

Title:

**Information provision by public authorities and business partners in
Southeast Europe: Effects on firm performance**

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Abstract

Access to foreign market, business, and institutional knowledge can grant a company competitive advantage and positively affect its performance when operating in foreign markets. This is all the more important for Western businesses investing in transition economies characterized by different business systems and an unfamiliar institutional environment. This study develops and tests a model exploring the role of local employees, external partners and public authorities in supporting and providing information to foreign firms in the context of foreign investment in Southeast Europe (SEE). Results indicate that information provision by external partners has a positive and significant influence on firm performance, while no significant relationship between information provision by public authorities and firm performance could be found. In

addition, the results show that proactivity of local employees facilitates information provision by external partners. The hypotheses are tested using survey data of 80 Austrian firms operating in Southeast European countries. Implications of the results and directions for future research are discussed.

Keywords: information handling; networks; foreign direct investment; transition economies;

Introduction

A number of researchers have identified a lack of knowledge and information about foreign markets and the foreign business environment as an important obstacle to the internationalization of firms and their foreign market success (e.g. Belich & Dubinsky, 1995; Liesch & Knight, 1999; McAuley, 1993). Differences between home and host country markets in terms of culture, consumer tastes and preferences, economic development, political systems, business practices and the institutional environment make operations more difficult. This leads to greater perceived uncertainty and risk on the part of the investing firm. In order to overcome this liability of foreignness (Hymer, 1976), institutional theory suggests to draw on the host country environment to develop practices that are suited to the peculiarities of the foreign market environment (DiMaggio & Powell, 1983; Zucker, 1987). Contingency theory claims that organizational survival and success depend on the organization's responses to diverse environments (e.g. Galbraith, 1973; Egelhoff, 1988). Hence, information provision by local entities including employees, suppliers, customers, competitors and institutions should enhance a firm's knowledge base of the host country environment, and subsequently positively influence the firm's competitive position and market

performance. In fact, research in the fields of strategic management and international business has frequently highlighted the role of information and knowledge as an important strategic resource of organizations. As Eriksson, Hohenthal and Johanson (1999:340) suggest, “the basis for learning about international business is the business network context, national or international, in which the firm is embedded and in which it performs its activities.” The ability to use different knowledge sources and internalize knowledge effectively allows companies to achieve sustainable competitive advantage in their domestic and international operations (e.g. Haahti et al., 2005; McEvily & Chakravarthy, 2002)

Accessing host country knowledge sources can be complicated as knowledge holders are difficult to identify and frequently reluctant to share valuable information. In addition, the way people and organizations deal with information and knowledge is contingent on cultural factors. In the context of transition economies in Europe, a number of researchers have pointed to the phenomenon of selective information sharing (Child & Markoczy, 1994; Fink & Meierwert, 2004; Pearce, 1991; Suutari & Riusala, 2001). Cyr and Schneider (1996) for instance describe a lack of vertical information exchange in transition economies. They conclude that individuals hold on to their knowledge in order to preserve their power. Within organizations in transition economies, managers only partly share information with subordinates (Cyr & Schneider, 1996; Suutari & Riusala, 2001), while employees on their part hide information out of fear of negative consequences (Fink & Meierwert, 2004). Western firms investing in the transition economies of Southeast Europe (SEE) are thus not only confronted with a different business environment. They also have to overcome resistance to information sharing in order to operate effectively, both within their own

subsidiaries and with host country business partners. This interesting context provides the backdrop for our study.

The primary purpose of this paper is to look at the relationship between external sources of information provision and market performance of Western businesses in the transition economies of Southeast Europe. Specifically, the role of host country business partners and public authorities as external sources of information provision, and the role of local employee proactivity as its facilitator is examined. The paper develops a model composed of four sets of factors representing the different sources of information provision, employee proactivity as an important supporting factor, and foreign market firm performance, develops hypotheses about the relationships, and tests them.

Drawing on survey data from a sample of 80 Austrian companies, this study makes the following contributions to the literature on foreign market performance. First, prior research has examined the effects of information and knowledge on newly internationalizing firms and their market entry mode choice, limiting most of this research to an export context (e.g. Belich & Dubinsky, 1995; Benito, Solberg & Welch, 1993; Cafferata & Mensi, 1995; Diamantopoulos & Souchon, 1999; Nguyen, Barrett & Fletcher, 2006; Yeoh, 2004). This is surprising since the information and knowledge needs can be expected to play an important role for the subsequent international growth and survival, although the nature of the relevant information and knowledge is likely to change. We therefore draw on firms with foreign investment in the region. This furthermore allows us to include local employees as an important internal source of information provision. Prior studies tend to focus on the role of managers as information and knowledge holders. However, employees also play an important role, especially when it comes to accessing dispersed information (Boisot & Child, 1996).

Compared to managers from the investing companies, these local employees are already familiar with the local circumstances, and hence have less difficulties making sense of external information and integrating it with prior experiences. We develop and test a number of hypotheses on the basis of prior research, aimed at explaining foreign market performance as a function of information provision by local business partners and public authorities supported by the employees' proactive behavior.

Second, prior research in this field has mainly focused on advanced economies with a stable business environment. In contrast, because of their historical and cultural heritage, transition economies are characterized by ongoing changes and developments in the institutional, political and societal environment. This creates ambiguity and a greater level of uncertainty on the part of foreign investors, and reduces the transparency of information. Paired with a different attitude towards information sharing, access to market-specific information and knowledge can be expected to be more complex, but also valuable for the firm (Suutari & Riusala, 2001). By collecting data on firms investing in Southeast Europe, we examine the provision of information in a relatively unexplored context, which should augment our understanding of the dynamics of information provision in general.

The remainder of this paper is organized as follows. The next section briefly reviews the relevant literature and develops the research hypotheses. A model is then developed explicating the relationships between the different sources of information provision, and foreign market performance. We then describe the research method applied and continue with the presentation of the results. The last section provides a discussion of the results and the limitations of the study, and offers future research directions.

Conceptual background and hypotheses

The information-performance link in international operations

The literature on organizational behavior treats information gathering as fundamental to managerial decision making and organizational learning (e.g. Pfeffer & Salancik, 1978; Anderson, 2008). In the strategic management literature, knowledge represents a valuable resource, forming the basis for sustained competitive advantage (Dyer & Singh, 1998). Similarly, information and knowledge lie at the heart of much research in the field of international business. Based on Johanson and Vahlne (1977), traditional internationalization process theory treats foreign market knowledge as a major determinant of internationalization and entry mode choice. New venture theory (e.g. McDougall, Shane & Oviatt, 1994) suggests that knowledge and experience form the basis for opportunity recognition in international new ventures. When going abroad, firms are not only confronted with different languages, cultures, and different local preferences, they also have to cope with different local business systems and practices as well as with a different institutional environment. In order to be effective in such an environment, firms have to acquire knowledge that is specific to the particular host country and region (Johanson & Vahlne, 1977; Inkpen & Beamish, 1997).

In trying to explain the antecedents of information and knowledge acquisition, researchers have frequently drawn on social capital theory (e.g. Burt, 1997; Hansen, 1999; Tsai, 2000). The studies suggest that individuals and organizations draw on their intra-organizational and external network relationships to gain access to information and knowledge (Snijders, 1999). They find that relational ties within the organization as well as with diverse external entities are especially valuable if they provide access to

complementary knowledge. This broadening of the organization's internal knowledge base positively affects international growth and performance (e.g. Yli-Renko, Autio & Tontti, 2002).

Only few studies have examined the relationship between managerial ties with external entities and firm performance in an emerging market or transition economy context. The studies of Peng and Luo (2000) and Acquaah (2007) are a notable exception to this. These authors examine the role of managerial social capital in the Chinese and African context, respectively. Both studies find empirical evidence for the positive effect of relational ties with managers at other firms, government and bureaucratic officials, and community leaders on firm performance. This is because it allows for better knowledge access and hence opportunity recognition by the investing firms. In Southeast Europe, the dynamics are expected to be similar. Under communism, the managerial role was highly politicized, with managers frequently driven by self-interest motives. Party connections were essential for survival and success. Official reports often lacked the needed quality and reliability as they were prepared for outsiders. Information that served as the basis for decision making stayed with individual people and companies, and was passed on through informal channels (Michailova & Husted, 2003; Puffer, 1995). Managers developed their own informal networks which were valuable information sources (Martin, 1999). As suggested by Williamson (1985), networks formed an additional governance mechanism in communist systems in addition to hierarchy and markets known from capitalist economies. In such an environment, information not only forms the basis for decision-making, but rather becomes a tradable good of high value. Although communism in the region belongs to the past, the attitudes towards information sharing still prevail. Access to information is frequently restricted and information is hoarded because people fear possible negative consequences of open

information sharing, not least because of the high power distance characterizing work relationships. Therefore, people continue to rely upon their established and proven networks (Michailova & Husted, 2003).

Although information and knowledge are frequently used interchangeably, they are distinct constructs (Nonaka, 1994). In-line with Huber (1991), this study refers to information as data reducing ambiguity, equivocality, or uncertainty. Knowledge then results from comparing and combining this information with prior experience, interpreting it and making sense of the information. This process of integrating new information and knowledge with prior experience is facilitated whenever the parties to the exchange have some knowledge in common (e.g. Cohen & Levinthal, 1990). Nahapiet and Ghoshal (1998) suggest that a common language facilitates access to people and information. The special value of a local network encompassing local employees, local business partners, and local public authorities then emerges from their familiarity with the local business environment, economic and political system as well as the local habits in the region.

Local business partners as information providers

Literature on MNCs increasingly treats these organizations as a network of intra-organizational relations (Malnight, 1996). More recent attempts to take a resource and network perspective of international business assume that a firm's critical resources not only reside within the organization, but may rather span organizational boundaries (Acedo & Casillas, 2005). Hence, firms have to appreciate the importance of external relations (Borgatti & Foster, 2003). A firm's business network encompasses formal and informal relations to stakeholders of the organization, including suppliers and

customers, as well as other firms and competitors. The network serves as an important information source for individuals and the organization as a whole.

There is empirical evidence that inter-organizational network relations affect internationalization, the entry mode choice of firms, the timing of entry, and resource commitment (e.g. Holm, Eriksson & Johanson, 1999; Welch & Welch, 1996; Zhao & Hsu, 2007). In explaining the phenomenon of small firm internationalization, for example, studies have linked the owner-managers' personal relationships with other businesses, and rapid internationalization (e.g. Chetty & Blankenburg-Holm, 2000). Zhou, Wu and Luo (2007) provide empirical evidence that the internationalization – performance link is mediated by social networks. The argument is that relationships with outside actors in the business environment create awareness of business opportunities at home and in foreign markets, provide access to relevant information and knowledge, allow for experiential learning, and help in building capabilities for international operations (e.g. Elango & Pattnaik, 2008; Westhead, Wright & Ucbasaran, 2001). Consequently, it is reasonable to argue that information provision by local business partners has a positive impact on foreign market performance. Accordingly, we can formulate the following hypothesis:

H1: There is a positive relation between information provision by local business partners and foreign market performance in Southeast Europe.

Public authorities as information providers

The institutional environment has been found to impact foreign investment decisions and mode of foreign market entry (e.g. Bevan, Estrin & Meyer, 2004; Davis, Desai & Francis, 2000; Meyer, 2001; Meyer & Peng, 2005; Peng & Heath, 1996; Svejnar, 2002;

Yiu & Makino, 2002). Investors in transition economies are frequently faced with political turbulence and ambiguity, as formal institutions are still in their development stages (Iankova & Katz, 2003). In Southeast Europe, new institutions were built after the fall of communism, but informal norms persist from the socialist past. Gelbuda, Meyer and Delios (2008) suggest that these informal norms slow down the adjustment of the new institutions to the volatile market environment, and decrease transparency. Therefore, it makes sense to consider information provision by public authorities separate from other local business partners. Public authorities including regulatory, supporting and industrial institutions seem to be a valuable source of information as they possess first-hand knowledge of recent developments in the legal and institutional environment. Consequently, information provision by public authorities can be expected to increase the efficiency with which firms can operate in the market. Accordingly, we formulate the following hypothesis:

H2: There is a positive relation between information provision by local public authorities and foreign market performance in Southeast Europe.

Employee proactivity and influence on external relations

There is a large body of research on determinants and consequences of active employee behavior. Different researchers have used different terms in studying extra-role behavior such as initiative (Frese et al., 1996) or taking charge (Morisson and Phelps, 1999). Miron, Erez and Naveh (2004) find that employee initiative has positive effects on innovative performance. Thomson (2005) posits that initiative and proactivity have a direct and indirect positive effect on individual job performance. Baer and Frese (2003) on their part analysed the phenomenon on an organizational level and present empirical prove for a positive relation with organizational performance. Especially dynamic

environments characterized by frequent changes and great uncertainty call for employees who are willing to take action on behalf of the organization.

According to social capital theory informal personal interaction facilitates information and knowledge exchange (e.g. Adler & Kwon, 2002). Proactive employees are expected to foster relationships in order to generate knowledge which is of great value to the organization. Blumer (1969, p.71) states that “the essence of society lies in an ongoing process of action – not in a posited structure of relations. Without action, any structure of relations between people is meaningless.” This should apply in a similar way to organizations. Proactive employees are prepared to take action by themselves. Björkman and Kock (1995) mention visiting and gift giving as examples for relationship enhancing activities. The behavior they refer to is more likely to go along with proactive employees than with those that have a less action-oriented approach to work.

In order to generate value for the organization, employees have to recognize the value of the knowledge held by external entities. They have to be aware of where to find information, know which information is relevant in a particular context, and take initiative to access this knowledge. This clearly requires a certain degree of proactivity with employees initiating communication and interaction across firm boundaries. In case of employees with a doing-attitude, foreign executives/investors can rely upon their employees for information gathering and processing in relevant contexts. Adler and Kwon (2002) posit that information is the major benefit of networks. Therefore, proactivity of employees forms the basis for information provision from external sources.

Relying on internal information provision rather than external information sources is easier because of the shared organizational context. Therefore, even more initiative is needed for turning to external information sources such as customers, suppliers, competing companies or public authorities. Because of the region's recent past as communist countries, it seems adequate to distinguish between business partners (suppliers, customers or competitors) anchored in the emerging market economy and the emerging public authorities that continue to carry some of the communist heritage. Acquaaah (2007) points out that especially in emerging economies managers need to develop network relationships with government and bureaucratic officials in regulatory, supporting, investment and industrial institutions. These entities tend to continue to have considerable power and control, e.g. in terms of awarding contracts or providing operation licenses. Hence, developing ties with public authorities in Southeast Europe is likely to also positively influence performance. Therefore we propose the following relations:

H4a: There is a positive relation between employee proactivity and information provision by external business partners.

H4b: There is a positive relation between employee proactivity and information provision by public authorities.

Research Methodology

Sample description and data gathering

The study uses data collected in May and June of 2008 from Austrian firms with business activities in Southeast European countries. We comply with the definition of the Austrian Federal Economic Chamber for Southeast Europe, encompassing Albania,

Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, the Kosovo, Montenegro, Romania, Serbia except for Turkey and Moldova. We added Slovenia in order to have all the countries from former Yugoslavia in the sample. Using Southeast Europe as an empirical setting seems appropriate as this region provides good growth opportunities for foreign firms. The economy in the region is estimated to grow by up to 6 % within the next three years, with this trend likely to continue further. This compares to an estimated growth of only 1.5 % within the EU 15 (Havlik & Holzner, 2008; Eurostat, ud.). Paired with the region's geographic proximity to Austria, this makes the region an attractive investment destination for Austrian firms of all size. Taking the perspective of Southeast European countries, Austrian firms account for 19.9 % of total foreign investment in the region, making it the biggest foreign investor (Gligorov, 2006). Despite these opportunities, the region also poses significant challenges to foreign investors because of its recent past. The dynamics in the region with only three of the countries as yet being members of the European Union, and Croatia and Macedonia having candidate status, provide an ideal context for assessing information provision and its effects on performance.

Data collection was carried out in the form of a standardized questionnaire. The survey instrument was based on a comprehensive review of the relevant literature. In a pilot study, a preliminary version of the questionnaire was given to and critically reviewed together with Austrian trade commissioners in the region and academics from the field of international business. They were asked to identify any ambiguous terms, concepts or issues. The questionnaire was then adjusted based on these comments. The final on-line questionnaire assessed information provision by employees, business partners, and public authorities as well as firm performance in SEE. The questionnaire ended with

questions referring to the characteristics of the organization and demographics of the respondents. The items were mostly measured on five-point Likert-type scales.

Our sample list was drawn from a database of the Austrian Federal Economic Chamber containing approximately 8.000 e-mail addresses of Austrian firms with business activities in the region. The Austrian Federal Economic Chamber sent an e-mail containing the link to the on-line questionnaire to all the firms in the database, inviting managers responsible for business in the region to participate in the study. After one reminder, we received 177 complete responses, including 80 firms employing local citizens in Southeast Europe. Consistent with our hypotheses and for reasons of comparability we focus on these 80 firms for the purpose of this paper. Our sample consisted of 14 micro, 17 small, 20 medium-sized and 24 large companies. The remaining 5 did not provide the information. This overrepresentation of large firms in our sample allows us to control for size effects. Half of the firms are active in five or more Southeast European countries. 69 % of the firms in the sample generate more than 40 % of their total foreign sales in Southeast Europe. This suggests that our sample is biased by firms with a great strategic interest in the region. The sample is highly diversified in terms of industry.

The questionnaire was mainly filled out by executives and/or owners (51 %), and managers responsible for sales in general or specifically Southeast Europe (35 %). Other respondents included general managers, and employees responsible for controlling, public relations and book keeping. 96 % of respondents have experience in Southeast Europe gained through frequent business trips or from an expatriate assignment with supervisory function in the region. The majority (85 %) is born in

Austria, 93 % are Austrian citizens. Therefore, the data should not be biased by nationality.

Operationalization of key measures

Market performance in Southeast Europe

There has been much debate in the general and the international business literature regarding the adequate measurement of domestic firm performance and the performance of foreign affiliates, joint ventures and strategic alliances (Glaister & Buckley, 1999; March & Sutton, 1997; Venkatraman & Ramanujam, 1986). In the literature two different ways are commonly used to measure performance. The traditional approach uses objective and accounting-based financial measures to assess performance, such as profitability, sales volume and market share expansion. Chowdhury (1992) points out that this way of assessing performance is particularly questionable when it comes to international operations because what constitutes good performance and success is contingent on the strategic objectives of the operations. Furthermore, the measures are frequently difficult to obtain as firms are hesitant to share the information with outsiders. Geringer and Hebert (1991) find that the subjective perceptual measures based on management evaluations tend to have a high correlation with the objective measures. Because of the complexities involved in collecting comparable objective performance data, researchers recommend the use of perceptual measures of performance to ensure a consistent and uniform way of measuring performance across a sample (Arino, 2003; Delios & Beamish, 2004; Geringer & Hebert, 1991; Gulati, 1999; Andersson, Forsgren and Pedersen, 2001).

Our dependent variable of market performance in SEE thus consists of subjective measures. Specifically, we were interested in how respondents perceived the performance of their firm's business activities in Southeast Europe. On a five-point Likert-type scale, they were asked to indicate to what extent they were satisfied with their performance in the region, to what extent their success was below expectations (reverse), and to what extent their experiences in the region were positive (appendix 1).

Information provision by local business partners

Most of the items used in measuring the information provision by local business partners were adapted from Wu (2008). The items are displayed in the appendix 1 and deal with the extent of information provision by the local business partners, the extent to which they support the organization in gathering information, the extent to which the firm can rely on the local business partners for market information, and whether the information was supplied in a timely manner. Another item assessing the business partners' role in making the organization aware of local business practices was added. In addition, an item was added measuring the quality of the information provided, asking how relevant the information provided by the local business partners was for decision making. The items were formulated in such a way that both, formal and informal business partnerships were included. All items were measured using a five-point Likert-type scale, ranging from (1) "entirely applies" to (5) "doesn't apply at all".

Information provision by public authorities

The information provision by institutions scale was developed to assess the extent of information provision by public authorities. The scale measured perceived support by local public authorities, to what extent they supported the organization with

information, and to what extent the demands of the institutions were stable and unambiguous (appendix 1).

Employee proactivity

Employee proactivity measures employees' proactive approach to work. Such behavior is characterized by a willingness to improve quality of work and process. Proactive employees not only develop solutions, but also successfully implement them. The variable is based on the "taking charge" scale developed by Morrison and Phelps (1999), and the climate for initiative scale developed by Baer and Frese (2003). The items were chosen and combined for adjustment to the South East European context (appendix 1).

Control variables

We controlled for a number of factors that might have an independent effect on firm performance. The control variables were firm size, importance of the market in Southeast Europe for the firm, and degree of internationalization of the firm.

Size. For measurement of size we chose to categorize firm responses based on the EU definition (EU Commission, 2003) of small and medium-sized enterprises, using the number of employees and sales as measures.

Level of internationalization. Sullivan (1994) suggests a measure of firms' internationalization level which consists of financial figures and cultural experience of management and the company as a whole. We only used the sum of foreign sales as percentage of total sales and foreign assets as a percentage of total assets as our measure of a firm's internationalization level. The other elements did not fit the Austrian context

or would have required individual assessment of each company. The latter was not feasible because of the anonymity of respondents.

SEE market importance. We added a third control variable which we termed SEE market importance. It assesses which percentage of overall international business activity is conducted in the region. We asked firms to provide information on their total sales, foreign sales as a percentage of total sales, and sales in SEE as a percentage of total sales. We then calculated the relative importance of the Southeast European region for each firm.

Results

Assessment of scale validity and reliability

Before testing the hypotheses, we assessed the validity and reliability of the survey scales used to measure the relevant constructs. To ensure content validity, we selected individual scale items for each of the constructs on the basis of a systematic literature review and a subsequent pretesting of the survey instrument. In a first step, data were subjected to logarithmic transformation. In a second step, exploratory factor analysis was conducted using varimax rotation to ensure convergent validity of the scales. For the independent predictor variables, three factors were extracted with eigenvalues above 1. Items displayed factor loadings above .60 and the factors explained 72 % of the total variance. Factor 1 captured six items pertaining to partner information provision. This factor explained 22.48 % of the total variance and had a Cronbach α coefficient of 0.837. Factor 2 comprised four items and represented employee proactivity. It explained 19 % of the total variance. The reliability coefficient of this scale was 0.808. Four items

out of the proposed seven representing the provision of information by public authorities had loadings above .60. The resulting factor accounted for 16.3 % of the total variance. Cronbach's Alpha coefficient for the scale was 0.847. Exploratory factor analysis for the foreign market performance measures revealed only one factor with a Cronbach's Alpha of 0.810. These reliability coefficients are well above the suggested level of .60 (Nunnally, 1978).

Hypothesis testing and regression analysis results

Table 1 provides the means, standard deviations, and correlation matrix for the key variables. It shows positive and significant correlations between employee proactivity, information provision by local business partners and public authorities, and firm performance, as well as among the explanatory variables.

We used linear regression analysis to examine the hypothesized relationships. Hypothesis 1 examined the relationship between information provision by business partners and foreign market performance. Results of the regression analysis show a positive and significant relationship, with $R^2 \text{ adj.} = 0.218$ and a standardized β -coefficient of 0.479. Thus, hypothesis 1 received full support. Hypothesis 2 examined the relationship between information provision by public authorities and foreign market firm performance. The resulting $R^2 \text{ adj.}$ was 0.019 and not significant. Therefore, hypothesis 2 was not supported. Hypothesis 3 proposed a positive relationship between employee proactivity and firm performance. Regression analysis shows a significant relationship with $R^2 \text{ adj.} = 0.119$ and a standardized β -coefficient of 0.362. Thus, hypothesis 3 was supported. Hypotheses 4a and 4b suggested a positive relationship between the proactivity of the employees and information provision by both, local

business partners and public authorities. Regression analyses show a significant positive relationship for hypothesis 4a and 4b with $R^2 \text{ adj.} = 0.159$ and a standardized β -coefficient of 0.415, and $R^2 \text{ adj.} = 0.114$ with a standardized β -coefficient of 0.360, respectively. Controlling for size, degree of internationalization, and relevance of SEE market for the organization did not show an influence on the proposed relationships. Implications and limitations of these findings are discussed in the following section.

Descriptive statistics and Pearson or Spearman correlations between variables measured

Variables	Mean	S.D.	Min. – Max.	N	1	2	3	4	5	6	7
EmployeeProactivity (1)	0.475	0.119		80	1.000						
PartnerInfoProvision (2)	0.321	0.139		80	0.415**	1.000					
InstitutionInfoProvision (3)	0.491	0.135		80	0.360**	0.432**	1.000				
Perceived performance (4)	0.279	0.191		80	0.362**	0.479**	0.186	1.000			
Size ^a (5)			1-4	75	(0.138)	(0.112)	(0.238)	(0.180)	1.000		
Internationalization Level (6)	4.071	2.300	1-9	42	(0.084)	0.083	0.211	(0.022)	0.114	1.000	
SEE market importance (7)	3.310	1.465	1-4	52	0.236	0.069	0.314**	(0.143)	(0.360)**	0.064	1.000

^a As size is not a metric measure mean and S.D cannot be computed, correlation was measured with Spearman coefficient

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Discussion

Except for the hypothesis linking provision of information by public authorities, all our hypotheses were supported by the data. Information provision by local business partners including suppliers, customers, and other firms in the region displays the highest correlation with foreign market performance. This finding provides further support for international network theory and suggests that an external orientation is also beneficial for firms with affiliates abroad. Interestingly, controlling for size did not significantly change the correlation between the two, suggesting that even big firms with a vast internal network can benefit from external information sources. Hence, a firm's local embeddedness emerges as an important factor for firm performance with the links with local entities allowing for the exchange of valuable information and knowledge. Practitioners need to recognize the importance of being open, get immersed in the local business environment and establish local networks.

In contrast to information provision by business partners, information provision by public authorities did not show an effect on firm performance. Although surprising at first glance, a number of factors may explain this. The decision to distinguish between business partners and public authorities as information sources was based on the assumption that the latter are likely to carry communist heritage, which may lead to different perceptions of the two sources for information provision. Hence, a lack of trust and a bad reputation of public authorities stemming from earlier times provide one possible explanation. It may prevent local employees as well as foreign investors to rely upon local authorities for relevant information. In fact, many authors mention a lack of institutional trust in former communist countries (Inglehart & Baker, 2000, p.17). Thus local employees might not even consider these institutions as possible sources of

information. Even more, this lack of trust might be transferred to foreign management which is already influenced by the western cliché of perceiving institutions in former communist countries as inflexible and lacking transparency (Goetz & Wollmann, 2001).

In addition, it is known that SEE countries want to promote their countries as foreign investment benefits their economies. Hence, public authorities might not been seen as a reliable source of neutral information. Apart from representing an unreliable source of information, public authorities may in fact not even have the information that is required by companies. Most importantly, they lack direct market knowledge and experience.

Finally, the cooperation with public authorities may involve great effort resulting in higher costs than benefits. This argument is supported by our survey results. One of the statements that did not form part of the public authority information provision scale asked to what extent the cooperation with local public authorities calls for “fingerspitzengefühl”, which means that cooperation with public authorities is tricky and requires discretion. 87 % of our respondents support this statement. Another 72 % believe that cooperation is especially difficult for foreigners. Almost all (94%) agree that knowledge about local conventions is a prerequisite for cooperation with local institutions. In order to validate these explanations, however, further investigations contrasting business partners and public authorities are needed.

The positive relationship found between employee proactivity and local business partners and public authorities also has important implications. It suggests that employees with a proactive approach are capable of enhancing information provision by external partners. This is in-line with social capital theory (Adler & Kwon, 2002).

Recent research by Thompson (2005) shows similar results. Proactivity, defined as a personality characteristic, positively affects job performance through network building. Future research should focus on the role of employees and their network relations rather than solely concentrating on managers.

Limitations

The specific context of the study provided an interesting backdrop for studying information provision. While not conclusive, the results suggest a positive effect of information provision by external entities on firm performance. However, up to this point, the data have only been analyzed using simple linear regression analysis. Therefore, we did not test all the proposed hypotheses at the same time which would have allowed us to estimate multiple, dependent relationships and interaction effects of the constructs.

In addition, this study has not taken into account the processes of organizational learning or absorptive capacity. However, as pointed out by Szulanski (1996), knowledge transfer and its internalization is a difficult endeavour and affected by a number of organizational characteristics. Therefore, information provision is only the first step, with superior absorptive capacity possibly allowing for more effective information internalization.

This study controlled for firm size, degree of internationalization and foreign sales in SEE as a percentage of total foreign sales. However, it is important to recognize that firm performance is a more complex phenomenon where identifying causal structures is difficult due to incomplete information on determinants (March & Sutton, 1997).

Hence, future studies should include further variables that can be expected to moderate the direct relationships. Most importantly, the frequently identified effects of network tie strength should be included (Ellis, 2000).

Our sample consists of 80 companies. However especially the items on public authorities show a high non-response rate. Therefore, we had to mostly rely on answers of 69 companies. We assume that a recent anti-corruption campaign carried out by the Austrian Federal Economic Chamber might have raised suspicion about the true aim of our study as respondents were contacted by the Austrian Federal Economic Chamber in both instances.

Finally, the proposed relationships might also be culturally contingent, requiring further studies testing the relations in other institutional contexts.

Appendix:

At the beginning of the questionnaire, respondents were asked to indicate their primary market, i.e. the market that they focus on in their activities in the region. This was an attempt to control for potential country differences. However, statistical testing showed no significant variance between the countries.

Information provision by local business partners

1. In our primary market, local business partners support our company in terms of information gathering.
2. The information we get from our local business partners are relevant for decision-making.
3. We can rely on our business partners.
4. Local business partners advise us on local business practices/habits.
5. Local business partners always provide us with timely information.
6. The entrepreneurs in the region recognize a lot of business opportunities.

Information provision by public authorities

1. Local public authorities provide us with necessary information.
2. Local public authority support is satisfactory.
3. The requirements of local public authorities change rarely.
4. The requirements of local public authorities are clearly defined.

Employee proactivity

Local employees ...
often suggest improvements.
often make suggestions for the improvement of organizational practices.
find solutions even if the situation seems hopeless.
successfully realize their ideas.

Foreign market success in SEE

1. The success in our primary market is below our expectations.
 2. We are satisfied with our performance in our primary market
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