# Institutional quality and internationalization of Latin American firms

## Abstract

This research explores how home-country institutions influence internationalization process in Latin American firms. Drawing from the institutional quality literature, the first contribution of this research is to empirically prove the escape-view effect of institutions in Latin American firms. The second key contribution is the examination of firm-level factors, showing that female owners but not manager's experience reduce the negative effect of institutional quality. The third contribution is to propose that institutions research in International Business must take a more fine-grained approach, as not every Emerging Market firm behave the same way. The study analyzes data from 3108 Argentinean enterprises and 2935 Colombian firms in the decision-making phase of internationalization.

**Keywords:** institutions, home country, internationalization, Latin America, emerging markets

## 1. INTRODUCTION

Growing research on the influence of home-country institutions in the internationalization process in emerging markets shows that institutions matters (Sun, Peng, Lee & Tan, 2015; Cuervo-Cazurra, Luo, Ramamurti & Ang, 2018; Yan, Zhu, Fan & Kalfadellis, 2018). Recent evidence suggests that these can exert influence in two ways, and that it changes according to the stages of internationalization. First way, foster, proposes that the high quality of institutions incentive the firms to go abroad, once the national expansion is complete. Second way, escape, argues that the low level of institutional quality creates a difficult environment to operate with, pushing firms to go abroad. Further, the decision to internationalize is more influenced by the escape mechanism, while the sales growth abroad is related to the foster mechanism (Deng & Zhang, 2018). These findings are based on large Emerging Economies (EE) as BRIC, and specially, China (Sun et al., 2015; Deng & Zhang, 2018). However, there is no current research on other EE. Given some unique characteristics -politics, finance, crime, infrastructure, geography- of Latin America, it constitutes a promising region for studying internationalization and institutions (Cuervo-Cazurra, 2016). Also, given the broad institutional systems that exists in these countries, the differences in the institutional influence may be different between the countries in the region and different regions.

Institutions are relevant because constitutes the environment in which firms develop its operations. In that sort of ideas, institutions can be understood as an advantage (Martin, 2014) or as a barrier (Gaur, Kumar & Singh, 2014). Therefore, literature has begun to focus on home country institutions, but has paid attention to large emerging markets, mainly China (Liang, Ren & Sun, 2014; Chen, Zhai, Wang, Zhong, 2015; Sun et al., 2015; Huang, Xie, Li & Reddy, 2017; Cuervo-Cazurra, Luo, Ramamurti & Ang, 2018; Deng & Zhang, 2018). However, the limitations of Chinese studies to emerging markets in general were long recognized because has a different institutional, economic, political, social, cultural and legal differences with other emerging markets (Wright, Filatotchev, Hoskisson & Peng, 2005). Furthermore, the large EE-centered studies have generated a focus on State Owned Enterprises (SOEs) (e.g., Sun et al., 2015), or big -listed- companies (Chen, Zhai, Wang, Zhong, 2015), but private firms face more obstacles because they do not have access to the same institutional resources than the SOEs (Rottig, 2016; Deng & Zhang, 2018), and are not subjects of the same restrains and monitoring (Estrin, Meyer, Nielsen & Nielsen, 2016). On the other hand, many studies are related to the FDI way of internationalization (Luo & Wang, 2012), even in Latin America (Yan, Zhu, Fan & Kalfadellis, 2018) while much less is known about the international trade way (Cuervo-Cazurra & Ramamurti, 2014). Thus, most of emerging markets are understudied in the literature (Gaur & Kumar, 2010; Cuervo-Cazurra, 2016).

To prove the influence of home-country institutions in other emerging economies rather than China or the largest emerging markets, we choose Latin America because it has specific political, social, economic and geographical conditions (Cuervo-Cazurra, 2016). These characteristics make Latin American firms a laboratory to explore internationalization and home country institutions (Cuervo-Cazurra, 2012). This article makes an empirical contribution analyzing the influence of institutional quality on the internationalization of firms in Latin America. The literature has been approaching to institutions categorizing the countries by development stage (that is useful in the resourced-based and industry-based approaches because it responds to economic conditions), but this categorization could not be so useful in the institutions-based approach because these could present several variations within same development stage countries (Alvi, 2012). Therefore, is not an accurate approach to study institutions using broad categories and extracting conclusions of specific countries to general regions and categories. Understanding that each region has specific institutional characteristics, we include in the institutional quality index the following variables: crime, infrastructure, finance, and corruption, because these appear to be particular to Latin America, as well as moderating issues as manager's experience and gender.

Our main results can be summarized as follows. We found that low quality in Latin American institutions provide an incentive to firms to take the decision of go overseas, proving the escape-view. However, the international sales growth is extremely low, impeding to prove this internationalization phase. Contrariwise, our results show that in contrast to established literature manager experience do not moderate the effects of institutional quality. Nonetheless, we found strong support towards the moderating effect of female owners.

Our results contribute to the literature in three ways. First, prove the influence of home-country institutions in the process of internationalization in Latin American firms. Second, show the relevance of firm-level issues to moderate the institutional quality, which is positive to female-owned firms but negative for manager's experience. Thus, our third contribution is against generalization: research on institutions in International Business need a more fine-grained approach. In doing so, our study enriches the IB literature on institutions and internationalization, as well as the Latin American business studies.

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### 2.1. Home country institutions, internationalization ways and Latin American Firms

International business transactions involve at least two countries, which poses the question of home and host country institutions. Nonetheless, most of the research has focused on host country (Meyer, Estrin, Bhaumik & Peng, 2009; Cuervo-Cazurra, 2011 Yuang, Pangarkar & Wu, 2016; Wu, Wang, Hong, Piperopoulos & Zhuo, 2016; Putzhammer, Fainshmidt, Puck & Slangen, 2018), leaving aside the home country effects (Sun, Peng, Lee & Tang, 2015; Cuervo-Cazurra, Luo, Ramamurti & Ang, 2018). A main reason is that developed countries take for granted institutional quality at home, so the literature has focused on host country effects (Peng, Wang & Jiang, 2008; Dikova & Brouthers, 2016). Moreover, home country influence is especially relevant for EE, since they have several institutional limitations (Rottig, 2016). The literature has established two main motivations for internationalization based on the home country institutions. The fostering perspective shows that strong institutions create the adequate environment and facilitate the internationalization processes (He & Cui, 2012). On the other hand, the escape view argues that the difficulties of the operations in the national market pushes the firms to export in search of a better environment (Cuervo-Cazurra, Narula & Un, 2015; Cuervo-Cazurra, 2016). These views were usually studied as opposed ones, but recent evidence have shown that are complementary since they operate differently according the internationalization stage of the firm (Deng & Zhang, 2018). We draw on these findings to prove that effect on Latin American firms, as well as moderating effects of firm-level factors in the decision-make stage of internationalization. Thus, we may advance further the factors involved, and show the relevance of treating emerging markets on a case by case basis rather than as a single group with identical characteristics.

Regarding the size of the firm, SMEs are a fundamental organization for productive ecosystem in Latin America. SMEs account for 99% of the companies in Latin America (Dini & Stumpo, 2018) and contribute with 67% of employment in the region (Sela, 2015). Additionally, state participation is very low, and is concentrated in a few mining companies (Gujarado & Labrador, 2015). In contrast with other emerging markets –as China– the government does not grant privileges to the firms that are alienated with state interests (Huang, Xie, Li & Reddy, 2017). However, the companies in the region despite its size, faces the same challenges: there are low connections with markets, financing is limited, and it is hard to make reliable contacts (Gordon & Suominem, 2014). Furthermore, SMEs are more likely than large enterprises to be constrained by finance and other institutional obstacles (Beck, 2007). A considerable number of scholars have focused the obstacles that affect the development of SMEs within specific areas (Pissarides, 1999; Beck, & Demirguc-Kunt, 2006). However, very little research has been directed towards developing economies as a group (Rottig, 2016).

Based on neo-institutional economics (North, 1990) and on the specific characteristics of Latin America (Portes & Smith, 2008; Bértola, 2011) we define institutions as the dynamic and interrelated system (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011) that provide a means by which firms can gain access to critical resources. Thus, institutional quality is understood as low interference of the government, strong financial markets, low corruption levels, fair labor and trade regulations, as well as low informality and crime levels, and developed transport infrastructure. The quality of these institutions ought to be particularly important to SMEs due to their inability to navigate or influence institutions by way of market power and/or relationships (Shi, Markoczy & Stan, 2014; Deng & Zhang, 2018). Therefore, consistent with the fostering logic of institutional enhancement of firms' internationalization, SMEs should achieve higher international growth in quality institutional environments that do not unduly favor large SOEs at their expense (Deng & Zhang, 2018).

To steer those challenges, emerging market firms need to protect themselves from institutional constrains and adopt a takeoff strategy when such burdens are hard to handle. Once establishing their activities abroad, firms from emerging markets may avoid a set of home country institutional hurdles. Hence, in the initial stage, low institutional quality may serve as a reason for SMEs to internationalize their operations. SMEs venture abroad as an escape response to harsh institutional obstacles at home (Deng & Zhang, 2018). After firms have taken their first steps in moving overseas, they are seeking international sales growth. Otherwise, domestic institutional constraints may create tensions and hinder SMEs from fulfilling their goals (Child & Hsieh, 2014; Hilmersson & Johanson, 2016; Deng & Zhang, 2018). High-quality institutions are critical for economic growth as they facilitate efficient transactions among individuals and organizations, resulting in significantly lower transaction cost (North, 1994) and a strong governance mechanism for overseeing private-sector development and property protection (Kaufmann, Kraay, & Mastruzzi, 2011).

A number of studies highlight that exporting is the most common market entry mode in the early stages of internationalization (Cuervo-Cazurra, 2016; Bianchi & Wickramasekera, 2016; Burgel & Murray, 2000); it represents low risk, less resource allocation, and more flexible means of entering international markets (Bianchi, & Wickramasekera, 2016; Leonidou, Katsikeas & Coudounaris, 2010; Morgan, & Katsikeas, 1997). In this environment managerial innovation and entrepreneurial activity is paramount in developing a firm's export activity and export intensity (O'Cass & Weerawardena, 2009).

### 2.2. Hypothesis development

Understanding that institutions are relevant for internationalization process, and that the firm-level factors can moderate the role of institutional quality, we test the influence of institutions in Latin American firms, as well as the moderating roles of manager's experience and female ownership. The hypotheses are summarized in **Fig. 1**.

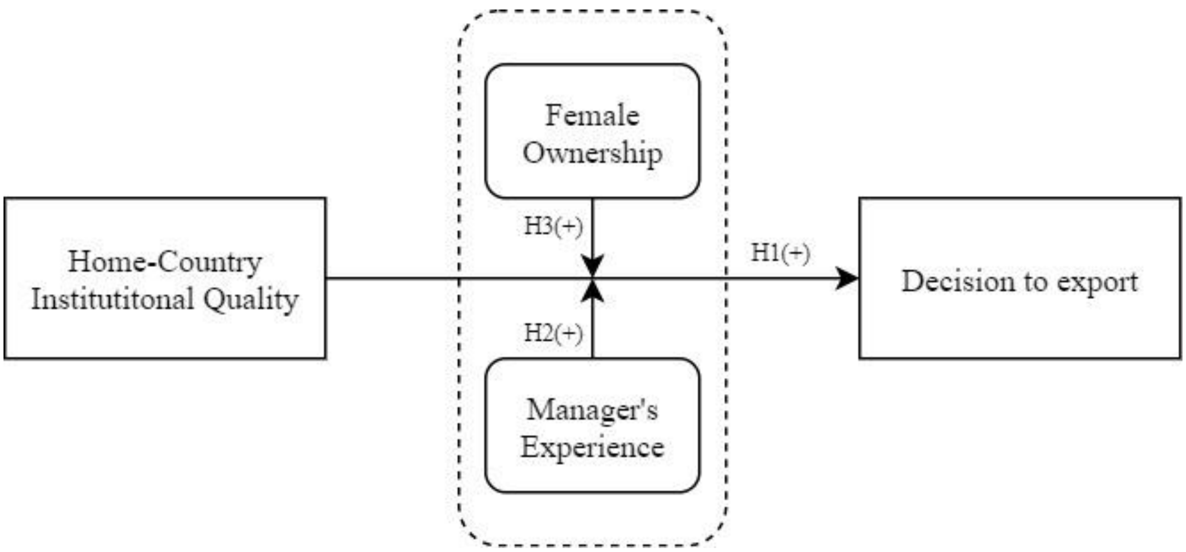


**Fig. 1**. Conceptual model

#### 2.2.1. Internationalization decision-making

The decision of going overseas is influenced by institutional environment at the home country because it creates uncertainty and difficulties to run the firm operations (LiPuma, Newbert & Doh, 2013; Boubakri, El Ghoul & Saffar, 2015). Therefore, a low institutional quality creates incentives to firms to seek for opportunities abroad (Cuervo-Cazurra & Ramamurti, 2014). In Latin America exist several restrictions that impedes the normal functioning of business. Specially, institutional complexity (e.g. customs, trade and tax administration), infrastructure (Calderón & Servén, 2011), crime (Müller, 2018) and corruption (Blake & Morris, 2009). Drawing on the escape view of internationalization firms tend to internationalize in order to avoid these challenges at home (Cuervo-Cazurra, 2016). Moreover, Latin American firms are mainly SMEs (Dini & Stumpo, 2018) and literature recognize that these firms face heavier institutional barriers (Gordon & Suominem, 2014). Also, almost the entire firms in Latin America (Gujarado & Labrador, 2015) and in our sample are private-owned, so the state has no direct influence in the management and have incentive in give special benefits (Huang, Xie, Li & Reddy, 2017). Accordingly, firms go overseas in order to avoid institutional barriers.

**H1**: There is a negative relationship between home country institutional quality and the propensity for Latin American firms to internationalize.

### 2.2.2. Moderating role of manager experience

The decision of internationalize is the result of the analysis of individual, organizational and environmental issues (Zou & Stan, 1998), which is done under givens and assumptions. This include the set of values and mindset of the manager (Nummela, Saarenketo & Puumalainen, 2009; Kyvik, Saris, Bonet & Felício, 2013) as well as environmental perceptions and business skills (Manolova, Brush, Edelman & Greene, 2002). In that sort of ideas, the evolutionary process of growth and internationalization (Santangelo & Meyer, 2017) is accelerated by the manager's experience, because it adds to the company a set of issues that otherwise are difficult to acquire, especially for smaller and younger firms (Reuber & Fischer, 1997). If well its recognized that competence in management is not only achieved through ages of experience, it is directly correlated. Competence is one of the most relevant factors in profitability, growth and productivity (Sadun, Bloom & Van Reenen, 2017).

Also, the personal, professional and institutional relationships are significate resources to international business firms because it allows to acquire and use relevant information that otherwise is difficult (Hernández-Carrión, Camarero-Izquierdo & Guitérrez-Cillán, 2016). Although, the manager acts as a reference for other firms, so his goodwill affect the firm performance (Sengupta, 2010) Furthermore, social capital could help firms to overcome fianancial and human capital barriers (Athanassiou & Maznevski, 2015). Specifically, social capital is useful for exploiting opportunities in internationalization process (Lindstrand & Hånell, 2017). In Latin American firms the manager experience is positively related to internationalization, rather than to gain advantage in the local market (Velez-Ocampo & Gonzalez-Perez, 2015). Notwithstanding, literature present a void related to the interaction of manager experience and institutional quality in Latin American firms, but drawing on previous scholarship, we propose that manager's experience is positive to the internationalization process of the firm because it provides skills, social networks and resources.

**H2**. Manager's experience positively moderates the relationship between institutional quality and the propensity for Latin American firms to internationalize.

#### 2.2.3. Moderating role of female ownership

Boards and management positions that include females shows differences in earnings (Harris, Karl & Lawrence, 2019), salaries (Cardoso & Winter-Ember, 2010), firm performance (Conyon & He, 2017), export levels (Kapri, 2019), entry mode (Pergelova, Angulo-Ruiz & Yordanova, 2018) and internationalization (Zimmerman & Brouthers, 2012). When firms need to overcome low-quality institutions, develop some mechanisms to achieve that. It includes social capital (Costa, Soares & de Sousa, 2016; Lindstrand & Hånell, 2017), which can be higher or easily used by women (Alatio, Kyrö & Sundin, 2008; McAdam, Harrison & Leitch, 2019). Also, the risk-approach is taken differently, which can result in an intense international activity (Ratten & Tajeddini, 2018). Literature drawing from network theory suggest that focus on individuals is an accurate way to understand internationalization process (Chandra & Wilkinson, 2017), because internationalization is a social embedded activity (Masiello & Izzo, 2019). Thus, including women in management positions facilitate the internationalization process (Ratten & Tajeddini, 2018), and literature suggests that women owned firms have a different international behavior (Welch, Welch & Hewerdine, 2008). Accordingly, we propose that a female manager contribute to diminish the effect of low-quality institutions, facilitating the internationalization of the firm.

**H3**. Female participation in firm management positively moderates the relationship between institutional quality and the propensity for Latin American firms to internationalize.

## 3. RESEARCH METHODOLOGY

### 3.1. Research setting

In order to comply with the present investigation, a quantitative, non-experimental and deductive type methodology is proposed. According to this and following Deng and Zhang (2018), it is posed construct the institutional quality index by using questions in the Enterprise

Survey of the World bank, of institutional dimensions that are pivotal to business internationalization. The answers to this question are a perceptual measurement and firms are asked for the obstacles in this dimension using a Likert scale, where 0 is “no obstacle” and 4 is “total obstacle”. Subsequently, through an entropy formula, indexes are created, and it is used in an econometric regression, with which we intend to measure the effect of institutional quality on the internationalization intent of firms. The model`s specification is as presented below:

$$ID_i = \beta_0 + \beta_1 IQ_i + \beta_2 (IQ_i * MV_i) + \gamma X_i + \varepsilon_i$$

### 3.2. Data and sample

In order to empirically test the hypotheses, this study uses the World Bank Enterprise Survey for the years 2017. The sample is randomly collected in different regions of the country and for firms in manufacturing and services sector. The data are accessible at the World Bank webpage, and there is detailed information on methodological issues. This dataset is useful because provides wide and depth firm level data related to over 100 indicators of business environment, which allows to build an institutional quality index. Because the hypothesis involves only the firms that exports at the initial stage (decision-making) we categorized a firm as “internationalized” if it involved directly or indirectly in exporting activities. We use the total sample in the survey for Argentina (3108 firms) and Colombia (2935 firms).

### 3.3.Variables and measurement

#### 3.3.1. Dependent variable

*Internationalized*. We constructed a dummy variable called internationalized, which equaled to 1 if a firm had involved in direct or indirect exports in the past fiscal year and equaled to 0 if otherwise. Exporting has been recognized as an important firm-level measure of internationalization as it is a commonly employed mode of entry especially. Thus, the variable is used to test **H1**, **H2** and **H3**.

#### 3.3.2. Independent variable

*Institutional quality*. To measure institutional quality variables, the dataset uses a perception-based approach. Although this method is less objective than archival ones, allows to take an approach to the manager’s perspective, a key issue in internationalization decision.

Nonetheless, the dependent variable is based on export data, so is not prone to be a subjective measure and then the study is not biased. The institutional quality index in our study is constructed taking nine questions in the dataset, including business administration, labor and trade regulation, tax administration, corruption, informal sector, crime, transport infrastructure and access to financial resources; representing a range of institutional dimensions for the Latin-American enterprises. Firms were asked to rank about their perception of obstacles of those dimensions using a 5 points scale, where 0 equaled to “no obstacle” and 4 equaled to “severe obstacle”. Following to Deng & Zhang (2018), we employed an entropy formula in measuring the heterogeneity of the nine institutional dimensions and created indices to capture the multidimensionality of these constructs. The formula for the index is:

$$Institutional\ Quality = Max - \sum \left( {R_{ij}}\Big/{\sum R_{ij}} \right) * \ln \left( {\sum R_{ij}}\Big/{R_{ij}} \right)$$

Where $R_{ij}$ is the score of the $i$ firm for the $j$ institutional dimension and $Max$ is the maximum number in the scale, in this case is 4.

#### 3.3.3. Moderating variables

We use two moderating variables in this research for validate the proposed hypotheses. *Manager's experience.* This corresponds to the number of years of experience of the manager in the field of management. This was collected to test **H2**. *Female manager* is the number of women owners of the firm, this test **H3**.

#### 3.3.4. Control Variables

To control the results by some characteristic variables of each firm, the following control variables were included. Firm Size is the log of the numbers of employees. Firm Age corresponds the years since creation. The Firm Sector is taken for the 2-digit ISIC code.

## 4. Empirical results

Given that our dependent variable is a dummy variable whit values of 0 and, we used a logit model. This type of model allows us to identify how the related variables increase or reduce the probability that a company has sales abroad and has been used successfully in other studies like this. To validate the variables used in the institutional quality index, a factorial analysis was carried out, so that we could identify the correlation between the variables.

**Table 1** presents the empirical results of our hypothesis testing. We observe that the coefficient for institutional quality is significantly negative for Argentina ($\beta = -0.226$, $p < .01$) and Colombia ($\beta = -0.065$, $p < .01$). This result suggests that the probability of Latin American firms to going abroad decrease when the institutional quality improves at home, thus supporting **H1**. Additionally, we can see the interactions of the moderating variables. As contrary as predicted, a higher manager's experience reduces the propensity of internationalize regardless of the institutional quality perceived (Argentina: $\beta = -0.130$, $p < 0.1$; Colombia: $\beta = -0.752$, $p < 0.1$) thus rejecting **H2**. Related to the female ownership of the firm, the results show that Latin American firms owned by females are more prone to export (Argentina: $\beta = 0.473$, $p < 0.1$; Colombia: $\beta = 1.402$, $p < 0.01$) specially when facing a low institutional quality at home, thus supporting **H3**.

Other significant results are derived from the control variables. The firm size, measured as the number of employees, does not have any statistical incidence in the internationalization process. This result suggests that big firms do not have special benefits for their size, an issue linked to the private property of the firm (Huang, Xie, Li & Reddy, 2017). Otherwise, age of the firm is significant, suggesting that experience and longer years of operation creates competitive advantages. However, this do not guarantee a survival rate for exports as suggested in literature (Carr, Haggard, Hmielski & Zahra, 2010; Love, Roper & Zhou, 2016) and as showed in the almost inexistent growth rates in the sample. Moreover, the firm sector is significative suggesting that the services firms tend to export more than industrial firms. This is accordingly to literature (Goswami, Matoo & Saez, 2011) because services firms do not have to face institutional barriers as transport infrastructure, trade regulation, informality and customs corruption or bureaucracy.

**Table 1. Regression results**

| | Argentina Internationalization decision-making phase DV: internationalized dummy | Colombia Internationalization decision-making phase DV: internationalized dummy |
|---|---|---|

| | | |
|---|---|---|
| *Independent variable*<br>Institutional quality | -0.2260**<br>(0.1216) | -0.0645**<br>(0.063) |
| *Moderator variable*<br>Manager`s experience | 0.01722***<br>(0.0079) | 0.0188***<br>(0.0083) |
| Womens owners | -0.3518***<br>(0.209) | 0.1221**<br>(0.2119) |
| *Interactions variables* | | |
| Institutional Quality*Manager`s experience | -0.1300*<br>(0.6139) | -0.7519*<br>(0.0756) |
| Institutional Quality*Womens owners | 0.4727*<br>(0.6068) | 1.402***<br>(0.7010) |
| *Control variables* | | |
| Firm Size | 0.0001<br>(0.0001) | 0.0003<br>(0.0001) |
| Firm sector | 0.2010***<br>(0.1004) | 0.2632***<br>(0.1253) |
| Firm age | -0.0016**<br>(0.0010) | -0.0013**<br>(0.0006) |
| n | 3108 | 2935 |

* $p < 0.1$

** $p < 0.05$

*** $p < 0.01$

## 5. Discussion and conclusions

Our research contributes to the International Business literature showing macro and firm-level interactions in the internationalization process of Latin American firms. Drawing on current emerging markets country institutions literature (Deng & Zhang, 2018) our results suggest a different approach to the study of institutions in international business. Then, we contribute to the literature proving the relation between institutions and internationalization, as well as the role moderating firm-level factors the specificities of Latin American firms and institutions.

### 5.1.Contributions

First, literature about institutional quality and its effects on the internationalization of a firm is usually divided in two perspectives: escape and fostering (Deng & Zhang, 2018). The escape perspective argues that a firm's looks for internationalize their activities as a reaction to the domestic institutional constrains (Witt & Lewin, 2007). In contrast, fostering perspective suggests that institutional settings provide support (e.g., Luo et al., 2010) and promotes the internationalization of the firm by creating favorable institutional settings (Luo et al., 2010). Our evidence suggests that in Latin America only the escape view (Witt & Lewin, 2007; Yamakawa et al., 2008; Deng & Zhang, 2018) is valid when explaining EMFs' international venturing at the initial phase. Thus, Latin American firms go abroad to overcome domestic institutional constrains. At the fostering perspective validation, we found a mayor challenge data related: sales abroad of Latin American companies do not growth significantly to analyze the behavior of the firm given institutional quality at the development stage. Hence, we could not make further reasoning related with the fostering perspective.

Second, our research analyzes the manager's experience and the existence of female owner as factors that moderate the influence of the institutions in the internationalization process. In contrast with previous results based on Chinese (Deng & Zhang, 2018) and Latin American firms (e.g. Velez-Ocampo & Gonzalez-Perez, 2015), the manager experience diminish the propensity of going overseas, as seen in **Fig. 2**. Nonetheless, the result must be interpreted in the context of the region. We were unable to prove the internationalization growth-phase given the extremely low firms (less than 1% of the sample) that show export growth sustained in the last three years. This suggests that regardless of the skills to internationalize, managers are aware of the difficulties to sustain that exports through time. This is in accordance with the escape and fostering view of internationalization, in which low institutional quality creates pressures to "escape", but higher institutional quality is required to "foster" the export growth (Deng & Zhang, 2018). The social and human capital of the manager is used to overcome the institutional barriers to internationalization, not to cooperate with government in order to obtain local benefits (Ding, Li & Wu, 2018). Although, the effect of political connection is stronger in big firms (e.g. Wang, Feng & Xu, 2019) and in those that have state participation in ownership or board direction (Tihanyi et al., 2019), characteristics that are not in Latin American firms. On the other hand, female-owned firms are more prone to export in both low and high institutional quality perception, as seen in **Fig. 3**. Understanding that women are more likely to have strong individual, corporative and institutional connections (Alatio, Kyrö & Sundin, 2008; McAdam, Harrison & Leitch, 2019), this result is contradictory of the last one about manger's experience. Nonetheless, the explanation may reside in that the variable of female ownership does not capture the experience, thus supporting the finding that experience is a relevant factor. Further, the role of social ties in internationalization is relative to the institutional environment (Du & Luo, 2016) and the kind of relationships (Wang, 2017), so we cannot argue that the manager experience reduces internationalization degree (Wang, 2017). Other theoretical branch suggests that the manager experience is not always used in social ties but in managerial skills (Bai, Chen & He, 2019). Our results suggest that manager's experience does not moderate the influence of institutional quality in the internationalization decision-making phase, but that female ownership does.

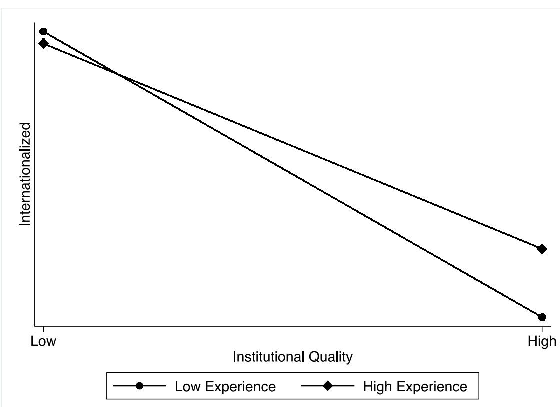


**Fig 2.** Interaction of institutional quality and manager's experience

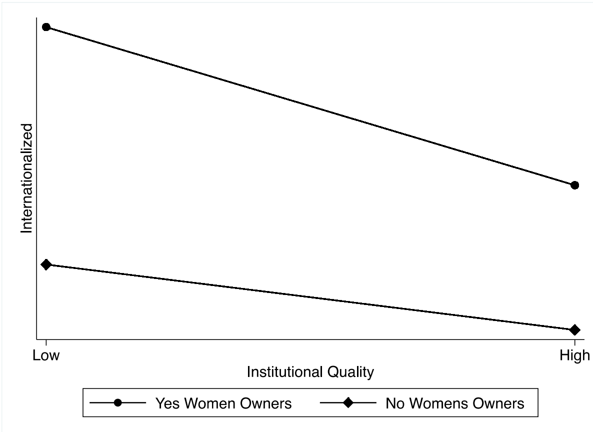


**Fig 3.** Interaction of institutional quality and female owner

Third, the academic research of institutions in emerging markets has been a growing domain, but emphasizing in large economies as BRIC, specifically China. Notwithstanding, other emerging markets are understudied, including Latin America, which is a promising research region (Carneiro et al., 2015). Although, research is focused on big companies or 'multilatinas' (Cuervo-Cazurra, 2016; Aguilera, Ciravegna, Cuervo-Cazurra & Gonzalez-Perez, 2017). Our study focuses on Latin American firms, specifically from Argentina and Colombia, in order to understand the influence that institutions exert in this companies. We found that firms internationalize when perceive low quality institutions. Nonetheless, the results are not the same in Argentina and Colombia. The influence of institutions is higher in Argentina, and in this country the moderating role of females is negative. This leads to understand that even in the same region, the firm behavior is not the same. More broadly we argue that institutional scholarship should consider the differences in institutional systems in emerging markets (Jackson & Deeg, 2019). Evolutionary perspective (Cantwell, Dunning & Lundan, 2010) results helpful to understand this fact: biological entities evolution in order to survive which means that environment and other species affect its behavior. Understanding that companies act as biological entities that adapt to the environment, institutions are a key element. Therefore, is imprecise to study institutions based on regions, because a region could have different environments. Even so, perhaps more inexactly is to group institutions based on economic development stage (e.g. emerging markets). A more fine-grained approach is needed. A biological entity would have a similar behavior if it confronts similar environments, even if those are on different regions around the world. So, the key are not regions but specific institutions. A recent proposal of institutional categories makes the selection by specific conditions, rather than regional or pure economic characteristics is proven to be a better approach (Fainshmidt, Judge, Aguilera & Smith, 2018). Our results suggest that this classification is useful because Colombia and Argentina belong to family-led and state-led institutional systems, respectively, which partially explains the difference in results.

### 5.2. Limitations and future research

Our research presents some limitations that can be addressed in future research. First, the World Bank Enterprise Survey data sample did not allow the study of the implications of institutions in the development stage of internationalized firms, which leaves a gap in the literature on internationalization and institutions in Latin America. Second, international operations also involve the destination country, which raises the question of how internationalization of firms in the region interact with the host country institutions, as it has been studied in developed countries (Mingo, Junkunc & Morales, 2018). Third, this study focused on the interaction with formal institutions, so there is still an issue to explore focusing on informal institutions (Muralidharan & Pathak, 2017). Fourth, this research shows that in Latin America the behavior of firms varies compared to what is established in the literature when studying large emerging economies (Deng & Zhang, 2018). Therefore, the question arises of what will be the interaction of firms with institutions in other emerging countries, which invites the IB discipline to take institutional contexts seriously (Jackson & Deeg, 2019) and consider recent proposals (Fainshmidt et al., 2018) for institutional classification based on the characteristics of the institutions and not in the geographical location or level of economic development.

## REFERENCES

Aguilera, R. V., Ciravegna, L., Cuervo-Cazurra, A., Gonzalez-Perez, M. A. (2017). Multilatinas and the internationalization of Latin American firms. *Journal of World Business*, *52*(4), 447-460.

Alatio, I., Kyrö, P., & Sundin, E. (2008). *Women Entrepreneurship and Social Capital: A Dialogue and Construction*. Denmark: Copenhagen Business School Press.

Athanassiou, N., & Maznevski, M. (2015). Social Capital in the International Business Context. In Athanassiou, N., & Maznevski, M. *Wiley Encyclopedia of Management* (pp. 1-4). American Cancer Society.

Beck, T., (2007). *Financing constraints of SMEs in developing countries: Evidence, determinants and solutions.* The World Bank, Washington DC.

Beck, T., Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, *30* (11), 2931-2943.

Bértola, L. (2011). Institutions and the Historical Roots of Latin American Divergence. In: Ocampo, J. A. & Ros, J (eds.), *The Oxford Handbook of Latin American Economics* (pp. 26-49). New York: Oxford University Press.

Bianchi, C., & Wickramasekera, R. (2016). Antecedents of SME export intensity in a Latin American market. *Journal of Business Research*, *69*(10), 4368-4376.

Blake, C. H., & Morris, S. D. (2009). *Corruption and Democracy in Latin America*. University of Pittsburgh Press.

Boubakri, N., El Ghoul, S., & Saffar, W. (2015). Firm growth and political institutions. *Journal of Multinational Financial Management, 31*, 104-125.

Burgel, O., & Murray, G. C. (2000). The International Market Entry Choices of Start-Up Companies in High-Technology Industries. *Journal of International Marketing*, *8*(2), 33-62.

Calderón, C., & Servén, L. (2011). Infrastructure in Latin America. In Ocampo, J. A. & Ríos, J. (Eds.), *The Oxford Handbook of Latin American Economics* (pp. 659-690). New York: Oxford University Press

Cantwell, J., Dunning, J. H., & Lundan, S. M. (2010). An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment. *Journal of International Business Studies*, *41*(4), 567-586

Carneiro, J., Bandeira-de-Mello, R., Cuervo-Cazurra, A., Gonzalez-Perez, M.A., Olivas-Lujan, M.R., Parente, R., & Xaver, W. (2015) In: Newburry, W. & Gonzalez-Perez, M.A. (Eds.) *International Business in Latin America: Innovation, Geography and Internationalization* (pp. 11-46). Palgrave MacMillan.

Carr, J. C., Haggard, K. S., Hmielski, K. M., & Zahra, S. A. (2010). A study of the moderating effects of firm age at internationalization on firm survival and short-term growth. *Strategic Entrepreneurship Journal*, *4*(2), 183-192.

Chandra, Y., & Wilkinson, I. (2017). Firm internationalization from a network-centric complex-systems perspective. *Journal of World Business*, *52*(5), 691-701.

Chen, Y., Zhai, R-R., Wang, C., & Zhong, C. (2015). Home institutions, internationalization and firm performance. *Management Decision*, *53*(1), 160-178.

Child, J., & Hsieh, L. H. (2014). Decision mode, information and network attachment in the internationalization of SMEs: A configurational and contingency analysis. *Journal of World Business*, *49*(4), 598-610.

Conyon, M., & He, L. (2017). Firm performance and boardroom gender diversity: A quantile regression approach. *Journal of Business Research, 79*, 198-211.

Costa, E., Soares, A., & de Sousa, J. (2016). Information, knowledge and collaboration management in the internationalisation of SMEs: A systematic literature review. *International Journal of Information Management, 36*(4), 557-569.

Cuervo-Cazurra, A. (2011). Global strategy and global business environment: The direct and indirect influences of the home country on a firm's global strategy. *Global Strategy Journal*, *1*(3-4), 382-386.

Cuervo-Cazurra, A. (2012). How the analysis of developing country multinational companies helps advance theory: Solving the goldilocks debate. *Global Strategy Journal*, *2*(3), 153-167.

Cuervo-Cazurra, A. (2016). Multilatinas as a source of new theoretical insights: The learning and escape drivers of international expansion. *Journal of Business Research*, *69*(6), 1963-1972.

Cuervo-Cazurra, A., & Ramamurti, R. (2014). *Understanding Multinationals from Emerging Markets*. New York: Cambridge University Press.

Cuervo-Cazurra, A., Luo, Y., Ramamurti, R., & Ang, S. H. (2018). The Impact of the home country on internationalization. *Journal of World Business*, *53*(5), 593-604.

Cuervo-Cazurra, A., Narula, J., & Un, C. A. (2015). Internationalization motives: sell more, buy better, upgrade and escape. *Multinational Business Review*, *23*(1), 25-35.

Deng, P. (2013). Chinese outward direct investment research: Theoretical integration and recommendations. *Management and Organization Review*, *9*(3), 157-172.

Dikova, D., & Brouthers, K. (2016). International establishment mode choice: Past, present and future. *Management International Review*, *56*(4), 489-530

Dini, M., & Stumpo, G. (2018). *MIPYMES en América Latina: Un frágil desempeño y nuevos desafíos para las políticas de fomento*. Chile: Comisión Económica para América Latina y el Caribe.

Ding, R., Li, J., & Wu, Z. (2018). Government affiliation, real earnings management, and firm performance: The case of privately held firms. *Journal of Business Research*, *83*(2), 138-150.

Estrin, S., Meyer, K. E., Nielsen, B. B., & Nielsen, S. (2016). Home country institutions and the internationalization of state owned enterprises: A cross-country analysis. *Journal of World Business*, *51*(2), 294-307.

Fainshmidt, S., Judge, W. Q., Aguilera, R. V., & Smith, A. (2018). Varieties of institutional systems: A contextual taxonomy of understudied countries. *Journal of World Business*, *53*(3), 307-322.

Gaur, A. S., Kumar, V., & Singh, D. (2014). Institutions, resources, and internationalization of emerging economy firms. *Journal of World Business*, *49*(1), 12-20.

Gaur, A., & Kumar, V. (2010). Internationalization of emerging market firms: a case for theoretical extension. In: G. Ajai, K. Vikas, D. Timothy, P. Torben, & T. Laszlo (eds.), *The Past, Present and Future of International Business & Management* (Vol. 23, pp. 603-627). Emerald Group Publishing Limited.

Gordon, R., Suominem, K., (2014). *Going Global: Promoting the Internationalization of Small and Mid-Size Enterprises in Latin America and the Caribbean.* Inter-American Development Bank.

Goswami, A. G., Matoo, A., & Saez, S. (2011). *Exporting Services: A Developing Country Perspective*. United States: The World Bank.

Greenwood, R., Raynard, M., Kodeih, F., Micelotta, E. R., & Lounsbury, M. (2011). Institutional complexity and organizational responses. *Academy of Management Annals*, *5*, 317-371.

Harris, O., Karl, J., & Lawrence, E. (2019). CEO compensation and earnings management: Does gender really matters? *Journal of Business Research*, *98*, 1-14.

Hernández-Carrión, C., Camarero-Izquierdo, C., & Gutiérrez-Cillán, J. (2017). Entrepreneurs' Social Capital and the Economic Performance of Small Businesses: The Moderating Role of Competitive Intensity and Entrepreneurs' Experience. *Strategic Entrepreneurship Journal, 11*(1), 61-89.

Hilmersson, M., & Johanson, M. (2016). Speed of SME internationalization and performance. *Management International Review, 56*(1), 67-94.

Huang, Y., Xie, E., Li, Y., & Reddy, K. (2017). Does state ownership facilitate outward FDI of Chinese SOEs? *International Business Review*, *26*(1), 176-188.

Jackson, G., & Deeg, R. (2019). Comparing capitalisms and taking institutional context seriously. *Journal of International Business Studies, 50*(1), 4-19.

Kapri, K. (2019). Impact of political instability on firm-level export decisions. *International Review of Economics & Finance, 59,* 98-105.

Kaufmann, D., Kraay, A., & Mastruzzi, M. (2011). The worldwide governance indicators: Methodology and analytical issues. *Hague Journal on the Rule of Law*, *3*(2), 220-246.

Kyvik, O., Saris, W., Bonet, E., & Felício, J. A. (2013). The internationalization of small firms: The relationship between the global mindset and firms' internationalization behavior. *Journal of International Entrepreneurship*, *11*(2), 172-195.

Leonidou, L, Katsikeas, C., & Coudounaris, D., (2010). Five decades of business research into exporting: A bibliographic analysis. *Journal of International Management, 16*(1), 78-91.

Li, X., & Sun, L. (2017). How do sub-national institutional constraints impact foreign firm performance? *International Business Review*, *26*(3), 555-565.

Liang, H., Ren, B., & Sun, S. L. (2014). An anatomy of state control in the globalization of state-owned enterprises. *Journal of International Business Studies*, *46*(2), 223-240.

Lindstrand, A., & Hånell, S. (2017). International and market-specific social capital effects on international opportunity exploitation in the internationalization process. *Journal of World Business*, *52*(5), 653-663.

LiPuma, J. A., Newbert, S. L., & Doh, J. P. (2013). The effect of institutional quality on firm export performance in emerging economies: a contingency model of firm age and size. *Small Business Economics*, *40*(4), 817-841.

Love, J. H., Roper, S., & Zhou, Y. (2016). Experience, age and exporting performance in UK SMEs. *International Business Review*, *25*(4), 806-819.

Luo, Y., & Wang, S. L. (2012). Foreign direct investment strategies by developing country multinationals: A diagnostic model for home country effects. *Global Strategy Journal*, *2*(3), 244-261.

Manolova, T. S., Brush, C. G., Edelman, L. F., & Greene, P. G. (2002). Internationalization of Small Firms: Personal Factors Revisited. *International Small Business Journal: Researching Entrepreneurship*, *20*(1), 9-31.

Martin, X. (2014). Institutional Advantage. *Global Strategy Journal*, *4*(1), 55-69.

Masiello, B., & Izzo, F. (2019). Interpersonal Social Networks and Internationalization of Traditional SMEs. *Journal of Small Business Management*

McAdam, M., & Harrison, R. (2019). Stories from the field: women's networking as gender capital in entrepreneurial ecosystems. *Small Business Economics*, *53*(2), 459-474.

Meyer, K. E., & Peng, M. W. (2016). Theoretical foundations of emerging economy business research. *Journal of International Business Studies*, *47*(1), 3-22.

Meyer, K., Estrin, S., Bhaumik, S., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, *30*(1), 61-80.

Mingo, S., Junkunc, M., & Morales, F. (2018). The interplay between home and host country institutions in an emerging market context: Private equity in Latin America. *Journal of World Business*, *53*(5), 653-667.

Muralidharan, E., & Pathak, S. (2017). Informal institutions and international entrepreneurship. *International Business Review*, *26*(2), 288-302.

Morgan, R. & Katsikeas, C. (1997), Theories of international trade, foreign direct investment and firm internationalization: a critique. *Management Decision*, *35*(1), 68-78.

Müller, M-M. (2018). Governing crime and violence in Latin America. *Global Crime*, *19*(3-4), 171-191

North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. United States: Cambridge University Press.

North, D. C. (1994). Economic Performance Through Time. *The American Economic Review*, *84*(3), 359-368.

Nummela, N., Saarenketo, S., & Puumalainen, K. (2009). A Global Mindset — A Prerequisite for Successful Internationalization? *Canadian Journal of Administrative Sciences*, *21*(1), 51-64

O'Cass, A. & Weerawardena, J. (2009), Examining the role of international entrepreneurship, innovation and international market performance in SME internationalization. *European Journal of Marketing*, *43*(11/12), 1325-1348.

Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institution-based view of international business strategy: a focus on emerging economies. *Journal of International Business Studies*, *39*(5), 920-936.

Pergelova, A., Angulo-Ruiz, F., & Yordanova, D. (2018). Gender and international entry mode. *International Small Business Journal*, *36*(6), 662-685.

Pissarides, F., (1999) Is lack of funds the main obstacle to growth? EBRD's experience with small-and medium-sized businesses in Central and Eastern Europe. *Journal of Business Venturing*, *14*(5), 519-539.

Portes, A., & Smith, L. D. (2008). Institutions and Development in Latin America: A Comparative Analysis. *Studies in Comparative International Development*, *43*(2), 101-128.

Putzhammer, M., Fainshmidt, S., Puck, J., & Slangen, A. (2018). To elevate or to duplicate? Experiential learning, host-country institutions, and MNE post-entry commitment increase. *Journal of World Business*, *53*(4), 568-580.

Reuber, A. R., & Fischer, E. (1997). The Influence of the Management Team's International Experience on the Internationalization Behaviors of SMEs. *Journal of International Business Studies*, *28*(4), 807-825.

Rotberg, R. I. (2019). *Corruption in Latin America*. Springer

Rottig, D. (2016). Institutions and emerging markets: effects and implications for multinational corporations. *International Journal of Emerging Markets*, *11*(1), 2-17.

Sadun, R., Bloom, N. A., & Van Reenen, J. V. (2017). Why Do We Undervalue Competent Management? *Harvard Business Review*, *95*(5), 120-127.

Santangelo, G. D., & Meyer, K. E. (2017). Internationalization as an evolutionary process. *Journal of International Business Studies*, *48*(9), 1114-1130.

Sela, (2015). *Public policies to promote MSMEs in Latin America and the Caribbean.* Caracas.

Shi, W. S., Markoczy, L., & Stan, C. (2014). The continuing importance of political ties in China. *Academy of Management Perspectives*, *28,*57-75.

Sun, S. L., Peng, M. W., Lee, R. P., & Tan, W. (2015). Institutional open access at home and outward internationalization. *Journal of World Business*, *50*(1), 234-246.

Tihanyi, L., Aguilera, R., Heugens, P., van Essen, M., Sauerwald, S., Duran, P., & Turturea, R. (2019). State Ownership and Political Connections. *Journal of Management, 45*(6), 2293-2321.

Vanessa, R. (2018). Women's entrepreneurship and internationalization: patterns and trends. *International Journal of Sociology and Social Policy, 38*(9/10), 780-793.

Velez-Ocampo, J. & Gonzalez-Perez, M. A. (2015). International expansion of Colombian firms: Understanding their emergence in foreign markets. *Cuadernos de Administración, 28*(51), 189-215

Wang, X., Feng, M., & Xu, X. (2019). Political connections of independent directors and firm internationalization: An empirical study of Chinese listed firms. *Pacific-Basin Finance Journal, 58*, 101205.

Wang, Z. (2017). Top Management Team's Political Connections, Corporate Governance and Internationalization. *Academy of Management Proceedings, 2017*(1), 10532.

Welch, C. L., Welch, D. E., & Hewerdine, L. (2008). Gender and Export Behaviour: Evidence from Women-Owned Enterprises. *Journal of Business Ethics, 83*(1), 113-126.

Witt, M. A., & Lewin, A. Y. (2007). Outward foreign direct investment as escape response to home country institutional constraints. *Journal of International Business Studies, 38*(4), 579-594.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy Research in Emerging Economies: Challenging the Conventional Wisdom. *Journal of Management Studies, 42*(1), 1-33.

Wu, J., Wang, C., Hong, J., Piperopoulos, P., & Zhuo, S. (2016). Internationalization and innovation performance of emerging market enterprises: The role of host-country institutional development. *Journal of World Business, 51*(2), 251-263.

Xiaoming, H. (2012). Can strong home country institutions foster the internationalization of MNEs? *Multinational Business Review, 20*(4), 352-375.

Yan, Z. J., Zhu, J. C., Fan, D., & Kalfadellis, P. (2018). An institutional work view toward the internationalization of emerging market firms. *Journal of World Business, 53*(5), 682-694.

Yuang, L., Pangarkar, N., & Wu, J. (2016). The interactive effect of time and host country location on Chinese MNCs' performance: An empirical investigation. *Journal of World Business, 51*(2), 331-342.

Zimmerman, M. A., & Brouthers, K. D. (2012). Gender heterogeneity, entrepreneurial orientation and international diversification. *International Journal of Gender and Entrepreneurship, 4*(1), 20-43.