

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Effect of Centricity on Mode of Choice of Entry to International Markets by Iranian Firms

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Abstract:

While many of the theories of internationalization have explored economic or structural reasons for firms' internationalization process, the effects of behavioral issues on making such decisions remain understudied. This study explores the effects of centricity on the internationalization decisions made by managers in a different geographic context, Iran, between 1995 and 2006. Following in the footsteps of a previous study on Canadian managers conducted by Calof (1991), this research provides insight into the topic, focusing on a different context. The findings of this research show similarities in the behavior of ethnocentric and geocentric firms across the two settings and minor differences in the behavior of poly/regiocentric firms. The findings of this research lend further support to the effects of manager centricity on internationalization decisions found in past research and therefore, contribute to the external validity of previous theoretical propositions.

Keywords: Foreign Direct Investment, Iranian Firms, Geocentricity, Polycentricity, Ethnocentricity 1.

1. Introduction

The trend of internationalization of firms is increasingly shifting away from conventional incremental steps (Johnson and Vahlne, 1977) to new patterns that were previously considered as exceptions (Knight and Liesch, 2015; Knight, 1997; Oviatt and McDougall, 1994). Many of the International Business theories such as Vernon's Product Cycle Theory (1966), Knickerbrocker's Oligopolistic Theory (1973), Hymer's Monopolistic Advantage Theory (1976), Buckley and Casson's Internalization Theory (1976), Johanson and Vahlne's Uppsala School Stage Theory (1977), Dunning's Eclectic Paradigm (1988) and Axelsson and Easton's Network Theory (1992), while proposing different processes for internationalization, assume a time lag between the formation of an organization and its transformation into an international enterprise (Child and Hsieh, 2014; Caillas and Acedo, 2013; Kandasami, 1998).

Little has been done in past literature to explain the process of mode change in internationalization and why or how firms change their strategies of foreign market entry (Welch and Paavilainen-Mäntymäki, 2014; Calof and Beamish 1995). A reason for this could be attributed to the negligence of entrepreneurial dimensions that exist within firms (McDougall, Shane and Oviatt, 1994). In recent years, the International Business literature has experienced a shift from the "fit" between strategy and structure to a "process" perspective that proposes managers make sense of their global environment and organization to gain competitive advantage for their firms (Trudgen and Freeman, 2014; Caproni, Lenway and Murtha, 1992).

Management attitudes can be very influential on firms' decisions to enter, exit or change the type of operations in a foreign market. The role of attitude in affecting firms' decision making process can result in differences in performance across firms (Calof, 1992). Prior research has referred to the attitude of managers towards foreign cultures as "centricity" (Perlmutter, 1969). In contrast to prior research in International Management, which are more economics oriented, Perlmutter's (1969) research is based on attitudes (Alarik, 2000). Managers can possess different centricities which can result in differences in firm behavior. While prior empirical research has mainly been concerned with centricity from a North American perspective, little research has been done to investigate centricity of firms in developing countries, particularly the Middle East. This research tries to investigate and whether there are similarities with regards to centricity between Iranian and Canadian firms.

2. Literature Review

2.1. Firm Centricity

Four types of centricity have been identified for managers in prior research. These four types of centricity include: ethnocentricity, polycentricity, regiocentricity and geocentricity. While different types of centricity influence the way a firm approaches a foreign market, one could expect to see different types of centricity across different divisions of the firm (Korbin, 1994), as one can almost never expect them to exist in a firm in their pure form (Alarik, 2000).

Heenan and Perlmutter (1979) have provided descriptions for different types of centricity and how they reflect on a firm's, and its executives', behavior towards foreign markets, partners or employees. According to their description, in firms where ethnocentricity is the dominant attitude, the preference is placing people from the home country in key positions and compensating them more generously than the employees from the host country. The attitude of ethnocentric managers contains cautiousness towards any alien culture. In a firm where an ethnocentric attitude is dominant, all policies and rules are made at the headquarters and communicated with the subsidiaries across different geographic and cultural settings. The flow of advice or orders is one-way and directed from the headquarters at the home country.

While the ethnocentric managers avoid the possibility of placing host country people at key positions, polycentric managers cope with such options (Heenan and Perlmutter, 1979). The subsidiaries of a polycentric firm try to adopt the cultural aspects as the host country as much as possible. The relationship between the subsidiaries and the headquarters in the home country is looser than that of the ethnocentric firm. The subsidiaries are run in a quasi-independent manner (Alarik, 2000), and they enjoy high levels of autonomy. Also, in polycentric firms, rules and procedures across different geographic and cultural settings vary. However, polycentric firms are still uncomfortable with cultural dissimilarities, but prefer to allow individuals with those different cultural backgrounds to operate in key positions, as long as there are profitable outcomes for the company. However, the employees from the host country cannot expect to make much progress through the firm hierarchy.

Manager regiocentricity has been defined in terms of the tendency to place people from a certain geographic region in key positions in the subsidiary in the host country (Heenan and Perlmutter, 1979). An example of such attitude might be seen in the managers from the European Union, when recruiting from the countries within the EU.

In Heenan and Perlmutter's (1979) description, the attitude with the least sensitivity towards national identity of the employees is geocentricity. Calof and Beamish (1994) define geocentricism in terms of a global systems approach to decision making. In firms which adopt geocentric policies, nationality makes no difference and the emphasis is mainly put on competence of the person that fills the position (Heenan and Perlmutter, 1979). Managers with a geocentric attitude view their firms as a worldwide organic entity. In firms whose internal attitudes belong to this group, recruitments are easily made from the host country environments and responsibilities are delegated to host country employees, wherever possible or needed. However, some researchers (Chakravarthy and Perlmutter, 1986) have made a distinction between two types of egocentricity: integrative and enclave geocentricism. While in enclave geocentricism a global focus has a priority, in integrative geocentricism host-country factors are also taken into account and the impact of decisions on each of the host countries are considered in decision making.

The centricity attitude also influences firm's performance. Heenan and Perlmutter (1979) have found empirical evidence supporting lower performance of ethnocentric firms and higher performance of geocentric firms. However, centricity has "never been used as a basis for understanding mode choice, and its link with performance has rarely been investigated" (Calof, 1992).

The aim of this research is to replicate the previous research conducted in a North American setting in a geographically and culturally different setting in the Middle East. The country which the data has been collected from and where the propositions are being tested is Iran, which has significant differences in culture and internal dynamics from its other neighboring countries. These differences are mostly due to the differences in ethnicity, language and religion, which can significantly affect attitudes formed and decisions made by managers and individuals (Kiani, Laroche, and Paulin, 2015). Several decades of economic sanctions have led to isolation of many of Iranian businesses from the international scene (Seifzadeh, 2013). Since 1997 and with the more open political approach undertaken by the Iranian government, Iranian organizations have engaged in business activities beyond the borders (Seifzadeh, 2015). While most of these activities are still concentrated in the Middle East and Central Asia regions, the exposure to foreign transactions has fleshed out challenges that arise due to restrictions imposed by managers and employees. Lack of prior experience in foreign transactions and the gradual shift resulting from accumulation of new experiences makes the Iranian management scene an interesting subject to study the attitudes of managers and to replicate studies previously conducted in more developed contexts.

The previous research conducted by Calof (1991) had hypothesized six relationships between centricity, mode of choice and firm performance. In the present study, the aim is to test the three proposed relationships between centricity and mode of choice. Therefore, the other three hypotheses do not fit into the scope of this research and were not tested. However, focusing on an environment that has mainly remained a black box to international business literature, this study aims to address the question of generalizability of previous literature and doing so, provide a valuable contribution to extant literature.

To assess the level of investment and control in each of the modes of operation in foreign markets, Calof's (1991) assessment instrument was used. The reason for this approach was to ensure consistency of the method employed and what had been done in previous research. In addition, it provides better future opportunities to contrast and compare findings of other similar studies which have been conducted in other contexts (e.g., Javalgi and Todd, 2011).

Ethnocentricity implies that the executives of the firm at the home country lack confidence in the loyalty and capabilities of the employees at the host country. Firms with this type of centricity as the dominant form try to avoid contact with any alien cultures as much as they can, and will try to employ as many employees from their home country as they find possible. Therefore, ethnocentric firms are expected to have the tendency to minimize their interaction with an alien environment and prefer modes of entry that allow them to have more control over their operations in foreign markets. Hence, similar to Calof (1991), the following relationship is hypothesized:

- Hypothesis 1: Among Iranian firms, ethnocentric firms will be associated with export and sales subsidiaries.

While ethnocentric firms try to minimize their interaction with foreign environments, poly/regiocentric firms are more pragmatic and will cope with such environments as long as they remain profitable. They will continue to put their focus on the home country, while allowing for higher autonomy in their operations in foreign markets. However, this autonomy, does not translate into full autonomy and significant leverage, thus remains in the hands of the home country office. Therefore, poly/regiocentric firms will be more willing to establish partnerships with local investors or provide them with licenses or patents. Hence, in line with Calof (1991), the following hypothesis is proposed:

- Hypothesis 2: Among Iranian firms, Poly/regiocentric firms will be associated with licensing and Joint Venture.

Unlike poly/regiocentric firms and in contrast with ethnocentric firms, geocentric firms will show a tendency to have a more global focus and do not show significant discrimination in their behavior towards home country or host country employees. They will more easily cope with the alien environment and can give full autonomy to their subsidiaries, regardless of the nationality of their operating executives. Therefore, similar to Calof (1991) the following relationship is hypothesized:

- Hypothesis 3: Among Iranian firms, there will be no relationship between geocentricism and mode choice.

3. Methodology

To build on the research previously conducted by Calof (1991) in order to compare the results with another geographic/cultural setting, we followed the methodology previously used by Calof (1991). The original survey consisted of a set of questions that addressed the strategic decisions which were made by firm's top management in ten main areas: capital expenditures, pricing, dividend policy, product selection/design, production planning and control, quality control, marketing and sales policies and programs, purchasing and choice of suppliers, financial systems and the selection, promotion and compensation of subsidiary executives. Following the process introduced by Calof (1991), executives who participated in this research were asked to fill out a survey that addressed the centricity of the firm that they were affiliated with. While the prior research had taken a Canadian focus as the indication of ethnocentricity, participating executives in this research were asked to consider an Iranian focus for assessment of centricity. Also, in order to get results that are comparable with the previous research, two attitudes of polycentricism and regiocentricism were merged into one category.

The responses of executives were used to identify the centricity of the firm. Participants were asked to determine how they perceived their corresponding firms' centricity in each of the ten areas that were named previously. The centricity of each firm was based on the centricity that received the highest frequency in responses. Each of the surveys were categorized as one type of perceived centricity based on the number of centricity typologies that had been most frequent in the responses. For example, of the ten areas, if geocentricity was the most frequently perceived attitude, then that firm was considered as geocentric, from the point of view of that respondent. Then based on the responses that respondents of the same firm had presented, the centricity of the firm was identified. In cases where more than one type of centricity received similar frequencies, an interview with a higher ranking executive was conducted to identify the firm centricity.

The objective of this study is to identify the cases of mode change among various organizations whose data has been collected. In order to do so, surveys were distributed among a sample of Iranian executives. The survey was a Farsi (Persian) translation of the survey that had been used by Calof (1991). To make sure that there was proper fit between the original questionnaire and the translated version, it went through various stages of evaluation by Iranian academics that were familiar with the area of research. Through this process, the survey was translated from English to Farsi and then translated back to English to compare with the original survey.

For the purpose of the research, the respondents were asked to look into a 3-year timeframe and provide answers that corresponded to that timeframe. The respondents were also asked to indicate the way they perceived the attitude of their firm, regarding internationalization. Since Calof (1991) had used the method proposed by Killing (1983), to maintain the consistency of this research with the previous research, the same method was employed here.

To identify the modes of entry or changes in modes of operation that the Iranian firms had made, the respondents were given a Farsi (translation) of the instrument developed by Calof (1991). Based on this instrument, the respondents provided answers regarding the changes in the mode of their firms during a period of 3 years. The reason for choosing a 3-year timeframe was to make sure that reliable data would be achieved, since the average tenure of Iranian executives is less than 3 years (Kiani, 2005). Also, in order to increase the reliability of the data, one senior executive from each of the firms was contacted to validate the responses regarding the mode changes that were pointed out by respondents.

3.1. Sample

The sample was chosen from executives that had taken part in a series of management training programs. The comprehensiveness of the different industries that take part in such seminars allows for a good distribution of industries. In total, 109 executives who had participated in the programs were incorporated into the data. The reason for choosing this sample was to increase the possibility of obtaining responses from the respondents. Also, the firms that participated in the program were initially selected randomly from a pool of Iranian firms, based on being known as growing companies. Such companies were either operating beyond national borders or were expected to do so because of their growth rate.

The participating executives all belonged to Iran's most successful companies. The range of these companies, in size, varied from small groups with less than 100 employees to companies with over 20,000 employees. The total number of companies which the selected executives were affiliated with were 28, and belonged to a variety of industries such as automotive manufacturing, transportation, petroleum products, heavy machinery, home appliances, consumer electronics, cement production, distribution channels, software development, food products, banking and investment, clothing products, consulting services and construction. Most of the companies- 97% - were either currently or in the past involved with exporting their products or services to foreign markets. 85% of the companies had either owned a sales subsidiary or had established such subsidiaries within the past 3 years. Also, 39% of the companies in this research had either Joint Venture experience in the past 3 years, or had recently become involved in one. 21% of the companies also had either owned a wholly owned subsidiary abroad, in the past or at the time of the data collection.

4. Results

4.1. Ethnocentric Firms

15 out of the 28 companies in this study were labelled as ethnocentric by their participating executives. The overwhelming majority of mode changes in ethnocentric firms were mode changes from export to establishing a sales subsidiary in the foreign market. Close to 85% of the ethnocentric firms had followed this path (see table 1). Also, there were cases where the ethnocentric firm had changed its mode of entry from export to establishing a Joint Venture with a firm in the host country or had created a wholly owned subsidiary to facilitate its operations in the foreign market. Also, another mode change occurred when an ethnocentric firm had shifted from running a sales subsidiary into establishing a Joint Venture with a local firm. However, the frequency of all of these mode changes were significantly lower than the change from export to sales subsidiary, as each of them accounted for a little more than 5% of the total mode changes of the ethnocentric firms.

The lower relative number of mode changes by ethnocentric firms in foreign markets is consistent with characteristics that are assumed for such firms. Also, most of the firms that participated in this study were relatively smaller in size and scope which significantly influenced their ability to perform in foreign markets.

Ethnocentric Firms					
Mode Changed From	Mode Changed to				
	Exit	Non-FDI	FDI		
			Export	Sales Subsidiary	Joint Venture
Export	NA	NA	16	1	1
Sales subsidiary	0	0	NA	1	0
Joint venture	0	0	0	0	0
Wholly owned production subsidiary	0	0	0	0	NA

Table 1: Change/Choice Combinations, For Ethnocentric Firms

The findings for ethnocentric firms are consistent with the behavior that is expected of such firms in that they tend to avoid high involvement with the factors from the host country. This is partly due to lack of confidence in the host country's environment and employees which results a tendency to establish relationships with less reliance on host country work force. Also, the steps of mode change, as indicated in table 2, for ethnocentric firms tend to be very small and incremental. As table 2 shows, close to 90% of the mode changes have occurred in a one-step mode change from either export to sales subsidiary or sales subsidiary to Joint Venture. Only in 10% of the cases did the mode change go beyond that.

4.2. Poly/Regiocentric Firms

Of the 28 firms that participated in this study, 8 (29%) were labelled as polycentric or regiocentric by their executives. In line with previous research, this study also merged polycentricity and regiocentricity into one group. The data that was collected indicated that 51% of the mode changes of these firms had been from direct exports to establishing a sales subsidiary. Also, 17% of the mode changes by poly/regiocentric firms happened when they made the decision to switch from an export mode to establishing a Joint Venture with a partner from the host country. Close to 7% of the poly/regiocentric firms also made a more radical mode change, switching directly from an export mode to establishing a wholly owned subsidiary in a foreign market. Interestingly, close to 7% of the firms in this typology had decided to close down their sales subsidiary and exit the market, without going through switching to exports, first. Also, in 3% of the cases, a backward change from a sales subsidiary to exports had occurred. Close to 10% of mode changes had taken place when the sales subsidiary progressed into forming a Joint Venture with a local partner.

In summary, it firms with poly/regiocentric points of view were more likely to make decisions to change their modes, compared to firms with ethnocentric perspectives. On average, the number of mode changes per firm for ethnocentric firms was 1.26, while the same value for poly/regiocentric firms stood at 3.6, significantly higher than that of the ethnocentric firms.

Poly/Geocentric Firms					
Mode Changed From	Mode Changed to				
	Exit	Non-FDI	FDI		
			Export	Sales Subsidiary	Joint Venture
Export	NA	NA	15	5	2
Sales subsidiary	2	1	NA	3	0
Joint venture	0	0	0	0	1
Wholly owned production subsidiary	0	0	0	0	NA

Table 2: Change/Choice Combinations, Poly/Regiocentric Firms

The majority (69%) of mode changes in among the poly/regiocentric firms were in a single-step manner (see table 2). This indicates that among Iranian managers who work in poly/regiocentric environments – or perceive themselves as doing so – there is still lack of confidence in the host country's employee's loyalty or capabilities. However, a larger number of their mode changes were related to Joint Ventures or Wholly Owned Subsidiaries, compared to ethnocentric firms. While this figure for ethnocentric firms stood at 16%, around 38% of mode changes for poly/regiocentric firms had either been from or to one of such modes. This can be an indicator of the higher trust and openness of the managers of poly/regiocentric firms to other cultures, compared to ethnocentric managers.

4.3. Geocentric Firms

The smallest number of firms in the study (5 out of 28) belonged to the ones labelled as geocentric by their executives. In the geocentric firms, the largest number of mode changes (63%) came from changing from exports to establishing a sales subsidiary. The changes in mode of entry from export to establishing a Joint Venture with a local partner or establishing a wholly owned subsidiary was around 10% for each. Also, in 5% of the cases, the ownership structure of a Joint Venture had changed, as the firm had either increased or decreased the amount of equity it held in that Joint Venture.

An interesting contrast between firms that were labelled as geocentric with the other typologies was the average number or mode changes that they were willing to undertake, or had undertaken, comparatively. For example, in this study, geocentric firms tended to take, on average, 12 initiatives for mode change, while this number, as indicated before, was 1.26 for ethnocentric firms and 3.6 for poly/regiocentric ones. Of course, in the study that was conducted, this could be partly attributed to the significant difference in size of operations of the geocentric firms and the other firms.

Geocentric Firms					
Mode Changed From	Mode Changed to				
	Exit	Non-FDI	FDI		
			Export	Sales Subsidiary	Joint Venture
Export	NA	NA	38	6	6
Sales subsidiary	0	0	NA	3	2
Joint venture	0	0	0	3	2
Wholly owned production subsidiary	0	0	0	0	NA

Table 3: Change/Choice Combinations, Geocentric Firms

However, there was no significant difference between geocentric firms and poly/regiocentric firms in the way they got involved in Joint Venture or wholly owned subsidiary actions in foreign markets. Where 38% of the poly/regiocentric firms were involved in mode changes either from or to one of these two types of actions, 36% of the geocentric firms did the same.

Although the number of geocentric firms in this study was significantly smaller than that of ethnocentric and poly/regiocentric firms, it is interesting to notice the significantly higher amount of activity and mode changes that are attributed to them. This, other than being consistent with the expected characteristics of such firms can be attributed to the relatively larger size of such firms. The five firms that were labelled as geocentric included: Iran Khodro, Zam, NIPC, QlinkCorp, and IRISL. With the exception of one case (QlinkCorp), all the other companies had revenues over \$2 billion and reached as high as \$12 billion (NIPC). Also, with the exception of QlinkCorp – which was operating in 4 countries at the time of the study- all the other companies were operating in more than 6 foreign markets, simultaneously. Such size and scope can partly explain the difference in the number of changes in mode between geocentric firms and other types.

4.4. Modes of Choice

While in the previous section the mode of change for firms with different centricities were explained, in this section the mode of choice for each centricity will be addressed. Among the ethnocentric firms, none had chosen export as their mode of choice. This is interesting since it was expected that ethnocentric firms display a greater desire to pursue such a mode of entry compared to other typologies. However, since the mode of choice was derived from the mode changes instead of all instances of initial entry, this result cannot be considered to show the popular mode of choice for entry, but the popular mode of choice for mode change. This will mean that the choice of export will indicate a willingness to reduce involvement with factors from the host country. In this case, it can be argued that ethnocentric firms will display a more conservative behavior in choosing their choice of mode change than the other types of firms.

The most popular mode of choice for firms with ethnocentric perspectives was having a sales subsidiary in the host country. This is also consistent with what is expected of such companies as it corresponds to the lack of confidence by home country executives in employees and factors from the host country. Also comparing it with the other typologies of centricity, this consistency can be observed from table 5.

Also, as indicated in the table 4, a poly/regiocentric and geocentric managers tend to be more open to making choices regarding establishing Joint Ventures or wholly owned subsidiaries. This is consistent with the expected behavior of such managers, at it is expected that geocentric managers have a higher tendency to get involved with establishing wholly owned subsidiaries than poly/regiocentric managers, while the other type tends to have a higher tendency for establishing Joint Ventures.

Mode changed to	Centric Type		
	Ethnocentric (n=19) (N=15)	Poly/regiocentric (n=29) (N=8)	Geocentric (n=60) (N=5)
Export	0%	3%	0%
Sales Subsidiary	84%	51%	63%
Joint Venture	5%	27%	20%
Wholly Owned Production	5%	10%	17%
Chi-square Significance for Column	0.157	0.386	0.083

Table 4: Mode Choice by Centric Types (Results of Chi-Square Tests)

5. Discussion

Based on the results tables that have been presented in the previous section, we discuss the hypotheses that have been proposed to see if the results vary across different geographical locations. As demonstrated in Figure 1, the results show that an overwhelming proportion of ethnocentric firms (84%) preferred to get involved with establishing sales subsidiaries. This shows a consistency with the behavior that is expected of ethnocentric firms to make one-step changes from exports to establishing sales subsidiaries. This is while only 10% of such firms had chosen establishing a Joint Venture or a wholly owned subsidiary as their mode of choice for operation in foreign markets. Also, with a chi-square of 0.157, we don't find full support for the hypothesis. However, the findings of this research are partially consistent with the findings of the previous research.

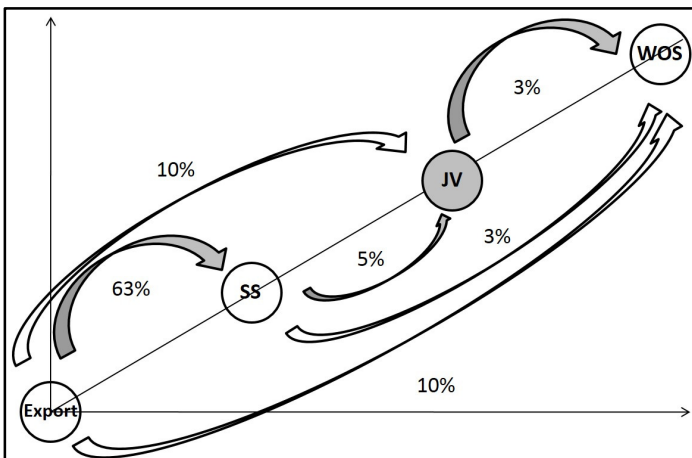


Figure 1: Shift in Mode of Entry for Ethnocentric Firms

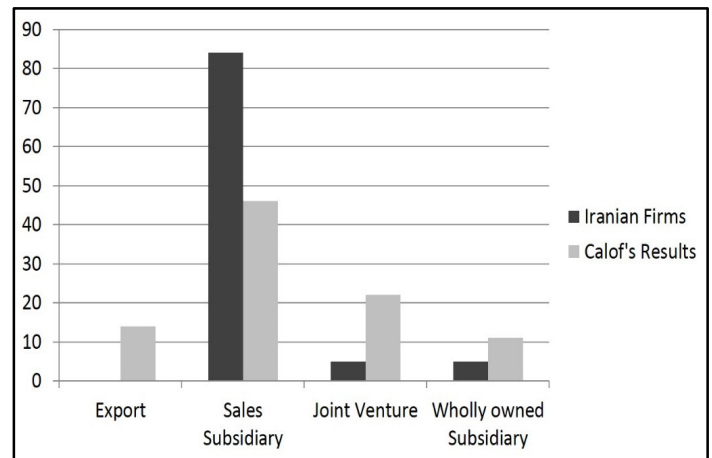


Figure 2: Comparison between Canadian and Iranian Ethnocentric Firms

The empirical findings of this research do not support hypothesis 2. As shown in Figure 3, the firms that were labelled as poly/regiocentric did not show a preference in choosing Joint Ventures over their other choices of operation in foreign markets. Moreover, the majority of the firms that were investigated in this research had chosen sales subsidiary as their mode of choice. However, with a non-significant chi-square, consistent with previous research, hypothesis 2 was rejected.

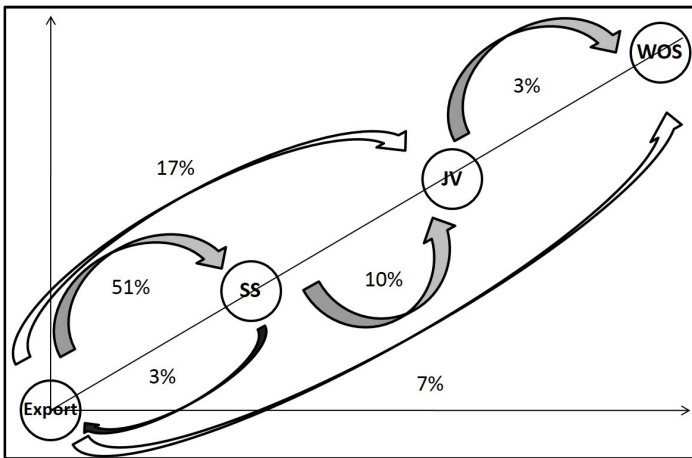


Figure 3: Shift in Mode of Entry for Poly/Regiocentric Firms

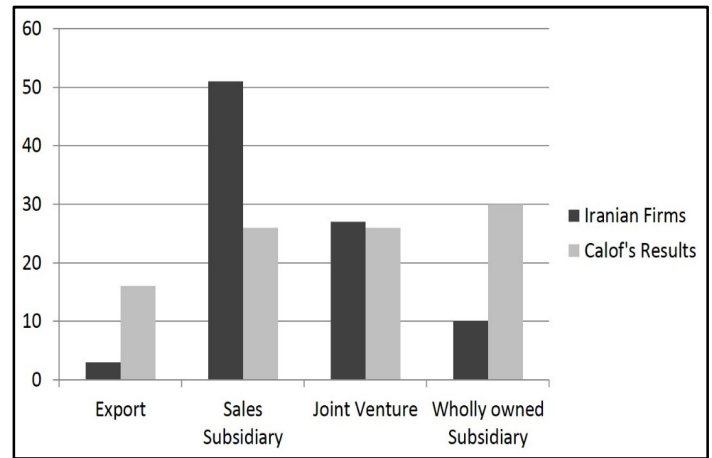


Figure 4: Comparison between Canadian and Iranian Poly/Regiocentric Firms

Geocentric firms showed a higher tendency to establish wholly owned subsidiaries than the other two types of firms. However, the overwhelming majority of actions by such firms (63%) were conducted as establishing sales subsidiaries (Figure 5). This is in contrast with the rationale that has been proposed about geocentric firms. However, a chi-square of 0.08 shows that there is little bias in the way geocentric firms make their choice of operation in foreign markets. Therefore, hypothesis 3 was marginally supported in this research.

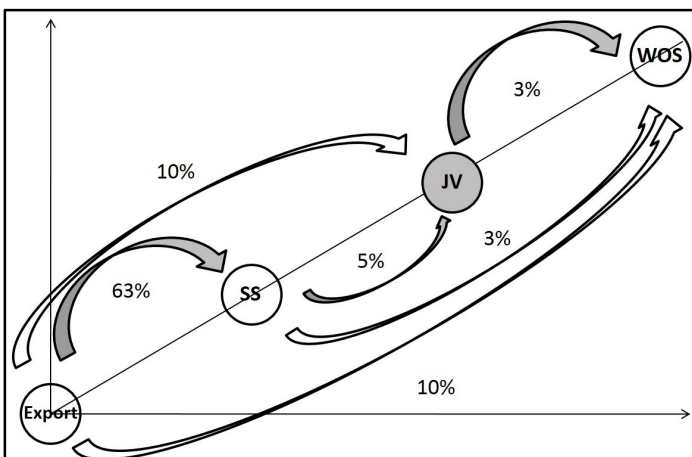


Figure 5: Shift in Mode of Entry for Geocentric Firms

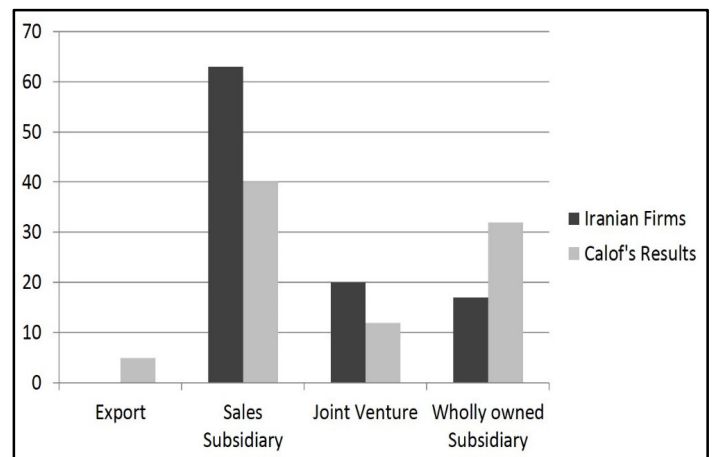


Figure 6: Comparison between Canadian and Iranian Geocentric Firms

6. Conclusion

Findings of this research show that while there are strong similarities between the behavior of ethnocentric and geocentric companies in Iran and Canada, there are minor differences between firms that are poly/regiocentric from these two contexts. We find that ethnocentric firms exhibit greater tendency to distance themselves from high-engagement situations with the host-country environment, while geocentric firms do not restrict themselves to avoid engagement. For poly/regiocentric firms, although results show a minor difference between Canadian and Iranian firms in their preference of Joint Ventures or Sales Subsidiaries. While Canadian poly/regiocentric firms were more balanced in their preference of Sales Subsidiaries, Joint Ventures, and establishing Wholly Owned Subsidiaries, Iranian firms were heavily leaning towards Sales Subsidiaries and the least towards Exports or operating Wholly Owned Subsidiaries. The findings of this paper are generally consistent with the findings in past studies. These results lend greater external validity to the underlying theory, further expanding its boundaries.

As for practical implication, firms can understand some of the reasons for which various decisions are made within their home offices and may be able to follow some steps to change the centricity of their firms through placing people in key positions who have the applicable centricity.

7. Limitations

It must be noted that there could be other reasons that would affect the behavior of firms in this research that could cause the rational contradictions. Many of the firms that were investigated in this research were constrained by and feared acts of international sanctions that were specific to their home country. In many cases, sanctions that were imposed unilaterally by the US limited operations of subsidiaries of Iranian firms in foreign markets. Such limitations, impact non-Iranian firms involved in transactions with Iranian firms

or their subsidiaries. In some cases, Iranian businesses were forced to close down and their assets were frozen by the host country, under pressures resulting from international sanctions. Such fears have slowed down the process of internationalization of some Iranian companies. For example, a cement producer that participated in this study, froze all its initiatives to invest in Kazakhstan, after in a 2007 press conference, the Kazakh president accused Iran of aiding terrorism and promised for a thorough investigation of Iranian firms. Although such allegations were later denied, the stakes of investment were considered as too high for the Iranian company to proceed with its initiative. While this type of threat is not common in other parts of the world, it clearly affected the way the managers perceive the foreign market and has made them cautious in making decisions to establish wholly owned subsidiaries.

Also the structure of some of the Iranian firms did not allow them to grant full autonomy to their foreign subsidiaries. This is particularly the case where the Iranian government owns the majority of the shares or the company operates in areas that are considered as strategic by the government. For example, an electronics company that participated in this study is not only a producer of home appliances and household electronics, but is also responsible for developing much of the military electronic products for the Iranian military. Although in this case the company is considered to be private, but the sensitivity of some of the company's operations do not allow for foreign employee involvement. Therefore, while being considered a larger company inside Iran, it is relatively unknown outside Iran's borders as a consumer electronics firm. Such examples can explain some of the unexpected results that have been achieved through this research. It may also have an influence on the formation, development and strengthening of ethnocentric attitudes in Iranian-owned subsidiaries, which have been observed and captured through this research.

8. Future Research

The results that were found here and in past research can be replicated in other geographical and cultural regions, as well. This will contribute to the external validity of the theory and also will provide opportunities to explore the limitations and further refine the hypothesis.

In this research, the focus has been on the measurement of centricity attitudes among Iranian managers. The formation of the attitudes and the differences based on industry sector, global involvement and internal restrictions and limitations have not been fully investigated, as they fall outside the scope of this study. This however, provides opportunities for research to focus on underlying processes rather than objective outcomes.

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