firm’s proclivity toward risky endeavors, more often than not they will exemplify the EO of their entire company. “Presently, there is a well accepted and widely used scale based on Miller’s (1983) approach to EO, which measures risk-taking at the firm level by asking managers about the firm’s proclivity to engage in risky projects and managers’ preferences for bold versus cautious acts to achieve firm objectives” (Lumpkin and Dess, 1996, pp. 145-146).

Regarding the third factor, “proactiveness,” we will start indicating that the words proactiveness and initiative are interchangeable. It refers to the actions a firm takes compared to its competitors. Growth, vision, imagination, and first-mover advantage are all terms that can be used to describe the proactiveness of a firm. Proactiveness is

commonly used to depict a firm that is the quickest to innovate and first to introduce new products or services (Lumpkin and Dess, 1996). Therefore, consistent with Miller's (1983) definition, and in agreement with Lumpkin and Dess (1996), we can conclude that proactiveness refers to processes aimed at anticipating and acting on future needs (within the market or the firm) by seeking new opportunities (possibly including the present line of operations), introduction of new products (or services) and brands ahead of competition, and strategically eliminating operations which are in the mature or declining stages of life cycle. Again, introducing products ahead of competition does not necessarily indicate the first-mover advantage, rather that the product or service is introduced ahead of the majority of competing firms.

To summarize, in the present research we will align the characteristics of EO with that of Matsuno *et al.* (2002), Covin and Slevin (1989), Rauch (2009), and others, meaning only three elements (innovativeness, risk-taking, and proactiveness) are necessary to fully measure the EO of a firm.

To conclude, the existence of entrepreneurial-orientated managers can be crucial to enter into new markets, and more specifically, to enter newly liberalized markets. This is an emerging research topic concerning the transition from a socialist, state-controlled market mechanism into a market-based economy bringing about new forms of competition (Reijonen *et al.*, 2015). Newly liberalized markets have been referred to as privatized markets within the broad term emerging economy (Kumaraswamy *et al.*, 2012). Emerging economies, or markets, can include newly liberalized markets, along with nations that already facilitate a privatized market and are simply experiencing rapid growth.

In total, and following Sheth (2011), five dimensions can be identified in which newly liberalized markets differ from mature markets: first, market heterogeneity is often a common aspect of newly liberalized markets as they are underdeveloped when compared to modern economies; second, sociopolitical governance refers to the power exerted by public authorities (in the past) through direct law and social influence, thus privatization through government deregulation is a common instance of liberalization in action; third, unbranded competition means that the prospects for entering newly liberalized markets are high as there is little global competition in these markets; fourth, with regards to infrastructure, inadequacies generally accompany newly liberalized markets; and finally regarding resources, there is also a lack of resources in production, exchange, and consumption due to past restrictions.

Table I summarizes the five characteristics of new liberalized marketeters, and how a firm can use them to enter these new markets.

One of the most recent, and interesting, newly liberalized markets is Cuba. Cuba's political and legal system would be classified as a coercive type of institutional isomorphism. In this instance, organizational decisions will be guided by the orientation of the state, its regulators, and political pressures on its sets of practices (Dimaggio and Powell, 1983). With Cuba not being a munificent environment, the state is very active. Close ties with the government are necessary to access resources, enjoy state favors, or compensate for a lack of factors such as institutional voids (Wang *et al.*, 2012).

Small, privately owned businesses were legalized throughout Cuba in recent years, but are scarce and heavily taxed. Outside multinational enterprises (MNEs) and small- and medium-sized enterprises alike have the technological, operational, and managerial expertise to quickly gain an advantage over these existing businesses. Large and small companies must establish trust and a working relationship with the government for any hope of developing a profitable business in Cuba. Large MNEs may be at an advantage with their ability to assist in infrastructure building. This business strategy would not only benefit a company's own operations, but will also provide value to potential consumers and establish a valuable relationship with the ruling communist government.

| Market characteristic | Explanation of the characteristic | Opportunity for an entrepreneur |
|----------------------------------|--|--|
| 1. Market heterogeneity | Local, fragmented, low scale, and often reflective of pre-industrialization | Employ demand generation as the need for certain products or services has not yet been realized |
| 2. Sociopolitical governance | Strong power exerted by public authorities through direct law and social influence | Creating relationships through government affiliation in order to curry favor |
| 3. Unbranded competition | Not previously open to outside competition. Branded products usually do not exist or command much demand | Utilize brand awareness to create a market place for certain products |
| 4. Inadequate infrastructure | Often lacking a basic network of operations including logistics, market transaction enablers, and basic banking functions. Also including a lack of communication, information, and transaction technologies | Establishing non-traditional production or selling methods in order to establish a competitive advantage |
| 5. Chronic shortage of resources | Lacking essential resources including not only natural resources, but production, exchange, and consumption resources as well | Resource improvisation in order to avoid diseconomies of scale |

Table I.
Newly liberalized
market characteristics

Source: Based on Sheth (2011)

EO and entry mode strategies in a newly liberalized market

Upon deciding to enter a foreign market, a firm must select its mode of entry. This decision involves a commitment of resources (ranging from various levels). Because altering the method of entry can cause considerable loss of time and money, making this decision is critical to future success in a foreign market. As the normative decision theory suggests, the choice of a foreign market entry mode should be based on trade-offs between risks and returns. Following this, a firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment (Agarwal and Ramaswami, 1992, p. 3).

Several theories have attempted to demonstrate how entry mode strategies are chosen including: the resource-based theory (i.e. Madhok, 1997), transaction cost theory (i.e. Anderson and Gatignon, 1986), Dunning's (1980) eclectic or organizational, locational, internalization framework cite, and the organizational capability perspective among others (see Anderson, 1997; Nakos and Brouthers, 2002 for a deeper review). Each approach centers the lens on the influence of a different factor on entry mode decision making (i.e. managers' profile, cost savings, country characteristics, etc.).

We adopt the Upper Echelons theory suggested by Hambrick and Mason (1984), which states that companies are a reflection of their top managers, and their leadership. From this approach, organizational outcomes (strategic choices, entry mode strategy, and performance outcome) are partially predicted by managerial background characteristics. More specially, and following Simsek *et al.* (2010) and Herrmann and Datta (2006), a distinct dimension of the managers' profile has been studied in the present paper: its EO. As these authors posit, relationships between managers' characteristics (EO) and strategic choices in the international arena have been relatively unexplored. The following work will provide a brief description of the possible relationship between the entry mode strategy of a company and the EO of its manager, but in a specific type of environment: newly liberalized markets.

The most common modes of entry into new markets include exporting (direct and indirect), licensing, joint ventures, and foreign direct investment (FDI). Exporting and licensing can be classified as non-equity modes, while joint ventures and FDI are

equity-based modes of entry (Pan and Tse, 2000). The latter groups require more resources, and are riskier, but permit higher levels of control than the former.

Literature on entrepreneurship shows that EO is affected by top management features (Simsek *et al.*, 2010; Herrmann and Datta, 2006), and it is expected that a higher EO will be required by a general manager to implement equity-based entry modes, as far as entry mode selection is influenced by the initiator's characteristics (Hilmersson and Jansson, 2012).

From this approach, several works (Agarwal and Ramaswami, 1992; Anderson, 1997) have tested that riskier entry modes will be followed by more innovative, risk-taking, or proactive managers. This will occur especially when newly liberalized markets want to be entered (Del Sol, 2010). For example, in the work of Dunning (1988), the choice of entry mode correlates directly to a manager's EO by overlapping with innovativeness, risk-taking, and proactiveness. This is due to managers with a high EO looking for ownership advantages in order to be more innovative (Dunning, 1988). Further, they will look for location advantages to increase their proactiveness. As such, managers will prefer high-risk entry modes, such as joint ventures or FDI, to better control and protect their interests. Based on previous comments, it could be stated that:

H1. Highly entrepreneurial-orientated managers (higher innovativeness, proactiveness, and risk-taking) and lower entrepreneurial-orientated managers will differ in their entry mode strategies. The former will prefer high-risk entry modes, while the latter will prefer low-risk modes.

In the following lines, we will show how the three dimensions of EO are also connected to entry modes.

First, regarding innovativeness, a stream of literature (Anderson, 1997; Madhok, 1997; Nakos and Brouthers, 2002) supports that riskier entry modes (direct investment and joint ventures) will be associated with higher levels of managerial creativity. Examples include protecting their highly valued properties (Nakos and Brouthers (2002). Protection requires a larger investment, even more when entering newly liberalized markets because potential competition is even more intense. The problem is that equity-based entry modes also bear more financial risk at the same time. Therefore, it could be stated that:

H1a. Highly innovative managers and less innovative managers will differ in their entry mode strategies. The former will prefer high-risk entry modes, while the latter will prefer low-risk entry modes.

Second, regarding proactiveness, previous works (Ripollés *et al.*, 2012; Datta *et al.*, 2009) support that taking initiative is most commonly done through high resource commitment entry modes. That is, if a firm has a proactive strategy, riskier entry modes will be pursued. The reason is that early internationalization is important when developing an international market orientation, especially when discovering newly (or even virgin) liberalized markets. Datta *et al.* (2009) referred to two groups, prospectors (preferring equity-based entry modes) and defenders (preferring non-equity-based entry modes). In their conclusions, they state that prospectors (managers exhibiting more initiative than their competitors) competencies often exist in the form of idiosyncratic organizational attributes that encourage equity-based (riskier) entry modes. For defenders, cost and efficiency are more important orientations, which leads to a greater tendency to use non-equity-based (less-risky) entry modes. Therefore:

H1b. Highly proactive managers and less proactive managers will differ in their entry mode strategies. The former will prefer high-risk entry modes, while the latter will prefer low-risk modes.

Finally, regarding risk-taking behavior, it is also evident that risk-taking firms will adopt riskier entry modes. Risk-taking not only includes financial commitments, but also a firm's willingness to venture into unknown territory. Datta *et al.* (2009) summarize that risk-taking

managers will favor uncertain endeavors such as product introduction and market exploration while seeking higher returns over an extended period of time. Equity modes, being the riskier entry modes, favor this attitude toward risk. As with innovativeness, and proactiveness, managers of firms with higher risk-taking characteristics will prefer these entry modes. To the contrary, managers that are unwilling to accept these levels of risks will prefer non-equity entry modes as a means curve the risks taken by their company. Datta *et al.* (2009) also clarify that firms can not only be risk-tolerable or intolerable, but also risk-seeking vs risk-averse. In sum, as risk-taking firms will accept these uncertainties, they are more likely to pursue riskier entry (equity-based) entry modes. Therefore:

H1c. Highly risk-taking managers and less risk-taking managers will differ in their entry mode strategies. The former will prefer high-risk entry modes, while the latter will prefer low-risk modes.

EO and government affiliation level in a newly liberalized market

To complete our proposal, a second characteristic of managers, and their firms, is included, that is, their preferred level of government affiliation. While all companies must meet governmental requirements set by law, some firms seek a competitive advantage to create, or maintain, a high level of government affiliation, especially when entering newly liberalized markets (Wang *et al.*, 2012).

The level of government affiliation refers to the hierarchical level of government where the relationship exists with the firm. That is, a manager may choose to have a relationship with a public government at a different level: state, provincial, city, or county. Sheth (2011) and Wang *et al.* (2012) indicate that firms with higher entrepreneurial-orientated managers will adopt strategies that rely more on their firm's internal capabilities rather than governmental affiliation. For example, increased proactiveness leads to the mentality that being ahead of competitors is of more importance than taking time to cultivate intense governmental affiliation. In a research conducted by Wang *et al.* (2012), it is shown that when managers rely excessively on political actors, entrepreneurial activities may decline. High EO managers will then be more self-reliant than managers exhibiting low EO.

In contrast, less entrepreneurial-oriented managers will be more likely to utilize governmental relationships in order to gain a competitive advantage. That is because they feel less secure in the existing strategic infrastructure, with incomplete managerial and operational plans. For these firms, creating strong relationships with the governing body is essential in order to curry favor, compete with local businesses ("favored sons"), and influence the development of new institutional mechanisms that go along with unfamiliar forms of governance (Sheth, 2011). Examples (of "favored sons") in newly liberalized markets include Gazprom (Russia), Petrobras (Brazil), CNOOC (China), and India Coal (India) among others (Sheth, 2011, p. 168). So, it can be stated that:

H2. Managers with a high EO (higher innovativeness, proactiveness, and risk-taking) and managers with a low EO will differ in their level of government affiliation strategies. The former will prefer low levels of affiliation, while the latter will prefer strong affiliation.

EO and performance outcomes

Lastly, several works (Lumpkin and Dess, 1996; Matsuno *et al.*, 2002; Miller and Camp, 1985; Miller, 2011; Rauch, 2009; Boso *et al.*, 2013; Zhang *et al.*, 2014; Lonial and Carter, 2015) have researched the relationship between EO and firm performance outcomes. As these authors explain, firms enter new markets to achieve success, and this will occur if they are managed following entrepreneurial principles. This is because earnings increase when new products and markets are discovered ahead of competitors.

In spite of this, although previous literature shows a relationship between EO and firm performance outcomes (Lonial and Carter, 2015), the link between both concepts might not occur. Recent research states that the context in which a firm operates can affect this relationship. Indeed Fadda and Sørensen (2017) underline that the attractiveness of the location in which a firm operates might moderate the EO-performance relationship. From this line of research, some environmental factors in newly liberalized markets could angulate the positive impact of EO on company performance outcomes. Thus, as the contingency theory states, a single organizational model with success in all contexts does not exist (Fadda and Sørensen, 2017).

However, we are interested in studying how firms perform in newly liberalized markets, which could be considered “attractive environments” for entrepreneurs. So, we could state that:

- H3.* Highly entrepreneurial-orientated managers (higher innovativeness, proactiveness, and risk-taking) and less entrepreneurial-orientated managers will differ, as will the performance levels of their firms. The first group will obtain better performance outcomes (results) than the second group.

Methodology

Sample

Within this framework, the EO of decision-making managers was measured; a total of 81 managers from firms within the USA that currently conduct business internationally and have an expressed desire to enter the Cuban market took part in our survey. No company had more than one manager surveyed. Firms headquartered outside of the US were not included in the population. US managers were chosen for our research because of their proximity to Cuba, which explains past business interactions between the nations many years ago (Perez-López, 2012), and a perceived opportunity for (and desire of) US business operations in Cuba (Hingtgen *et al.*, 2015) within the near future.

The majority of respondents were contacted personally via an event sponsored by the US Chamber of Commerce. The response rate was 68 percent (the questionnaires were sent to those who agreed to participate). Previous works interested in connecting EO to success have also used a similar sample size (89 firms in the study of Poon *et al.*, 2006; 94 firms in the study of Lumpkin and Dess, 2001). In order to validate the representative sample, this study assessed the effects of non-response (Huang, 2016). To this end, we compared the first round of responses (50 earlier respondents) with the second round (31 later respondents). We then used a *t*-test to find the key characteristics of early and late responses (such as age, gender, and industry). Based on a 5 percent significance level, the groups do not show significant differences. Furthermore, we would like to state that this is a convenience sample defined to achieve preliminary exploratory objectives.

All industry sectors were included with questionnaire invitations, with none being discriminated or favored. Companies with both B2B and B2C operations were included. Table II summarizes the sampling procedure and the profile of the respondents. Figure 1 reflects the various industry sectors represented by the respondents.

Analytical technique

To test *H1*, the population was divided into two groups according to their EO level (high and low) following previous literature (Miller, 1983; Covin and Slevin, 1989). The median value was used to define the groups (Hult *et al.*, 2004).

Then, several one-way ANOVA tests were done to compare both groups. Regarding their entry mode strategies, and as in previous works, the variables of innovativeness, proactiveness, and risk-taking acted as the three independent variables (Miller, 1983;

| | Age (%) | Gender | Number of employees (%) | B2B, B2C, or both(%) |
|------------------|-----------|---------------------------|-------------------------|----------------------|
| Total population | < 26: 5 | | < 10: 15 | |
| | 26-29: 6 | Masculine: $n = 46$ (57%) | 10-19: 14 | B2B: 25 |
| | 30-39: 16 | | 20-49: 12 | B2C: 20 |
| | 40-49: 21 | Feminine: $n = 35$ (43%) | 50-99: 12 | Both: 55 |
| | 50-59: 30 | | 100+: 46 | |
| | 60+: 22 | | | |

- Total respondents: 81 US managers. Convenience sample
- Only firms within the USA, and with existing international business operations
- Marketing directors or general managers only, with one respondent per company
- The firms must have an interest in entering the Cuban market
- Online platform using Google Forms. No telephoning, or person-to-person interaction
- Social media and e-mail invitations used to encourage participation

Table II.
Profile of the 81 survey respondents

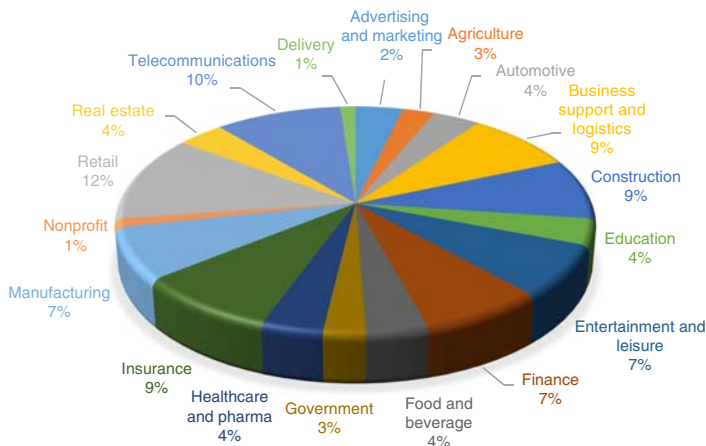


Figure 1.
Summary of industry sectors represented by the total population

Covin and Slevin, 1989; Miller and Friesen, 1982; Matsuno *et al.*, 2002) and entry modes as the dependent variable.

Additionally, to test $H2$ and $H3$ a series of t -tests for independent samples were conducted. In both cases, a second-order factor (Matsuno *et al.*, 2002) of EO was applied. To this end:

- (1) The first-order factors (Matsuno *et al.*, 2002) of innovativeness, proactiveness, and risk-taking were first analyzed with participants having either low or high levels of each dimension (Miller, 1983; Covin and Slevin, 1989; Miller and Friesen, 1982; Matsuno *et al.*, 2002). Specifically, the means of these three factors were calculated to divide our sample into two different groups: high EO (46 managers) and low EO (35 managers). The chosen cut points were the means of each factor: 2.24 for innovativeness, 2.65 for proactiveness, and 1.83 for risk-taking. These cut points were chosen because, as previous authors have stated (Covin and Slevin, 1989; Miller and Friesen, 1982), the mean is an appropriate indicator for cut points.
- (2) Then, the mean for all three combined factors was calculated to be 1.36. In this case, those participants whose individual mean (the combination of all three dimensions) was below the population's mean were determined to have a "low EO." Contrary to this, those above the population's mean were classified as having "high EO."

To conclude, it must be added that four Cronbach's α tests were done (one for each scale used in our study) to test the reliability of each scale with a generally accepted guideline of 0.70 (Nunnally and Bernstein, 1994).

Scales used

All items in the questionnaire were adapted from published works that were relevant to our study, as shown in Table III:

- To measure the three characteristics of EO, we used the work of Covin and Slevin (1989) and Miller and Friesen (1982) as a starting point. This proposal was actualized considering works such as the Lonial and Carter (2015) and Datta *et al.* (2009) (Table III).
- In order to create a scale for entry modes, the work of Agarwal and Ramaswami (1992), Dunning (1988), and Anderson (1997) were used. One multiple choice question asked the respondents to choose one of the four entry modes options as their preferred method when entering new markets. That is, the internationalization levels can vary from 1 (lowest level) to 4 (highest level): exporting, subsidiaries (opening commercial points), joint ventures, and other external alliances, and FDI firms.
- Regarding government affiliation, the works of Sheth (2011) and Wang *et al.* (2012) were followed and three questions were included in our questionnaire (Table III).
- When measuring firm performance items were included following the work of Boso *et al.* (2013) (Table III).

Scale reliability

As Table III shows, as a test of reliability, Cronbach's α was used with a generally accepted guideline of 0.70 (Nunnally and Bernstein, 1994). The reliability of each dimension proved strong with innovativeness being 0.84, proactiveness 0.76, and risk-taking 0.71. Cronbach's α measure for EO is 0.77, which is also above the generally accepted guideline of 0.80 (Nunnally and Bernstein, 1994).

Results

EO dimensions and entry modes

As our results show in Table IV, hypothesis cannot be confirmed, because the group of firms with higher level of EO do not prefer riskier entry modes (joint ventures or FDI) than firms with lower levels of EO in a significant manner ($F = 0.570$; $p = 0.452$). Both groups do not differ significantly. The variance caused by interactions between both groups does not differ from the variance found inside values within each single group. This result does not follow previous works such as those of Goodnow and Hansz (1972), Agarwal and Ramaswami (1992), Anderson (1997), Datta *et al.* (2009), and Pan and Tse (2000); possibly due to the characteristics of Cuba as our chosen newly liberalized market.

To analyze the link between EO and entry mode selection more specifically, a different analysis was performed considering each EO factor separately (innovativeness, proactiveness, and risk-taking). Our analysis has shown the following results.

First, regarding innovativeness, our data cannot confirm *H1a* ($F = 0.182$; $p = 0.670$) as the statistics in Table IV illustrate. That is, managers with a high innovativeness characteristic are not more likely to favor risky entry modes compared to less innovative managers (innovative managers and non-innovative managers do not differ significantly in their entry mode strategy).

Second, regarding proactiveness, *H1b* cannot be confirmed ($F = 0.753$; $p = 0.388$). Again, our results show that highly proactive managers and less proactive managers do not differ

| | Number of items (<i>n</i>) | Mean | Variance | Significance level (<i>p</i>) | SD | Cronbach's reliability (α) |
|--|------------------------------------|-------|----------|------------------------------------|-------|---|
| <i>Managers' entrepreneurial orientation EO (H1)</i> | <i>n</i> = 14 | 30.91 | 54.06 | <i>p</i> = 0.000** | 7.35 | α = 0.77 |
| Innovativeness (<i>H1a</i>) | <i>n</i> = 4 | 8.98 | 15.90 | <i>p</i> = 0.25 | 3.98 | α = 0.84 |
| We are usually first-to-market with new products or services | | 2.10 | | | 1.15 | |
| I encourage the development of innovative marketing strategies, knowing well that some will fail | | 2.30 | | | 1.22 | |
| I value creative new solutions more than the solutions of conventional wisdom | | 2.33 | | | 1.14 | |
| Our R&D team embraces new ideas and exemplifies technological leadership | | 2.25 | | | 1.32 | |
| Proactiveness (<i>H1b</i>) | <i>n</i> = 4 | 10.59 | 9.89 | <i>p</i> = 0.000** | 3.15 | α = 0.76 |
| Play it safe | | 2.17 | | | 1.19 | |
| Risk-reducing | | 2.19 | | | 1.09 | |
| Debt seeking | | 1.86 | | | 1.08 | |
| Uncertainty is not a priority for me | | 1.10 | | | 1.04 | |
| Risk-taking (<i>H1c</i>) | <i>n</i> = 6 | 11.35 | 9.28 | <i>p</i> = 0.000** | 3.05 | α = 0.71 |
| I accept risks | | 2.58 | | | 0.92 | |
| Lack of confidence | | 1.44 | | | 1.13 | |
| I think that change creates opportunities | | 2.72 | | | 0.87 | |
| I prefer opportunities over problems | | 2.19 | | | 1.14 | |
| Introduce ahead of competition | | 2.91 | | | 1.06 | |
| Anticipate future demand | | 2.78 | | | 1.03 | |
| Importing current processes and operations used in other countries and adapting as needed | | 2.49 | | | 1.16 | |
| Importing current processes and operations and forcing them to work in a new environment | | 2.15 | | | 1.28 | |
| Adapting to (or creating) a local infrastructure through non-traditional channels | | 1.78 | | | 1.15 | |
| <i>Government affiliation (H2)</i> | <i>n</i> = 3 | | 4.275 | <i>p</i> = 0.5** | | α = 0.70 |
| When entering a newly liberalized market, which hierarchal level of government is the most important for you when establishing relationships? | | 5.00 | | | 5.082 | α = 0.76 |
| How intensive (closely integrated) will your relationship be with the level of government selected in the previous question? (1: least intensive, 5: most intensive) | | 2.56 | | | 1.37 | |
| When entering a newly liberalized market, how important is the government affiliation to your company's strategy? | | 2.44 | | | 1.28 | |
| <i>Firm global performance: compared to your main competitors, mark your company's level of performance spanning the last three financial years (H3)</i> | <i>n</i> = 14 | 31.17 | 91.020 | <i>p</i> = 0.000** | 9.540 | α = 0.93 |
| 1. Overseas markets | | 2.12 | | | 1.05 | |
| 2. Revenue growth | | 2.32 | | | 1.11 | |
| 3. Profitability | | 2.43 | | | 1.05 | |

(continued)

Table III.
Reliability statistics
for the scales

| | Number of items (<i>n</i>) | Mean | Variance | Significance level (<i>p</i>) | SD | Cronbach's reliability (<i>α</i>) |
|---------------------------------|------------------------------------|------|----------|------------------------------------|------|---|
| 4. Overall performance | | 2.52 | | | 0.99 | |
| 5. Profit to revenue ratio | | 2.46 | | | 0.92 | |
| 6. Cash flow | | 2.30 | | | 0.98 | |
| 7. Net profit | | 2.44 | | | 0.94 | |
| 8. ROI | | 2.51 | | | 0.91 | |
| 9. ROA | | 2.44 | | | 0.87 | |
| 10. Market share gain | | 2.17 | | | 1.15 | |
| 11. Service quality | | 2.48 | | | 0.99 | |
| 12. Competitive profile | | 2.74 | | | 0.95 | |
| 13. Growth estimate for 5 years | | 2.23 | | | 1.00 | |
| 14. Net profit | | 2.44 | | | 0.94 | |

Notes: Typical five-point Likert scales were used to measure each concept. EO (innovativeness; proactiveness, and risk-taking) (1 = totally disagree; 5 = totally agree). Government affiliation (1 = less intensive; 5 = most intensive) (1 = not important; 5 = critically important). Firm global performance (1 = much worse than my competitors; 5 = generally outperforming my competitors). **Statistically significant at $P \leq 0.001$

Table III.

| | Sum of squares | df | Mean square | <i>F</i> | Sig. | Hypothesis |
|--|----------------|----|-------------|----------|-------|------------|
| Entrepreneurial orientation and entry mode | | | | | | <i>H1</i> |
| Between groups | 70.785 | 1 | 0.785 | 0.570 | 0.452 | Rejected |
| Within groups | 108.795 | 79 | 1.377 | | | |
| Total | 109.580 | 80 | | | | |
| Innovativeness and entry mode | | | | | | <i>H1a</i> |
| Between groups | 0.252 | 1 | 0.252 | 0.182 | 0.670 | Rejected |
| Within groups | 109.328 | 79 | 1.384 | | | |
| Total | 109.580 | 80 | | | | |
| Proactiveness and entry mode | | | | | | <i>H1b</i> |
| Between groups | 1.034 | 1 | 1.034 | 0.753 | 0.388 | Rejected |
| Within groups | 108.546 | 79 | 1.374 | | | |
| Total | 109.580 | 80 | | | | |
| Risk-taking and entry mode | | | | | | <i>H1c</i> |
| Between groups | 0.537 | 1 | 0.537 | 0.389 | 0.535 | Rejected |
| Within groups | 109.043 | 79 | 1.380 | | | |
| Total | 109.580 | 80 | | | | |

Table IV.
Entrepreneurial
orientation and
entry mode

Notes: * $p < 0.05$; ** $p < 0.001$

in their entry mode strategy (Table IV). That is, more proactive managers will not prefer riskier entry modes (joint ventures and FDI) when compared to reactive managers, which will not prefer less-risky entry modes (exporting and licensing).

Finally, regarding risk-taking behavior, our data do not allow us to confirm *H1c* ($F = 0.389$; $p = 0.535$). As Table IV shows, riskier managers will not prefer riskier entry modes, while reactive managers will not prefer less-risky entry modes. Both groups will enter newly liberalized markets following similar internationalization strategies.

In sum, EO is not related to entry mode selection. High EO firms and low EO firms act equally. Both groups prefer simple entry modes (such as exporting and licensing). Additionally, both groups avoid riskier entry modes (such as FDI). This result is consistent with the explanations provided by Ortega *et al.* (2016, p. 25), who remarked that “developing economies are characterized by high levels of uncertainty in business

environment; volatility and rapid developments in consumer demand; not always stable political systems; legal systems relatively weak; important role of social networks in exchange.” Given the high risk of failure, this explains the preference for simple entry modes in both groups.

EO and government affiliation

Regarding government affiliation, and based on our results, *H2* cannot be confirmed ($F = 0.098$; $p = 0.755$). As the data in Table V show, the preferred level of government affiliation is almost identical between both EO levels. The means do not significantly differ between the groups. In sum, managers with a low EO level do not place more importance on government affiliation and do not favor a greater intensity of those relationships than managers with a high EO level, as stated in *H2*. Both groups of managers believe that a solid level of government affiliation is important for the company’s strategy because, in line with Ortega *et al.* (2016, p. 25), “challenges stem from institutional voids (i.e. imperfect markets) and institutional uncertainty (i.e. changing rules, corruption). Institutional voids refer to imperfections in the market mechanisms caused by the lack of appropriate market supporting institutions, while institutional uncertainty is created by the expectation that the institutional rules governing businesses could change unpredictably.”

EO and firm performance

Regarding the link between EO and global performance, *H3* can be confirmed based on our data ($F = 1.593$; $p = 0.093$). As Table VI shows, the means for managers with high EO levels report better performance results than managers with low EO levels in all categories (except for net profit). Therefore, it can be concluded that managers with a high EO level will perform better in newly liberalized markets.

Based on our previous results, entry mode strategies and governmental affiliation strategies cannot be used to explain the superior performance of North American firms entering Cuba. It is likely that high and low EO firms differ in other decisions that justify their performance differences. In short, three main points could explain why *H1* and *H2* could not be confirmed, that is, why US entrepreneurs in our sample are reluctant to undertake large investments and prefer a solid level of government affiliation:

- (1) Cuba is a new liberalized market with some particular properties (Ortega *et al.*, 2016, p. 25) toward which the American managers still show prudence because of the high risk of failure.

| Entrepreneurial orientation and government affiliation (<i>H3</i>) | $F: 0.098$ | | $p = 0.755$ | | <i>H2</i> | Rejected |
|--|------------|----------|-------------|-------|-----------|----------|
| | EO | <i>n</i> | Mean | SD | | |
| When entering a newly liberalized market, which hierarchal level of government is the most important for you when establishing relationships? | Low EO | 35 | 2.29 | 1.426 | 0.241 | |
| | High EO | 46 | 2.28 | 1.471 | 0.217 | |
| How intensive (closely integrated) will your relationship be with the level of government selected in the previous question? (1: least intensive, 5: most intensive) | Low EO | 35 | 2.51 | 1.222 | 0.206 | |
| | High EO | 46 | 2.39 | 1.325 | 0.195 | |
| When entering a newly liberalized market, how important is the government affiliation to your company’s strategy? | Low EO | 35 | 2.71 | 1.467 | 0.248 | |
| | High EO | 46 | 2.43 | 1.294 | 0.191 | |

Notes: * $p < 0.05$; ** $p < 0.001$

Table V.
Entrepreneurial orientation and government affiliation

| EO and global results Entrepreneurial orientation and global results (performance + financial) | | H3: accepted F: 1.593 ($p = 0.093$) | | |
|---|---------|--|----------|------|
| | | EO | <i>n</i> | Mean |
| Overseas markets | Low EO | 35 | 1.83 | |
| | High EO | 46 | 2.35 | |
| Revenue growth | Low EO | 35 | 1.94 | |
| | High EO | 46 | 2.62 | |
| Profitability | Low EO | 35 | 2.33 | |
| | High EO | 46 | 2.52 | |
| Overall performance | Low EO | 35 | 2.26 | |
| | High EO | 46 | 2.72 | |
| Profit to revenue ratio | Low EO | 35 | 2.40 | |
| | High EO | 46 | 2.50 | |
| Cash flow | Low EO | 35 | 2.20 | |
| | High EO | 46 | 2.37 | |
| Net profit | Low EO | 35 | 2.46 | |
| | High EO | 46 | 2.43 | |
| ROI | Low EO | 35 | 2.34 | |
| | High EO | 46 | 2.63 | |
| ROA | Low EO | 35 | 2.26 | |
| | High EO | 46 | 2.39 | |
| Market share gain | Low EO | 35 | 1.71 | |
| | High EO | 46 | 2.52 | |
| Service quality | Low EO | 35 | 2.20 | |
| | High EO | 46 | 2.70 | |
| Competitive profile | Low EO | 35 | 2.40 | |
| | High EO | 46 | 3.00 | |
| Growth estimate for 5 years | Low EO | 35 | 1.80 | |
| | High EO | 46 | 2.57 | |

Table VI.
Entrepreneurial
orientation (EO) and
managerial
performance

- (2) The profile of our sample mainly includes managers from US firms of certain age (52 percent > 50 years old) preferring secure entry modes and traditional relations with the Cuban Government.
- (3) EO (innovativeness, proactiveness, and risk-taking) permits to explain why some firms performed better than others, even when adopting the same entry mode strategy and sharing a common government affiliation level.

Conclusions, managerial implications, and limitations

First, our hypothesis stating that managers with a high EO will prefer riskier entry modes than managers with a low level of entrepreneurial has not been confirmed (*H1*). The subsequent sub-hypotheses referring to each of the three factors composing EO (innovativeness, proactiveness, and risk-taking) were also not confirmed based on our data. So, in our sample, entry modes and EO are unlinked terms. That is, managers from the USA entering the Cuban market with different EOs will not act differently when selecting their entry mode strategy. Riskier entry modes (such as joint ventures or FDI) will not be favored by more entrepreneurial-orientated managers. This finding refutes many published works including Agarwal and Ramaswami, (1992), Dunning (1988), and Anderson (1997). The profile of our sample population (managers from US firms) combined with the selected market (Cuba) may clarify this curious result. Specifically, the lack of participants in our sample preferring riskier entry modes when entering newly liberalized markets (i.e. joint ventures or direct manufacturing abroad) explains the absence of differences between our two groups. That is, the degree of internationalization is the same (low) for both groups of

managers (high and low EO levels). The conditions of the Cuban market can help to explain this result, given the past characteristics of the Cuban market as well as the relative unknowns within the current economy and political environments. These facets may justify the hesitation of entrepreneurs to undertake large investments during the initial phase of internationalization.

The second hypothesis stating that managers with a high EO will prefer lower levels of government affiliation than managers with a low level of EO was neither confirmed (*H2*). The means of these two groups was so close that a significant difference could not be determined. Both groups of managers prefer stronger levels of affiliation with the Cuban Government.

Lastly, a significant and positive link between EO level and firm performance was confirmed. Managers with high EO levels illustrated better firm performance measures (against their competitors) in 13 out of 14 categories of measurement. This states that managers with a high EO perform better than managers with a low EO. However, neither their entry mode strategies, nor their government affiliation strategies could be used to explain this success.

Our results are proof that US companies must consider their own EO when entering newly liberalized markets. So, some managerial implications will be recommended.

First, we recommend increasing the EO of firm managers to achieve success abroad. As our research has demonstrated, this characteristic is directly linked to higher firm performance. Whether becoming more innovative through R&D investment, more proactive by acting ahead of their competitors, or by growing their tolerance for risk-taking, firms must raise the level of their EO before deciding to enter Cuba. Some ways to improve the EO of the managers in charge of entering new markets could be to create “managerial terms” to establish focal points with clear goals. Also, designing the entry process in a collaborative way, sharing their points of view, and their responsibilities can spur innovativeness within a company. A crucial factor that managers must devise is a clear map of the opportunities and thoughts of the market to enter. First-hand knowledge can be attained by visiting or living for a period in the desired market in order to gain a better understanding of the culture and business landscape. With this in mind, we recommend incentivizing managers’ international mobility.

Second, firms must select the correct form of entry mode. While our data do not show a link between entry mode and EO, it is still a crucial decision that must be carefully chosen. In this sense, we recommend to start with less-risky entry modes because, as our results have shown, managers in both samples tend to favor this strategy at the beginning of the internationalization process. Then, with time, it could be recommended to elevate operations in terms of riskier entry modes that involve a larger commitment of resources. So, a gradual entry mode strategy is recommended for firms of all EO levels.

Third, while government affiliation has been known to curry favor for certain companies, it must not be a focal point of firms when entering newly liberalized markets. This is a grey area when Cuba is the market being considered. The political climate is strict, but changing rapidly in the direction of a more open market. Because we find that government affiliation is not correlated with a high level of EO (or firm performance), we do not advocate it as a focal point. That being said, when entering the Cuban market, the circumstances change and political consideration must be given in some capacity. However, we would not recommend government affiliation as a top strategic priority.

Fourth, as our results have demonstrated, a likely method of improving performance is to be more innovative, proactive, and tolerant of risk. Therefore, to be more innovative, we would recommend investing more in R&D or placing more value on future demand rather than focusing on short-term demand. To be more proactive, companies could gain more knowledge of their competitors’ activities and competences in order to spur competitiveness. This mentality must be maintained through a will to stay ahead in the market place.

A company's risk tolerance can grow through a willingness to take on debt and commit resources to new ventures in newly liberalized markets.

Finally, after comparing the literature review with the results of the conducted survey, it is evident that while EO is well researched, it is undervalued in the business community. With so many new analytics tools available today, firms can (and must) easily calculate their own EO scores and decipher a way to grow that number. In this sense, this paper recommends that US companies become smarter and better equipped with this knowledge when entering the Cuban market.

This study has some limitations that could inspire further research. First, the size of the sample is not large enough as only 81 managers took part in the survey. Second, as the information gathered was subjective, rather than objective, there is room for bias on the part of the managers. Additionally, personal opinions and a lack of knowledge of competitors may have created overvalued, or misleading, data. To overcome these limitations, future works could be developed using higher samples, objective data, and more cross-analyses (i.e. considering the existence of possible perceptual differences among general managers).

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