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SIZE MATTERS: ESSAYS ON INTERNATIONAL ENTREPRENEURSHIP OF ISLAND BASED FIRMS

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SIZE MATTERS

Essays on International
Entrepreneurship of Island Based Firms

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También me dijo un arriero, Que no hay que llegar primero.

Pero, hay que **saber** llegar- Vicente Fernández (El Rey)

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LIST OF TABLES

Table 3.1	Macroeconomic data of countries in the sample Year 2020	40
Table 3.2	List of firms and subsidiaries	42
Table 3.3	Summary statistics of the Governance Indicators	42
Table 3.4	Results of fixed-effects regressions	45
Table 3.5	Results of fixed-effects regressions	48
Table 3.6	Results of Probit regressions	51
Table 4.1	Overview of Sample-Mean Values	74
Table 4.2	Descriptive Statistics CEO Characteristics	77
Table 4.3	Correlation Matrix CEO Characteristics	78
Table 4.4	Variance Inflation Factors	79
Table 4.5	IE and CEO Characteristics Binary Probit Model	80
Table 4.6	Marginal Effects of CEO Characteristics	81

LIST OF FIGURES

Figure 4.1	Expected Effects of CEO Characteristics on the Odds of IE in IBF	72
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LIST OF ABBREVIATIONS AND ACRONYMS

AA	Academic Achievement
AB	Academic Background
CEO	Chief Executive Officer
CC	Control of Corruption
EI	Emprendimiento Internacional
FA	Family Allegiance
FS	Firm Size
GE	Government Effectiveness
GEI	Global Entrepreneurship Index
IBF	Island Based Firms
IE	International Entrepreneurship
IX	International Experience
SNT	Social Network Theory
PS	Political Stability
RQ	Regulatory Quality
ROA	Return on Assets
ROE	Return on Equity
RL	Rule of Law
TE	Tenure
TMT	Top Management Team
UET	Upper Echelon Theory
WGI	World Governance Indicators
VA	Voice & Accountability

DEDICATION

Dedicación/Dedikashon

Esaki ta pa Wela ku Papi;

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TABLE OF CONTENTS

1. RESUMEN Y CONCLUSIONES	1
1.1 OBJETIVOS, ESTRUCTURA Y CONTRIBUCIÓN DE LA TESIS	2
1.2 RESUMEN	4
1.3 CONCLUSIONES	8
2. FROM THE MARGINS TO THE CENTER	13
2.1 INTRODUCTION	16
2.2 LITERATURE REVIEW	18
2.3 FUTURE AVENUES	24
2.4 CONTRIBUTION	28
3. ESCAPING PARADISE	31
3.1 INTRODUCTION	33
3.2 LITERATURE REVIEW	36
3.3 HYPOTHESIS	39
3.4 DATA	43
3.5 METHODOLOGY	48
3.6 RESULTS	49
3.7 SUMMARY AND DISCUSSION	56
4. ISLAND HOPPING	59
4.1 INTRODUCTION	61
4.2 LITERATURE REVIEW	63
4.3 DATA AND METHODS	73
4.4 RESULTS & DISCUSSION	76
4.5 CONCLUSIONS	83

5. GENERAL DISCUSSION.....	86
5.1 SUMMARY.....	87
5.2 MAIN FINDINGS	87
5.3 STRENGTHS AND THEORETICAL IMPLICATIONS.....	91
5.4 LIMITATIONS AND FUTURE RESEARCH.....	92
5.5 CONCLUSION	93
6. REFERENCES	95
ABOUT THE AUTHOR	112
RESUMEN NA PAPIAMENTU	113

1. RESUMEN Y CONCLUSIONES

1.1 OBJETIVOS, ESTRUCTURA Y CONTRIBUCIÓN DE LA TESIS

Esta tesis va más allá al examinar mercados marginados que destacan por características comunes, críticas para el emprendimiento internacional (EI): las islas. Esta tesis está estructurada en 5 capítulos. El *Capítulo 1* contiene un resumen y las principales conclusiones de la tesis en castellano. El resto de los capítulos de la tesis están escritos en idioma inglés. El *Capítulo 2* estudia cómo influye el EI en mercados que son islas pequeñas. Los profesionales de los países emergentes y en transición se han beneficiado enormemente del discurso académico que ha prestado atención a sus mercados con respecto al fenómeno del EI. Sin embargo, quienes residen en mercados poco estudiados (como las islas pequeñas) siguen sin estar preparados para participar en este fenómeno, dadas sus diferencias contextuales. Pequeñas en tamaño y numerosas en cantidad, las islas a menudo se consideran versiones menos complejas de países más grandes, mientras que los estudios sobre islas han confirmado el marcado contraste entre ellas. Las islas se enfrentan desproporcionadamente a problemas como el tamaño, la lejanía, las crisis exógenas y el aislamiento. Las islas son espacios únicos que generalmente han sido pasados por alto en los estudios tradicionales, mientras que sus sectores privados aún no se han establecido como una oportunidad de investigación en los estudios insulares. Por lo tanto, las islas se destacan como un entorno que ofrece oportunidades tanto para académicos como para profesionales. En este capítulo se identifica una nueva brecha, se presentan las islas como mercados novedosos que generan empresas internacionales y se describen futuros temas de investigación sobre las empresas insulares (IBF), que son fundamentales para los profesionales que residen en las mismas.

El *Capítulo 2* está organizado de la siguiente manera. En la Sección 2.1 se presenta el capítulo, haciendo la conexión entre el EI y las empresas isleñas. En la Sección 2.2 se realiza una revisión de la literatura que presenta las islas como espacios novedosos que pueden contribuir al

conocimiento de la EI. En la Sección 2.3 se indican posibles vías futuras de investigación donde se pueden estudiar las empresas con base en islas y en la Sección 2.4 se detallan las conclusiones.

El emprendimiento internacional puede ser impulsado por múltiples factores, entre los cuales el entorno institucional en el país de origen juega un papel importante. A menudo se pasan por alto las pequeñas empresas insulares cuyas instituciones, heredadas de los antiguos colonizadores, están limitadas por un pequeño mercado interno. Dado que las instituciones tienen un impacto más pronunciado en las islas pequeñas, el *Capítulo 3* tiene como objetivo principal analizar cómo las instituciones se relacionan con el espíritu empresarial internacional de las empresas con sede en las islas. Este capítulo contribuye y refuerza la literatura empírica existente de la siguiente manera. En primer lugar, en este capítulo se estudia un grupo de países que tradicionalmente han sido ignorados por los estudios académicos. Esto se debe en parte a la falta de datos, ya que las principales bases de datos de países no incluyen islas pequeñas. Para realizar el estudio ha sido preciso elaborar una muestra obteniendo los datos de forma manual a partir de los informes anuales de las empresas. En segundo lugar, aunque existe una considerable heterogeneidad en el idioma, la cultura y la distancia entre los países, este estudio presenta que la condición de isla es un fuerte denominador común para las instituciones entre las islas ubicadas en el Caribe, Asia y Europa. En tercer lugar, reconoce y prueba el impacto tanto positivo como negativo de los indicadores de gobernanza en el emprendimiento internacional. Las instituciones que enmarcan el proceso de gobernanza desempeñan un papel dominante en las pequeñas economías insulares e incluso cuando las políticas se adoptan con buenas intenciones, a veces pueden ser perjudiciales para la EI.

El *Capítulo 3* se organiza como se detalla a continuación. La Sección 3.2 proporciona una visión general de la literatura sobre EI en mercados emergentes e islas pequeñas. La Sección 3.3 explica las hipótesis específicas de los IBF. La Sección 3.4 detalla la recopilación de datos y la

Sección 3.5 analiza la metodología utilizada. Los resultados se presentan y discuten en la Sección 3.6, incluidas las pruebas de robustez, y la Sección 3.7 concluye con un resumen y conclusiones.

Los directores ejecutivos (CEO) y sus características particulares pueden tener profundos impactos en las empresas que dirigen, especialmente en decisiones estratégicas como el emprendimiento internacional. Por ello, en el *Capítulo 4*, enmarcado en la Teoría del Escalón o Nivel Superior (Upper Echelon Theory) y la Teoría de las Redes Sociales (Social Network Theory), se estudia la influencia en el EI del mandato del CEO, su formación y logros académicos, su lealtad familiar y su exposición internacional, teniendo en cuenta las particularidades de las islas pequeñas. Este trabajo es pionero en investigar las características de los CEOs que promueven la EI en estas empresas y contribuye tanto a la literatura internacional sobre el tema, como a la literatura emergente sobre estudios insulares.

El *Capítulo 4* se organiza de la siguiente manera. En la Sección 4.1 se presenta la introducción. En la Sección 4.2 se lleva a cabo la revisión de la literatura existente y se construyen las hipótesis a contrastar. En la Sección 4.3 se presenta como se construyó la muestra para este estudio, los datos, las variables y la metodología utilizada para contrastar las hipótesis. En la Sección 4.4 se proporcionan los resultados y la discusión. Las conclusiones e investigaciones futuras se exponen en la Sección 4.5.

1.2 RESUMEN

1.2.1 La insularidad y el emprendimiento internacional

El *Capítulo 2* aborda las islas y presenta una línea de investigación orientada a profesionales sobre la contribución de estudiar la insularidad y el EI, describiendo la relevancia del tema. Este capítulo señala que la diversificación de mercados en los estudios de EI ha permitido una perspectiva más matizada y completa en la literatura, y los esfuerzos continuos beneficiarán a los profesionales. Los profesionales en las islas estarían de acuerdo en que las islas

poseen las características de mercados emergentes y ofrecen características únicas que merecen atención en los estudios de EI. Las islas son pequeñas, abiertas, vulnerables, resilientes, y estas características dotan a los isleños de rasgos que han demostrado ser informativos tanto para la academia como para los profesionales. Aspectos como la población reducida, la vulnerabilidad, la lejanía y el aislamiento son características que enmarcan los mercados locales y determinan la perspectiva estratégica. Estos factores hacen que las economías de alcance sean más favorables que las economías de escala, lo que podría convertir al EI en una herramienta para la expansión comercial de las IBF. Comprender cómo se identifican y se aprovechan las oportunidades más allá de las fronteras promete ayudar a perfeccionar el pensamiento de los profesionales y llevar a las IBF a participar en el EI.

Para los Estudios de Islas, este capítulo proporciona una vía para extender las teorías de la insularidad a un campo relativamente nuevo y en crecimiento, y aporta contribuciones a los campos de Negocios Internacionales, Emprendimiento y, en particular, EI. Los profesionales en las islas serán los más beneficiados, ya que las teorías pueden probarse en su propio contexto y ayudar a explicar y racionalizar las decisiones empresariales. Dado que el tamaño reducido del mercado no atrae la atención de las empresas extranjeras, puede que, en última instancia, favorezca a las IBF a centrarse en los mercados locales y emplear estrategias de penetración. Estas limitaciones comunes presentan entornos novedosos para estudiar el comportamiento de las IBF, en cómo perciben el riesgo y actúan utilizando decisiones más arriesgadas. Además, estos factores pueden inducir una forma de racionalidad limitada en los ejecutivos que colorea su percepción de la EI, a pesar de los beneficios obvios establecidos en la literatura. Finalmente, dado que los entornos insulares son tan diferentes, pueden ayudar a los estudios organizativos a explicar mejor cómo se emplean y operan las estrategias de bricolaje.

1.2.2 ¿Cómo influyen las instituciones al emprendimiento internacional de las empresas isleñas?

El *Capítulo 3* presenta un estudio que examina la influencia de la gobernanza en el EI de empresas en pequeñas economías insulares. La visión predominante del EI es que está impulsado por oportunidades y basado en la expansión. El EI puede ser impulsado por múltiples factores, entre los cuales están los aspectos del mercado interno. Por un lado, los recursos naturales y geográficos, así como la mano de obra, permiten niveles de producción superiores a los mercados extranjeros, lo que conduce a ventajas al aventurarse más allá de las fronteras. Por otro lado, las empresas pueden estar motivadas por limitaciones internas para buscar oportunidades en el extranjero como forma de escape. Se han estudiado ampliamente aquellas empresas de mercados emergentes que han logrado incursionar en economías más establecidas debido a los recursos internos. Sin embargo, se ha explorado menos el caso de empresas de pequeñas islas, cuyo mercado interno presenta limitaciones naturales en términos de tamaño, ubicación y falta de recursos, lo que conlleva sus propias consecuencias en la construcción de negocios sostenibles y su expansión en el extranjero. Además de la baja competencia y la escasez de recursos naturales, el alcance geográfico de las islas difiere mucho de otros entornos internos. Estas limitaciones pueden crear condiciones sistémicas que motivan a las empresas a buscar oportunidades más allá del mercado interno. Este estudio contribuye a proporcionar evidencia sobre el papel de los factores institucionales en la configuración del EI de ocho pequeñas economías insulares. Para ello, se construye una muestra de 253 empresas, obteniendo los datos de forma manual a partir de los informes anuales de dichas empresas, establecidas en las islas las Bahamas, Bahréin, Barbados, Chipre, Islandia, Fiji, Jamaica, Malta, Mauricio y Trinidad y Tobago durante el período 2009-2020, cuya población es inferior a los 5 millones de habitantes. El modelo se estima mediante un modelo binario probit.

Utilizando los indicadores de gobernanza del Banco Mundial, este estudio proporciona evidencia de que las instituciones en islas pequeñas pueden fomentar y obstaculizar la EI. Específicamente, una fuerte voz, rendición de cuentas y control de la corrupción fomentan la EI, mientras que el débil estado de derecho, la calidad regulatoria y la inestabilidad política empujan a las empresas a escapar al extranjero. El capítulo también muestra que el estado de derecho puede mitigarse mediante la estabilidad política y el control de la corrupción, pero es inmune a una voz y una rendición de cuentas fuertes o a la eficiencia del gobierno. Por el contrario, el control de la corrupción puede verse debilitado por la ineficiencia del gobierno. Este capítulo innova en el estudio de naciones ignoradas y responde al llamado a la diversidad demostrando la importancia de las instituciones para influir en el comportamiento empresarial con respecto al EI entre los IBF.

1.2.3 ¿Las características de los ejecutivos (CEOs) influyen en el emprendimiento internacional de las empresas isleñas?

En el *Capítulo 4*, se presenta un estudio que examina el papel de las características de los Ejecutivos (CEOs) en el EI de las empresas isleñas que cotizan en bolsa durante el período 2009-2018. Como se describe anteriormente, se plantea la hipótesis de que las limitaciones de tamaño y el carácter insular de los países de origen de las empresas isleñas influyen en las características de los líderes, así como el mandato del CEO, su formación académica, sus logros, su lealtad familiar y su exposición internacional afectan al EI de las empresas. La muestra está formada por 164 empresas insulares que cotizan en bolsas de valores en ocho pequeñas islas del Caribe, Europa, África y Oceanía: el 40% de las cuales tenía filiales o sucursales en el extranjero durante el período 2009-2018. Las ocho islas pequeñas son: Barbados, Chipre, Fiji, Islandia, Jamaica, Malta, Mauricio y Trinidad y Tobago.

Este capítulo proporciona evidencia que respalda la Teoría del Escalón o Nivel Superior (Upper Echelon Theory, UET) e invita a la extensión de la Teoría de las Redes Sociales (Social

Network Theory). Los resultados empíricos muestran que la educación de los ejecutivos juega un papel importante en los esfuerzos comerciales en el extranjero de las empresas isleñas. Cuando los CEOs tienen estudios de posgrado y se han formado en el extranjero, se observa un efecto positivo en la probabilidad de IE. En cambio, si los directores ejecutivos se han formado en administración de empresas, finanzas, contabilidad y economía parecen desalentar el EI, si bien el consenso general afirma que las personas que poseen dicha formación les capacitan con herramientas que pueden contribuir a los esfuerzos de EI de las empresas que dirigen. Esto puede explicarse por la condición de isla. Debido a la aversión al riesgo, las organizaciones que operan en mercados aislados tienen más probabilidades de adaptarse a las condiciones del mercado local, innovar y especializarse (ejerciendo flexibilidad estratégica), en lugar de buscar crecimiento en el extranjero mediante la operación de una filial o sucursal. El éxito de estas empresas depende de su posicionamiento en el mercado local y de la capacidad de sus directores ejecutivos para aprovechar la información y el conocimiento compartido de sus redes. Los directores ejecutivos con experiencia en administración de empresas, finanzas, contabilidad y economía están mejor preparados para procesar esta información y tomar decisiones adecuadas que aumenten la flexibilidad estratégica, permitiendo a las empresas que dirigen evitar el EI. También se obtiene que otras características de los directores ejecutivos, como su cargo y su lealtad familiar, afectan negativamente al EI de las empresas que opera en islas pequeñas. Las conclusiones obtenidas sugieren nuevas líneas teóricas y empíricas de investigación en EI para las empresas isleñas.

1.3 CONCLUSIONES

1.3.1 Conclusiones

Los capítulos que conforman esta tesis se han acercado a un tema descuidado en la literatura sobre emprendimiento internacional; las pequeñas islas. La investigación existente advierte que la elección de "nuevos países" por sí sola, no merece la repetición de ciertos estudios. No

obstante, los entornos insulares tienen sus propias prioridades y a menudo son marginados debido al tamaño, por lo que precisan de un análisis específico como se pone de manifiesto en esta tesis. El estudio de un grupo de organizaciones ignoradas en un entorno insular específico requiere mucho esfuerzo para reintroducir y reformular. Los resultados de esta tesis pueden ayudar a abordar cuestiones empresariales en más de 70 islas que afectan a 100 millones de isleños. En particular, esta tesis contribuye a llenar el vacío con respecto a las aspiraciones internacionales de las empresas isleñas, y proporciona una llamada de atención para que se estudien los IBF de manera más integral.

En concreto, esta tesis contribuye a proporcionar respuestas a preguntas que únicamente se hacen si los mercados locales son islas, y los resultados que se obtienen pueden extrapolarse a otros mercados. Los hallazgos obtenidos corroboran otros estudios que enfatizan el papel de las instituciones en la sociedad y resaltan su relevancia para las decisiones estratégicas de las empresas privadas. El emprendimiento internacional de las IBF puede ser beneficiosa para los mercados locales a través de la entrada de excedentes (financieros, de rendimiento y conocimientos) del extranjero y revitalizar los mercados locales. Por lo tanto, la investigación desarrollada en esta tesis puede ser de utilidad para las personas que dictan las políticas al dirigir la atención hacia el papel del entorno institucional en el fomento del EI. Una voz, la rendición de cuentas y el control de la corrupción respaldan el EI de las empresas, rechazando así la afirmación de que las IBFs escapan del entorno local.

En particular se puede concluir que los IBF y su relación con las instituciones en su mercado local ofrecen una oportunidad única para estudiar la hipótesis de escape. Estar en un espacio que a menudo puede ser malinterpretado podría explicar por qué se margina. Las trayectorias de desarrollo de las islas han sido influenciadas por fuerzas exógenas. La naturaleza misma de estos mercados se basa en el comercio exterior y su impacto en estos, al mismo tiempo que están aislados hasta el punto en que los habitantes de las islas abordan los problemas con una

mentalidad diferente debido a dicho aislamiento. La teoría del escape institucional para el emprendimiento internacional es adecuada para enmarcar y probar si impulsa a las empresas a considerar oportunidades en el extranjero. Este estudio adopta los Indicadores de Gobernanza del Banco Mundial para determinar los factores institucionales que contribuyen al emprendimiento internacional de las IBF con sus estructuras de mercado únicas. Sin embargo, el estudio también muestra que el estado de derecho, la inestabilidad política y la débil calidad regulatoria son promotores en la teoría del escape con respecto a las IBF.

Concretamente se concluye que los indicadores del Banco Mundial están relacionado al emprendimiento internacional de las IBF. Conforme a la teoría del escape, tres de los indicadores (calidad de regulación, el estado de derecho, y la estabilidad política) promueven el escape las IBF. En cuanto los indicadores de la voz y responsabilidad, y también control de corrupción se encuentra que niegan el escape. Estos hallazgos indican que algunos factores específicos de gobernanza son más relevantes que otros para fomentar el EI entre las empresas locales en pequeñas islas. En particular se puede concluir que las instituciones, y el entorno doméstico, tiene influencia en como las empresas detectan y capturan oportunidades en el extranjero.

En cuanto al papel desempeñado por los ejecutivos en el emprendimiento internacional de las IBF, los resultados indican que la formación internacional de los CEOs y sus títulos de posgrado aumentan la probabilidad de que una IBF se involucre en el EI. Esto concuerda con investigaciones previas que sugieren que la formación de los CEOs desempeña un papel importante en las metas comerciales en el extranjero que establecen para sus empresas. Sin embargo, un hallazgo sorprendente es que los graduados en titulaciones como Administración y Dirección de Empresas, Finanzas, Contabilidad y Economía pueden desalentar el EI de sus empresas y tienen menos probabilidades de cumplir con los objetivos de sus programas cuando son nombrados CEOs. Las organizaciones que operan en mercados aislados tienden a adaptarse a las condiciones locales y especializarse en lugar de expandirse en el extranjero a través de subsidiarias. Además, estas

organizaciones pueden operar en mercados internacionales de diferentes maneras, como hoteles u otros establecimientos en hospitalidad que reciben clientes del exterior físicamente en su espacio doméstico.

Las IBF enfrentan desafíos en su búsqueda de EI, ya que a menudo tienen un enfoque orientado al mercado nacional y pueden ser reacias a operar en mercados extranjeros. A pesar de tener un promedio desempeño del cargo de CEO de 9 años, los datos sugieren que el desempeñar el cargo más años afecta negativamente al EI, lo que es consistente con investigaciones anteriores. Los resultados también destacan que el logro académico y la exposición internacional de los CEOs son determinantes positivos del EI, mientras que la disciplina académica y la permanencia en el cargo son factores que desalientan el EI de las IBF.

Los CEOs con educación superior y títulos avanzados tienden a comprender mejor el proceso de toma de decisiones complejas y, por lo tanto, son más propensos a involucrarse en el EI. Además, estudiar en un país diferente puede permitir a un CEO contribuir más eficazmente a los esfuerzos de EI de las IBF, ya que adquieren conocimientos y experiencias transculturales. Sin embargo, en los mercados de las IBF, que son inherentemente limitados, se ha observado un patrón similar en industrias como el turismo, los servicios y la manufactura: el EI no se promueve cuando los CEOs tienen antecedentes académicos en negocios o economía.

En resumen, los estudios realizados en esta tesis doctoral proporcionan evidencia con contribuciones relevantes para la teoría y la práctica. Esta evidencia respalda hipótesis generales de que los esfuerzos de EI de las IBF son promovidos a través de las características de sus CEOs, y los Indicadores de Gobernanza en el mercado interno. Específicamente, estos estudios corroboran investigaciones anteriores al confirmar la relación entre las Características de los Ejecutivos y el EI de las IBF, la relación entre el bajo CS y las IBF y los aspectos de la gobernanza interna que facilitan el EI de las IBF.

1.3.2 Limitaciones y futuras investigaciones

Una limitación de este estudio es que el EI de las IBF se ha determinado como tener una participación controladora en una empresa subsidiaria en el extranjero y puede que no refleje otras formas de EI, como las ventas en el extranjero, las inversiones en el extranjero y las adquisiciones independientes de empresas extranjeras. Estudios futuros deberían prestar atención a otras formas de actividad internacional de las IBF para confirmar o refutar estas posibles explicaciones.

Estas investigaciones han destacado la importancia de estudiar el EI en el contexto de las pequeñas islas. Se ha evidenciado la necesidad de considerar las particularidades de la insularidad y cómo estas afectan a las empresas isleñas. Además, se ha identificado una nueva área de investigación y se han delineado temas futuros para profundizar en el estudio de las IBF y su papel en el EI. Estos hallazgos contribuyen al conocimiento académico y ofrecen oportunidades tanto para académicos como para profesionales en el campo del EI en las islas.

2. FROM THE MARGINS TO THE CENTER

Submitted to Business Horizons

Rojer, G.M., de Juan Diaz, R., Rai, A. & Watkins-Fassler (2023) From the Margins to the Center: A Research Agenda on the International Entrepreneurship of Island Based Firms

A RESEARCH AGENDA ON THE INTERNATIONAL ENTREPRENEURSHIP OF ISLAND BASED FIRMS

Practitioners in emerging and transition countries have greatly benefitted from the academic discourse that has given attention to their markets with regards to the phenomenon of International Entrepreneurship (IE). Those residing in understudied markets (such as small islands), however, remain underequipped to partake in this phenomenon given their contextual differences. Small in size and numerous in count, islands are often viewed as less complex versions of larger countries, while island studies have confirmed the stark contrast between them. Islands are disproportionately challenged by issues such as size, remoteness, exogenous shocks, and isolation. Islands are unique spaces that have generally been overlooked in mainstream scholarship, while their private sectors have yet to establish as a research opportunity in island studies. Islands therefore stand out as an environment that offer opportunities for both academics and practitioners alike. This research agenda identifies a new gap, introduces islands as novel markets that spawn international firms, and outlines future research themes on Island Based Firms (IBF), which are pivotal for these practitioners.

2.1 INTRODUCTION

Practitioners in emerging and transition countries have greatly benefitted from the academic discourse that attended to their markets with regards to the phenomenon of International Entrepreneurship (IE), (Peng, Li Sun, & Blevins, 2011). They posit that scholars are to continue pushing this diversity agenda specifically to serve future practitioners, as it is the “*social responsibility*” of International Business scholars. The dynamics facilitating IE, however, have greatly advanced between the publication of this chapter and present day, giving way to new variations of IE. Arian & Shenkar (2022, p. 1940) have recently signalled ~~that~~ this lack of diversity to be akin to neglect and indicated that “*understudied regions and markets present opportunities for new and valuable insights for IB*”, and justify replicating some studies to enrich the fields.

Practitioners residing in these markets remain theoretically underequipped to tackle issues in their respective IE trajectories. A recent publication has unearthed the perilous process by which Island Based Firms (IBF) internationalize by depending on a strategic international growth not based on an act of opportunity seeking, but rather as a response to an exogenous development (Sannegadu, Henrico, & van Staden, 2021). It confirms previous notions that an islander as “*someone who assembles together an island by way of making use of whatever is at hand, solving going concerns as they present themselves*” (Vannini & Taggart, 2013). As such practitioners respond to a new challenge by making use of existing tools, an approach akin to bricolage where an output is constructed or created by a diverse range of things (Phillips & Tracey, 2007). Small size, for instance, is a reason to mimic many of the 195 recognized UN countries. UNCTAD categorizes countries with less than 5 million citizens as small, which renders a pool of 73 nations of which a substantial amount (31) are islands. They are joined by Sub National Jurisdictions like Puerto Rico, Reunion Island, an environment that exhibits the same challenges for the practitioners in sovereign nations. Since islands, often mostly small in market size, are ring

fenced, they “frame” available strategies in pursuit of realizing IE. Martina (2016) identifies that the IE process of IBF is distinguished from others due to the penurious environment which is unique to small islands. On a broader philosophical level, Conkling (2007), describes islandness as *“the metaphysical sensation that derives from the heightened experience that accompanies physical isolation”*. This environment creates a unique set of exogenous stressors, alongside limitations that frame the available options to the entrepreneur, pushing them into using an array of locally available tools to confront the IE challenge, and conceptualized as bricolage. Bricolage refers to this activity whereby new creations result from an array of available things (Baker & Nelson, 2005).

Following the notion that IE has been accepted as an action driven by strategy, it would therefore imply that practitioners on islands (who employ bricolage) would find it onerous to engage in IE. Bricolage can be successfully scaled by organizations and applied to the specific case of island practitioners (Busch & Barkema, 2020). They claim that *“through replication, shifting mindsets and aiming to unlock the potential of previously economically undervalued resources”*, which allows bricolage to surface as a successful strategy for IE. In the case of islands, it seems, that it is the opportunity that presents itself to the firm, altering their options and strategies over time. Islander’s approach would thus offer a challenge to the prevailing notion that agents seek, identify, and subsequently act on opportunities. Taken together these findings present the islander, and firms they head, as novel actors with regards to their IE. This chapter aims to identify (small) islands as distinct background that can inform scholarship on IE, and to provide an agenda to help close the gap that currently comes short to inform practitioners.

The rest of the chapter is structured as follows: A review of literature introducing islands as novel spaces that can contribute to the scholarship on IE is presented in section 2. Section 3 indicates future avenues where Island Based Firms can be studied while the chapter draws to a close with conclusions in section 4.

2.2 LITERATURE REVIEW

2.2.1 International Entrepreneurship

IE is a phenomenon that has been the subject of academic discourse dating as far back to the 1960's (Etemad, 2021). IE finds some of its origins in a changing global economy that triggered firms to strategically expand and become multinational enterprises (P. J. Buckley & Casson, 1967). IE begins with firms seeking and acting on opportunities abroad that allow them to leverage scale benefits from their operations in the quest to create value (McDougall & Oviatt, 2000). In a subsequent review article, Buckley & Casson (2009) identified that both industry and academia have benefited from theoretical extensions in future research.

Calls for geographic diversity in IE research have been present for over two decades (P. J. Buckley, 2002). Cuervo-Cazurra & Ramamurti (2017) provide evidence that firms from emerging markets engage in either innovation-based internationalization (leveraging home innovations abroad) or escape to host markets with more developed institutions. Steinhäuser et al. (2021) noted that understand "how cultural background of decision-makers has an influence on SME expansion" in different countries. The review performed in this chapter identifies small islands as controlled environments where studies could be conducted that reveal how (differences in) cultural background can shape IE.

Other factors that play a role includes the influence of CEO characteristics on the IE of IBF. Rojer et al (2022) find foreign degrees of CEOs in eight islands had an inverted relationship to IE. The island environment is so much under stress that island executives tend to focus on the ever-changing array of challenges that are inherent to the home market rather than strategically focusing on market expansion, confirming findings of Sannegadu et al. (2021) that were specific to the Mauritius. Their findings also provided evidence that support Baldacchino & Bertram (2009) claim that island spaces are determining for organizations. Executives need to be resourceful and flexible to be able to respond to changes, which can go at the expense of IEA

major problem in island studies is the availability of data. Terjesen et al. (2013) have argued that greater attention to data collection, and sample selection equivalence, are necessary to further extend the body of knowledge on how IBFs engage with markets abroad. The contextual variables native to islands signal a unique opportunity to contribute to how practitioners evaluate options to identify opportunities and lead firms, while also shape cultural contexts that can inform novelty in the field of IE.

2.2.2 Islands

Islands, and the firms that call them home, have rarely been considered in the field of IE and have been ignored, despite clear and striking contrasts with mainstream spaces considered as conventional and normative. Baldacchino (2007) pointed out that islands have always been looked at as “*passage points in a larger context*”, and thus would have little to offer the world. This notion has marginalized islands as places that lack fundamental ability to inform the scholar community, and have overlooked the need of islanders to better equip themselves and partake in the global economy.

It has been well established that size is a determining factor in many aspects for islands that has generated novel findings (Baldacchino et al., (2020), Gillis, 2014). Size has been a determining factor in island biogeography, where several theories have shown size, among other characteristic factors, determine the development of species and their population features (Santos et al., 2016; Wang et al., 2018). Of particular value, underscoring the study of small size, is the concept of Small Island Effect, which explains that there is a point where area becomes an irrelevant factor in determining species richness (Chisholm et al., 2016). Beyond this critical cutoff point populations behave in unpredictable ways, rendering the opportunity to extend existing theories on IBFs by observing island environments and provide valuable input for practitioners.

While economies of scope continue to bear fruits for some firms, island-based firms (IBF) can only achieve economies of scale by expanding beyond the domestic market. Therefore,

understanding how island realities frame, shape, determine firm strategic outlooks with regard to international expansion is crucial for their resilience. Generally misunderstood and underserved (Minto-Coy et al., 2016), IBF can even face disadvantages in their domestic market. Small islands are open economies by nature, and domestic firms deal constantly with the threat of new entrants as governments believe that FDI is a means grow the economy. Domestic firms, especially family owned, are closer to the community and include non-financial performance activities in their decision making, which could be forgone in the event foreign competitors are preferred in economic development policy. In the case of Puerto Rico, where promotion of exports and participation in value chains have opened doors for Puerto Rican Firms, domestic firms have received the necessary support through collaborations between policy makers, practitioners, and academia (Aponte-García & Orengo-Serra, 2020). These success stories should be highlighted to provide for private sector needs that serve national interest.

2.2.3 Reactive posture

Islands are also unique because they are very sensitive to exogenous shocks. It manifests a heightened experience that the physical space of an island provides as if in a ringed fence (Conkling, 2007). This feeling bounds rationality of islanders to thinking that they are more often than not on the receiving end of the equation. Islanders cannot influence global prices, have to remain prepared for recovery in the event of natural hazards, are susceptible to migratory pressures, and are disproportionately affected by climate change issues. Islanders as a consequence are subjected to exogenous developments and are more often than not reactionary in their actions, leaving little room to entertain risky moves (Vannini & Taggart, 2013).

IE studies have covered the concept of international opportunity, and one review on the matter revealed that it remained a rather abstract thing (Mainela et al., 2014). The authors found that many publications did not completely succeed in defining opportunity. Given that IBF are reactive, opportunities may not be acted upon based on current IE theory. Eduardsen & Marinova

(2020) also concluded that even though risk received considerable attention in IE research, gaps remained in relation to the risk implications of internationalization, the impact of risk on IE strategy, and the operations used to assess and manage risk in the process of IE.

One qualitative study on IE of IBF revealed that islanders do not set out to seek opportunities abroad (Sannegadu et al., 2021). Opportunities seem to present themselves in the form of an external prompt that allows firms to learn and understand the IE opportunity as a reaction, rather than a deliberate quest. Studying these firms may inform how the heuristics associated with opportunity and action operate, allowing generalizable pathways for replication (Baldacchino, 2000). Thus, islanders and island environments are natural experiments for how opportunities are (re)considered in the strategic mix available to IBF, as they are conditioned by islandness.

2.2.4 Islanders and Islandness

A main characteristic of islands is the small size of its population, which can often be isolated and lay very remote from mainland further enhancing the feeling of islandness. These elements frame the rationality of the population in ways that may differ from spaces already assessed in IE research. The population may reflect its idiosyncrasies in decision-making in ways that only practitioners can explain as a result of their experiences over time. Islanders also assemble the island together by making use of what is at their disposal, and as challenges and opportunities appear (Vannini & Taggart, 2013).

Entrepreneurs on islands dispose of different characteristics than those observed in western nations, and are framed by cultural aspects that have generally been ignored (Saffu, 2003). Baldacchino & Fairbairn, (2003) further reinforce these findings by several micro level factors that are specific to islands for successful venturing, that are often overshadowed in macro level studies. Practitioners have been often been misguided by these findings and are better served by looking into the conundrum of islandness that make up their reality.

Small size is often seen as a disadvantage from the outside, but disposes of considerable advantages for policy adjustments in being “*strategically (yet pragmatically) flexible*” (Baldacchino, 2019a). This operation is necessary for small island governance as they are susceptible to ever evolving, and sometimes interrupting character of the exogenous factors that make up their window of options.

2.2.5 Uncertainty

Martina (2016) discusses the source of perceived uncertainty being variability of phenomena and incomplete information which color the island space. The perception is also augmented in at least three ways that are characteristic of islands: 1. Secrecy, 2. Inaccurate information, and 3. External shocks. While tight kinship in island communities promote secrecy, this creates the space for inaccurate information. Island markets are spaces that allow little competition e.g., utilities are natural monopolies on SIDS because of the asset specific character of the industry. While domestic opportunities continue to appear in other sectors, firms with more resources (i.e., established firms) remain able to respond in a manner that favors their incumbency. New firms not necessarily operate in new markets, but may also replace incumbents, and relegate them as older niche firms. These are all opportunities to study how firms view IE, given the unique competitive arena in the domestic market versus the ability to scale over multiple markets.

Given that islands are very much susceptible to external shocks these contribute to situations where hearsay dominates decision-making and prompts Island Entrepreneurs to opt for bricolage in their endeavors (Guillamont, 2010). Novel challenges continue to present themselves for islanders, whereas solutions are yet to be devised. This frames island environments as natural experiments to study Effectuation of IE (Saraswathy, 2001). Effectuation refers to the process theory by which entrepreneurs create ventures. IBF promise to reveal novelty in the field of IE. With the changing tides of globalization and technological revolution,

IBF may face new faiths as isolation no longer serves as the challenge it did before. With the growing interconnectedness, IBF may start to face increased competition which prompts the need to for examination to allow for an environment in which they can develop skills to perform accordingly. It is for this reason that this research agenda looks at critical differences of islands and proposes future avenues for research, alongside theoretical considerations which can frame and explain how these factors influence the IE of IBF in specific contexts (Perényi & Losoncz, 2018).

2.2.6 Resilience

Another unique factor that separates small islands from others is resiliency as a result of its insularity and remoteness. As a consequence of these exposures small islands are continuously challenged in reinventing their economic viability. Resilience was not caused by vulnerability, but existed in spite of vulnerability (Briguglio et al., 2009). There is evidence, however, that exogenous forces have been corroding on resiliency in the Pacific (Campbell, 2009) and in the Caribbean (Briguglio et al., 2006). Additional research reveals that even though small islands may be vulnerable, they still dispose of considerable resilience capabilities. Islands are not resilient in spite of vulnerability (Briguglio, 2016). These two concepts are intertwined and create an environment that foster resourcefulness.

These blocks combined allow a unique set of challenges for IE scholarship as it presents opportunity and risk again as variables, which have really been thought to be solidified in previous studies. As a consequence, new environments such as islands where the relationship with opportunity and perception of risk are fundamentally different due to islandness provide unique opportunity to test these challenges.

2.3 FUTURE AVENUES

2.3.1 Economic Environment

Among the gaps in IE process of firms to include the barriers, impact on performance and models of IE to be research opportunities of the future with regards to SME (small and medium size enterprises) (Castagna et al., 2020). On islands however, socio-economic factors among others are most determining in nascent entrepreneurship (Mohan, Watson, & Strobl, 2018; Sannegadu et al., 2021), indicating that island conditions are unfavorable for entrepreneurship altogether.

The issue of size also translates into a disproportionate government presence and influence (Grydehøj, 2011) because more situations of market failures appear (Briguglio, 2022). It is important to note that this stark difference in home market limit IBF options and render new strategies and pathways with which IE is achieved. Founders in the Caribbean, for example, struggle with the issue of information disclosure, despite the benefits of outside capital (Hearn, Oxelheim, et al., 2023). The authors find that information asymmetry persist in Small Island Environments. Studying these aspects could reveal better understanding in support of practitioners.

2.3.2 Institutions

Institutions and the business environment play a significant role in IE of small islands and there is significant gap in this research (Hearn, Mohr, et al., 2023). Economic and social factors have been well established as the factors influencing the outward FDI of SIDS (Williams, 2009), as corruption at home, income levels and growth indicators influence IBF to be engaged with the outside world (Cuervo-Cazurra, Ciravegna, et al., 2018). Domestic markets in islands have been identified to contain significant lag in aspects such as new firm creation, expansion and even insolvency (Gani & Clemes, 2015). This hints at a resource constraint that may deter practitioners, and disallow firms to engage in their expansionary strategy, while they deal with issues in home

markets. These less munificent business environments, have been found to deter IE of firms coming from emerging markets (Estrin et al., 2018). Home markets in islands determine different heuristics as they are uncertain spaces for the entrepreneur seeking to expand abroad, and thus deter IBF to expand abroad (Martina, 2016). Specifically, studies should consider the influence of macroeconomic indicators on the performance of (international) firms, as well as their role on the probability to engage in foreign markets.

Institutions have been found to be facilitative in the IE process of firms (Voss et al., 2014). While institutions themselves are dynamic in nature they actively shape how firms perceive opportunities abroad, relative to domestic, and determine strategic course of action (C. S. Chan & Pattnaik, 2021). There is also evidence that shows how institutions shape MNE's in contrasting ways, where emerging markets benefit less from control of corruption (Geleilate et al., 2016). A comparison of public and state-owned firms reveals, and finds that when home institutions enable effective control, firms behave similar on the topic of IE (Estrin et al., 2016). Home-based enabling institutions, like education & training, can contribute to emerging market MNEs ability to develop and engage with the outside world (P. J. Buckley & Tian, 2017). SME's have also face institutions in their trajectory to expand across borders (Bıçakcıoğlu-Peynirci, 2020). Attributes of institutions, such as education, research intensity, innovative activity, should be reinterpreted in the case of small markets and studied in their role on IE. Likewise broader scaled institutional characteristics such as the World Bank Governance Indicators can help initiate studies that can provide answers on how these environmental indicators relate to IBF IE.

Gap in government policies is another are of difference for IBFs. While Doh, Buckley, & Benische (2017) found the IB studies had only limited effects on business or government policy, studying islands may allow much needed transitions that may promote much needed growth and stability. Perceived uncertainty has been linked to a discouragement of SME internationalization in emerging markets (Adomako et al., 2020), as well as for SIDS (Martina, 2016). In the case of

islands government policy been identified as a mismatch for the development trajectory of IBF (Minto-Coy et al., 2018) providing a new avenue to study how institutions manifest as determinants of IE. These mismatches are the result of inappropriately adopted institutional frameworks from former colonizers that do not allow for natural indigenous organization (Chittoo, 2011). As a consequence policy makers should welcome more research to better understand practitioners, in order to facilitate more meaningful policy to support island firms in their ability to scale across borders.

2.3.3 Bricolage

A transcending topic in IE is the role of executives (CEO's and the Top Management Team-TMT). It has been found that through upper echelon theory, that executives determine IE of firms in it that they detect opportunities and act on them (Wright & Etemad, 2001). Specific executive characteristics have been found to be determining in the IE of firms, including tenure, academic background, and having studied abroad (Watkins-Fassler & Rodríguez-Ariza, 2019). SME prosperity on islands in the Caribbean, unlike developed countries, has been found to be dependent on a combination of the entrepreneur's strategic leadership, networks, and intimate knowledge of products and business operations, and the firm's strategy of branding and market diversification. (Williams & Ramdani, 2018). Island contexts also matter and influence their CEO's which can reveal new findings that can explain experiences of practitioners and contribute to scholarship (Rojer et al., 2022).

The environment of uncertainty that reigns on islands alters the process of IE on islands (Martina, 2016). With this, firms are not designed with IE in the strategic outlook, and perform IE as a reaction. Often this reaction utilizes existing tools for this new opportunity, and thus employ a bricolage approach. Executives are not inclined to initiate IE (Sannegadu et al., 2021), and apparently do so in response, rather than out of own initiative. Even when islanders engage, they are approaching IE with a different toolkit. Having established that Bricolage is theoretically a

strategic vehicle for scaling (Busch & Barkema, 2020) Island executives influence on firm IE provides perhaps the most controlled environment for research in this field. Islands dispose of distinct social and cultural influences that push its citizens to migrate for education and employment opportunities (Alexander, 2016). Relationships between characteristics of executives and the firms they lead emerge as an area of study disposing of many angles. Practitioners from spaces may dispose of qualities of resourcefulness that derive from the coexistence of vulnerability and resilience, and may inform on how they interpret opportunities and strategically guide their firms. It is therefore important to establish any associations, such as how foreign education relates to the IE of firms, as well as the level of academic achievement and its influence on firms IE. Additionally, the distinct home context can reveal new qualities that should be measured and tested, such as Muller & Watkins Fassler (Muller & Watkins-Fassler, 2021) that present the role of multiple directorships on performance in small island context.

2.3.4 Networks and Political Involvement

Close connections on islands may also render different political relationship constructs from executives, but may not always serve purposes of internationalization. Baldacchino & Bertram (2009) have already discussed this, and posit that in island conditions agents might be even able to predict changes, which further shows the need to quantify these associations and explain them. A study examined the phenomenon and found that both diversity and multiple directorships was positively related to performance (Muller & Watkins-Fassler, 2021). While these connections may not determine international success for all firms, certain industries may benefit from exposure to political spheres (Bai et al., 2019). As a consequence, political connections of island executives can be far closer than ever imagined given the size of the upper echelon. The international corporate governance has also received considerable attention from researchers since it is an effective tool to mitigate risks associated with international opportunities (Aguilera et al., 2019). With small populations it is determined that eligible directors are small in number

and are expected to occupy multiple directorships. These findings may also apply to isolated areas where local politics are close to executives, in receiving support from firms to acquire public office positions and create/sustain favorable policy for short term goals. Findings from island environments may, thus, prove to be useful for a wider audience of practitioners.

2.4 CONTRIBUTION

This chapter reiterates that diversifying markets in IE studies have allowed for better nuance and perspective to the literature, and continuing efforts will benefit practitioners. Practitioners on islands would agree that islands possess the characteristics of emerging markets, but also offer unique features that merit attention in IE studies. This agenda responds to calls for diversity in IE studies and identifies (small) islands as overlooked and understudied spaces. Islands are Small, Open (as a means to cope with external changes), Vulnerable, Resilient, and these characteristics equip islanders with features that have shown to inform academia and practitioners alike. Aspects such as small population, vulnerability, remoteness, and isolation are characteristics that frame home markets and determine strategic outlook. These factors deem economies of scope more favorable than economies of scale, which may render IE a remote tool for business expansion of IBF. Understanding how opportunities beyond borders are identified and acted upon promises to help refine practitioners in their thought process, and facilitate IE from IBF.

For Island Studies this research agenda provides an aperture to extend theories of islandness into a relatively new and growing field, and allow for contributions to International Business, Entrepreneurship and International Entrepreneurship in particular. Practitioners on island stand to benefit the most as theories will be tested within their own context and help explain and rationalize business decisions. With small size attracting little attention from foreign firms, it may ultimately favor IBF to focus on home markets, and employ penetration strategies. These common constraints present novel environments to study behavior of IBF, in how they

perceive risk and act on riskier decisions. Additionally, these factors may induce a form of bounded rationality in executives that colors their perception of IE, despite the obvious benefits established in the literature. Finally, as island environments are so different, they can help organizational studies explain better how bricolage strategies are employed and operated.

The studies considering IBF are particularly welcome when considering issues of economic environment, competition, and opportunity recognition, and action. Practitioners are underserved by some current theoretical applications, and the implications they carry for business. Size matters, and investing in studies that extend existing theories such as upper echelon theory and (non-executive) directorships may prove to be very helpful to those small/island spaces. There is a plethora of studies that confirm director and executive attributes to IE, but IBF may allow for theory extensions that may go beyond traditionally considered markets, and be applicable to wider audiences than those on islands alone. Institutional factors on islands have been confirmed to be inappropriate, fuzzy, weaker, but are mainly (starkly) different. Studying these interactions may furnish practitioner toolkits with the necessary understanding to aid strategy execution, particularly for IE. Practitioners on islands also employ different strategies as a default which are often overlooked, which creates a unique environment to explore the actual whereabouts of how these strategies benefit firms. Finally, islands may allow for a completely new set of theoretical insight due to proximity between firms and politics, which can serve practitioners and academia alike.

3. ESCAPING PARADISE

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GOVERNANCE INDICATORS AND INTERNATIONAL ENTREPRENEURSHIP OF ISLAND BASED FIRMS

International Entrepreneurship (IE) can be driven by multiple factors, among which institutional environment in the home country plays a major role. Often overlooked are small island-based firms (IBFs) whose formal institutions, bequeathed from former colonizers, are constrained by a small domestic market. Given that Institutions have more pronounced impact on small islands, this study aims to create understanding on how institutions relate to International Entrepreneurship of Island Based Firms. This study examines 223 firms located in nine islands, Bahrain, Barbados, Cyprus, Iceland, Fiji, Jamaica, Malta, Mauritius, and Trinidad & Tobago over the 2009-2020 period, to determine whether weak governance and institutions promote IE as an escape strategy. Using the World Bank Governance Indicators, this study provides evidence that institutions in small islands can both foster and hinder IE. Specifically, strong voice and accountability and control of corruption foster IE while weak rule of law, regulatory quality and political instability pushes firms to escape overseas. The chapter also shows that rule of law can be mitigated by political stability and control of corruption but is immune to strong voice and accountability or government efficiency. In contrast, control of corruption can be weakened by government inefficiency. This chapter innovates in studying overlooked nations and responds to the call for diversity by demonstrating the importance of Institutions in influencing firm behavior with respect to International Entrepreneurship among IBFs.

3.1 INTRODUCTION

International Entrepreneurship (IE), defined as “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations” (McDougall and Oviatt, 2000), is driven by multiple factors, among which is the institutional environment at home. The role of institutions on international strategies has been well identified in emerging markets, and varies significantly between markets (Falahat, Lee, Ramayah, & Soto-Acosta, 2020). Meyer & Thein (Meyer & Thein, 2014) proposed an agenda that gave more attention to the role of home institutions as determinants of business responses in international markets. Institutions refer to the rules of the game and their enforcement mechanisms on firm activity (North, 1990). Home institutions can empower firms to pursue foreign ventures or push them out as a response to onerous regulations and disincentives. Cuervo-Cazzura & Ramamurti (2017) have found evidence that firms from emerging markets engage in IE as a means to escape weak home institutions. The quest for evidence on the escape hypothesis is expanded in this study to diversify and include countries that have not been previously researched.

Particularly missing are spaces where institutions have a more pronounced effect on firm performance and decision making like small islands (L.-P. Dana, 1990). Small islands can be carved out as a distinct group of spaces because they share common vulnerabilities such as small territory and population, remoteness and isolation (Briguglio, 1995a). The most common frame to delimit islands is the United Nations (UN) classification of Small Island Developing States or SIDS¹. Many of these spaces still boast governance structures that are modeled on metropole nations, often their former colonial power, which not always serves the need of the island (Chittoo, 2011a). Institutions on islands have an elevated notion of complexity as the village, town, city, and country

¹ This group of 52 nations also include countries such as Belize, Guyana and Suriname, which for historical reasons are considered islands.

are all morphed into one identity. Hence, the studies on IE in emerging markets cannot be applied to SIDS as they have completely different characteristics including size, demographics, population, natural resources, and state of development.²

Small Islands, however, share a lot of commonalities with other small states, land-locked or otherwise. Small states are defined by the World Bank as those with a population of less than 1.5 million. The Small State Forum of the World Bank consists of 50 countries of which two-thirds are island states, with eight having slightly larger population than 1.5 million but that share similar challenges.³ The dominant similarity is the diseconomies of scale in the provision of public goods because of the large size of the government relative to the population as documented by a study commissioned by the United Nations Development Programme (Everest-Phillips, 2014). The large size of government imposes costs in several areas of the economy including public health, public education, infrastructure and the collection of taxes. It also results in political patronage making it difficult to fight against any wrongdoing because of close ties in the small community (see Saati (2023), for St Lucia and Oostindie & Veenendaal (2019), for Malta).

There is an additional characteristic that sets aside small islands: the concept of islandness. Islandness carries a core trait: the bounded geography which can lead to low dynamism and social and political conservatism (Hay, 2003). On the other hand, the boundedness can lead to self-sufficiency and strong social capital associated to higher-than-average standard of living (Everest-Phillips, 2014). Islanders also have a way of life based on the aspect of islandness, where they solve new problems by reconfiguring existing solutions (Vannini & Taggart, 2013), which promise to explain firm behavior responding to institutions. These unique factors in island countries raise the question of whether home institutions that evolved from their colonial past

² See Duttagupta et al. (2021), for a definition on emerging markets, Miles to Go Finance and Development, IMF, June 2021.

³ The World Bank in Small States, available at <https://www.worldbank.org/en/country/smallstates/overview>

can influence domestic firms to pursue IE or do island-based firms (IBFs) expand overseas as an escape strategy.

The literature is sparse on small island-based firms (IBFs), whose limited market size provides for an alternative environment to examine the motives of businesses to pursue ventures beyond their borders. This study innovates by examining the impact of institutional environment on IE in nine small islands, Bahrain, Barbados, Cyprus, Fiji, Iceland, Jamaica, Malta, Mauritius, and Trinidad & Tobago, using a unique dataset of listed firms. It uses six governance indicators provided by the World Bank as proxies to answer the main research question of whether institutional factors in small islands encourage or hinder IBFs to expand overseas. The results show that high scores for two governance indicators, voice and accountability and control of corruption encourage IE. However, rule of law, regulatory quality and political instability have the opposite effect and encourage IBFs to escape domestic markets. Further tests on the interactive variables show that rule of law cannot be overridden by strong voice and accountability or government efficiency. Similarly, control of corruption can be weakened by government inefficiency in fostering IE.

The study contributes to the existing empirical literature in several ways. First, it researches a group of countries that have traditionally been neglected by academic studies. This is partly due to lack of data as several academic databases do not include small islands. This study overcomes this paucity by manually perusing through the annual reports of companies in the sample. Second, although there is considerable heterogeneity in language, culture and distance among the countries, this study shows that there islandness is a strong common denominator for institutions among islands located in the Caribbean, Asia and Europe.⁴ Third, it acknowledges and tests for the both the positive and negative impact of governance indicators on international

⁴ In 2022, the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS) lists 32 Landlocked Developing Countries (LLDCs), 38 Small Island Developing States (SIDS) and 46 Least Developed Countries (LDCs).

entrepreneurship. Institutions that frame the governance process play a dominant role in small island economies and even when policies are adopted with good intentions, can sometimes be detrimental to IE. The next section provides an overview of the literature on IE in emerging markets and small islands. Section 3 explains the hypotheses specific to IBFs, section 4 explains the data collection and section 5 discusses the methodology. The results are presented and discussed in section 6, including the robustness tests, and section 7 concludes with a summary and discussion.

3.2 LITERATURE REVIEW

The body of literature that constitutes IE derives theories from both Entrepreneurship and International Business. This hybrid field recognizes that firms venture into foreign markets to exploit opportunities because *“it is more efficient to coordinate activities rather than market exchange”* (P. Buckley, 2018). Factors like home institutions have been the subject of several studies as determinants of IE. Institutional economics provide for a framework where both formal and informal institutions are seen as factors that drive business decisions (Kostova, et al., (Kostova et al., 2020). As a consequence, institutions provide for a dynamic environment where firms are constantly tasked to evaluate efficiency between coordination and market exchange. These building blocks provide an interesting platform to advance the theoretical propositions set out by Cuervo-Cazurra et al (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018) that institutions can drive domestic firms to seek and act on opportunities abroad. Wu & Deng (Wu & Deng, 2020) confirm this development, dubbed institutional escapism, particularly among SMEs, to be related to misalignment between firm needs and home institutions.

The seminal work of Cuervo-Cazurra & Genc (Cuervo-Cazurra & Genc, 2008) provides insight in the case of multinationals from emerging markets. Coming from arguably distinct home conditions, they managed to identify opportunities and perform IE across specific borders where they could exploit their capability of managing uncertainty. The capabilities subsequently would

be categorized as escape-based internationalization, where firms motivated their IE by escaping weaknesses faced on the home front (Cuervo-Cazurra & Ramamurti, 2017). A relatively recent conceptual proposition advanced the idea that firms evaluate target host countries in part by means of their risk profile (Kotler et al., 2019), i.e., firms favor potential markets that offer scaling opportunities while having similar institutional environments. In this respect, policy changes and returns in the domestic market may alter the relative risk profile of home market vis a vis host markets and give way to IE escape activity. Deng & Zhang (Deng & Zhang, 2018) also identify a negative association between institutional strength and IE. Smaller firms were less compelled to “escape” the market (establishing subsidiaries abroad) when institutions were perceived as strong. This points to how characteristics of the domestic market may determine to what extent firms evaluate and engage in IE.

Absent in all these studies are firms from spaces where IE can be driven strategically by the size of the domestic market. These economies, especially small islands, can be considered “neglected” and studying them can contribute to the diversity of studies on IE (Arikan & Shenkar, 2022). Small Islands are constantly transposing to represent a variety of concepts because of asymmetric relationship with the world abroad (Ronström, 2021). Most importantly, islands are heavily influenced by outside forces, and thus often have little control over how institutions come about and influence the market. They also have to deal with misinterpretations of the influence of size on the complexity of the market (Nimführ & Otto, 2021), with their unique historical backgrounds that have shaped their institutions (Bassi, 2019; Grydehøj, 2018).

Island institutions have been found to be inadequate to their realities in that they have been adopted from former colonizing metropolises (Veenendaal, 2013). These findings corroborate the claim that public administration on islands underserve the potential of the island states (Chittoo, 2011), and possibly by extension, the firms that call them home (Minto-Coy, Lashley, & Storey, 2018). These studies unify the claim that islands are different in that they are not smaller

representations of larger countries, rather are unique in their own right especially due to interventions like colonialism. These interventions brought about foreign inspired public administration which shapes both formal and non-formal institutions. The misrepresentation of smallness is problematic since institutions need not be proportionate to larger nations (Nimführ & Otto, 2021), but rather recognize where size matters and address issues of islandness appropriately.

Institutions on small islands have a more pronounced effect of their private sector and may influence the perception of the opportunity beyond the domestic market for the firm (Briguglio, 2022). Seminal works like Dana (Dana, 1990) and Dana & Dana (L. P. Dana & Dana, 2000) identify that institutions in islands can also be pro-business and facilitate entrepreneurial activity in home markets, which signal a role for institutions in IE. Island environments are the very example of small domestic markets, where the environment exerts volatility, and merit examination on how these changes interact with firms IE (Gurmeet, R.D., & Rafia, 2010). Particularly, heavy government involvement provides for policy changes and returns, given the intertwined nature of local/regional/national context of island governance (Thompson et al., 2019a). Following these lines, IBFs seem to be predisposed to seek opportunities abroad, as their environment resembles the “apex of complexity” that shape IE as posited by Etemad (2017).

IBFs need not respond to institutions by escaping the domestic market, as much as they have the ability to adapt to it (Baldacchino & Bertram, (Baldacchino & Bertram, 2009). Firms strategically maintain postures that allow them to predict (and even influence) changes and returns, to the extent that they can deter the change in risk profile and motivate IE. Island firms may thus exhibit institutional embeddedness that overrides the need to escape home market, and thus form a unique space to determine how this interplay influences IE (D. Y.-T. Chan & Yang, 2021). Researchers focusing on the IE of island firms, however, have found that island executives are not particularly inclined to consider foreign markets (Sannegadu et al., 2021b). Evidence also

suggests that international experience, an accepted indicator for IE, is not associated with IBF venturing abroad (Rojer et al., 2022). So it seems that something is particularly different in island contexts, which also shapes IE. Martina et al (Martina, Wakkee, & Mauer, 2019) find that embeddedness *in international networks* is the main way islandness can be abridged allowing the acquisition of logic that firms can transpose to other markets, hinting that for at least the software industry IE has some strategic intent.

Taken together, IBF and their relationship with institutions in their domestic market offer a unique opportunity to study the escape hypothesis. Being in a space that can often be misrepresented when considered may explain why it is often marginalized. The island's development trajectories have been influenced by exogenous forces. The very nature of these markets relies on foreign trade and the impact it has on the former, all the while being isolated to the extent islanders approach problems with a different mindset because of said isolation. The institutional escape theory for IE is thus suitable to frame and test whether it drives firms to consider opportunities abroad. This study adopts the World Bank Governance Indicators to determine the contributing institutional factors. The six indicators are composed from multiple sources of governance indices and provide an independent governance perspective reflecting the institutional infrastructure of the country. Together, they will provide a guide to the importance of institutional factors that contribute to IE of firms in small islands with their unique market structures.

3.3 HYPOTHESIS

Governance indicators can support one of the two constructs – institutional support and facilitation that encourages IE or force firms to escape institutional rigidities and roadblocks in the country. It is possible for governance indicators to exhibit both institutional facilitation and institutional rigidities, as IBFs evolve from their colonizing metropolises whose civil structures were generally placed to exploit resources for foreign and not domestic firms. This chapter will identify

whether recent governance indicators support IE in small islands and join the ranks of emerging country firms' expansion into overseas markets. The following six hypotheses are tested using the World Bank governance indicators (WGI) with the null supporting institutional facilitation and the alternate supporting escapism.⁵

Voice and Accountability (VA) refers to the ability of citizens to trust in the accountability of public institutions and freedom of expression (Kaufmann et al., 2010). Such freedom promotes healthy environment for businesses through transparency of public institutions and democratic participations of agents in the market (Brewer et al., 2007). Islands characteristically escalate political decisions to the executive, which creates a system where top firms have access to decision making, and may have patronage issues or capacity constraints (Corbett et al., 2020). Baldacchino & Bertram (Baldacchino & Bertram, 2009) indicate that small island communities require agents to maintain a strategically flexible posture in order to take advantage of developments in the market. Taken together, within the scope of institutional theory, VA is framed as an institution where elevated levels would promote IE. With island spaces being seen as very democratic, more participative due to the size (Veenendaal, 2020), IBFs seem to be able to participate, shape, and receive what they need. Thus, it would mean that lower levels of VA would be associated with escapism, rendering the following hypothesis:

H1: Lower Voice and Accountability is associated with International Entrepreneurship as an escape mechanism.

Political Stability and Absence of Violence and Terrorism (PS) measures perceptions of the likelihood of political instability and politically motivated violence, including terrorism (Kaufmann et al., 2010). Instability and presence of violence have generally been associated with

⁵ Details on WGI can be found in <https://info.worldbank.org/governance/wgi/>.

driving away multinationals from emerging markets (Giambona et al., 2017). Island political stability is greatly dependent on party system Institutionalization which is driven by labor movements (Bishop et al., 2020). As a consequence, relatively high political stability may keep firms at bay, for opportunities abroad may seem riskier than exploiting the domestic market. Therefore, it is expected that lower PS scores are associated with higher levels of IE through the escape theory. These conditions can be expressed in the hypothesis as follows:

H2: Lower Political Stability is positively associated with IE as an escape mechanism.

Government Effectiveness (GE) refers to the ability of governments to provide public goods in an efficient manner facilitative to the private sector (Kaufmann et al., 2010). This indicator encompasses quality of services such as education, public health, transportation, physical infrastructure, bureaucracy and red tape that has a direct effect on business operations. While high levels of these indicators are usually associated as being good for business, they might not encourage firms to engage in risky ventures across borders. The escape hypothesis states that IBFs will seek to establish abroad if they find it difficult to operate in an environment with an ineffective government. Firms already deal with elevated involvement of government due to higher incidences of market failures (Briguglio, 2022), inefficient design (Chittoo, 2011), and lack of appropriate response for Business needs (Minto-Coy et al., 2018). This theoretical background suggests that escapism would then be promoted by lower levels of GE. In pursuit of providing evidence in favor of the escape theory, the following hypothesis is derived.

H3: Lower Government Efficiency is positively associated with International Entrepreneurship as an escape mechanism.

Regulatory Quality (RQ) refers to the “red tape” environment and encompasses the compliance framework to which firms must adhere (Kaufmann et al., 2010). The regulatory environment can dispose of mismatches in small societies where the administration is deemed

inefficient, and contributes to costs for businesses (Chittoo, 2011). Low RQ is observed as an advantage for new businesses. Conversely higher levels of regulatory quality in host markets may keep IBFs at bay and deter motives to establish beyond domestic markets (Nistotskaya & Cingolani, 2015). Island economies by nature have more regulators since governments of small economies have to solve for more market failures (Briguglio, 2022). As a result, IBFs may seek to engage in IE as a means to escape this environment where regulatory pressure is high, but scalability is low. This ecosystem, however, results in lower perception of regulatory quality and would promote escape to host markets, rendering the hypothesis:

H4: Lower Regulatory Quality is positively associated with International Entrepreneurship as an escape mechanism.

Rule of Law (RL) refers to the reliability of judicial institutions and law enforcement with regards to the business environment, including property rights (Kaufmann et al., 2010). The protection of private property is a bastion in promoting private sector development because it ensures that investments made can be recouped in an environment that has a degree of security, or where damages can be recouped through justice (Acemoglu & Robinson, 2012). An important factor is the enforcement of contracts which enables firms to take advantage of market efficiencies considering the construct of the domestic setting (Estrin et al., 2018). The evidence is clear that rule of law, in its diverse presentations is quite present in island communities, which can be a remnant of colonial past still influencing the islander and the firms they lead (Grydehøj et al., 2021). In the case of IBF, weak rule of law would promote escape since firms seek security and lower cost of doing business, across their active markets. Therefore, the following hypothesis is constructed:

H5: Lower Rule of Law is positively associated with International Entrepreneurship as an escape mechanism.

Control of Corruption (CC) refers to the degree to which irregularities with regards to due process and compliance are managed. It refers to irregular payments and bribes in the public sphere by politicians, executives and officials (public and civil servants), as well as the degree by which procedures to award contracts and procurement are upheld (Cuervo-Cazurra, 2006). Corruption can influence both local and international firms' operations, and to a degree exacerbate the security associated with engaging with the public sector and its agencies or State-Owned Enterprises (Karhunen & Ledyeva, 2012; Sartor & Beamish, 2020). Small Islands are known to have weak organizations in the sense that they are not designed to solve for market failures corresponding to their vulnerabilities, one of which is lack of human capital (Chittoo, 2011). High levels of CC are thus perceived to be associated with higher levels of IE. The alternative hypothesis states the lack of control on corruption forces IBFs to escape overseas. This is consolidated in the following hypothesis:

H6: Lower Control of Corruption is positively associated with International Entrepreneurship as an escape mechanism.

3.4 DATA

The sample of countries selected was limited to small islands with substantial securities exchanges and companies headquartered on the island. The final selection resulted in six developing island economies, Bahrain, Barbados, Fiji, Jamaica, Mauritius and Trinidad and Tobago. The island Seychelles had to be excluded for lack of data in spite of having a substantial stock exchange. State-owned companies were excluded in the dataset, given the differences in their shareholding structure and because their strategies are significantly affected by government priorities unique to the country. We also included three island economies classified as developed to determine whether strength of their institutions make a difference, Cyprus, Iceland and Malta. Slesman et al. (2021) demonstrate that countries with higher income levels have higher

institutional capacity, and hence less crowding out efforts to inhibit entrepreneurship. The three countries in the sample are comparable in population and number of stocks listings. The final set includes the nations of Bahrain, Barbados, Cyprus, Fiji, Iceland, Jamaica, Malta, Mauritius, and Trinidad and Tobago with data spanning 2009-2020, with population less than 1.51 million. Financial data for individual companies were selected from DataStream, World Bank, and hand-collected by perusing the individual annual reports. Companies with less than 3 years of data were dropped from the dataset, as well as those that delisted for a major part of the period, a total of 23 firms. The final sample is composed of 223 firms rendering 2,503 observations.

Table 3.1 Macroeconomic data of countries in the sample Year 2020.
GDP growth is estimated as a geometric mean of Growth in individual years.
Sources: DataStream and World Bank

Country	Population (in millions)	EU=1	GDP In USD billions	GDP Per Capita In USD	10-YR GDP Growth 2011-2020 %	5-YR GDP Growth 2011-15 %	5-YR GDP Growth 2016-2020 %	Exports over GDP %
Bahrain	1.487	0	34.72	\$23,502	5.25	6.26	-0.95	79.25
Barbados	0.280	0	4.67	\$16,644	-13.82	-1.44	-12.56	35.53
Cyprus	1.219	1	25.01	\$28,036	2.78	-9.98	14.17	74.97
Fiji	0.919	0	4.48	\$4,864	9.46	-18.80	-7.87	47.75
Iceland	0.353	1	21.69	\$59,200	8.82	9.87	-0.96	46.63
Jamaica	2.812	0	13.81	\$4,897	-5.07%	1.04	-6.04	38.56
Malta	0.485	1	14.93	\$28,978	24.62	21.23	2.80	145.22
Mauritius	1.266	0	11.40	\$9,007	16.80	18.68	-1.58	46.10
Trinidad/Tobago	1.505	0	21.06	\$13,872	-14.41	9.32	-21.71	39.53

Table 3.1 provides data on the economic demographics of the nine countries in the sample. Macroeconomic variables were obtained from the World Bank database such as GDP, GDP per capita and their five- and ten-year averages. The five- and ten-year averages capture the business cycle as long-term growth as international entrepreneurship may be impacted by accumulation of the variables.

In 2020, the largest countries as measured by GDP are Bahrain, Cyprus, and Iceland, two of which are in Europe. GDP per capita is highest in Iceland, Malta and Cyprus, all located in Europe. The growth rates of GDP varied across the years with the ten-year growth rate from

2011-20 highest for Malta at 24.62% and lowest for Barbados at -13.82%. The five-year growth from 2011-20 was the highest for Malta at 21.23% and the lowest for Fiji at -18.80%. The more recent five-year growth rate, 2016-20, shows Cyprus with the highest growth rate at 14.17% and the lowest for Trinidad and Tobago at -21.71%, reflecting significant differences between the years. Our multivariate tests therefore include yearly fixed effects to mitigate the differences in growth rates in the intervening years. Export over GDP reveal the reliance on trade for all island economies with Malta, Bahrain, and Cyprus showing the highest at 145.22%, 79.25% and 74.97%, respectively. The dummy variable EU serves as a proxy for having relatively higher income and the added advantage of having preferred and direct access to the European Union.

3.4.1 Dependent Variable

Traditional cross-border expansion of multinational firms was defined in early literature as a gradual process, beginning with exports that leads eventually to the setup of subsidiaries and manufacturing facilities abroad, termed the Uppsala model (Johanson & Vahlne, 1977). The process has changed in recent years as small firms are internationalizing more often and early in their life cycle, part of which is influenced by international entrepreneurial orientation. This study uses as the dependent variable the establishment of subsidiaries to serve as a proxy for IE. IE is ultimately a matter of action and is reflected in the commitment of resources to operations in international markets when operating a subsidiary. This form of commitment is important because it fundamentally changes the firm, rather than just expanding the market. The dependent variable is given by a dichotomous variable, 1 if during a particular year the company had subsidiaries or branches in foreign markets and 0 otherwise. Other studies have used Global Entrepreneurship Index (GEI) and foreign sales to total sales as proxies for IE but they are unavailable in a consistent manner for this group of countries.

Table 3.2 lists the number of firms in the sample, including total listings in each country and the number of overseas subsidiaries. The identification of foreign subsidiaries of IBFs had to

be done manually as that information is unavailable in DataStream. The percentage of firms with overseas subsidiaries averaged around 43.73% and ranged from 20.9% in Cyprus to 63.6% for both Jamaica and Trinidad and Tobago. The number of firms are much lower than the listings because only firms headquartered in the countries are included in the sample. Iceland is an exception where the numbers of firms are higher than the listings because of several delisting of firms in the years prior to 2018. Excluding the listings of subsidiaries of foreign-owned firms and state-owned enterprises provides a clean sample of private domestic firms involved in IE.

Table 3.2 List of firms and subsidiaries.

Source: DataStream and Annual reports of companies

Country	Listings in Stock Exchange	Number of Firms	Number of overseas subsidiaries (IE)	Percentage of firms with overseas Subsidiaries (IE)	No of firm-level observations 2009-2020
Bahrain	42	35	19	54.29	419
Barbados	27	9	5	55.56	84
Cyprus	74	43	9	20.93	508
Fiji	19	14	4	28.57	170
Iceland	18	20	9	45.00	229
Jamaica	120	22	14	63.64	260
Malta	24	23	6	26.09	250
Mauritius	88	39	14	35.90	453
Trinidad/Tobago	29	11	7	63.6	130
Total	441	223	87	43.73	2503

3.4.2 Independent variables

The governance variables are derived from the World Bank database to represent the institutional factors that govern IE decisions. The indicators range from -2.5 to 2.5, standardized to a normal distribution with mean zero and standard deviation of one (Kaufmann et al., 2010). Panel A of Table 3.3 lists the summary statistics of the governance indicators for the years 2009-2020.

The table shows the average of the six indicators are highest for two countries from Europe, Iceland, and Malta at 1.54 and 0.91, respectively. Among non-European countries, Mauritius and Barbados had the highest scores with an average of 0.84 and 0.80, respectively. The lowest average scores are for Bahrain, Trinidad and Tobago, and Jamaica at -0.11, 0.09 and

0.21, respectively. For VA, Bahrain and Fiji had the lowest scores at -1.45 and 0.13, respectively while Bahrain and Trinidad and Tobago had the lowest scores for PS at -0.62 and 0.12, respectively.⁶ Countries other than Trinidad and Tobago with low scores include Fiji for RQ at -0.10, Jamaica for Rule of Law at -0.21, and Bahrain for CC at -0.07. Together, the data reveals that small islands are still in their nascent and transition stages in institutional support for IE.

Table 3.3 Summary statistics of the Governance Indicators

Source: World Bank

Definitions of independent variables in Section 3 of chapter

Panel A							
All countries (2009-2020)							
Country	VA	PS	GE	RQ	RL	CC	Average
Bahrain	-1.45	-0.62	0.42	0.63	0.45	-0.07	-0.11
Barbados	1.13	1.13	0.48	0.46	0.33	1.272	0.80
Cyprus	0.91	0.31	0.88	1.00	0.50	0.37	0.66
Fiji	0.03	0.68	0.54	-0.10	0.22	0.64	0.34
Iceland	1.39	1.38	1.51	1.45	1.79	1.70	1.54
Jamaica	0.63	0.26	0.56	0.05	-0.21	-0.02	0.21
Malta	1.12	1.01	1.03	1.02	0.91	0.37	0.91
Mauritius	0.71	0.88	0.88	1.19	0.93	0.47	0.84
Trinidad/Tobago	0.65	0.12	0.21	-0.16	-0.15	-0.14	0.09

Panel B
Summary Statistics
All Countries (2009-20)
N=2503

Variable	Minimum	Maximum	Mean	Median	Std Dev
VA	-1.45	1.45	0.48	0.82	0.90
PS	-1.34	1.64	0.44	0.56	0.70
GE	-1.17	1.63	0.80	0.91	0.54
RQ	-0.97	1.45	0.76	0.89	0.49
RL	-0.87	1.79	0.66	0.75	0.61
CC	-0.46	2.03	0.53	0.39	0.62

Panel C
Standard deviation of the
By country and Year (2009-2020)

	VA	PS	GE	RQ	RL	CC	Average
By country	0.12	0.20	0.24	0.17	0.17	0.18	0.18
By year	0.88	0.70	0.62	0.58	0.73	0.74	0.71

⁶ Fiji had negative numbers for several years in all categories (not shown), partially as a result of the coup in 2007 but they have improved in recent years.

To get a better perspective of the data, Panel B of Table 3 provides overall summary statistics of the governance indicators for the years 2009-2020, totaling 2503 observations. The difference between minimum and maximum reveals that there is a wide diversity in institutional support among the countries. The overall numbers show a gradual increase (not reported) over the ten-year period providing a robust sample for hypothesis testing. If number of subsidiaries increase as the governance indicators improve over time, it establishes the benefits of better governance for IE, otherwise the escape hypothesis holds.

3.5 METHODOLOGY

The relationship between IE and the governance indicators is empirically studied through a fixed-effects regression model. The dependent binary variable IE is regressed against the governance indicators to determine their impact on IE. A significant and positive (negative) coefficient of the independent variable will indicate that institutional support increases IE in the country. A negative coefficient would indicate reduction in IE and encouraging escapism. The full equation is specified below:

$$IE_{it} = \partial_0 + \partial_1 VA_{it} + \partial_2 PS_{it} + \partial_3 GE_{it} + \partial_4 RQ_{it} + \partial_5 RL_{it} + \partial_6 CC_{it} + \partial_7 FS_{it} + \partial_8 ROE_{it} + \partial_9 GDP_t + \partial_{10} EXP_GDP_{it} + \partial_{11} 10YGDPPC_t + \partial_{12} EU_{it} + \mu_{it},$$

(1)

where *i* refers to the company and *t* is time, measured in years. The first six variables are the governance Indicators, followed by two firm-specific variables, log of Total Assets for firm size (FS) and Return on Equity (ROE), measured as net income over stockholder's equity. Data on LAT and ROE were obtained from DataStream except for Barbados, Jamaica and Trinidad & Tobago which were collected manually from the annual reports. Three macroeconomic variables are also specified and are country specific, GDP, Exports as a percent of GDP (EXP_GDP) and the 10-year growth of GDP per Capita (10YGDPPC). Since Panel A and B of Table 3 showed considerable variation over the years and between countries, a fixed-effects model is employed to mitigate

structural changes over time and by country. We avoid using two fixed effects, country and year, because the fixed effect with more variation can dominate the estimation of the coefficients (Kropko & Kubinec, 2020). To determine which fixed effect to select, Panel C of Table 3 shows the standard deviation of the governance variables by country and year. The standard deviations of the governance variables by country for the years 2009-20 are all below 24 percent with an average of 18 percent. The standard deviations of the governance variables by year are above 38 percent for all years with an average of 0.78, indicating significant differences over the years. We therefore employ a year fixed-effect model and complement it with a dummy variable for firms located in the EU.

3.6 RESULTS

Table 3.4 shows the results of the regressions. Four versions of the regressions are reported; each regression drops one variable to mitigate multicollinearity among the governance indicators. The overall finding validates the explanatory power of these variables on internationalization and justifies their inclusion in the model.

Table 3.4 Results of fixed-effects regressions.
Dependent variable is 1 if island-based firms (IBFs) have a subsidiary, 0 otherwise. *, **, *** significance at the 1%, 5% and 10% levels.**
Definitions of independent variables in Section 3 of text.

	1	2	3	4
VA	0.083	0.081	0.053	0.114
	0.0385**	0.0445**	0.0103**	0.0016***
PS	-0.042	-0.035		-0.089
	0.3784	0.457		0.0223**
GE	0.033	0.015	0.059	-0.019
	0.5782	0.7864	0.258	0.7162
RQ	-0.050		-0.041	-0.100
	0.3787		0.4574	0.0386**
RL	-0.116	-0.147	-0.150	
	0.0858*	0.0111**	0.0065***	
CC	0.073	0.085	0.060	0.059
	0.0631*	0.0203**	0.0991*	0.1227
FS	0.075	0.075	0.075	0.075
	<.0001***	<.0001***	<.0001***	<.0001***
ROE	-0.013	-0.013	-0.013	-0.013
	0.0812*	0.0844*	0.0833*	0.08*
GDP	-0.002	-0.002	-0.002	-0.001
	0.6623	0.4972	0.6093	0.6822

EXP_GDP	0.150 0.0007***	0.147 0.0009***	0.146 0.001***	0.134 0.002***
TenYRGDPPC	0.000 0.0004***	0.000 0.0003***	0.000 <.0001***	0.000 0.0019***
EU	-0.317 <.0001***	-0.326 <.0001***	-0.305 <.0001***	-0.307 <.0001***
Fixed Effects	Year	Year	Year	Year
N	2500	2500	2500	2500
R²	0.2137	0.2134	0.2134	0.2127

The coefficients of VA are positive and significant in all four regressions. It rejects the escape hypothesis and confirms that institutions promoting a healthy environment for businesses through transparency of public institutions and democratic participations of agents in the market enhance IE for IBFs. PS shows a negative relationship for one of the regressions with IE and validates the hypothesis that IBFs may escape and expand overseas to overcome political instability at home. GE does not play a role in the IE of IBFs with all the coefficients insignificant.

Two other variables supporting the escape hypothesis are RQ and RL, the latter with all coefficients significant and negative. They are important components for IBFs as lawlessness and weak regulations can hinder business from operating efficiently and eventually lead them to seek overseas expansions. The negative relationship validates that higher levels of regulatory quality is the better institutional framework to keep IBFs at bay and deter motives to establish beyond domestic markets. Similarly, without proper RL, it will be difficult for firms to believe that their domestic investments can be recouped with a degree of security and damages recouped through justice. CC is in line with the institutional support hypothesis as several of the coefficients are positive. Countries with high levels of control of corruption are associated with higher levels of IE and negates the escape hypothesis.

Among the firm-specific control variables, one key determining factor is the size of the firm. The larger the firm, the greater the overseas expansion for all countries. This is to be expected as overseas expansion requires large investments and financing. The coefficient for profitability of a firm, ROE, is negative and significant which provides an economic explanation

for escaping overseas. Among the macro control variables, the coefficient of GDP is insignificant but the 10-year GDP per capita is positive and significant. In addition, exports as a percent of GDP are positive and significant for all regressions, indicating that more developed island states show a higher propensity to expand overseas through IE. The EU variable is negative and significant for all four regressions indicating that association with the European Union is not a hindrance for small island states to expand their IE.

In summary, two of the governance indicators show strong institutional support for fostering IE while three others support the escape hypothesis. These results are similar to Nuruzzaman et al. (2020) who find that institutional support and institutional hazards can exist side-by-side in emerging economies. These results hold after controlling for firm-specific and macroeconomic factors that also impact IE. Although the results show that weak rule of law, low regulatory quality and political instability provide an impetus for firms to escape overseas, it is not clear whether the other positive governance indicators can nullify their negative impact.

To determine whether the escape hypothesis is strengthened or weakened by the presence of other strong governance factors in the countries, the regressions are expanded to include interactive terms. Since the independent variables (IVs) are continuous, interpreting the interactive terms presents a problem as the coefficient of an IV is dependent on the various values of the other values. One approach is to mean center the independent variables so that the coefficients can be interpreted as a change in the average value of the interactive term. Hence, equation 2 mean-centers the governance variables, as shown below:

$$\begin{aligned}
 IE_{it} = & \partial_0 + \partial_1 MVA_{it} + \partial_2 MPS_{it} + \partial_3 MGE_{it} + \partial_4 MRQ_{it} + \partial_5 MRL_{it} + \partial_6 MCC_{it} + \\
 & \partial_7 MFS_{it} + \partial_8 MROE_{it} + \partial_9 MGDP_t + \partial_{10} MEXP_GDP_{it} + \partial_{11} M10YGDPPC_t + \\
 & \partial_{12} MEU_{it} + \partial_{13} MVA_{it} * MRL_{it} + \partial_{14} MPS_{it} * MRL_{it} + \partial_{15} M * MRL_{it} + \partial_{16} MGE_{it} * \\
 & MRL_{it} + \partial_{17} MCC_{it} * MRL_{it} + \partial_{18} MCC_{it} * MVA_{it} + \partial_{19} MCC_{it} * MPS_{it} + \partial_{20} MCC_{it} * \\
 & RQ_{it} + \partial_{21} MCC_{it} * MGE_{it} + \mu_{it}, \quad (2)
 \end{aligned}$$

In total, equation 2 is supplemented by nine additional coefficients (∂_{13} to ∂_{21}). All variables are pre-fixed with M to indicate they are mean-centered. For example, $MVA_{it} = VA_{it} - \text{Mean}(MVA_{it})$, etc. Since fixed effects and mean-centered models are equivalent in linear regressions, we only employ OLS for equation 2.⁷

Table 3.5 Results of fixed-effects regressions.
Dependent variable is 1 if island-based firms (IBFs) have a subsidiary, 0 otherwise. *, **, *** significance at the 1%, 5% and 10% levels.**
Definitions of independent variables in Section 3 of text.

Panel A				
	1	2	3	4
VA*RL	-0.146 (0.029)***			-0.176 (0.063)*
PS*RL	0.131 (0.036)***	-0.081 (0.165)		0.176 (.0001)***
RQ*RL	-0.048 (0.483)	-0.043 (0.588)	-0.023 (0.7720)	
GE*RL		-0.110 (0,082)*	-0.111 (0.0794)*	0.000 (0.998)
CC*RL	0.053 (0.248)	0.080 (0.083)*	0.122 (0.0004)***	
Adjusted R ²	0.209	0.209	0.208	0.209
Panel B				
	1	2	3	4
CC*VA	-0.060 (0.363)			-0.219 (0.762)
CC*PS	0.212 (0.002)***	0.173 (0.001)***		0.197 (0.001)***
CC*RQ	-0.092 (0.244)	-0.082 (0.298)	-0.115 (0.143)	
CC*GE		-0.120 (0.184)	-0.129 (0.152)	-0.105 (0.080)*
CC*RL	-0.002 (0.976)	0.061 (0.473)	0.198 (0.007)***	
Adjusted R ²	0.209	0.209	0.206	0.209
N	2500	2500	2500	2500

⁷ Regression results of equation 2 using time fixed effects show similar results.

Table 5 reports only the interactive terms since coefficients of the mean-centered non-interactive variables are usually the same as those run without mean-centered variables. Panel A reports the results of the interactive terms for rule of law, RL, and Panel B for control of corruption, CC, both of which showed strong significance in all the regressions in Table 4.⁸ Due to multicollinearity, several regressions were attempted by dropping an interactive term one at a time. Only results with low VIF (variance inflation factors) scores are reported. Panel A shows that VA*RL is negative and significant indicating that voice and accountability does not have a moderating effect on the negative influence of the weak rule of law on IE.⁹ PS*RL is positive and significant for one of the regressions indicating that political stability can be a moderating factor to economies with weak rule of law and help mitigate IE decisions to escape overseas. The coefficient for RQ*RL is insignificant for all the regressions indicating that regulatory quality has no impact on the weak rule of law to prevent firms from escaping abroad. However, GE*RL is negative and significant for two of the three regressions, indicating government inefficiency together weak rule of law are significantly associated with IE decisions to escape overseas. On the other hand, CC*RL is positive and significant, indicating the negative influence of weak rule of law can be mitigated by strict control of corruption in a country.

In sum, Panel A shows that the influence of weak rule of law can be mitigated if the country has low corruption or is politically stable. However, strong voice and accountability or government efficiency are not important factors to dissuade firms in countries with weak rule of law to escape overseas.

Panel B shows the interaction of control of corruption with the rest of the governance variables. The interaction of CC*VA is insignificant indicating voice and accountability is not a

⁸ Voice and accountability also had significant coefficients across all regressions, but their interactive terms were insignificant for a majority of the regressions, so we omit reporting them.

⁹ A strict interpretation of ∂_{13} is that a significant and positive VoiceAcct increases IE for countries with an average score of RuleofLaw. Similarly, RuleofLaw increases IE for countries with an average score for VoiceAcct.

moderating factor to control of corruption. CC*PS is positive and significant indicating that political stability enhances the control of corruption in encouraging IE. The coefficients of CC*RQ are all insignificant showing the low impact of regulatory quality on control of corruption. In contrast, CC*GE is negative and significant for one of regressions indicating that even if small island states have good control on corruption, its effect is reduced if government inefficiency persists. Finally, CC*RL is positive and significant indicating that control of corruption is able to prevent firms from escaping abroad even if the rule of law is weak in small island states, supporting the result in Panel A.

Overall, the interactive terms provide a more nuanced picture of the role of governance on IE by IBFs. Two dominant factors stand out among the various combinations of regressions employed in the study, control of corruption and rule of law. Strong control of corruption is associated with increased IE while weak rule of law encourages IBFs to escape the island. The interactive terms show both variables are influenced by other governance factors. Political stability with strong control of corruption is a positive influence on IE of small island states. However, weak rule of law cannot be mitigated by strong voice and accountability or government efficiency.

ROBUSTNESS TEST

A weakness of simple regression models is that the predicted value may lie outside the (0,1) range when the dependent variable is binary. A preferred model for binary dependent variables is the probit or logit regression to constrain the dependent outcome to the [0, 1] range. The fixed effects model was employed in this study because the univariate tests showed the independent variables transitioning over the years. It is not possible to use a probit model with fixed effects since they have been shown to offer biased results (Greene, 2002). However, to ensure the robustness of the results of our fixed-effects model, a probit regression was employed to compare the results and are reported in Table 3.6.

Table 3.6 Results of Probit regressions.
Dependent variable is 1 if island-based firms (IBFs) have a subsidiary, 0 otherwise. *, **, * significance at the 1%, 5% and 10% levels.**
Definitions of independent variables in Section 3.

	1	2	3	4
Intercept	-3.366	-3.398	-3.428	-3.279
	<.0001***	<.0001***	<.0001***	<.0001***
VA	0.190	0.188	0.125	0.233
	0.1091	0.1119	0.128	0.0335**
PS	-0.101	-0.087		-0.172
	0.4492	0.5145		0.128
GE	-0.067	-0.124	-0.018	-0.138
	0.7112	0.4589	0.9161	0.4038
RRQ	-0.144		-0.127	-0.231
	0.391		0.4431	0.1024
RL	-0.188	-0.276	-0.266	
	0.328	0.0894*	0.1004	
CC	0.440	0.487	0.442	0.379
	0.0003***	<.0001***	0.0002***	0.0002***
FS	0.248	0.248	0.249	0.248
	<.0001***	<.0001***	<.0001***	<.0001***
ROE	-0.050	-0.050	-0.050	-0.050
	0.0796*	0.0806*	0.0816*	0.0782*
GDP	-0.002	-0.003	-0.002	-0.002
	0.7528	0.6667	0.7568	0.7383
EU	-0.716	-0.745	-0.703	-0.701
	<.0001***	<.0001***	<.0001***	<.0001***
EXP_GDP	0.326	0.317	0.331	0.297
	0.0267**	0.0306**	0.0243**	0.0391**
TenYRGDPPC	0.010	0.010	0.012	0.008
	0.1706	0.1481	0.0783*	0.2417
N	2500	2500	2500	2500

The signs of the coefficients for nearly all the governance variables are consistent with those of the fixed-effects model of Table 4, although with fewer statistical significances. Voice and accountability have one positive and significant coefficient in contrast to the positive and significant coefficients for all regressions in Table 4. Political stability, government efficiency and regulatory quality have no significant coefficients. But the two dominant factors, rule of law and control of corruption are consistent with Table 4. Rule of law is negative and significant for one

regression while control of corruption is significant and positive for all regressions. Overall, we conclude that the results of the fixed-effects regression in Table 4 are robust for this study.

3.7 SUMMARY AND DISCUSSION

This study sheds light on the influence of governance factors on IE of firms in small island-based economies. Studies of IBF have been neglected in the academic literature for several reasons with lack of data being one primary reason. In the 1990s, small islands joined the bandwagon of other emerging countries to liberalize their markets and foster IE. The progress in the reversal of investments and entrepreneurship has been slower for IBFs because of its unique characteristics, small size, small population, location and lack of resources, making institutional factors important determinants. This study fills the gap by examining the role of institutional factors in shaping the IE of eight small island economies.

The study uses the number of overseas subsidiaries as a measure of IE. The data was collected manually from the annual reports of the individual IBF. The results show two of the governance factors are important in the decisions of IE by IBFs. Control of corruption fosters IE of IBFs while weak rule of law forces IBFs to flee these islands. The results are weaker for the other governance variables. Political instability and weak regulatory quality can also encourage IBFs to escape while strong voice and accountability can encourage IE. The mixed results have been observed in other studies, i.e. home institutions can both foster and hinder IE.

The next step in the study was to determine whether the two dominant variables, RL and CC, can be mitigated or enhanced by the other governance variables. The results of the interactive terms show that neither voice and accountability nor regulatory quality mitigate the weak rule of law in encouraging escapism or enhance control of corruption in fostering IE. GE is shown to mitigate the negative influence of the rule of law but it also offsets the role of control of corruption in fostering IE. PS plays an important role; it mitigates the negative influence of rule

of law in encouraging escapism and enhances control of corruption in advancing IE. Overall, we conclude that weak RL and CC can be offset by the other governance variables.

These findings corroborate other studies that emphasize the role of institutions in society, and particularly highlight their relevance for private firms' strategic decisions. IE of IBF's can be beneficial to domestic markets, through inflow of surpluses (financial, performance and knowledge) from abroad and revitalize domestic markets. This chapter therefore serves policymakers in directing attention to the role of institutional environment in the fostering of IE. Robust voice and accountability and control of corruption support the IE of firms therefore rejecting the claim that IBF escapes the home environment. However, the study also shows that rule of law, political instability and weak regulatory quality are promoters in the escape theory with regards to IBF. These findings indicate that some specific factors of governance are more relevant than others in promoting IE among domestic firms in small islands.

A limitation of this study is that IE of IBFs has been determined as holding a controlling stake in a subsidiary abroad and may not reflect other forms of IE such as foreign sales, overseas investments, and independent acquisitions of foreign firms. Further studies should devote attention to other forms of international activity of IBFs to confirm or deny these possible explanations.

4. ISLAND HOPPING

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**THE IMPACT OF CEO CHARACTERISTICS ON INTERNATIONAL ENTREPRENEURSHIP
OF ISLAND BASED FIRMS**

This chapter examines the impact of CEO characteristics on the International Entrepreneurship (IE) of listed Island Based Firms (IBF) during the period 2009-2018. The research considers 164 companies from a sample of 8 small islands with securities exchanges including more than 1 firm headquartered on the island. The selected islands are: Barbados, Cyprus, Fiji, Iceland, Jamaica, Malta, Mauritius, and Trinidad & Tobago. Framed on the Upper Echelon Theory and Social Network Theory, the influence on IE of CEO's tenure, academic background and achievement, family allegiance, and international exposure is studied, taking into account the small island particularities. Through a binary probit model, it is concluded that CEOs' family allegiance, tenure, and academic background (if the CEO majored in Business Administration/Finance/Accounting/Economics) are negatively related with IE, while CEOs' academic achievement and international exposure are positively associated with IE. Some of these results are atypical in the existing literature; nevertheless, islandness can explain these results. The conclusions attained suggest new theoretical and empirical lines of IE research for IBF.

4.1 INTRODUCTION

CEOs and their particular characteristics can have profound impacts on the firms they lead, especially on strategic decisions like International Entrepreneurship (IE). IE has been largely defined as an opportunity-oriented process involving recognition and exploitation of these beyond domestic markets (Oviatt & McDougall, 2005). This process particularly involves identifying the opportunities a firm may gain when venturing abroad by directly, or indirectly, competing with domestic or foreign suppliers in that market. The phenomenon of IE has received much attention from scholars, yet many opportunities remain overlooked.

The effects of CEO Characteristics (CC) on firms' strategy have been understudied in the case of Island Based Firms (IBF), which are located in the smallest countries in the world. In these latitudes top executives must be additionally tasked in order to be flexible in responding to internal and external shocks as a consequence of vulnerabilities related to island size (Baldacchino, 2019b). Briguglio (Briguglio, 1995b) indicated insularity equips nations with distinct susceptibilities, such as the ability to develop and maintain limited human capital at par with other nations, deal with less geographic and product diversification, as well as face more limitations regarding resources and technology (Thompson, Wissink, & Siwisa, 2019). With respect to CEOs of IBF, having a limited pool of qualified candidates may influence the ability of firms to capitalize on strategic opportunities such as IE in order to expand their boundaries.

Upper Echelon Theory (UET - Hambrick & Mason, 1984) predicts that the strategy and performance of a firm is dependent of its CEO's vision, which is fundamentally shaped by the executive's characteristics (particularly socio-demographic and psychological traits) (Hambrick & Mason, 1984; Hsu, Chen, & Cheng, 2013). In small islands there are a finite number of companies that can operate locally and a lack of economies of scale; therefore, IE represent a mean to survive and expand. Furthermore, this strategic decision is immersed in a context with two additional challenges, related to the small size of the islands: adaptation and innovation (Michael Hall, 2012).

Thus, IE decisions of CEOs of companies in IBF consider other variables and require particular characteristics that have not been addressed in the previous literature. This work is a pioneer in investigating the characteristics of the CEOs that promote IE in these companies and contributes both to the international literature on the subject, as well as to the emerging literature on island studies. In particular, it aims to analyze the influence on IE of CEO's tenure, academic background and achievement, family allegiance, and international exposure, taking into account the small island particularities.

This research considers a sample of listed IBF from 8 different small islands: Barbados, Cyprus, Fiji, Iceland, Jamaica, Malta, Mauritius, and Trinidad & Tobago, for the years 2009-2018. Results show that CEOs' Family Allegiance (being part of the business family, for family firms), Tenure (number of years the CEO has served in that position with the company), and Academic Background (if the CEO majored in Business Administration/Finance/Accounting/Economics) are negatively associated with IE, while CEOs' Academic Achievement (when the CEO pursued graduate studies) and International Exposure (if the CEO studied abroad) are positively related with the odds of International Entrepreneurship. Some of these results are atypical in the existing literature; however, they are very consistent taking into account Social Network Theory for the small island context. Social Network Theory emphasizes the importance of social relations in transferring information and influencing behaviors (Liu et al., 2017).

This chapter is structured as follows: Section 2 deals with the literature review and hypothesis building; section 3 discusses the data, variables, and methodology associated with the testing of the hypotheses; section 4 provides the results and discussion; conclusions are exposed in section 5.

4.2 LITERATURE REVIEW

4.2.1 CEO'S & INTERNATIONAL ENTREPRENEURSHIP

International Entrepreneurship (IE) is a type of entrepreneurship that goes beyond local frontiers. It searches opportunities outside local markets to increment positioning and profits. As such, internationalization is an entrepreneurial act, which implicates innovation, risk-taking, and strategic change (Schumpeter, 1934). International entrepreneurship is defined as *“a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”* (McDougall & Oviatt, 2000, p. 903). IE comprises “cooperative alliances, corporate entrepreneurship, economic development initiatives, entrepreneur characteristics and motivations, exporting and other market entry modes, new ventures and initial public offerings (IPOs), transitioning economies, and venture financing” (McDougall & Oviatt, 2000, p. 903).

The backgrounds of executives determine the interpretations of opportunities and the decisions they make to act upon these opportunities, as is derived from UET (Hambrick & Mason, 1984; Nishii, Gotte, & Raver, 2007). Specifically, UET addresses the impact of executives' personal characteristics such as age and gender, as well as their professional characteristics such as tenure and educational background, on companies' outcomes. Even though Upper Echelon Theory has not been **exempted** from criticism from a methodological and conceptual point of view, it is still one of the most widely used theories in management research (Neely et al., 2020).

The Upper Echelon Theory has been expanding over time, incorporating more characteristics of corporate top management, as well as introducing moderating variables. Two of these moderating variables are managerial discretion and job demand, which are dependent on the specific context and culture where the firms operate. There has been a bias towards

studies performed for American and European settings; lately the literature has introduced many papers based on Chinese firms. Regarding CEO characteristics, psychological variables have been added to the increasing list of socio-demographic variables (Abatecola and Cristofaro, 2020).

Several papers highlight under the UET framework that CEOs' vision, shaped by their characteristics, is paramount in determining firms' strategic decisions such as IE (Gentile-Lüdecke, Halaszovich, & Lundan, 2019). The international experience of top executives is a variable that has been widely used to explain the international orientation of the companies they lead (Sambharya, 1996; Nielsen and Nielsen, 2011). In addition, there is evidence that the international experience of managers is reflected in greater financial performance, compared to other local companies (Nielsen, 2010). CEOs direct their firms to expand across borders in response to their vision and an array of (both domestic and international) developments, and new environments/spaces and conditions should be explored to better understand the process by which IE takes place (Coviello, McDougall, & Oviatt, 2011; Kiss, Danis, & Cavusgil, 2012).

IE is a phenomenon where businesses transform into fundamentally different organizations through operating in multiple markets that contrast with the structure, dynamics and culture of their domestic market (Fletcher, 2004). They outperform their peers through the ability to scale across several markets, as well as extracting value from the network they build through their presence in foreign countries (Lu & Beamish, 2002). Firms engaged in IE are defined as those that operate a controlling interest in a foreign subsidiary (Wang, Chung, & Lim, 2015), which make matters regarding IE part of their strategic decision making. The role of executives in IE has been well supported, with evidence pointing at the profound and critical role of executives in the process of IE (Chen, Zhong, Hailin, & Li, 2019; Gentile-Lüdecke et al., 2019; Wrede & Dauth, 2020). However, up-to-date studies have practically ignored contexts such as Small Island Based Firms.

4.2.2 SMALL ISLANDS AND ISLAND BASED FIRMS

Research on the relationship between IE and CEO characteristics is vast for emerging and developed economies, and incorporates companies of varying sizes (D'Angelo & Presutti, 2019; Dimitratos, Johnson, Plakoyiannaki, & Young, 2016; Pacheco, 2016). Geographical aspects have been found to interact with strategic decisions such as IE, but have left plenty of overlooked spaces, such as small islands (Acs & Correa, 2014; Booth et al., 2020). Small islands have often been relegated as less complex and minute forms of advanced markets, which apparently do not contribute to scholarship. The contrary, however, is true if seen from a perspective of ecosystems, as small islands are similar to each other in terms of islandness (Patiño, Whittaker, Borges, & Fernández, 2017). Small island conditions tend to be common to all, regarding business environments, infrastructures, and networks, which allow for wider applications and generalizations (Lomolino, 2016).

Small Islands have unifying conditions; they typically face the challenge of small population, risk aversion due to reputation considerations, and susceptibility to external shocks (Briguglio, 1995a; Briguglio, Persaud, & Stern, 2006; Booth et al., 2020). A small environment (few players and resources) provides for limitations that require alternative strategies from those already established in theory (Williams, You, & Joshua, 2020). Competitive pressure, for example, can be higher in small island markets that are filled with local homogeneous products (Sannegadu, Henrico, & van Staden, 2021). Product diversification is a challenge on small islands since there is a general lack of economies of scale that do not allow higher domestic production and further specialization (Mohan, 2016). In this respect executives face additional challenges in their pursuit to sustain and grow the firms they lead (Ackerman et al., 2020) in the domestic market. In addition, firms in small islands have found it difficult to attain brand recognition overseas, which increases the risk of IE (Lawton & Harrington, 2007). International entrepreneurship of IBF has been documented mostly as a reactive strategy; that is, companies consider and pursue

international endeavors as a reaction to adverse local conditions such as market saturation (Sannegadu, Henrico, & van Staden, 2021).

On the other hand, Social Network Theory suggests that having long and engrained relationships with the market and its players can create unique levels of trust and sharing of information that discourage entrants or competitors' ability to diffuse through the small island market. Consequently, these conditions may reduce the odds of these firms to engage in IE, due to their strategic fit with their domestic market. Social networks are defined as "a pattern of ties linking a defined set of persons or social actors" (Seibert, Kraimer, & Liden, 2001; p.220), which promotes cooperative efforts and aids the transfer of thoughts, information, and knowledge among the network members (Fliaster & Spiess, 2008). Social (business) networks are positively correlated with financial performance (Cárdenas, 2014); firms can better resist uncertainty and volatility in their particular environment through these networks (Martin, Gözübüyük, & Becerra, 2015).

Island environments undoubtedly present limitations for IBF; however, at the same time they allow for advantages of their own. One of the advantages relates to small island executives' strategic flexibility (Baldacchino & Beltram, 2009), which represents a means to cope with substantial external shocks through adaptation and innovation. Small islands are characterized by changeability; in order to survive islanders must adapt constantly and be resilient (Gillis, 2014). The latter might favor strategies such as IE, which requires CEOs openness to changes and new developments. But, CEO's strategic flexibility can also strengthen the company's presence in its local market, making it unnecessary to look after more risky foreign projects. For example, strategic flexibility increases the success odds of niche products, which represent an opportunity to remain competitive in the local market (Kurecic, Luburic, & Kozina, 2017).

Social networks allow CEOs to obtain relevant information that can further expand their companies' strategic flexibility. From a knowledge management perspective, information and

knowledge provided by social networks enhance strategic flexibility (Mihi, García, & Arias, 2012), allowing the firms to adapt better to the markets' volatilities and favoring their competitive advantages; the latter is particularly important in more uncertain environments (Fernández et al., 2014), such as those present at IBF.

Minto-Coy, Lashley, & Storey (2018) pointed out that IBF issues are misunderstood and inappropriately addressed, and have called for further examination. IBF operate like major players in their domestic market but are typically small - and medium-sized enterprises (SMEs) and are thus less complex in terms of organization. This dichotomy possibly disguises the opportunities beyond borders to an extent that renders IE a (more) remote strategic goal. Broome, Moore & Alleyne (2018) pointed out that (Caribbean) IBF faced funding challenges to engage risk projects (e.g. R&D), which underscore a striking limitation IBF face in crafting plans to grow and expand.

These conditions undoubtedly distinguish IBF from those firms examined in previous studies and introduces small islands as new environments for IE research (Baldacchino, 2013; Baldacchino, 2006). It is yet, however, unknown how these dynamics frame decision-making on IE by CEOs of IBF, prompting the need to extend UET and Social Network Theory to better inform on how this process comes about.

4.2.3 ISLAND BASED FIRMS & CEO CHARACTERISTICS

CEOs' decisions are motivated both by natural characteristics (e.g. gender, age) and acquired characteristics (e.g. education & training, tenure), and can form the basis for which they are selected to lead their firms (Carpenter et al., 2016). CEOs profoundly impact the outcomes of their companies by virtue of their leadership and choices. Studies have specifically identified the link between the personal characteristics and attitudes of CEOs, on the strategic behavior of firms with regard to IE (Anwar et al., 2018). Nevertheless, this is a practically unexplored area of research for IBF (Sannegadu et al., 2021a).

4.2.3.1 International Exposure

IE depends on several CEO characteristics, one of them being their international exposure through foreign experience and/or education (Casillas, Barbero, & Sapienza, 2015). Executives with foreign experience are more likely to push forward internationally oriented decisions with regards to sourcing and expansion (Chen et al., 2019). These CEOs have better knowledge on different business cultures, as well as greater international networks, which foment IE (Zucchella, Palamara, & Denicolai, 2007). Recent studies highlight that CEO's familiarity with specific markets reduce uncertainty and are a determinant of IE (Clark, Li, & Shepherd, 2018). In addition, CEOs that have studied abroad are expected to engage more in IE, as they have attained a more global mindset (Cumming & Zhan, 2018). Lack of international exposure has also been identified as a barrier to developing the most basic international elements of businesses, such as exports (Bianchi & Wickramasekera, 2016).

Islanders pursuing higher education at institutions abroad are exposed to international environments (Alexander, 2015). The latter is also true for island foreign residents that have studied off-island. This allows the importation of new knowledge and practices, as well as connections to new and foreign networks that facilitate the interpretation of opportunities abroad. Therefore, it is expected that in the context of small islands, international exposure contributes positively to the IE of IBF, which leads to hypothesis 1:

H1: The odds for international entrepreneurship in IBF are higher when CEOs have studied in foreign universities.

4.2.3.2 CEO Tenure

Tenure is a proxy of the CEO's experience and seniority in office and at the company. It is related to the age of the CEO and his/her career as a senior executive. Image and reputation of the CEO, and by extension of the firm, are carefully managed by the CEO as his/her tenure grows

(Conte, 2018). Therefore, risky projects such as R&D and IE are carefully reviewed before becoming actionable by firms (Hou, Li, & Priem, 2013). It is believed that tenure allows for the development of acumen, generating a foundation for less risky decision making as time progresses (Rupinder & Balwinder, 2019). Findings from manufacturing industries have found discouraging links between tenure and IE, as CEOs grow conservative over time (Huybrechts, Voordeckers, & Lybaert, 2013; Lee & Moon, 2016). CEOs would thus prefer other less risky strategic activities to expand abroad, such as export.

Tenure in this respect encourages commitment to established ideas and practices which may deter IE. Greater knowledge of the home market, greater reputation acquired over time, and deeper local networks enjoyed by a CEO with greater seniority, foster the status quo against strategies like IE and promote employing strategic flexibility in the local market. As such it is expected that tenure of CEOs in IBF would discourage IE, rendering the second hypothesis:

H2: CEO tenure is negatively associated with the odds of IE in IBF.

4.2.3.3 Academic Background

University education in Business/Economics/Finance/Accounting related fields provide CEOs with tools to better manage the companies they lead, as well as training that supports IE (Andersen & Rynning, 1994). CEOs with management educational credentials are more flexible and capable of implementing strategies such as IE, in order to take advantage of opportunities in foreign markets (Goll, Johnson, & Rasheed, 2007). Understanding the dynamics of business, particularly the drivers of performance in different organizational settings, enables those CEOs with management backgrounds to detect opportunities better.

Nevertheless, in small islands the above might not apply. Baldacchino & Beltram (2009) present the concept of strategic flexibility as a means to cope in small environments that face substantial external shocks. Based on the theory of niches, they elaborate that islanders acquire

a skill of internal flexibility, as a strategy to survive with the array of shocks and returns that they may face. A later publication by Baldacchino (2019) concludes that CEOs of IBF can craft locally profitable and oriented strategies like market penetration, through uniqueness and quality of certain products and services. Executives with relevant management training and good understanding of strategies that can deliver on the short run may thus perform well in these firms, as they may be able to command and shift between strategies matching market developments, and relegate IE to the backseat. For example, executives with backgrounds in Economics, Accounting, Finance and Business are often considered those more poised to lead their firm to expand internationally because of their profound understanding of commercial organization and economic environment (Kokeno & Muturi, 2016; Teixeira & Correia, 2020). Small island environments, however, may deem their impact towards the opposite, and seem counterintuitive to mainstream interpretations of how business training equip executives.

Under the notion of islandness, where the presence of risk aversion that an internationalization strategy entails is inherent, CEOs tend to promote it as a reaction and not a natural inclination for the growth and positioning of firms (Sannegadu, Henrico, & van Staden, 2021). Thus, those companies that cannot compete locally might be the ones that mainly seek this type of strategy to survive and expand. The Social Network Theory posits that CEOs who have broader and stronger networks are more likely to succeed in the local market and avoid international endeavors, since they can increase their strategic flexibility based on greater information and knowledge sharing. This theory can become more robust considering not only the size and strength of the networks, but also CEOs' abilities to take advantage of the greater information and market knowledge derived from these relationships. As such, majoring in Economics, Accounting, Finance and Business fosters the capabilities of these CEOs to benefit from their networks. According to Durán et al. (2016), training in these areas increases CEOs' abilities to process information, accept new ideas, work in team, and foment innovation and R&D.

Furthermore, it was documented that CEOs with these academic qualifications tend to react faster to changing market conditions and make better decisions, which favors strategic flexibility.

The detection of opportunities, are then framed by the island context which may render the utilization of other island skills such as strategic flexibility (Baldacchino & Bertram, 2009), to which the following hypothesis is formulated:

H3: CEOs of IBF that majored in Business Administration/Economics/Finance/Accounting reduce the odds for international entrepreneurship.

4.2.3.4 Academic Achievement

Advanced academic programs provide CEOs with socio-cognitive skills to comprehend multifaceted issues with regards to firm organization and strategy (Goll et al., 2007). Highly educated CEOs have shown a bigger inclination towards further learning and incurring in new projects (Hitt & Tyler, 1991). Greater educational qualifications make CEOs more adaptive to changes in the business environment and more willing to implement complex strategies such as IE (Goll et al., 2007; Jafari et al., 2020). Education foments better information processing and risk analysis, which translates into more adequate decisions. The latter positively impacts local and international entrepreneurship (Amorós, Etchebarne, Zapata, & Felzensztein, 2016).

Allahar & Brathwaite (2017) conclude that graduate studies, especially those that include entrepreneurship in the curriculum, are beneficial for Caribbean executives in their efforts to expand their companies beyond their borders. The high educational level of the CEOs of IBF allows the exploration and exploitation of opportunities outside their national markets. This makes them less risk averse and more prone to IE. The above brings forward the following hypothesis:

H4: CEOs of IBF who have completed graduate studies increase the odds for international entrepreneurship.

4.2.3.5 Family Allegiance

Family businesses tend to be more conservative than non-family firms, which reduces the odds for IE (Watkins-Fassler & Rodríguez-Ariza, 2019). Regarding CEOs of family firms, it has been exposed that non family CEOs are more likely to pursue IE than family CEOs (Huybrechts et al., 2013). Non family CEOs are perceived as to be more independent and are likely to perform better, as they are less inclined to be involved in family conflicts (Alayo, Maseda, Iturralde, & Arzubiaga, 2019). In addition, CEOs that are members of the owning family might be less suitable for the job and more dubious to pursue complex strategies such as IE. Debicki, Miao, & Qian (2020) provide evidence that the greater the participation of family members in the management of family businesses, the lower the benefits obtained from IE. In a similar line, Sánchez-Marín, Pemartín, & Monreal-Pérez (2020) show that family firms are significantly different from others in terms of converting the benefits of exporting into product innovation.

IBF in small societies may be more predisposed to family members heading the firms because it is hard to trust someone from outside, especially when it is difficult to find someone talented. It is expected that these executives, and the organizations they lead, are less likely to be exposed to migration and more likely to perpetuate family traditions leading to a discouraging relationship with IE. Considering the additional vulnerabilities of small islands, the following hypothesis is adopted:

H5: CEOs' Family Allegiance is negatively associated with the odds of IE in IBF.

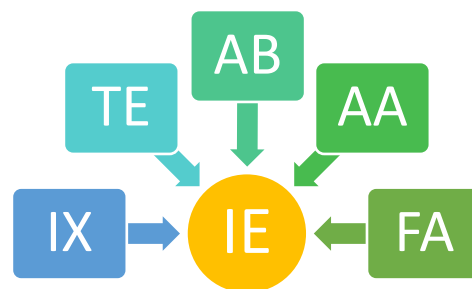


Figure 4.1: Expected Effects of CEO Characteristics on the Odds of IE in IBF

4.3 DATA AND METHODS

4.3.1 DATA

The dataset for this research is sourced from the annual reports of Island Based Firms (IBF) listed on the Stock Exchanges on the islands. These data sources are publicly accessible, which facilitates their use. The most common frame to delimit islands is the UN classification: Small Island Development States (SIDS- see UN-OHRLLS, 2020). This group of nations include states such as Belize, Guyana and Suriname (which for historical reasons are also considered as islands), as well as Singapore and Bahrain which were considered developing nations at the time of identification. Conversely islands in Europe such as Malta, Cyprus, and Iceland are not considered developing countries and therefore not included as SIDS, although they dispose of similar characteristics in terms of population size.

Most of the literature view smallness according to population (MacFeely, Peltola, Barnat, Hoffmeister, & Hopp, 2021). The UNCTAD (2004) classified islands as being small if they have less than 5 million inhabitants. This study uses this definition and identifies a sample of small islands with securities exchanges including more than 1 company headquartered on the island. Ultimately, this research delimited to the nations of Barbados (286,641 inhabitants during 2018 – smallest island in the sample), Cyprus, Fiji, Iceland, Jamaica (2.935 million inhabitants during 2018- biggest island in the sample), Malta, Mauritius, and Trinidad & Tobago for the years 2009-2018. Companies with less than 3 years of data were dropped from the dataset, as well as those that delisted for a major part of the period or had incomplete CEO information, a total of 23 firms. The final sample is composed of 164 firms. The data was mainly obtained from the companies' annual reports, which are available online and reviewed manually. The manual revision was generally of extreme added value as it revealed important aspects of firms, including internationalization. It also enabled the collection of data on the CEO including his/her tenure as CEO, as well as identifying their academic background and academic achievement, i.e. having

completed a graduate degree. This review also enabled the collection of data on whether the CEO enjoyed higher education abroad, versus having studied domestically. This strategy also facilitated the detection of family involvement in firms, as many self-identified as family firms in their annual reports, whilst not always having a family member as CEO. This process rendered 1459 observations and an overview is presented in Table 5.1.

Table 4.1: Overview of Sample-Mean Values

	Barbados	Cyprus	Fiji	Iceland	Jamaica	Malta	Mauritius	Trinidad & Tobago
N	9	31	12	20	22	21	38	11
IE	60.6%	28.1%	20.8%	46.3%	64.5%	24.0%	35.5%	61.9%
FA	14.1%	56.3%	0.0%	0.0%	24.3%	5.1%	25.0%	28.6%
TE	6.1	15.4	8.6	6.7	9.7	7.0	8.8	6.2
IX	100%	84.1%	72.5%	57.4%	86.4%	49.5%	96.6%	70.5%
AB	87.3%	83.8%	80.8%	81.4%	72.9%	81.1%	81.5%	88.6%
AA	54.9%	20.5%	55.8%	73.4%	73.4%	64.8%	40.6%	67.6%

Source: Own Elaboration

Notes:

N= Number of Companies; IE = International Entrepreneurship; FA= CEO Family Allegiance; TE= CEO Tenure; IX=CEO International Exposure; AB= CEO Academic Background (Business Administration/Finance/Accounting/Economics); AA= CEO Academic Achievement (Graduate Studies)

4.3.2 VARIABLES

The following variables have been constructed from the data above:

- A. Dependent Variable: International Entrepreneurship (IE). IE is approximated by a dichotomous variable, being 1 if during a particular year the company had subsidiaries or branches in foreign markets and 0 otherwise. On average, 40% of the companies under study participated in this type of foreign endeavor.
- B. CEO Characteristics: b1. Family Allegiance (FA). Referring to the CEO being an appointed family member or not. 85% of the 46 Family Firms identified in the panel had a Family member appointed as CEO. This means that around 24% of the 164 companies contemplated are being run by a family businessperson. b2. Tenure (TE). It refers to the number of years the CEO has worked in the firm as CEO (mean value 9.5 years; longest tenure being 59 years); b3. International Exposure (IX). It is approximated by a categorical variable, being 1 if the CEO studied abroad, and

0 otherwise (on average 78% of CEOs have attended foreign university education); b4. Academic Background (AB). It is constructed as a dummy variable, being 1 if the CEO majored in Business Administration/Finance/Accounting/Economics (on average this is the case for 81% of CEOs), and 0 otherwise; b5. Academic Achievement (AA). It is measured by a dichotomous variable, being 1 if the CEO pursued graduate studies (the mean value is 52%), and 0 otherwise.

C. Control Variables: c1. Firm Size (FS). It is measured by the natural logarithm of total assets. c2. Return on Equity (ROE). This variable reflects book value, and is calculated as net income over equity. Values greater than 100% in absolute value were excluded as outliers. The average ROE observed in this study was 8.2% for all islands with Trinidad & Tobago reporting the highest (19.6%) and Cyprus the lowest (-2.6%).

4.3.4 METHODOLOGY

The relationship between International Entrepreneurship (IE) at IBF and CEO's Characteristics (CCs) is empirically studied through a binary probit model. There are several estimation methods that can be employed under the presence of binary dependent variables (such as IE). The two most common ones are probit and logit. The difference between one and another has to do with the specification for the cumulative distribution function of the error terms: probit (standard normal), logit (logistic-similar to normal but with thinner tails). There is arbitrariness in selecting a probit or logit method, as they provide very similar results. Following previous studies on IE, it was decided to work with a probit model (Wu & Ang, 2020; Watkins-Fassler & Rodríguez-Ariza, 2019; Pinho & Martins, 2010; Wennberg & Holmquist, 2008). The use of the probit method in this study allows to determine how the probability of IE increases or decreases (and in what percentage) according to the particular characteristics of the CEOs of Small Island Based firms.

The dependent variable (IE) takes a binary form, and is regressed with the CCs to define how likely they are to determine the IE category of these firms. For this model, a significant

positive (negative) sign on an independent (and control) variable's parameter indicates that greater values of the variable increment (reduce) the odds of IE. Heteroscedasticity is taken into account by employing QML (Huber/ White) robust standard errors to correctly address the unknown structure of variance in the estimators. Marginal effects are attained for all significant explanatory and control variables (p-value<0.01). Hence, the following equation (3) is formulated:

$$IE_{it} = \partial_0 + \partial_1 FA_{it} + \partial_2 TE_{it} + \partial_3 IX_{it} + \partial_4 AB_{it} + \partial_5 AA_{it} + \partial_6 FS_{it} + \partial_7 ROE_{it} + \mu_{it},$$

(3)

Where: i refers to the company; t is time; ∂_0 is the constant term; IE correspond to the dependent variable: International Entrepreneurship; FA, TE, IX, AB, and AA are the CEO Characteristics: Family Allegiance, Tenure, International Exposure, Academic Background, and Academic Achievement; FS and ROE are the control variables: Firm Size and Return on Equity; μ is a random error term.

4.4 RESULTS & DISCUSSION

4.4.1 DESCRIPTIVE STATISTICS

On average, 40% of IBF are engaged in IE. Nevertheless, there is great variation in this respect between the islands, being Jamaica, Trinidad & Tobago, and Barbados – all member states of CARICOM - the ones showing more international entrepreneurship. At the other extreme appear Fiji and Malta, with Fiji being a non-democratic country and Malta, although an EU member state since 2004, has faced the challenges of being the smallest of the EU member countries (484,630 inhabitants during 2018).

About 24% of firms self-identified as family businesses had a family-member CEO during the observed period. Cyprus shows the highest propensity for this business practice (Fiji and Iceland the lowest), which coincides with its family patterns. According to the Cultural Atlas, Cypriots perceive their big extended family as immediate family, which is the basis of their social

and economic life. On the contrary, family patterns for urban Fijians and Icelanders are based on much smaller nuclear families.

CEO's average tenure is observed at 9.5 years with high turnovers in some companies and a long tenure of 59 years in one firm. It is not surprising that mean CEO Tenure is significantly higher in Cyprus than in the rest of the islands, where the presence of family-member CEOs is a more common practice. CEO changes are uncommon when these executives belong to the business families, due to a lack of succession planning and less sensibility of turnovers to performance (Watkins-Fassler & Briano-Turrent, 2019).

Table 4.2: Descriptive Statistics

Source: Own Elaboration

Variables	Minimum	Maximum	Average	Standard Deviation
IE	0	1	39.6%	0.49
FA	0	1	24.1%	0.43
TE	0	59	9.5 years	8.87
IX	0	1	77.8%	0.42
AB	0	1	81.0%	0.39
AA	0	1	52.1%	0.50
FS	5.28	20.70	13.69	3.07
ROE	-90.5%	99.5%	8.2%	0.18

Notes:

IE = International Entrepreneurship; FA= CEO Family Allegiance; TE= CEO Tenure; IX=CEO International Exposure; AB= CEO Academic Background (Business Administration/Finance/Accounting/Economics); AA= CEO Academic Achievement (Graduate Studies); FS= Firm Size; ROE= Return on Equity

CEO's of IBF on average tend to be highly educated: 81% attained a university degree in Business Administration/Finance/Accounting/Economics; 52% pursued graduate studies. Most of CEOs completed their studies at foreign universities (mean value of 78%), which indicates a substantial international outlook of CEOs of IBF. Although CEOs of IBF are on average noticeably well trained as leaders for their firms, there are some differences in this regard among the islands. Particularly for Academic Achievement, Cyprus is the island with the lowest average presence of CEOs with graduate studies (21%). On the contrary, Iceland and Jamaica share the highest position regarding the percentage of CEOs with graduate education (73%). Also, with respect to

international exposure, Barbados and Mauritius show the greatest percentages of CEOs trained abroad (100% and 97%, respectively). In contrast, Malta and Iceland are the islands with the least presence of CEOs with foreign studies (50% and 58%, respectively).

The correlations between the variables are shown in Table 5.3. Most of the explanatory and control variables (with the exception of ROE) correlate significantly with IE of IBF's, measured by the dichotomous variable IE (being 1 if during a particular year the company had subsidiaries or branches in foreign markets). This finding validates the explanatory power of these variables on internationalization and justifies their inclusion in the model. When dealing with multiple variables it is important to determine if additional treatment is necessary in case there is multicollinearity. It is common to use Variance Inflation Factors to identify these in order to appropriately render coefficients with statistical significance. Commonly centered VIF values of below 10 are acceptable. The variables show acceptable VIF values, thus requiring no additional treatment to extract findings.

Table 4.3: Correlation Matrix

Source: Own Elaboration

	IE	FA	AA	AB	IX	TE	ROE	SIZE
IE	1.00							
FA	-0.13***	1.00						
AA	0.13***	-0.18***	1.00***					
AB	-0.11***	0.04*	0.07***	1.00				
IX	0.10***	0.07***	0.17***	0.13***	1.00			
TE	-0.14***	0.34***	-0.23***	-0.15***	-0.05*	1.00		
ROE	0.08***	-0.11***	0.05**	-0.07***	-0.03	-0.06***	1.00	
SIZE	0.31***	-0.14***	0.19***	0.07***	0.00	-0.18***	0.15***	1.00

Notes:

IE = International Entrepreneurship; FA= CEO Family Allegiance; TE= CEO Tenure; IX=CEO International Exposure; AB= CEO Academic Background (Business Administration/Finance/Account-ing/Economics); AA= CEO Academic Achievement (Graduate Studies); FS= Firm Size; ROE= Return on Equity

*** p-value < 0.01

** p-value < 0.05

* p-value < 0.10

When dealing with multiple variables it is important to determine if additional treatment is necessary in case there is multicollinearity. Multicollinearity makes it difficult to estimate the parameters with precision and determine the effect of each individual variable on the dependent

variable. In its presence, large standard errors, and therefore low t-statistics, are shown. So, coefficients tend to be not significant. Variance inflation factors (VIF) measure the level of collinearity between the independent (and control) variables. If they are too high, it is recommended to use multivariate statistical techniques to take account of multicollinearity; centered VIF values below 10 are commonly acceptable.

Excluding IE for being the dependent variable, the greatest correlations observed are between CEO Tenure (TE) and Family Allegiance (FA), and among CEO Tenure (TE) and Academic Achievement (AA). However, in all cases centered variance inflation factors are less than 10, as shown in Table 5.4. The highest value is observed for TE (1.18), followed by FA (1.17) and AA (1.09); therefore, multicollinearity does not require any further treatment.

Table 4.4: Variance Inflation Factors
Source: Own Elaboration

Variables	Coefficient Variance	Uncentered VIF	Centered VIF
FA	0.01	1.54	1.17
TE	0.00	2.51	1.18
IX	0.01	4.90	1.07
AB	0.01	6.61	1.08
AA	0.01	2.28	1.09
FS	0.00	27.68	1.05
ROE	0.04	1.34	1.03

Notes:
FA= CEO Family Allegiance; TE= CEO Tenure; IX=CEO International Exposure; AB= CEO Academic Background (Business Administration/Finance/Accounting/Economics); AA= CEO Academic Achievement (Graduate Studies); FS= Firm Size; ROE= Return on Equity

4.4.2 MAIN FINDINGS AND DISCUSSION

The econometric results of the relation between International Entrepreneurship (IE) and CEO's Characteristics (CCs) are exposed in Table 5.5, whereas marginal effects for the most significant explanatory and control variables (p -values <0.01) are shown in Table 6. Except for ROE, all explanatory and control variables determine to some extent IE and go in line with the hypotheses established. Family Allegiance (FA), Tenure (TE), and Academic Background (AB)

are negatively associated with IE. Family-member CEOs on islands may be locked into more conservative thinking promoted by family values and isolate the companies they direct (Binacci, Peruffo, Oriani, & Minichilli, 2016). In addition, they tend to have attained comparatively less skills through graduate education, which makes it more difficult for them to pursue complex international *endeavors* (Pinheiro & Yung, 2015). In fact, the data shows that only 36% of islands' family CEOs have graduate studies; in contrast, 57% of non-family CEOs accomplished graduate education. Also, it is well documented that family businesspeople are more risk-averse and have longer tenures, both reducing the odds for internationalization (Aparicio, Basco, Iturralde, & Maseda, 2017). Indeed, according to the data, average tenure for family CEOs of IBF is 15 years- while being 8 years for non-family CEOs.

Table 4.5: IE and CEO Characteristics Binary Probit Model

Source: Own Elaboration

Variables	Coefficient	Standard Error
Constant	-1.84***	0.21
FA	-0.21**	0.09
AA	0.12*	0.07
AB	-0.54***	0.10
IX	0.42***	0.09
TE	-0.01***	0.00
ROE	0.12	0.20
FS	0.13***	0.01
LR Statistic	221.22	
Prob (LR Statistic)	0.00	

Notes:

IE = International Entrepreneurship; FA= CEO Family Allegiance; TE= CEO Tenure; IX=CEO International Exposure; AB= CEO Academic Background (Business Administration/Finance/Accounting/Economics); AA= CEO Academic Achievement (Graduate Studies); FS= Firm Size; ROE= Return on Equity

*** p-value < 0.01

** p-value < 0.05

* p-value < 0.10

Marginal effects show that for each increment of 1 year in CEO's tenure, the firm's probability of expanding through subsidiaries or branches abroad decreases 1%. Less experienced

CEOs may be more eager to operate in other countries and deal with new types of customers, competitors and investors (Alexander, 2015). For those with greater tenure, the above requires an adaptation of risk aversion and cognitive processes in order to bring forward international entrepreneurship. This finding supports hypothesis 2: CEO tenure is negatively associated with the odds of IE in IBF.

Table 4.6: Marginal Effects

Source: Own Elaboration

Variables	Effect
AB	-0.21
IX	0.16
TE	-0.01
FS	0.05

p-value < 0.01

Notes: TE= CEO Tenure; IX=CEO International Exposure; AB= CEO Academic Background (Business Administration/Finance/Accounting/Economics); FS= Firm Size

The probability of IE decreases 21% when the company's CEO majored in a **business-related** field. The negative association between Academic Background and IE is widely speaking a rare finding. However, it makes a lot of sense in the context of small islands and islandness, where IE tends to be a reactive rather than proactive strategy due to risk aversion. IBF that are not exposed to migration and extinction isolate, adapt, and specialize in the domestic environment. Islands can expand their possibilities to sustain local companies as long as they have the capacity to innovate and adapt (Baldacchino & Beltram, 2009). CEOs trained in Business Administration/Finance/Accounting/Economics have better skills for information processing and strategic planning, which facilitates innovation and R&D (Durán et al., 2016). IBF can be very successful when they find unique and **high-quality** niche products or services, locally situated. Among the various advantages, such as being able to produce at a lower scale, niches reduce dependency on external markets and associated volatilities. Authors such as Kurecic, Luburic, & Kozina (2017) manifest that niche successes are related with companies willing to innovate, for which they require CEOs with the right academic background. Furthermore, executives with Business Administration/Finance/Accounting/Economics academic backgrounds may consider an

array of other strategic options before deciding on IE. They may maintain key relationships and take advantage of these networks that provide valuable information and knowledge to help them predict domestic market developments, which allow faster and less expensive actions and increase strategic flexibility. This finding supports hypothesis 3: CEOs of IBF that majored in Business Administration/Economics/Finance/Accounting reduce the odds for international entrepreneurship.

On the other *hand*, CEOs' Academic Achievement (AA) and International Exposure (IX), as well as Firm Size (FS), positively relate with the odds of International Entrepreneurship. IE is by nature a complex strategy and its implementation requires advanced skills and training (Allahar & Brathwaite, 2017). Therefore, those companies whose CEOs have graduate studies are more likely to venture into this type of project (Hsu et al., 2013). This finding supports hypothesis 4: CEOs of IBF who have completed graduate studies increase the odds for international entrepreneurship. Likewise, it is common on the islands for people to seek high academic training abroad, where there are more options for this type of education. According to the data, 85% of CEOs with graduate studies attained their degrees at foreign universities. This favors the knowledge of international markets as well as the establishment of global networks that can eventually be exploited for international entrepreneurship (Bai, Tsang, & Xia, 2018). IX is clearly a means for CEOs of IBF to gain international experiences and attitudes, which they will eventually bring to the islands' business environment. In fact, IX increases the probability of having subsidiaries or branches abroad by 16%. This provides evidence for hypothesis 1: The odds for international entrepreneurship in IBF are higher when CEOs have studied in foreign universities.

Finally, studies in general show that the size of companies is positively related to the extent of their internationalization. The limited resources of relatively smaller companies and their lower capacities to take advantage of economies of scale are some of the reasons why larger

companies have a greater tendency towards internationalization (Ruzzier & Ruzzier, 2015). According to the results, when firm size increases in 1 unit, the probability of IE rises 5%.

4.5 CONCLUSIONS

Endeavoring internationally is a process that requires keen insight and direction, and is critically impacted by the CEOs and their particular characteristics. In addition, executives operating in IBF face different environmental vulnerabilities and also advantages, which influence their decisions regarding IE. By studying these overlooked agents this chapter informs the scholarly community, responding to the need for more diversity. This study covered 164 Island Based Firms quoted on Securities Exchanges across 8 small islands in the Caribbean, Europe, Africa, and Oceania: 40% of which had foreign subsidiaries or branches. This chapter provides evidence in support of Upper Echelon Theory and invites the extension of the Social Network Theory, taking into account the unstudied geographical context of the islands and islandness.

Education plays an important role in the foreign business endeavors that CEOs of IBF set for their companies. When CEOs have graduate studies and have been trained abroad, a favorable effect is observed on the probability of IE. Instead, CEOs majoring in Business Administration/Finance/Accounting/Economics seem to discourage IE. Other CEO characteristics such as tenure and family allegiance were found to be unfavorable for IE of IBF operating in small islands.

While the general consensus states that Business Administration/Finance/Accounting/Economics backgrounds equip CEOs with tools that can contribute to the IE endeavors of the firms they lead, this study provides evidence of the contrary. This can be explained through islandness; due to risk aversion organizations operating in markets that are isolated are more likely to adapt to local market conditions, innovate, and specialize (exerting strategic flexibility), rather than to seek for growth abroad through operation of a subsidiary or branch. The success of these companies depends on their positioning in the local market and the ability of their CEOs

to take advantage of the information and knowledge sharing from their networks. CEOs with Business Administration/Finance/Accounting/Economics backgrounds are better prepared to process this information and make adequate decisions that increase strategic flexibility, allowing the companies they lead to avoid IE.

This research opens the way for more investigation regarding IE at IBF. It is clear that the particular context of the islands contributes to the international literature beyond a new case study. Future research could address this topic including other executives (such as CFOs) and members of IBF's boards of directors. The sample could also be expanded to include IBF based on islands of various sizes, as well as other CEO attributes such as gender. Delving deeper into specific island industries such as hospitality and tourism, banking and financial industry, may also provide for better understanding of IE at IBF.

5. GENERAL DISCUSSION

5.1 Summary

This works compiled in this thesis have zoomed in on a neglected item in International Business Research: Small Islands. Existing research warn that choosing “new countries” alone, do not merit repeating certain studies. Therefore, the studies have observed phenomenon of islandness within IE, and were successful providing original findings. While Island environments have their own priorities and are often marginalized due to size, this created a gap which this thesis contributed in closing. Studying an overlooked group of organizations in a specific Island environment requires much effort in reintroducing and reframing. Findings of this thesis may help addressing business issues in over 70 islands impacting 100 million islanders. Particularly this thesis innovates in filling the gap with regards to the international aspirations of these businesses, and provides a call to arms to study IBFs more comprehensively.

The strong suits of this thesis thus looked at a unique dataset allowing it to provide evidence of widely studied phenomena, like International Entrepreneurship (and its drivers). Like all academic work this thesis disposes of limitations, that open up new research questions for the future. This chapter will provide a summary of each study in the thesis alongside their strengths as well as the theoretical implications. Furthermore, this section will discuss the limitations and suggestions followed by the general conclusion to this endeavor.

5.2 Main Findings

5.2.2 Chapter 2

IBF's have commonly been overlooked in the business and economic scientific discourse despite their specific and unifying characteristics. Island Scholars around the world struggle with educating domestic cohorts of business leaders for Distinct Island Characteristics equally limit the ability of producing indigenous content for the panel of islands around the world. Scholars equally face challenges in practicing scholarship due to lack of data, and other resources such as time.

Additionally, a lack of platform further discourages the demand pull for knowledge and theories on islands and induce scholars to aim for metropolitan outlets, whose audiences find interests in aspects more remote to island issues. As a consequence, Island solutions more often than not resorted in modifications of metropolitan solutions in a distributed manner. Scholars would thus have to accommodate theoretical applications specifically to domestic situations adding more workload to instruction as opposed to knowledge creation.

5.2.3 Chapter 3

This study has shed light on the influence of governance factors as IE determinants of IBFs, and finds evidence on the influence of Voice & Accountability, Political Stability, and Rule of Law on IE. These findings corroborate other studies that emphasize the role of institutions in society, and particularly highlights their relevance for private firms' strategic decisions.

With regards to Government Efficiency, Regulatory Quality, Control of Corruption no support was found with regards to their role in determining IE of IBF. These findings indicate that some specific factors of governance are more relevant than others in promoting IE among domestic firms in small islands.

Conversely IBF's may be inward oriented, in the sense that those in the panel observed in this study may have purposely been on the financial markets because of domestic opportunities. Industries in this study included several hospitality and entertainment industries, or financial firms specifically targeting the domestic market or exploit thereof. IBF in Hospitality, for example, may not need to branch out across borders for the industry deems it not necessary in order to exploit domestic endowments.

Financial firms on the other hand may be in such a preferred position that they do not need to go beyond markets to grow, especially because they would be engaging with other financial firms in similar positions in foreign island markets. From this we gather that IBF's may be designed and managed in a way that recognizes the home limitations in allowing the firm to

comfortably benefit from their hegemonic position. As a consequence, little need is gathered to seek rents from elsewhere beyond national borders.

Finally, IBF's may be aspiring internationally through other forms, often as simple as export, which positions them in a comfortable niche where IE is not as beneficial as for firms elsewhere reaching their domestic limits. Export may be inexpensive and less complex than operating a subsidiary abroad, which might even be the preferred form of accessing foreign markets. This choice may be a natural one for IBF, and determine the way they mitigate risk while remain in interaction with spaces outside the domestic market.

IE of IBF's generally are beneficial to domestic markets, through inflow of profits created abroad and is of particular interest to small islands. The fact that IE of IBF is not motivated by positive indicators may also be related to the choice of internationalization of IBF, which possibly prefers export over IE. This is particularly the case for Malta and Cyprus which are members of the EU, as well as Barbados, Jamaica and Trinidad & Tobago whom are members of the CARICOM. These findings are particularly interesting for executives and board of firms with international aspirations, as well as for policymakers who wish to provide international opportunities for domestic firms. This study has shed light that IBF's can be relatively inward oriented, which brings about additional complexities given the market size. Further studies should devote attention to other international activities of IBF to confirm or deny these possible explanations.

5.2.4 Chapter 4

Endeavoring internationally is a process that requires keen insight and direction, and is critically influenced by CEO's. This study covered 164 IBFs quoted on Securities Exchanges across 8 islands in the Caribbean, Europe, Africa and Oceania: 39% of which had foreign operations. This chapter provides evidence in support of UET in studying IBF's which are generally overlooked in business research. The database provides evidence that CEOs with international training, and those with graduate degrees, increases the probability for IE. Consistent with previous research

CEO's training plays a role in the foreign business goals they set for their firms. Surprisingly business graduates discourage IE of their firm and are less likely to fulfil the goal of their program, when appointed as CEO. Organizations operating in markets that are isolated are more likely to adapt to local market conditions and specialize, rather than to grow abroad through operation of a subsidiary. Additionally, these organizations might operate in international markets through other forms, e.g., hospitality outlets for example characteristically interact with foreign markets in different ways.

IBFs are vulnerable in this pursuit as businesses can often be domestically oriented, and as a consequence remain hesitant to operate in markets abroad. With an average tenure of 9 years CEOs of IBF's have significant time to pursue IE projects. The data however shows that longer tenures are negatively associated with IE, consistent with previous studies. CEO's Academic Achievement and International Exposure have been confirmed as contributing determinants of IE, whereas Academic Discipline and Tenure were found to be discouraging of IE of IBF's.

CEOs with Higher Education, advanced degrees understand complex decision-making process and are more likely to engage in IE. Studying in a different country is also a factor that enables a CEO to contribute to the IE endeavors of IBFs, as they gather knowledge and experiences across borders. IBF's markets are very limited and a similar pattern has been observed in the industries that make up SIN economies, including tourism, services, and manufacturing. IE in these industries, as data shows, are not promoted when CEO's Academic Background is in business or economics. Finally, tenure is a discouraging determinant of IE for IBFs, whereas family allegiance of CEO's in SIN's remains inconclusive as a determinant.

Defining and measuring the concept of insularity and inward focus (isolation) may be an interesting avenue for future research. A main recommendation is to look at Academic Background against newer backdrops to understand better how these relate to IE. Other research

recommendations are to delve deeper into CEO characteristics with regards to diversity, study board compositions and/or multiple directorships, or alternatively delve in specific industries such banking and hospitality & tourism (which is of essential value to islands).

In sum, the studies conducted under this doctoral dissertation provide evidence with relevant contributions to theory and practice. This evidence supports general hypotheses that IBF's IE endeavors are promoted through characteristics of their CEO's, chosen Capital Structure and Governance Indicators in the domestic market. Specifically, these studies show corroborate previous studies in confirming relationship between CEO Characteristics and IE of IBF, the relationship between low CS and IBF and domestic governance aspects in facilitating IE of IBF.

5.3 Strengths and theoretical implications

First, it is noteworthy to mention that this thesis was not limited to SIDS, but amplified the definition by including wealthier nations such as Cyprus, Iceland and Malta. These nations have access to the EU and may venture abroad with more ease through these platforms and thus provide. This thesis also provides a strong suit in that it looked at companies originating from islands, which has never been done at this scale before. This thesis allows for new avenues for research on islands to test established theories in new environments, challenging notions of IE.

In general, the scholar community now has evidence to show that IBF's international expansion is determined in great part due to the CEO characteristics, especially those having established foreign networks through studying abroad. In particular this thesis provides evidence that supports Upper Echelon Theory in the case of islands. The evidence presented in this study also provide novel insight that graduates of Business/Economics/ Accounting/Finance programs are less likely to venture abroad, thus going against

In addition, I have shown the importance of differentiating between the different ages at which women are abandoned by their father.

To summarize, the present research contributes to the literature by highlighting the importance of studying IE motivators and drivers in different environments. Unfortunately, it was not possible to make to highlight ownership concentration of non-family firms. Thus, it was difficult to extract how complex holding structures influence firms IE.

Finally, while the dataset was extremely valuable, it was not successful in breaking through the fragmented character of island research. Even though studies were successful in presenting novelty, much more could be achieved if time permitted for more data gathering and testing.

5.4 Limitations and future research

Despite the above-mentioned strengths and theoretical implications, the present thesis also has a number of limitations. First, it needs to be acknowledged that the firms sampled may not reflect the activities that make up their domestic market and may thus be predisposed to behave in a way that misrepresents IBF. Furthermore, the sample may be expanded with firms that are not stock listed, and yet disclose their annual reports

Second, it is necessary to compare industries with prevalence in order to get a finer view of behavior of these on a micro level. Financial vehicles to operate businesses have been labeled as being in “finance” yet reflect other operations and business industries.

Third, further research is advised to observe the impact of domestic size in a broader spectrum. IBF in Iceland for example are engaged in exploiting maritime assets, which may position them in a favor of considering foreign expansion, as opposed to other firms. Islands are typically limited to their terrestrial boundaries, and may dispose more if considering maritime territory.

Fourth, it is recommended to zoom in on themes like Family Firms, Financial Industry and Hospitality Industry which might expose more information on how IBF engage in IE. Many firms in Cyprus are categorized as FF, and also many firms in general have a tangency with the

Hospitality Industry. Furthermore, financial industry allows for both extension for firms in general and extensions to other fields in business studies.

Finally, as the focus in this thesis was only Small Islands as defined by UNCTAD in 2004. These parameters, could be reconsidered given the global population growth. The issue of size remains highly debated, notwithstanding these studies being well received in academic circles, and require attention in future studies.

5.5 Conclusion

Islands Based Firms have, until now, been overlooked in studies on organization and businesses aspiring to venture abroad. This, in spite of very distinguishing characteristics their domestic markets may dispose in terms of insularity, size, and the challenges these may bring. Small size, as observed in the studies that make up this dissertation, determines elevated impact of governance on firms, and availability of human capital.

In this thesis, I have demonstrated that Island Based Firms stand out in the factors that motivate their IE behavior. This thesis has expanded previous research by demonstrating the effects size and insular character on IE of firms through their leaders, their corporate structure and the governance environment. Moreover, this study calls to unify the concept of islands and allow for theoretical openings that explain more than just the SIDS agenda.

Finally, these findings give rise to studies on the influence of islandness on businesses and their foreign expansion. Herewith, this thesis responds to calls for diversity in IE research and provides for a foundation to populate the cathedral of scholarship with novel findings.

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ABOUT THE AUTHOR

Guido Rojer, Jr. was born in 1987 on the island of Curaçao. As the son of a single mother, he was raised by his maternal grandparents who encouraged his academic ambition. He attended Maria Immaculata Lyceum (HAVO, 2004) before choosing International Business over Civil Engineering, at the very last minute. He then moved to Maastricht where he attended the Maastricht Graduate School of Governance (Now part of UNU-MERIT), earning him an MSc in Public Policy. Having done summer school at the Haas School of Business at University of California, Berkeley he got inspired by the Silicon Valley which translated into his passion for innovation and entrepreneurship. He joined the Faculty of Social Sciences & Economics of the University of Curaçao in February of 2011 where he erected, successfully accredited and ran the BSc program in Business and Economics as its program director for 10 years, delivering world class graduates. In 2013 he also became the program director of the MSc program in Business Management with the same success.

He developed an affinity with travel, visiting 76 countries (55 before his 30th birthday), earning him the nickname #TheSkyprof. Guido has served his community in several capacities. He draws executive experience from his two terms as Deputy Treasurer of the island's largest credit union: ACU. Academically he served as the 41st program chair of the Caribbean Studies Association conference held in Nassau, Bahamas; followed by 2 years as a member of the executive council. He has conducted and published (commissioned) research, and presented his work at numerous academies around the world. He developed his doctoral thesis in Economics and Business at the UNED Madrid and he is currently engaged with research projects on Island Studies.

RESUMEN NA PAPIAMENTU

E tesis aki ta kontribuí na e kombersashon akademiko tokante emprendimentu internashonal (EI). E ta hasi esaki pa medio di un inovashon, analisando kompania isleño riba nan kurpa. Kompanianan isleño (IBF) ta un grupo ku a keda marginalisá pa varios motibu, apesar di ta disponé di karakterístika uniko ku ta primintí di aportá di un manera nobo na e gremio sientífiko.

Primeramente, ta señalá e karakterístikanan ku ta distinguí islanan for di e merkadonan konvenshonal ku ta suhetonan den literatura eksistente. Ta hasi uso di e artíkulo di profesor Briguglio publiká na 1995 unda e ta presentá e grupo di islanan i ta identifiká ku nan ta chikí, eksponé, isolá, distanshá, i tambe suheto na forsanan di pafó. Únabes esaki ta establese ta teorísá i proponé kon e aspektonan aki por ta novedat pa e literatura, i ta sirbi fin profeshonal di maneho. E proposishon ta señalá e merkado isleño komo chikí, ku su desafionan di institushonnan, populashon i formashon, pero riba su kurpa i apto pa análisis.

Seguidamente e tesis ta enfoká riba motibunanan pa kua kompanianan por disidí pa eksplorá i aktua riba oportunitadnan pafó di nan merkado. Profesor Alvaro Cuervo-Cazzura ta proponé ku kompanianan ta hasi esaki pa dos motibu, inovashon of pa skapa di e ambiente doméstiko. Komo ku islanan ta chikitu/diferente i alabes ta adoptá administrashon publiko for di nan èks kolonisado ku no ta apropiá pa nan situashon, e ambiente doméstiko por kondusí na eskape di kompanianan. Den e estudio aki ta hasi uso di e Indikadónan di Gobernansa di Banko Mundial pa studia di ki manera esaki por ta e kaso. Ta konkluí ku ta depende kua indikadó, e por fungi di manera determinante pa un IBF disidi pa buska oportunitad pafó di su merkado i adoptá EI komo strategia.

Finalmente, e tesis ta trata e tópiko di populashon chikitu, unda ku ta investiga relashon entre dirigentenan i EI. Utilisando Teoria di Eskala Superior i tambe Teoria di Nètwèrk Sosial ta studia karakterístikanan di dirigente manera nan nivel di estudio, índole di estudio, studia den eksterior, permanensha den posishon, i tambe laso familiar ku akshonista pa saka afó si esaki por

ta ligá ku EI. Ta Sali for di esaki ku sorprendientemente, kontrali na teoría, estudio den eksterior no ta ligá ku EI di IBF.

E tesis aki a studia kompania riba varios isla na mundu di kua a saka un muestra for di esnan riba Bolsa di Balor. Den e estudio a figurá algu mas di 150 IBF for di Bahamas, Bahrain, Barbados, Cyprus, Fiji, Iceland, Jamaica, Malta, Mauritius, i Trinidad & Tobago. Pa futuro ta interesante pa utilizá e muestra aki pa investigá relashon entre indikadónan ekonómiko doméstiko i desempeño di IBF. Tambe ta interesante pa sigui studia diferensha entre IBF kaminda Famia ta doño prinsipál den kontraste ku otro IBF. Tambe ta un apertura pa sigui studia dirigente den relashon ku supervisor, pero tambe wak ròl di genero i edat di ehektivo i su relashon ku desempeño di IBF.

No todo ha salido como hubiésemos querido. No estamos todos, pero bueno, algo hemos conseguido – El Profesor (La Casa de Papel)