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SME Internationalisation in the United Arab Emirates: Home-Host Country Characteristics and the Role of Cultural Distance

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Abstract. This study looks at the influence of home and host country characteristics (HHCC), cultural distance (CD) and other distance dimensions on small and medium-sized enterprise (SME) internationalisation strategies related to the United Arab Emirates (UAE) market. We focus on SMEs' host market entry mode (MEM) choice with the UAE considered as either home or host market. The main purpose of the study is to determine how SME managers perceive the influence of HHCC, CD and other distance dimensions, and how these perceptions affect MEM choice.
Our analysis is based on a qualitative research approach based on 20 semi-structured personal interviews with SME managers in UAE. In the empirical research we employ content analysis as the main analysis method.
Our research results indicate that in some cases, the MEM choice is shaped by specific host country characteristics, such as government restrictions, trade barriers, and taxes and liabilities. Our research results also indicate that in most cases, where CD or other distance dimensions are perceived by SMEs as influencers on their MEM decisions, these perceived distances actually represent host market characteristics, more than distance dimensions between home and host country. Drawing from these results, CD and other distance dimensions have a very limited influence on the decision of MEM. Instead, home and host market characteristics, including primarily opportunities and advantages in the host market and challenges in home and host market, usually moderate this choice. These results support Harzing and Pudelko's (2016) conclusions that when home and host country context characteristics are included, the CD effect becomes not a make-or-break factor.

Keywords: SME internationalisation, market entry, host country characteristics, home country characteristics, cultural distance, psychic distance, United Arab Emirates (UAE)

1 Introduction

Firm internationalisation is one of the main study areas in the international business (IB) literature (Laanti et al. 2007). Yet, the primary focus is still on multinational enterprises (MNEs) from developed countries. It is only in the last two decades, that internationalisation of small and medium-sized enterprises (SMEs) has started to draw attention (Chiao et al. 2006), especially from more emerging markets. At the same time, the concept of globalisation has been also a heavily debated phenomenon (Kuzmanić and Sedmak 2006), while recent studies on IB point out to a different concept—*regional* internationalisation (Rugman and Verbeke 2003). Furthermore, *emerging economies* have also gained interest in IB research in recent years, even though researchers focus particularly on major economies, such as China, Brazil, India and Russia (Verbeke 2013). On these

bases, our research is focused on SMEs' internationalisation strategies in the United Arab Emirates (UAE), considered as either the home or host country of the internationalising firm.

In this context, we focus on two specific aspects: the concept of *distance* and *home and host country characteristics* (HHCC). Research in IB has long embraced cultural distance (CD), psychic distance (PD), geographic distance (GD) and other distance dimensions, as central to understand and explain the IB phenomena. However, based on their research, Harzin and Pudelko (2016), for instance, argue that when HHCC are included, the CD effect on firms' internationalisation becomes insignificant. This means that much of what has been in the past attributed to the influence of distance, is in fact the result of particular characteristics present in the home or host country. On this basis, our research is focused on examining the explanatory power of HHCC compared to CD and other distance dimensions in SMEs' choices of market entry mode (MEM) into or from the UAE market. We have selected the UAE because of the specific characteristics related to its strategic location, cultural environment and particularities of its economy.

In this article we build on Harzing and Pudelko's (2016) findings and extend them with novel empirical evidence from a specific emerging market. With our empirical research, we first try to understand SME decision-makers' perceptions about HHCC, distance dimensions and the difference between these concepts and their impact on internationalisation strategies' decisions, considering the UAE as our focus market. On this basis we have defined our first three research questions (RQs):

RQ 1: How do SME decision-makers perceive the distinction between the impact of HHCC and of distance dimensions between their home and host countries on their internationalisation strategies?

RQ 2: Which are the main HHCC perceived by SME decision-makers in relation to the UAE market and their other home and host markets?

RQ 3: Which are the main differences perceived by SME decision-makers between their home and host countries in relation to the UAE market?

Considering the choice of MEM as our key dependent variable, we are particularly interested in the role of HHCC versus CD and other distance dimensions in SME decision-makers' choice of MEM. Therefore, our last two RQs are:

RQ 4: How do SME decision-makers perceive the impact of HHCC on their choice of foreign MEM?

RQ 5: How do SME decision-makers perceive the impact of CD and other distance dimensions on their choice of foreign MEM?

Our research is explanatory in nature (Ritchie and Lewis 2003) and we use *qualitative methodology* by employing semi-structured interviews for collecting data, and content analysis for analysing collected data.

Our research results indicate that the distance between home and host country still matters, but is less important than HHCC. Our findings also suggest that opportunities and advantages present in the host market act as key motives attracting SMEs to enter foreign markets, and that host market characteristics also impact or moderate the MEM choice. Finally, we also discuss the implications of our findings for IB literature, highlight research limitations, and provide recommendations for future research in the field.

2 SMEs' internationalisation

IB literature has focused primarily on MNEs from developed countries. But during the last two decades we have witnessed an increase in SMEs' internationalisation studies (Chiao et al. 2006), even though more focused on particular stages of internationalisation or export development models (Ruzzier, Hisrich and Antončič 2006). The effect of globalisation and advancements in information and communication technologies during the last two decades have contributed to a growing role of SMEs in IB (Knight 2000). Nowadays, SMEs account for more than 95% of all firms in many countries and therefore play a major role in both developing and developed economies (Chiao et al. 2006). With reference to the UAE market, the 350,000 SMEs account for 94% of all companies

registered in the country in 2014, contributing to 72% of employment in UAE (BLOOVO Middle East 2016).
Operations and decision-making processes in SMEs are different than those in MNEs, because they have some unique characteristics based on their size and owners / managers' characteristics (Gilmore et al. 2001; Knight and Kim 2009). Laufs and Schwens (2014) argue, that some of these characteristics have an impact on their level of control, risk and resource commitment, which impacts their MEM choice. In addition, due to their constraints in resources, firm competences play a significant role in international SMEs, as they allow them to enter foreign markets and to develop effective IB strategies (Knight and Kim 2009), as well as to succeed in foreign markets (e.g. Knight and Cavusgil 2004; Knight and Kim 2009; Zahra et al. 2000).
In this context, our research is focused on SMEs' internationalisation strategies in emerging economies in a very specific setting—the UAE, considered as either their home or host market.

2.1 Internationalisation in emerging markets

Emerging economies represent attractive markets for businesses, offering potential cost and innovation advantages and representing new output markets (Verbeke 2013). However, recent literature about IB in emerging markets is mostly focused on four major economies, namely China, Brazil, India and Russia, while countries from the Middle East, for example, are usually left out (Rogmans 2012).
From a market-seeking internationalisation perspective, SMEs planning to enter emerging markets need to consider some critical criteria, such as the market attractiveness, infrastructure, quality of life, taxation and cost of doing business, but also institutions and political risk (Rogmans 2012). In this context, decision-makers need to give particular attention to *institutional voids* (Cantwell et al. 2010; Gao et al. 2017; Khanna and Palepu 1997, Rogmans 2012) present in emerging markets, which represent a challenge for doing business there, but also offer opportunities to businesses with the right assets and skills to fill the existing voids (Rogmans 2012). Other institutional particularities of emerging markets include the diversity of inward investors and distinctive regulatory environments, which may inhibit international business (Ionaşcu et al. 2004), raise transaction costs and increase risk levels (Demirbag et al. 2008; Meyer 2001).
Furthermore, emerging markets undergoing economic reforms experience significant institutional changes and many of these economies are currently moving to market-based policies, which result in rapid structural changes, increased uncertainty, and unbalanced growth, while opening to foreign direct investments (Boso et al. 2013). Consequently, changes in IB decision-making and market entry strategies have made market orientation and entrepreneurial orientation activities crucial in emerging markets, as they can increase firm performance in these challenging environments (Boso et al. 2013).
The Middle East is a large emerging market, characterised by rapid growth, major oil and gas reserves and a strategic location between Europe, Asia and Africa (Rogmans 2012). Although various MEMs are available to foreign businesses, in some countries in the Middle East are present important restrictions on full foreign ownership (Rogmans 2012), as well as other restrictions that may have a significant impact on the choice of MEM. Country specific characteristics also have a direct impact on internationalisation strategies in Middle East markets, which seem to be as important as firm and industry specific factors (Demirbag et al. 2008).

2.2 United Arab Emirates market overview

Within emerging markets in the Middle East, our research is focused on the UAE, which has a fast-developing economy and serves as a regional hub for many international businesses (Lawes 2014). The UAE is strategically located between Europe, Asia and Africa (UAE Government 2016) and has various location advantages and opportunities in the market, such as low-cost labour from Asia, booming service industry, lack of taxation, continuous business development, a good infrastructure and millions of tourists from all over the world (Lawes 2014). It is also one of the most

internationalised and multicultural countries in the world (Dubai Chamber 2015) with over 200 nationalities, making the UAE one of the most open-minded and progressive countries in the Middle East (Lawes 2014). Based on its Arab culture and Islamic religion, the business culture in UAE is focused on long-term relationships, where personal and business networks are extremely important to the success of a business (Explorer Group 2015; Marsh 2015; Nydell 2014). Another particularity of the UAE, compared to other countries in the Middle East, is its diversified economy, despite oil and gas resources being the primary government source of revenue (Lawes 2014; Nydell 2014). As a result of its location advantages, multiculturalism and diversified economy, the UAE is the most robust economy in the Middle East (Al Muhairi 2015) and one of the most dynamic economies in the world, with a rapid and remarkable growth in investment, finance, commerce, industry, services and oil and gas, providing a safe, attractive and stable economy (Dubai Chamber 2015) for international businesses.
All these and other aspects make the UAE a unique market, especially for foreign SMEs planning to enter the market, as they need to adapt their way of doing business to be in line with the requirements of the local *rules of the game* (Hilmersson 2009).

2.3 Foreign market entry strategies

Firms deciding to enter foreign markets are concerned primarily with three important choices: *which* markets to enter, *how* to enter them (Lee and Lieberman 2010; Morschett et al. 2010; Nisar et al. 2012) and *when* to enter them (Antončič and Hisrich 2001). The time dimension of a firm's internationalisation process represents a bridge between incremental internationalisation and internationalisation at, or soon after, inception, and is thus crucial (Antončič and Hisrich 2001) in the firm's IB strategy. The choice of MEM is very important because it is associated with risks in the host country (Hill et al. 1990; Laufs and Schwens 2014; Nisar et al. 2012), the level of control over foreign operations (Anderson and Gatignon 1986; Laufs and Schwens 2014; Nisar et al. 2012), the level of resource commitment (Laufs and Schwens 2014; Nisar et al. 2012; Rhee 2008), ownership and costs (Nisar et al. 2012). Although firms can enter foreign markets with various MEMs, *exporting* is often the starting phase of a firm's internationalisation process, as well as the most common mode of market entry (Yurdagul et al. 2012), particularly in case of SMEs (Young 1987), at least in the early stages of their internationalisation (Tan et al. 2018).
Although foreign markets can offer greater opportunities for firms than those available in their home country, "there is no single best internationalization strategy" (Morrison 2009, 239). Therefore, in our research, we try to identify the main antecedents and determinants of SME decision-makers' choice of MEM, but with a particular focus on HHCC and various distance dimensions as determinants or moderators of this choice.

3 Home and host country characteristics and foreign market entry

As suggested by Harzing and Pudelko (2016), the home and host country context represent a significant explanatory factor in a firm's internationalisation. In this framework, the authors focus particularly on specific HHCC, such as political risk, the level of economic development, investment restrictions, access to capital and cultural traits, which they argue represent more likely explanatory factors of firms' internationalisation strategies decision than CD. On this basis, our research is focused on examining the explanatory power of HHCC compared to CD and other distance dimensions in SMEs' choices of MEM into and from the UAE market.

3.1 Home country characteristics

A firm's home country environment characteristics can represent location advantages or disadvantages for the firm's internationalisation. The home country environment of the firm determines its

institutional context and consists of a set of opportunities, which are determined by institutions and other factors (Laufs and Schwens 2014; Wan and Hoskisson 2003).
Porter (1990) argues that the set of a firm's home country location advantages represent the basis of the firm's ability to compete internationally. In this regard, in cases where host countries are less developed than home countries, Tao et al. (2013) argue that the local firms are not as competitive as the foreign entrants, resulting in relatively low acquisition costs in the host country and smaller resistance from local businesses in case of FDI.
In recent literature, we can find a set of home country characteristics relevant for the firm's choice of MEM. Harzing and Pudelko (2016), for instance, argue that specific home country cultural traits (e.g. uncertainty avoidance and short-term vs. long-term orientation) are relevant in explaining the MEM choice. On the other hand, Morschett et al. (2010) argue that power distance and uncertainty avoidance tendency represent the two main home country characteristics influencing this choice.

3.2 Host country characteristics

When entering a host country, the attractiveness of the market and its specific characteristics seems to be a major factor in the firm's MEM choice (Morschett et al. 2010; Nisar et al. 2012), which include also the host country formal and informal institutional context (Laufs and Schwens 2014; Schwens et al. 2011). Within host country characteristics that reflect the attractiveness level of a market, authors mention, for example, the level of economic development (Harzing and Pudelko 2016), societal institutions (Demirbag et al. 2008), market size (Agarwal and Ramaswami 1992; Morschett et al. 2010), market potential (Demirbag et al. 2008), market growth potential (Agarwal and Ramaswami 1992; Brouthers 2002; Nisar et al. 2012), industrial sales growth (Luo 2001), comparative cost advantages (Demirbag et al. 2008), quality of inputs (Demirbag et al. 2008), openness to foreign investment (Morschett et al. 2010), competitive situation (Morschett et al. 2010) and many others. In this context, although location advantages of a host market can act as potential drivers of firms' internationalisation and are available to all firms in the host market (Dunning 1988), not all firms are able to exploit these advantages efficiently and effectively (Pinho 2007).
However, other characteristics may indicate a less attractive host country, such as: political risk, legal risk and restrictions, investment risk and restrictions (Agarwal and Ramaswami 1992; Demirbag et al. 2008; Harzing and Pudelko 2016; Pinho 2007), government restrictions (Demirbag et al. 2008; Harzing and Pudelko 2016), country risk and trade barriers (Morschett et al. 2010), taxes and liabilities (Yurdagul et al. 2012), unstable economy (Agarwal and Ramaswami 1992; Nakos and Brouthers 2002; Pinho 2007; Yurdagul et al. 2012), and others.
Among all of the above positive or negative host country characteristics, the level of economic development represents a significant characteristic of the target host country. Thus, in emerging economies, institutions and their characteristic need to be carefully considered by foreign entrants, because institutional immaturity raises transaction costs and increases risk level (Demirbag et al. 2008; Meyer 2001).

4 Cultural distance and other distance concepts

Differences in norms, values and other characteristics between home and host country often create difficulties in market entry and operations in the foreign country (Chang et al. 2012). The more distant a host country is from an SME's home country, the more it has to bridge cultural differences and thus adapt its entry strategy (Ionaşcu et al. 2004; Johanson and Vahlne 1977; Kogut and Singh 1988). It is, therefore, critical for successful market entry and operations to understand the host country culture (Popli et al. 2015) and other characteristics.
In the last few decades, authors from the IB field have paid much attention to the concept of distance and its impact on market entry strategies and cross-border operations (Drogendijk and Slangen 2006; Harzing and Pudelko 2016; Popli et al. 2015; Shenkar 2001). The main distance concepts studied by

researchers include: *cultural distance*, which results from differences in national cultural attributes, such as language, religious beliefs, social norms and values (e.g. Ghemawat 2001; Harzing and Pudelko 2016; Hofstede 1980; Kogut and Singh 1988; Ojala 2015;), *psychic distance*, which is based on individual's perception about the differences in culture, business and other national characteristics (e.g. Dow and Karunaratna 2006; Hofstede 2006; House et al. 2004; Kogut and Singh 1988; Ojala 2015), *geographic distance*, which represents mainly the physical distance between countries (e.g. Dow and Karunaratna 2006; Ghemawat 2001; Ojala 2015; Verbeke 2013;), *institutional distance*, reflecting differences in societal institutions (e.g. Gubbi et al. 2010; Guler an Gullién 2010; Ionaşcu et al. 2004; Verbeke 2013), *economic distance*, representing differences in consumer wealth, income level and distribution and other characteristics related to a country's economy (e.g. Fisher et al. 2015; Ghemawat 2001; Mazurek 2012; Tao et al. 2013), and *administrative distance*, which reflects differences in bureaucratic patterns (e.g. Berry et al. 2010; Ghemawat 2001; Guillén and Suárez 2005). Despite the number of studies about various distance dimensions present in literature and their popularity, inconsistent research findings have resulted in authors starting to question the actual usefulness of the distance concepts (Håkanson et al. 2016).

4.1 Cultural distance, psychic distance and perceived distance

Even though CD and PD have been researched in many studies, some authors do not distinguish them properly or even consider them as equivalent or as interchangeable concepts (Dow and Karunaratna 2006; Dunning et al. 2007; Gomes and Ramaswamy 1999). As a result, there is present a considerable confusion and misperception regarding these two distance concepts. However, based on the various definitions of CD and PD, as well as their applied measures, there is a clear difference in focus between the two constructs, as they capture different phenomena (Håkanson and Ambos 2010). In fact, CD refers to differences between groups of people (or nations) in terms of values, norms, language, religious beliefs and other cultural characteristics, while PD captures *individual's perception* of the difference between the home and host country as a highly subjective interpretation of reality (Avloniti et al. 2014; Ojala 2015; Sousa and Bradley 2005). Based on this distinction, Sousa and Bradley (2005) suggest that CD should be applied at the country level, while PD needs to be applied at the individual level. In this context, *managerial perception* plays a significant role in differentiating the two concepts. Because individual perceptions drive managers in their strategic decision-making and behaviour, several authors propose the use of individual-level perceptual measures to evaluate cultural differences (Drogendijk and Slangen 2006).

4.2 Other distance concepts

Apart from CD and PD, other distance dimensions have also been researched as influencers, inhibitors or moderators of firms' international expansion. The major effects of GD studied in IB consider this distance dimension as a major inhibitor to international expansion (Delios and Henisz 2003), significantly increasing costs of doing business in physically distant countries (Berry et al. 2010; Chen 2009; Cuervo-Cazurra and Genc 2008; Ghemawat 2001;) and thus decreasing international trade between countries (Anderson 1979; Chen 2004). Furthermore, Ghemawat (2001; 2013) points out that GD is not just a matter of how distance two countries are in terms of kilometres, highlighting other relevant distance attributes to be considered, such as: the physical size of the country, access to ocean and waterways, average within-country distance to borders, the presence (or absence) of a common land border, the topography, differences in time zones, differences in climate, as well as transportation and communications infrastructures (Ghemawat 2013), among others.
In the context of emerging markets, other distance dimensions also need to be considered in SMEs' internationalisation, namely institutional distance (ID), economic distance (ED) and administrative distance (AD). ID in particular, has emerged with the Transaction Cost Theory and the RBV within the research on business strategies in emerging economies (Ionaşcu et al. 2004), and can be a useful

tool for analysing IB relationships in these economies, where particular attention is also given to institutional voids (Cantwell et al. 2010; Khanna and Palepu 1997). The concept of ED, on the other hand, has been studied from different perspectives. Even though we can find various definitions and measures (e.g. Barro 1991; Conley and Ligon 2002; Fisher et al. 2015; Mazurek 2012) of ED, Ghemawat (2001) argues that customers' wealth represents its most important attribute. This is again particularly relevant in case of emerging economies, where usually customers' wealth levels are lower than in developed countries. Lastly, there is limited research about AD in literature, proposing various definitions, measures, attributes and other characteristics (e.g. Berry et al. 2010; Ghemawat 2001; Guillén and Suárez 2005; La Porta et al. 1998). A key aspect in AD is the presence of unilateral measures erected by governments to protect and regulate the domestic industries, natural resources or national security (Ghemawat 2013; Kuo and Fang 2009). In this context, the most common barriers to cross-border competitors include: tariffs, trade quotas, regulatory complications, local-content laws, restrictions on FDI, and preferential treatment of domestic firms, among others (Ghemawat 2013). For firms deciding to internationalise, host countries with radically different administrative systems from those present in a firm's home country represent a high level of uncertainty and hence firms will find it difficult to successfully do business there (Tulder 2010).

5 Impact of distance on foreign market entry

A lot of research has been done in IB studying the impact of various distance dimensions on firms' choice of foreign MEM, primarily in the choice between an FDI or partnership modes (Kogut and Singh 1988). In cases where host country characteristics are very different from those of a firm's home country, decision-makers are often less keen to engage in cross-border activities in those countries (Ghemawat 2001; 2013). Due to these differences and their implications, decision-makers need to correctly assess the differences (or distance) between home and host countries, as this is crucial for the selection of the appropriate market entry and business strategies (Sousa and Bradley 2005).
However, various authors have already pointed out the many limitations of the distance concept and their implications on firms internationalisation decision-making (e.g. Harzing and Pudelko 2016; Shenkar 2001). In this context, and based on the various contrasting results regarding the effect of CD and other distance dimensions on firms' MEM choices, in our research we empirically review and test the explanatory power of these distance concepts and compare them to the explanatory power of HHCC on the MEM choice.

6 HHCC, distance dimensions and foreign MEM choice: An empirical analysis

6.1 Methodology

The target population of our research is represented by SMEs with headquarters based in the UAE that entered foreign markets, and SMEs with headquarters in other countries that entered the UAE and other foreign markets. Thus, our purposive sample is a typical instance sample, as we include companies that are typical for the phenomenon we examine. On this basis, we have defined the sampling frame considering the following criteria: (1) only SMEs with their headquarters employing between 10 and 250 employees; (2) including 40-60% of SMEs from service industry and 40-60% of SMEs from manufacturing industry; (3) SMEs with headquarters in UAE that entered at least 2 foreign markets, and SMEs with headquarters in another country that entered the UAE and at least one other foreign market; (4) SMEs that entered these foreign markets between 2007 and 2015.
We have prepared the list of potential companies matching above criteria through online research of various exhibitors' lists present on UAE exhibition portals, SME profiles on LinkedIn and SMEs listed on Dubai SME100 web site, which includes top 100 ranking SMEs registered in Dubai. Based on a list of 100 potential SMEs, the final sample of 20 SMEs includes the following categories distribution: (1) 12 SMEs with headquarters in UAE and 8 SMEs with headquarters in another country; (2) 10 SMEs

from service and 10 from manufacturing industry; (3) 14 small companies (employing 10 to 50 persons) and 6 medium-sized companies (employing 51 to 250 persons). The 20 SMEs operate in 11 different industries. Based on above mentioned characteristics, this sample provides us with an excellent opportunity to empirically research and analyse in details the phenomenon we examine in order to answer our research questions.

For data collection we used individual, in-depth, semi-structured interviews. We have conducted single interviews with SME decision-makers that were strongly involved in the SME's market entry strategy preparation and / or execution, of which 12 interviews were face-to-face and 8 through video conference using Skype. Interviews took place between September and December 2017 and lasted on average 60 minutes.

The main independent variables considered in the research include HHCC, CD and other distance dimensions. The main dependent variables are the choice of the foreign market and the MEM used. In this context, we consider HHCC as antecedents and determinants of SME decision-makers' choice of foreign market entry and MEM, while CD and other distance dimensions are considered as moderators of this relationship. We also include two control variables: industry type and ownership structure. These variables' model is presented in below figure 1.

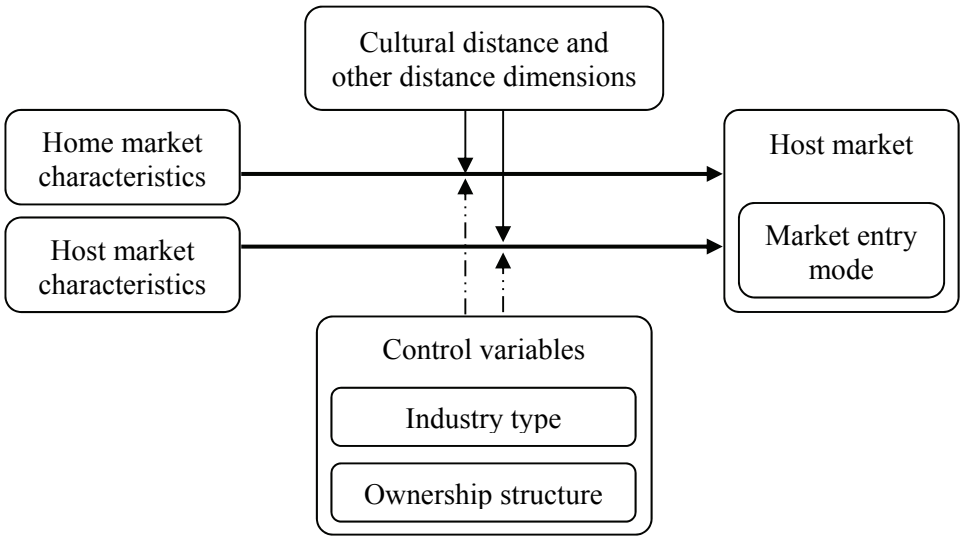


Figure 1: Antecedents, determinants, moderators and control variables of foreign market entry strategies

In line with our research focus, in figure 1 we include only HHCC as antecedents and determinants of the host market entry selection and MEM choice. However, in the research and analysis we do consider also other antecedents and determinants perceived by SME decision-makers.

To investigate the effect of HHCC and the moderating impact of CD and other distance dimensions on the choice of host market selection and MEM, we employed content analysis as the key method in the analysis of the data gathered through interviews. Through themes definition, codes development, data categorisation, concluding with data sorting and final data analysis we were able to answer our research questions.

6.2 Results

Based on responses received from the 20 SME decision-makers that participated in the interviews, the key motives perceived by decision-makers as determinants in their choice of foreign market entry and resulting market entry strategies include: (1) advantages and opportunities in the host market (17

SMEs), (2) existing sources of competitive advantage (7 SMEs), (3) network ties in the host market (5 SMEs), (4) business growth (10 SMEs), and (5) limited opportunities in the home market (3 SMEs). Each of these key determinants perceived by managers in their foreign market entry strategy had a different relevance for each manager's decision.

From a MEM choice point of view in relation to distance dimensions and HHCC, half of interviewed SME decision-makers (10 out of 20) perceived various cultural, psychic and economic *distance dimensions*, which actually represent *host market characteristics*, rather than distance. This provides an answer to *RQ 1*, as most interviewed decision-makers did not perceive a clear distinction between the impact of market characteristics in the host market and the impact of distance dimensions between home and host market in relation to their MEM choices. In various cases decision-makers assumed that the key aspect in question was the difference (distance) between the home and host country, while in fact the focus was on a particular characteristics of the host market.

On the other hand, 12 participants mentioned various *market characteristics* as some of the key motives for the market entry choice related to the advantages and opportunities present in the host market. In this context, participants mentioned various characteristics of the UAE market, which provide an answer to our *RQ 2* and include: the UAE is more developed than all other GCC countries, serves as a regional financial and logistics hub, has a specific business culture, multiculturalism present in the country, connections there are very important for business success, low cost of labour, a large and still growing construction market, a large hospitality industry, key oil and gas companies based in Abu Dhabi, higher price levels, perceived higher quality of products and services from UAE compared to other GCC countries, market stability, clear regulations, abundance and fastest growing of private schools in the region, great innovation hub for the region, no tax on corporate or personal incomes, ease of setting up a company and doing business in the UAE, among others.

In addition to the UAE, some of the participants highlighted also perceived specific characteristics of the KSA market, such as a very large territory, plans for expansion in education, government services and infrastructure, growing construction market, many embassies in the country, alcohol ban, growing events industry, current political and social changes in the country, and government restrictions on foreign ownership of locally based companies, among others.

In order to answer our *RQ 3*, during interviews, we asked decision-makers about their perceptions on the *differences and similarities* between their SMEs' home and host countries. In this context, 13 participants perceived some similarities (e.g. similarities related to the Arab culture, Muslim religion, use of English language, population mindset, business practices and economic similarities), while 9 participants perceived specific differences, such as *cultural* differences (e.g. friendliness, Arabic culture compared to Western cultures, as well as different levels of traditionalism within the Arab culture in different Arab countries), differences in *religion* (e.g. Muslim vs. Christian religion, as well as different levels of traditionalism within the Muslim religion in different Arab countries), and risk aversion levels (e.g. perceiving a much higher risk aversion in UAE compared to Singapore). 11 participants also perceived differences in *business practices* (e.g. more personalised relationships in Arab countries, different levels of formality, faster or slower decision-making processes, required negotiations in UAE not present in Europe, different levels of work ethics, and difficulties related to delays and other challenges when trying to make a sale or complete projects in UAE and other Arab countries). Apart from CD, 13 participants perceived various aspects of *economic distance* (e.g. differences in levels of economic development, market stability and change, infrastructure, knowledge and education, ease of doing business, tax related differences, price and quality of products and more). From a *geographic distance* point of view, participants have different perceptions about what is near and what is far with reference to countries present in the same region or neighbouring regions. Participants did not mention any perceived aspects related to ID, AE or any other distance dimension.

With reference to market entry strategies, the key antecedents and determinants perceived by SME decision-makers in their choice of *foreign MEM* include:

- Risk or cost minimization, type of product or service easy to manage through export and first export order received by a customer, which lead them to choose *export modes*;

- Perceived benefits of having a local presence in the host market, not perceived much risk, home market challenges and ease of company setup in the host market, which lead them to choose *FDI modes*;
- Host market restrictions, avoiding control or quality risks of having a local partner and partner's advice, which lead to either *export or FDI modes* choice.

Drawing from research results, in some cases, as perceived by SME decision-makers, HHCC represent either key or support antecedents or determinants of their choice of MEM (*RQ 4*).

From a MEM choice point of view in relation to distance dimensions, half of interviewed SME decision-makers (10 out of 20) perceived that CD, PD and ED had some *impact on their choice of MEM*. However, the mentioned key distance categories included: 1) business culture in host market, 2) host market advantages, 3) host market challenges, 4) not knowing the local market and culture, and 5) similarities. As such, most of these aspects actually represent *host market characteristics*, rather than distance dimensions. These perceived distances by decision-makers had various impacts on the choice of MEM, which can be grouped into four impact categories: 1) increased confidence for entering the foreign market (two SMEs), 2) incremental entry strategy (two SMEs), 3) required local presence (seven SMEs), and 4) only option for market entry in the host market (one SME).

Based on our research results, *geographic distance* in most cases (14 SMEs) does not impact or moderate the choice of MEM, and in cases where there is an impact or moderation present (six SMEs), the perception of what is far and what is near varies significantly, as also resulting MEM choices. Our research results indicate that GD moderated the MEM choice of six SMEs as follows: 1) GD between home and host country led to a required local presence for proper operations (three SMEs); 2) GD between home and host country led to the decision to export (one SME); and 3) geographic proximity between home and host country resulted in requiring a local presence for proper operations (two SMEs). For the other 14 SMEs, GD had no impact on their choice of MEM.

These distance dimensions-related results indicate that particular host market characteristics impact decision-makers' choices of foreign MEM, while occasionally, CD, GD and other distance dimensions may moderate this choice, which answers our *RQ 5*.

With reference to *industry type* and *ownership structure* (in SMEs' headquarters) as control variables of foreign MEM choice, our research results are inconclusive, as decision-makers did not perceive any relations of these variables with their choice of MEM, and we have not found any other connections between these two variables and respective MEMs.

7 Discussion and conclusions

7.1 Summary of key findings

Our results are based on 20 interviews conducted with SME decision-makers operating in UAE as either their home or host market. Based on the responses provided by the participants, we were able to achieve a deeper understanding about managerial perceptions in relation to distance concepts vs. HHCC and their role in SMEs' internationalisation strategies. Based on our research results, opportunities and advantages present in the host market represent the key motives driving SMEs to enter foreign markets, supporting previous conclusions by other authors, arguing that host country characteristics, such as market potential (Demirbag et al. 2008), market growth potential (Agarwal and Ramaswami 1992; Brouthers 2002: Nisar et al. 2012) and competitive situation (Morschett et al. 2010), among others, reflect the level of attractiveness of a host market. In the particular case of *host country restrictions*, our results also support conclusions of authors in other studies, arguing that government restrictions represent a significant factor in foreign firms' market entry decisions, as these restrictions may force them to enter the host market through a specific entry mode (Harzing and Pudelko 2016; Morschett et al. 2010).

Our research results indicate that most decision-makers do not perceive a clear distinction between the *impact* of specific characteristics of the host market and the impact of distance dimensions between

home and host market in relation to their MEM choices. Drawing from our results, decision-makers perceive HHCC as relevant antecedents or determinants of their choice of MEM, and some decision-makers perceive also the concept of distance as a key aspect in their internationalisation strategies decisions. But after a more in-depth analysis of their perceptions, decisions and outcomes, results indicate that the key aspect in these decisions is represented mostly by specific host country characteristics, not by differences or distance dimensions. These results support authors' arguments about the impact of location advantages on internationalisation strategies, which are based on HHCC and their impact on cross-border activities and choice of MEMs (e.g. Demirbag et al. 2008; Ghemawat 2013; Harzing and Pudelko 2016; Nisar et al. 2012). In particular, our results support Harzing and Pudelko's (2016) conclusions that when HHCC are included, the CD effect becomes insignificant. On the other hand, these results are in contrast with Ghemawat's (2013) conclusions about differences between home and host country resulting in senior managers being often less keen to engage in cross-border activities in these countries. With reference to GD in particular, our research results indicate that GD moderates the choice to enter a foreign market or the choice of MEM only in some cases, while HHCC have a more significant impact on these choices. As such, our results also do not support Ghemawat's (2013) study results which indicate a drop in FDI when GD increases.

7.2 Limitations

The main limitations of our research are related to the studied population, the sample and the considered variables. For the population and sample, we considered only foreign SMEs that entered the UAE market and UAE-based SMEs that entered other markets, where we conducted interviews with 20 SME managers. The conducted in-depth interviews enabled us to achieve a deeper understanding of the particularities present in the UAE market, which impact firms' internationalisation strategies.
The limited number of variables present in our study include: distance dimensions, HHCC and foreign MEM choice. Although such approach could result in missing other possible factors that impact or moderate SMEs' choice of MEM, these variables represent the focus of our study, in which we try to assess the impact of HHCC, CD and other distance dimensions on SME internationalisation strategies. We give particular attention to SME decision-makers' perceptions regarding a clear distinction between the *impact* of specific HHCC compared to distance dimensions on their choices of foreign MEM. Thus, this represents a necessary limitation in our research in order to properly assess these focus variables.

7.3 Recommendations for future research

Based on reviewed relevant literature in IB field in relation so SMEs' internationalisation and emerging markets, we encourage future research in the field focused on smaller emerging markets in the Middle East, Asia, Africa and South America. These studies would probably enable a comparison with the results presented in this paper. We would also like to emphasise the importance of SME decision-makers and other company stakeholders in IB research, as they represent a valuable source of information that can help researchers develop new theories, particularly in SMEs' internationalisation processes. Furthermore, we encourage researchers to ask participants for their opinions and perceptions about the studied phenomena from a wider point of view, and not just focusing on the previously defined variables.

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