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The Impact of Cultural Distance and Political Risk on SMEs' Internationalization Strategies: The Case of SMEs in the UAE and Lebanon

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ABSTRACT

This paper aims to study the effects of cultural distance and political risk on the Middle East international SMEs' choice of entry mode to the foreign target markets relative to their resource commitment. The SMEs were studied from two countries the United Arab Emirates (UAE) and Lebanon. The market entry could be either through non-equity entry modes (exports and contractual agreements) or equity entry modes (shared and full ownership/control of foreign direct investments). The respondents of this study were owners and managers of UAE and Lebanese international SMEs. We obtained primary data through a survey using a semi-structured questionnaire. We studied the attitudes of SME owners and managers by using a quantitative method, statistically analyzing the responses using a one-sample T-test and the Spearman correlation coefficient**.** The findings show that when cultural distance is high between UAE/Lebanon and the host country, the SMEs tend to prefer less commitment in terms of financial resources. Therefore, the contingency approach suggests that high cultural distance leads investors to favor entry modes with greater flexibility, enabling easy dissolution in the event of failure. When looking at how political risk affected the choice of entry mode for UAE and Lebanon's small and medium-sized businesses into international markets, it seemed that these businesses would rather commit fewer resources and limit their financial loss in case they fail. This supports the Transaction Cost Theory, which says that foreign investors are unwilling to commit many resources in a high political risk environment. In addition, the research findings confirm the contingency approach since both UAE and Lebanon SMEs tend to choose non-equity entry modes to have a flexible position to be able to dissolve their commitment when they face unfavorable changes in environmental conditions. Furthermore, the results show that UAE and Lebanon SMEs don't seem to agree with choosing high-commitment full ownership/control FDI as an entry mode in a high-political-risk context. The originality of this research is its emphasis on UAE and Lebanon SMEs' internationalization strategies and how these companies with limited resources could build on key success factors for developing their businesses in new markets.

Keywords: Foreign Direct Investment, Cultural Distance, Political Risk, Entry Mode Choice, Resources Commitment, UAE SMEs, Lebanese SMEs
JEL Classification: F640

1. INTRODUCTION

The last few decades have seen significant changes in the economic environment, with globalization leading to the need for Small and Medium Enterprises (SMEs) to invest in international markets. The choice of the most suitable entry mode to a foreign market is a critical strategic decision that an enterprise must adopt during the internationalization process. The process of taking a company that mostly serves a local market and expanding it globally is known as internationalization. The different types of entry modes or strategies of internationalization are identified here as: exporting, franchising, contractual agreements, licensing, shared ownership, strategic alliances or foreign portfolio investments, and full ownership/control through foreign direct investments or FDIs (Shaker et al., 2000; Bayar, 2017).

The strategic choice of entry mode to foreign countries depends on the existing uncertainty in the target country. Cultural Distance

(CD) between the enterprise home country and the target country, and Political Risk (PR) in the target country, have traditionally been the most commonly used variables in the search of a foreign market entry mode (Samiee, 2013; Beugelsdijk et al., 2018, Ali et al., 2021). Beugelsdijk et al. (2018) discussed the effects of cultural distance on key strategic decisions in the process of internationalization of companies. They argued that small and medium-sized businesses are less likely to expand to highly culturally distant locations. Majocchi et al. (2015) used accounting data from 403 Italian SMEs to suggest that political risks have a direct impact on the economic performance of small and medium-sized businesses.

Despite many scholars studying the importance of cultural distance and political risk factors in internationalization and expansion of SMEs, the existing literature has not resolved the controversies over how the type of entry mode adopted by SMEs, is influenced by Cultural Distance and Political Risk (PR) factors during the process of internationalization. There are no existing studies showing the exact relationship between entry modes adopted by SMEs and the Political risk and Cultural Distance factors in the target country.

This paper studies the impact of Cultural Distance and Political Risk on the UAE and Lebanon SMEs' internationalization strategies and their choice of entry modes to foreign markets. The entry mode choice is one of the most critical strategic decisions for companies in pursuit of global expansion, specifically for the SMEs. The presence of the UAE and Lebanon diaspora spread worldwide constitutes support for such SMEs seeking expansion to host countries with varied cultural factors.

Middle East SMEs have received less attention from past international strategic studies compared to large enterprises' comparable strategies. Due to their size, SMEs tend to interact differently with their environment. Compared to large multinational enterprises (MNEs), SMEs have specific characteristics that are likely to influence their choice of foreign market entry. This is interpreted in terms of the level of commitment to the target market, on how to deal with risks in the host country, and the controllability of that foreign market's activities.

There is also a striking lack of studies on internationalization strategies and entry mode choices of SMEs from developing countries in general and from UAE and Lebanon in particular. This study aims to fill the gaps within empirical literature on the topic at hand by analyzing the effects of both variables (Cultural Distance and Political Risk) separately on non-equity and/or equity entry mode choices or in interaction when considering solely the case of equity entry modes (shared vs full ownership/control FDI).

2. LITERATURE REVIEW

The study analyzes the different types of entry modes that small and medium-sized enterprises use for international expansion. Entry mode has been defined as "an institutional arrangement for organizing and conducting international business transactions" (Ahmed et al., 2012). Fuchs (2022) discussed functional and institutional market entry strategies that companies adopt according to their needs and capabilities.

Functional market entry modes are controlled from home country locations, whereas institutional market entry modes are carried out from host country locations. When a firm chooses to enter a foreign market, its choice of entry mode reflects its degree of resource commitment in this market (Hill et al., 1990), the risks it will take and the level of control it has over its activities in the host country (Bayar, 2017).

Entry modes are also classified into non-equity entry modes and equity entry modes according to the share of equity held by the foreign investor (Brouthers and Nakos, 2004). These two categories differ about the investments required and the level of control. The non-equity entry modes including exports and contractual agreements, require lower levels of control and resource commitment than foreign direct investments (FDI) which represent equity entry modes and comprise Joint Ventures (with shared ownership) and wholly owned subsidiaries (with full ownership) (Brouthers and Hennart, 2007).

2.1. Contingency Theory and Transaction Costs Theory

Contingency theory is an organizational theory that explains how contextual factors have the ability to affect the relationship between dependent and independent variables. Also known as a situational approach theory, contingency theory can influence employee behavior, effectiveness, decision-making, and motivation. Contingency theory holds that instead of one right way to manage a company or make decisions, the optimal path of action in a situation is contingent upon the combination of external and internal factors (Ahmad and Julian, 2012). In a specific phase of an organization's activities, contingent leaders are flexible in their approach, choosing and altering their strategies to suit changing conditions. In case of internationalization, a number of factors must be considered within a situational context, as stated by the contingency approach, so every SME will have its own unique insights and decision-making (Bruneel, J. et al 2016).

Transaction Cost Theory was proposed by Williamson (1981) to show that whether activities would be internalized in a firm, or would occur within the market, would depend on transaction costs. Transactions are broadly understood as transfer of goods or services across industries and interfaces, and according to the Transaction cost theory, when transaction costs are high, activities would be internalized in a firm. When transaction costs are low, buying goods or services on the market would be the preferred option. Three dimensions were identified to characterize transactions in a firm uncertainty, frequency and asset-specificity (Greve and Argote, 2015). In the internationalization process of SMEs, transaction cost theory helps determine the total costs of making transactions, including costs of planning and sales or after-sales (Deresky, H. 2014).

In the context of SMEs and performance or market entry, Williamson's (1981) theory of transaction costs is associated with the management, governance, and enforcement of transactions, focusing on the design of post-transaction governance structures within SMEs to mitigate expected transactional or contractual risks.

This paper will elaborate on the importance of transaction cost theory and contingency theory to understand how these theories could explain market entry and internationalization of SMEs in the UAE and Lebanon.

2.2. Cultural Distance Impact on Resource Commitment and Entry Mode Choice

Cultural distance is a concept widely used to strategize the internationalization process in business. Cultural distance is defined as "the difference in cultural values between two countries" that could help or hinder the global expansion of businesses (Beugelsdijk and Mudambi, 2013).

Cultural distance influences the degree of commitment associated with the entry strategy. However, the arguments found to support a positive or negative relationship between both dimensions are quite conflicting (Quer et al., 2007; Schwens et al., 2011), and the empirical evidence identifying this matter turns out to be inconclusive (Lopez-Duarte and Vidal-Suarez, 2010).

Additionally, based on the resource dependency perspective, when cultural distance increases, the investor may search for support locally to share and/or reduce risks and facilitate product entry into the target market. According to Al-Hyari et al. (2012), the investor may seek support locally to mitigate risks and facilitate the product's entry into the target market. He would further seek access to more information, knowledge, and contacts, as well as acquire management skills relevant to the local context (Lopez-Duarte et al., 2015). To operate effectively, the foreign firm may also need to gain access to resources in the host market. Therefore, it will rely on the local partner, who will provide appropriate know-how and experience (Malaeb, 2018).

Furthermore, the local partner "closes the cultural gap" between both countries and, due to its familiarity with the host country's culture, assists the foreign investor in terms of control, coordination, local employee management, and distribution network development (Lopez-Duarte, Vidal-Suarez, 2010). Sharing management responsibilities with this partner will reduce overall operation costs (Brouthers and Brouthers, 2001). In this case, in an FDI context, the foreign enterprise will prefer an equity joint venture to a wholly owned subsidiary.

Empirical verification has confirmed the inverse relationship between cultural distance and the degree of commitment to the entry mode. Generally, high cultural distance seems to have a deterrent effect on international trade (Boisso and Ferrantino, 1997).

As cultural distance increased, firms entering the US market chose joint ventures over full-commitment wholly owned subsidiaries, according to Quer et al. (2007), in their study on Spanish companies, and Xu et al. (2011), through their research on Chinese enterprises, have demonstrated that when cultural risk increases, firms prefer a low-commitment entry mode. However, research questions these results, and further arguments show that a greater cultural distance between home and host country could lead to using entry modes that imply a high level of resource commitment.

On the one hand, when cultural distance is high, it becomes simply more difficult to attain complete and accurate information about a partner (Chang et al., 2012). In such a context, finding a suitable local partner is hard due to the differences in values, norms, and behavior rules. By choosing to invest through a wholly owned subsidiary entry mode, the foreign investor will not necessarily be cooperating with a partner whose norms, values, and rules relative to decision and behavior are not well known or understood (Lopez-Duarte and Vidal-Suarez, 2010). On the other hand, transferring proprietary expertise to a local partner generates high transaction costs (Wang and Schaan, 2008). In order to avoid these costs, as well as the negotiation and enforcement of cooperative agreements related to joint ventures, firms might choose to invest through wholly owned subsidiaries (Brouthers and Brouthers, 2001). Thus, the centralization of decision-making reduces communication costs and absorbs uncertainties (Klein et al., 1990).

The foreign investor may then prefer an entry mode with a high resource commitment (high-ownership entry mode). Empirically, Schwens et al. (2011) have demonstrated in their research on German SMEs that firms with high proprietary expertise tend to prefer equity-based entry modes with a high commitment level over non-equity modes when cultural distance is high (Devinney, T. M., et al 2017). Lo, F., et al (2016) found that Chinese firms, tend to select a high control mode in the same context.

Despite the failure of Tihanyi et al. (2005) and Morschett et al. (2010) to find a significant relationship between cultural distance and entry mode, the empirical evidence regarding the impact of cultural distance on entry mode selection reflects the two opposing proposals. The existence of contradictory results gives rise to the "CD paradox," as it is known in the literature. (Brouthers and Brouthers, 2001). This allows us to generate our first hypothesis:

H_1: When Cultural Distance is high, UAE and Lebanese SMEs tend to prefer lower commitment non-equity entry modes (exports and contractual agreements) over high resource commitment equity entry modes (shared ownership/control FPI[1], or full ownership/control FDI.

2.3. Political Risk Impact on Entry Mode Choice

International business risk that is often seen as political or geopolitical risk. Assessing political risk is critical to all global enterprises, including SMEs. As global economies continue to embrace free market policies, firms with foreign operations increasingly rely on risk-adjusted returns, so unexpected political events, changes in governments, changes to regulatory measures, conflicts, social unrest, instability, or terrorism reinforce the importance of political risk assessment by SMEs, especially for the internationalization process. Laufs and Schwens (2014) suggested that political risk can be measured both qualitatively and quantitatively.

Similar to cultural distance, political risk acts as an external uncertainty factor influencing the level of resource commitment and the choice of entry mode. Hox et al. (2017) identified a highly positive relationship between the perceived uncertainty in

1 Foreign Portfolio Investment where management control is out of UAE SME's hands.

the internationalization process and the political turbulence in the market. As previously discussed for cultural distance, there are two opposing perspectives on the relationship between political risk and the level of resource commitment, which ultimately determines the entry mode the internationalizing firm chooses (Darendeli, I. S., et al 2016; Quer et al., 2007).

Higher political risk may be associated with a low-commitment entry mode. The first argument supporting this view, which is based on transaction costs theory [1], asserts that political risk and related uncertainty can result in significant costs when internalizing international transactions through FDI (Xie, Z., and Li, J. 2017). Therefore, in such a context, foreign investors are not willing to commit many resources by choosing FDI as their entry mode (Pak and Park, 2004). The second argument (using the contingency approach) [2] relates to the need for a foreign firm in a high-risk target country to have a flexible position and be able to change its decision or dissolve its commitment without significant losses when it faces unfavorable changes in environmental conditions. The firm will then prefer entry modes based on low investment and lack of ownership (Hutzschenreuter et al., 2016).

In line with this same point of view, another argument notes that the higher the political risk, the more difficult it is for the firm to gather and organize enough information to successfully establish a high level of FDI. Finally, in high-risk environments, the foreign firm will not be able to generate enough resources internally to carry out a full-commitment entry mode alone. It will need to share the risk with a partner who will help reduce the firms' exposure to the risk and access more knowledge about the market (argument in line with the resource dependency perspective) [3] (Brouthers, 2002).

Finally, in order to protect their know-how, firms with proprietary expertise prefer to internalize their specific international activities. In a country with high political risk, intellectual property rights protection is very weak, as there is no evident political or legal support for those rights. In fact, piracy can expose property rights, patents, trademarks, brands, and copyrights without any legal protection (Luo, 2009). Therefore, when political risk is high, SMEs with proprietary expertise may internalize their transactions and choose equity-based entry modes with high commitment in order to safeguard their know-how, as demonstrated by Schwens et al., (2011).

Despite the existence of these two opposite theoretical approaches, empirical evidence supporting the second point of view is not so abundant (Taylor et al., 2000). Studies on the effect of political risk on the choice of entry mode produced conclusive results, proving that foreign investors prefer joint ventures over wholly owned subsidiaries in countries with a high level of political risk. (Hill, et al., 1990; Kim and Hwang, 1992; Erramilli and Rao, 1993; Oviatt, and McDougall, 2000). This leads us to generate our second hypothesis:

H_2: When Political Risk is high, UAE and Lebanese SMEs tend to prefer lower commitment non-equity entry modes (exports and contractual agreements) over high resource commitment equity entry modes (shared ownership/control FDI, full ownership/ control FDI).

2.4. Interaction Effect of Political Risk and Cultural Distance

The cultural distance paradox and the fact that there is contradictory evidence about how external uncertainty affects entry mode choice come from the fact that most studies have looked at the effects of political risk and cultural distance on entry mode separately. (Lopez-Duarte and Vidal-Suarez, 2013). These studies have ignored the moderating or intensifying effect that each one might have on the other. However, Brouthers and Brouthers (2001) have mentioned the existence of an interaction between both variables. Other studies by Slangen and Tulder (2009) and Quer et al. (2012), have discussed how both political risk and cultural distance jointly impact decision-making in the internationalization process of companies.

Even when analyzing the role of this interaction effect, two opposite proposals exist. Some researchers argue that when both political risk and cultural distance increase, firms tend to choose an entry mode that provides full control over their international investment projects (Hilmerson, M., et al 2015). This is because a high entry mode, such as a wholly owned subsidiary, can absorb external uncertainty, lower communication costs by centralizing decision-making power (Brouthers and Brouthers, 2001), and prevent partner opportunistic behavior (Paul et al., 2017). Other researchers state that, in such a context, firms might prefer an entry mode that ensures flexibility, less resource commitment, and sharing risk with a local partner familiar with the host country's formal and informal environment. (Lopez-Duarte and Vidal-Suarez, 2013).

Some research in this context, has been done on entry modes, that have represented the external uncertainty of multinational enterprises (MNEs). SMEs confront uncertainties in foreign nations, during the internationalization process, either as political risk level or as cultural distance from host countries (Slangen and Tulder, 2009). Slangen and Tulder (2009), discussed how cultural distance represents both internal and external uncertainties in informal environments, and political risk addresses only an aspect of the formal international business environment. However, external uncertainty is an indicator of the political and social governance of a nation. Quer et al. (2012) studied the internationalization strategies of Chinese multinationals and argued that although political risk may not be a major deterrent for Chinese companies that seek to do business in foreign nations, foreign direct investments or FDI or presence of other Chinese companies, is a factor that is considered during the decision-making, and nations that attract FDI are assessed positively as target countries for expansion.

Empirical studies aiming to analyze the interaction effect of political risk and cultural distance on entry mode choice are quite rare. The study undertaken by Brouthers and Brouthers (2001), showing preference for wholly owned subsidiaries, is not reliable due to the restrictive sample chosen. Xu et al. (2011) discovered that Chinese firms typically opt for high-commitment and control entry modes, like wholly owned subsidiaries, when political risk and cultural distance are high. However, their research results, derived from a small sample and limited to Chinese enterprises, do not lend themselves to generalization.

However, Lopez-Duarte and Vidal-Suarez (2013) have conducted research on Spanish companies investing in 27 countries with different cultural and political environments. They have demonstrated that political risk plays a moderating role in the influence of cultural distance over entry mode choice. In fact, in an environment characterized by both high political risk and cultural distance, foreign firms prefer to invest through joint ventures rather than through wholly owned subsidiaries (Gollnhofer, J.F. et al 2015). In this context, foreign investors prefer entry modes that offer low resource commitment, high flexibility, and allow risk sharing with a local partner. At this point, a third hypothesis emerges:

H_3: Considering the choice of equity entry mode, when Political Risk is high and Cultural Distance increases, UAE and Lebanese SMEs prefer to invest through shared ownership/control FPI (Joint venture) over full ownership/control FDI (Wholly owned subsidiary)

2.5. Hypotheses of this Study

The three hypotheses for this study are as follows:

H_1: When Cultural Distance is high, UAE and Lebanese SMEs tend to prefer lower commitment non-equity entry modes (exports and contractual agreements) over high resource commitment equity entry modes (shared ownership/control FPI[1], or full ownership/control FDI.

H_2: When Political Risk is high, UAE and Lebanese SMEs tend to prefer lower commitment non-equity entry modes (exports and contractual agreements) over high resource commitment equity entry modes (shared ownership/control FPI, full ownership/control FDI)

H_3: Considering the choice of equity entry mode, when Political Risk is high and Cultural Distance increases, UAE and Lebanese SMEs prefer to invest through shared ownership/control FPI (Joint venture) over full ownership/control FDI (Wholly owned subsidiary)

3. METHODOLOGY

The conceptual framework of this research is presented in this section, along with the development of research hypotheses. This research framework is structured on four main constructs as illustrated in Figure 1:

1. Cultural Distance
2. Political Risk
3. Non-Equity Entry Modes
4. Equity Entry Modes

3.1. Research Methodology

The study examines the impact of Cultural Distance and Political Risk on the internationalization strategies of UAE and Lebanese SMEs. It uses a quantitative method to measure the relationship between entry mode and two independent variables: Political risk and Cultural distance. The study identifies two entry modes: equity and non-equity. Equity entry modes involve exports, contractual agreements, shared ownership/control foreign portfolio investments, and full ownership/control foreign direct investments, requiring increasing resource commitment. Non-equity entry modes involve exports, franchising and contractual agreements, requiring lower commitment. Equity entry modes require high resource commitment.

A pilot study was conducted on a small group of owners and managers to test the questionnaire's efficacy and avoid potential pitfalls. The questionnaire had a few initial questions on eligibility criteria, which were used to ensure that only qualified candidates responded to the questionnaire. Following responses to the initial questions on eligibility, 40% of respondents were found to be eligible and others were eliminated from the study. Among 200 surveys sent to identified SMEs in the UAE and Lebanon, 80 were finally selected, and 50% of the respondents were from Lebanese SMEs and the other 50% were from UAE SMEs. Only owners, managers, executives at the C-suite level and company directors were eligible to participate in the study. Analysis techniques include Spearman's rank-order correlation, one sample "T" Test, and the Kruskal-Wallis Test. The study finds that data on UAE SME internationalization strategies is scarce, adding value to the reference literature.

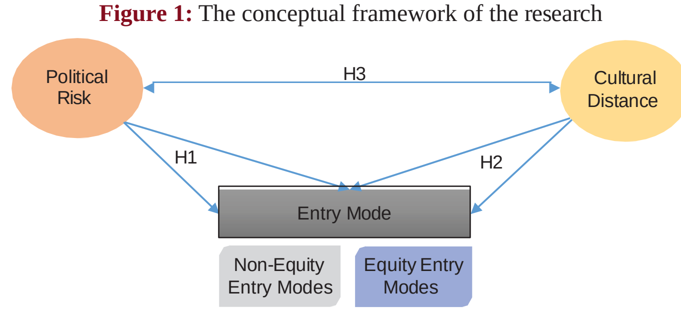
3.2. Data Collection

A sample of 200 UAE and Lebanese international SMEs registered with the UAE and Lebanon Ministry of Economy and Trade were randomly selected from a list of SMEs. The names and contact details of these SMEs were obtained from publicly available data with the UAE and Lebanon Ministries of Economy and Trade. The survey aimed to gather information and identify the respondents and related SMEs, and the SME owners' and managers' email addresses and telephone numbers were also obtained from the local business directory.

The questionnaire was sent to these SMEs with targeted respondents consisting of company owners, CEOs, General Managers, and export managers or country directors. The sampling technique used was selective sampling of respondents, as only the highest-level managers and executives were eligible to respond to the questionnaire. The questionnaire was administered to respondents who were primarily owners, CEOs, General Managers, country directors and/or export managers.

The data used in the analysis was thus gathered from a representative sample of selected participants and responses to a self-administered questionnaire were quantitatively measured on a five-point Likert scale. The survey was uploaded on Google Docs and sent via email and messages, as clickable links to the 200 selected owners, executives, and managers. Among these

Figure 1: The conceptual framework of the research



200 SMEs that were contacted, 100 were from UAE, and 100 were from Lebanon, 80 completed questionnaires were finally selected for the study, of which 40 were from executives of UAE SMEs, and the remaining 40 were respondents from Lebanon SMEs. Interviews and further completion of the questionnaire were conducted in the respondents' offices, that were primarily based in Dubai and Beirut. The survey was conducted over three months in the summer of 2022. The questionnaire is divided into five sections: an introductory paragraph, five close-ended questions for Profile Data, and hypotheses testing, and three other sections on:

- Cultural Distance effects on entry mode choice, to test H1
- Political Risk effects on entry mode choice, to test H2
- Interaction effects of Cultural Distance and Political Risk, to test H3

4. FINDINGS AND DISCUSSION

The characteristics of the sample are summarized in Figure 2. A total of 80 completed questionnaires were collected from executives and managers of Dubai and Beirut from the 200 questionnaires sent. This translates to an overall response rate of 40%. As for the profile of the respondents, 50% were Business owners, 22% were General Managers, 18% were export managers, and 10% were CEOs of Anonymous companies, based both in UAE and Lebanon.

As for the size of participating firms, Figure 3 shows that approximately 43% of the firms employ < 10 employees, 30% employ between 10 and 50 employees and almost 23% of the sample firms employ more than 50 employees, satisfying the criterion of small and medium-sized enterprises.

Figure 4 gives the frequency distribution of the SMEs' owners and managers along with their percentage according to the location of their SME. The result shows that 21% of the respondents have their SMEs in Beirut and 29% in Mount Lebanon, while the remaining 32% are in Dubai and 18% in Abu Dhabi UAE.

When the SMEs' owners and managers were asked a multiple-response question about the international activities their SME is involved in, more than one response was chosen. The results in Figure 5 show that exporting is the activity the Middle Eastern SMEs have considered the most with 60% of the cases. Shared ownership/control FPI had the lowest percentage; 5%.

4.1. Cultural Distance Effect on Entry Mode Choice

This section deals with the correlation between the main statements relative to the Cultural Distance variable as reflected in Table 1.

The Independent variables are High Cultural Distance and commitment of lower resources for a dependent variable non-equity entry mode and High Cultural Distance and limiting financial loss with easy withdrawal capabilities for a dependent variable Equity-based entry mode. The correlation considered between High CD reflects the preference of respondents to commit less in financial resources and their combined statement represents their preference for non-equity entry mode choice in high cultural distance context. Since the $P = 0.012$ is < 0.05, there is a significant correlation between the two variables. The $r = 0.395 > 0.3$ means that this correlation is positive and medium. When the score for Q6 increases (respondents tend more toward an agreement that they prefer to commit less in financial resources when CD is high),

Figure 3: The number of employees in the company

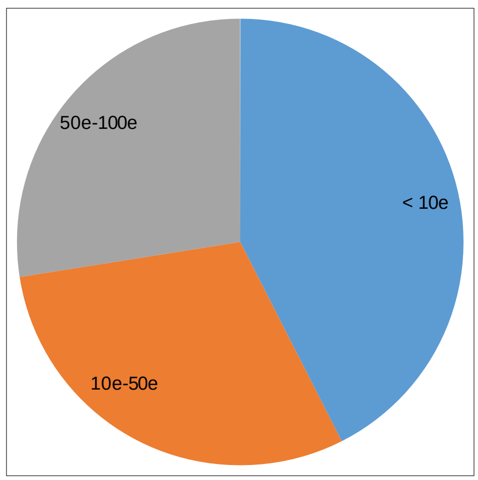


Figure 2: The profile of the sample participants

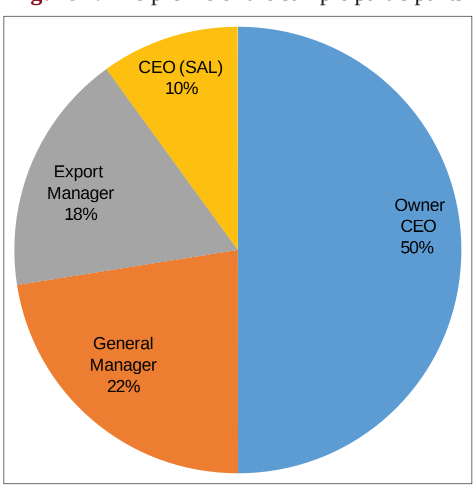
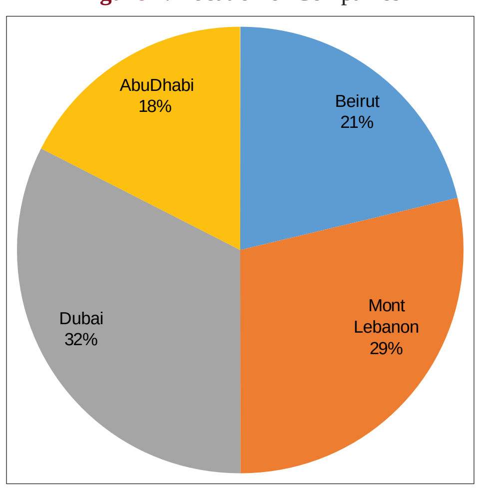


Figure 4: Location of Companies



and the score for the combined statement "Non-equity entry mode choice in high CD context" increases (respondents tend more toward an agreement that they prefer to choose non-equity entry modes in this same context). However, the correlation between high CD and equity entry mode is relatively minor (r = –0.077) which means that the strength of the association is insignificant and the direction is negative with P = 0.638 > 0.05 reflecting a non-significant correlation.

4.1.1. Validation of hypothesis H1

To validate hypothesis H1, we need an agreement on statements V6, V7, and V8, and a disagreement or neutrality on statements V9 and V10. Statistically, if we perform the T-test on statements V6, V7, and V8, the mean should exceed 3.5 to indicate agreement. Then, the alternative hypothesis is H1: $\mu > 3.5$, and the null hypothesis is H0: $\mu \leq 3.5$. As for V9 and V10, the mean should be lower than 3.5 for disagreement or neutral. In that case, the alternative hypothesis is H1: $\mu < 3.5$, and the null hypothesis is H0: $\mu \geq 3.5$.

For V6, as shown in Table 2, the mean is 3.88 > 3.5, and the mean difference is 0.38. Given that the P = < 0.05, we reject H0 and support H1. The mean value for V7 is 3.40 < 3.5, and the mean difference is –0.10. Given the P = 0.27 > 0.05, we accept H0 and reject H1. The mean value for V8 is 3.73 > 3.5, and the mean difference is 0.23. Given the P = 0.11 > 0.05, we accept H0 and reject H1. Although the V8 mean is higher than 3.5, it is not statistically significant because the P = > 0.05. The mean value for V9 is 3.43 < 3.5, and the mean difference is –0.08. Given the P = 0.34, which is greater than 0.05, we accept H0 and reject H1. Here again, although the mean of V9 is lower than 3.5, it is not statistically significant as the P = > 0.05. The mean value for V10 is 3.43 < 3.5, and the mean difference is –0.08. Given the P = 0.33 > 0.05, we accept H0 and reject H1. Although the V10 mean is lower than 3.5, it is not statistically significant because the P = > 0.05.

The above results show that only one out of the five statements for the main hypothesis H1 has statistical support. Therefore, the hypothesis "*When Cultural Distance is high, UAE and Lebanese SMEs tend to prefer lower resource commitment and non-equity entry modes (exports and contractual agreements) over high resource commitment and equity entry modes (shared ownership/ control FPI, full ownership/control FDI)*" cannot be validated.

Hypothesis H1 or the impact of Cultural Distance on decision-making during the internationalization process of UAE and Lebanese SMEs is not validated from the findings.

4.2. Political Risk Effect on Entry Mode Choice

This section deals with the correlation between statements relative to the Political Risk variable as shown in Table 3.

The Independent variables are High Political Risk and less commitment to resources for a dependent variable non-equity entry mode and High Political Risk and less commitment to resources for a dependent variable Equity based entry mode.

The correlation between statement V11 and the others shows that respondents would rather commit less money, and the relationship between statements V12 and V13 shows that they would rather choose a non-equity entry mode in a situation with a high political risk. Since the P = 0.000 < 0.05, there is a significant correlation between the two variables. The r = 0.71 > 0.5 indicates that the correlation is positive and large. When the score for Q11 increases (respondents tend more toward an agreement that they prefer to commit less in financial resources when PR is high) the score for the combined statement "Non-equity entry mode choice in high PR context" increases (interviewees tend more toward an agreement that they prefer to choose non-equity entry modes in this same context). On

Figure 5: The international activities of Middle Eastern SME's

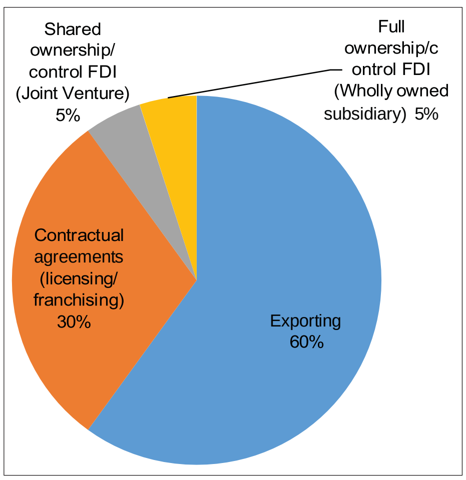


Table 1: Spearman test for CD statements

Independent variable	Dependent variable	r	P-value
V6: High CD – Commit less resources	Non-equity entry mode	0.395	0.012
V7-V8: High CD – Limit Financial Loss/ Easy Withdrawal	Equity entry mode	–0.077	0.638

Table 2: T-test results for H1

	Variable	Mean	T	P-value (1 tailed)	Mean Difference	Lower bound	Upper Bound	H_0	H_1
V6	High CD – Commit less resources	3.88	2.39	0.01	0.38	0.11	0.64	$\mu \leq 3.5$	$\mu > 3.5$
V7	High CD – Limit Financial Loss	3.40	-0.61	0.27	–0.10	–0.38	0.18	$\mu \leq 3.5$	$\mu > 3.5$
V8	High CD – Easy withdrawal	3.73	1.23	0.11	0.23	–0.08	0.53	$\mu \leq 3.5$	$\mu > 3.5$
V9	High CD – Share risk with local partner	3.43	–0.43	0.34	–0.08	–0.37	0.22	$\mu \geq 3.5$	$\mu < 3.5$
V10	High CD – Control Foreign Direct Investment	3.43	–0.44	0.33	–0.08	–0.36	0.21	$\mu \geq 3.5$	$\mu < 3.5$

the other hand, the correlation between statement V11 and the combined statement V12-V13 represents their preference for equity entry mode in a high political risk context. The r = 0.145 means that the direction is positive, but the strength of the association is small. However, because the P = 0.373 > 0.05, the correlation is not significant.

4.2.1. Validation of hypothesis H2

To validate hypothesis H2, we need agreement on statements V11, V12, and V13 and disagreement or neutrality on statements V14 and V15. Statistically, if we perform a T-test on statements V11, V12, and V13, the mean should exceed 3.5 to indicate agreement. Then, the alternative hypothesis is H2: $\mu > 3.5$, and the null hypothesis is H0: $\mu \leq 3.5$. As for V14 and V15, the mean should be lower than 3.5 for disagreement or neutral. Here, the alternative hypothesis is H2: $\mu < 3.5$, and the null hypothesis is H0: $\mu \geq 3.5$.

According to Table 4, the mean value for V11 is 4.05, which is greater than 3.5, and the mean difference is 0.55. We reject H0 and support H2, given that the P = < 0.05. The mean value for V12 is 4.20 > 3.5, and the difference is 0.70. We reject H0 and support H2, given that the P = < 0.05. The mean value for V13 is between 4.05 and 3.5, resulting in a mean difference of 0.55. Given that the P = < 0.34 > 0.05, we accept H0 and reject H1. The mean value for V15 is 2.98< 3.5, and the mean difference is –0.53. Since the P = 0.00< 0.05, H0 is rejected and H2 is supported.

The above results statistically prove four of the five statements, supporting H2. In this case, the hypothesis "*When Political Risk is high, UAE and Lebanese SMEs tend to prefer lower commitment non-equity entry modes (exports and contractual agreements) over high resource commitment equity entry modes (shared ownership/control FPI, full ownership/control FDI)*" has a greater statistical significance and can be validated.

Hypothesis H2 or the impact of high political risk in decision-making during the internationalization process, is thus validated by the study findings.

Table 3: Spearman test for political risk statements

Independent variable	Dependent variable	r	P-value
V11. High political Risk – less commitment to financial resources	Non-equity entry mode	0.71	0.000
V11. High political Risk – less commitment to financial resources	Equity entry mode	0.145	0.373

4.3. Interaction Effect of Cultural Distance and Political Risk

In this section, we study the correlation between statements relative to the interaction of both Cultural Distance and Political Risk considering only equity entry modes as shows in Table 5.

In this section, the interaction effects of high Political Risk and Cultural Distance are considered in cases of shared ownership FPI and full ownership FDI choices.

The relationship between statement V16 and the others shows that respondents want to spend less money, and the relationship between statements V17 and V18 shows that they want to share ownership and control when entering a country with a lot of cultural distance and political risk. Since the P = 0.03 < 0.05, the correlation between the two statements is significant. The r = 0.351 > 0.3 indicates a positive and medium correlation. When the score for Q16 increases (respondents tend more toward agreement that they prefer to commit less in financial resources when both CD & PR are high), the score for the combined statement "Shared ownership/control FPI choice in high CD & PR context" increases (interviewees tend more toward agreement that they prefer to choose Shared ownership/control FSI entry mode in this same context).

However, the relationship between statement V16 and the combination of statements V19 and V20 has been looked into. This shows that they want full ownership and control of the FDI choice in a high CD and PR situation. The r = –0.391 indicates that the association's strength is small and its direction is negative. When the score for Q16 increases (respondents tend more toward agreement that they prefer to commit less in financial resources when both CD & PR are high), the score for the combined statement "Full ownership/control FDI choice in high CD & PR context" decreases (interviewees tend more toward disagreement that they prefer to choose Full ownership/control FDI entry mode in this same context). However, the P = 0.01 < 0.05 reflects a significant correlation.

Finally, Table 5 shows the results of the correlation study between the two combined statements. Since r = –0.25, the correlation is negative and small. (When the score for the combined statement "Shared ownership/control FPI choice in high CD & PR context" increases i.e. respondents tend more toward an agreement that they prefer to choose Shared ownership/control FPI entry mode in this context; the score for the combined statement "Full ownership/control FDI choice in high CD & PR context" decreases i.e. respondents tend more toward disagreement that they prefer to choose Full ownership/control FDI entry mode).In this case, the correlation is not significant because the P = 0.12 > 0.05.

Table 4: T-test results for H2

	Variable	Mean	t	P-value (1 tailed)	Mean Difference	Lower bound	Upper Bound	H_0	H_1
V11	High PR – Commit less resources	4.05	3.28	0.00	0.55	0.27	0.83	$\mu \leq 3.5$	$\mu > 3.5$
V12	High PR – Limit Financial Loss	4.20	5.38	0.00	0.70	0.48	0.92	$\mu \leq 3.5$	$\mu > 3.5$
V13	High PR – Easy withdrawal	4.05	4.11	0.00	0.55	0.32	0.78	$\mu \leq 3.5$	$\mu > 3.5$
V14	High PR – Share risk with local partner	3.58	0.43	0.34	0.08	–0.22	0.37	$\mu \geq 3.5$	$\mu < 3.5$
V15	High PR – Control Foreign Direct Investment	2.98	–2.80	0.00	–0.53	–0.84	–0.21	$\mu \geq 3.5$	$\mu < 3.5$

Table 5: Spearman test for CD & PR statements

Variable 1	Variable 2	r	P-value
V16. Considering equity entry modes, when both Political Risk and Cultural Distance are high, company prefers to commit less in financial resources	Shared ownership/control FPI choice in high CD & PR context	0.351	0.03
V16. Considering equity entry modes, when both Political Risk and Cultural Distance are high, company prefers to commit less in financial resources	Full ownership/control FDI choice in high CD & PR context	–0.391	0.01
Shared ownership/control FPI choice in high CD & PR context	Full ownership/control FDI choice in high CD & PR context	–0.25	0.12

Table 6: T-test results for H3

	Variable	Mean	t	P-value (1 tailed)	Mean Difference	Lower bound	Upper Bound	H_0	H_1
V16	High CD & PR – Commit less resources	4.03	4.53	0.00	0.55	0.27	0.83	$\mu \leq 3.5$	$\mu > 3.5$
V17	High CD & PR – Limit Financial Loss	3.60	0.73	0.24	0.70	0.48	0.92	$\mu \leq 3.5$	$\mu > 3.5$
V18	High CD & PR – Easy withdrawal	3.70	1.31	0.10	0.55	0.32	0.78	$\mu \leq 3.5$	$\mu > 3.5$
V19	High CD & PR – Share risk with local partner	3.03	-2.86	0.00	0.08	–0.22	0.37	$\mu \geq 3.5$	$\mu < 3.5$
V20	High CD & PR – Control FDI	3.18	-2.21	0.00	–0.53	–0.84	–0.21	$\mu \geq 3.5$	$\mu < 3.5$

4.3.1. Validation of hypothesis H3

To validate hypothesis H3, we need an agreement on statements V16, V17, and V18 and a disagreement or neutrality on statements V19 and V20. In terms of statistics, if we perform a T-test on statements V16, V17, and V18, the mean should exceed 3.5 to indicate agreement. Then, the alternative hypothesis is H3: $\mu > 3.5$, and the null hypothesis is H0: $\mu \leq 3.5$. As for Q19 and Q20, the mean should be lower than 3.5 for disagreement or neutral. In this case, the alternative hypothesis is H3: $\mu < 3.5$, and the null hypothesis is H0: $\mu \geq 3.5$.

Table 6 shows that the mean value for V16 is 4.03, which is greater than 3.5, and the mean difference is 0.53. Given that the P =< 0.05, we reject H0 and support H3. The mean value for V17 is 3.60 > 3.5, and the difference is 0.10. Given the P = 0.24, which is greater than 0.05, we accept H0 and reject H3. Although the mean is higher than 3.5, it is not statistically significant as the P = > 0.05. The mean value for V18 is 3.70 > 3.5, and the difference is 0.20. Given the P = 0.10, which is greater than 0.05, we accept H0 while rejecting H3. Although the mean is higher than 3.5, the difference is not enough to be statistically significant. The mean value for V19 is 3.03 < 3.5, and the mean difference is –0.48. Given that the P-value is between 0.00 and 0.05, we reject H0 and support H3. The mean value for V20 is 3.18 < 3.5, and the mean difference is –0.33. Given a P = 0.02 greater than 0.05, we reject H0.

According to the above results, three statements out of five statistically support the main hypothesis H3. However, the unproven statements, V17 and V18, pertain to the respondent's attitude towards the choice of shared ownership/control FPI as an entry mode, which remains unconfirmed. Therefore, the hypothesis "*Considering the choice of equity entry mode, when both Political Risk is high and Cultural Distance increases, UAE and Lebanese SMEs prefer to invest through shared ownership/control FPI (Joint venture) over full ownership/control FDI (Wholly owned subsidiary)"* cannot be validated.

Hypothesis H3 or the interaction effects of Cultural Distance and Political Risk and their impact on Shared or Full ownership or FDI in a foreign country, cannot be validated from the study.

5. CONCLUSION AND IMPLICATION

The results showed that SMEs do not seek to commit less in terms of financial resources, refuting the Transaction Cost Theory, which states that investors choose entry modes with lower resource commitment to deal with additional information and transaction costs. Moreover, SMEs do not withdraw easily from the market in case of problems through choosing non-equity entry modes. Therefore, the contingency approach, which proposed that when cultural distance is high, investors prefer entry modes allowing higher flexibility so that they can be easily dissolved in case of failure to adapt to the environment, was not confirmed in the present study. Instead, SMEs tend to choose equity entry modes in high cultural distance context, sharing risk with a local partner familiar with the local culture through shared ownership/control FPI. They may also prefer to have a high resource commitment level and full control over their investment through full ownership/control FDI.

When considering the impact of political risk on UAE and Lebanese international SMEs' entry mode choice, it appears that SMEs prefer to commit less in terms of resources and limit their financial loss in case of failure, confirming the Transaction Cost Theory. The research findings confirm the contingency approach, as UAE and Lebanese SMEs tend to choose non-equity entry modes to have a flexible position to dissolve their commitment when they face unfavorable changes in environmental conditions.

However, the findings regarding the interaction effect of both high cultural distance and political risk on equity entry mode choice are not quite conclusive. It was found that the studied SMEs prefer to commit less in terms of resources and refute the choice of full ownership/control FDI as a means to absorb external uncertainty. The results did not confirm the choice of shared ownership/control FPI to ensure flexibility and risk sharing with a local partner, as demonstrated in previous studies.

Thus, from the three hypotheses tested, Political Risk is a significant factor considered during the decision-making process in the internationalization strategies of UAE and Lebanese

SMEs. Cultural Distance and the interaction of political risk and cultural distance were not found to be significant factors in decision-making, during the expansion choices of the chosen SMEs. Although the study provides significant insights on the factors that affect the internationalization strategies of SMEs in the Middle East, and particularly SMEs in UAE and Lebanon, the study is limited in its scope as it lacks generalizability due to the small sample size of 80 respondents. However, the study fills a major gap in the literature related to the internationalization process of Middle Eastern SMEs, particularly based in the UAE and Lebanon, and shows how Political Risk and Cultural Distance or the interaction of these two factors, play a significant role in the decisions related to the internationalization strategies adopted by these SMEs.

In conclusion, the research findings have implications for owners and managers of UAE and Lebanese SMEs planning to go international, emphasizing the need to develop a flexible organization to ride with political risk and uncertainty in the formal and informal environment of the foreign target country.

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