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Elbanna, Said, Hsieh, Linda, Child, John, Narooz, Rose, Marinova, Svetla, Karmowska, Joanna, Puthusserry, Pushyarag, Tsai, Terence and Zhang, Yunlu (2023) *Foreign market involvement, entry-mode learning potential and SME internationalization outcomes*. *Management Decision*. ISSN 0025-1747. (In press)

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**Foreign market involvement, entry-mode learning potential
and SME internationalization outcomes**

Journal:	<i>Management Decision</i>
Manuscript ID	MD-01-2023-0045.R3
Manuscript Type:	Original Article
Keywords:	International business, Export

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3 ABSTRACT:
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5 Drawing on an organizational learning perspective, this paper examines the effect of levels of foreign
6 market involvement (intensity and geographic spread) on internationalization outcomes recognizing
7 that the moderating influence of entry-mode learning potential is not well-documented in the
8 literature on small and medium-sized enterprises (SMEs).
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10 Our sample includes 180 SMEs evenly selected from three industries: biotechnology, software and
11 clothing (60 firms in each industry). The sampled firms employ less than 250 employees and are
12 equally distributed between three developed economies and three emerging economies. All were
13 engaged in foreign business.
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16 We find that there is a direct relationship between levels of foreign market involvement and
17 internationalization outcomes. Entry-mode learning potential moderates the relationship between
18 intensity of foreign market involvement and internationalization outcomes but not the relationship
19 between geographic spread and internationalization outcomes.
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21 CUST_RESEARCH_LIMITATIONS/IMPLICATIONS__(LIMIT_100_WORDS) :No data available.
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23 This study reveals several new insights that help explain the pathway through which foreign market
24 involvement activities are translated into internationalization outcomes.
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26 CUST_SOCIAL_IMPLICATIONS_(LIMIT_100_WORDS) :No data available.
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28 We conclude that the positive relationship between intensity of foreign market involvement and
29 internationalization outcomes is strengthened when SMEs also use an entry mode with a higher
30 learning potential than exporting only.
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Foreign market involvement, entry-mode learning potential and SME internationalization outcomes

Abstract

Purpose: Drawing on an organizational learning perspective, this paper examines the effect of levels of foreign market involvement (intensity and geographic spread) on internationalization outcomes recognizing that the moderating influence of entry-mode learning potential is not well-documented in the literature on small and medium-sized enterprises (SMEs).

Methodology: Our sample includes 180 SMEs evenly selected from three industries: biotechnology, software and clothing (60 firms in each industry). The sampled firms employ less than 250 employees and are equally distributed between three developed economies and three emerging economies. All were engaged in foreign business.

Findings: We find that there is a direct relationship between levels of foreign market involvement and internationalization outcomes. Entry-mode learning potential moderates the relationship between intensity of foreign market involvement and internationalization outcomes but not the relationship between geographic spread and internationalization outcomes.

Originality: We conclude that the positive relationship between intensity of foreign market involvement and internationalization outcomes is strengthened when SMEs also use an entry mode with a higher learning potential than exporting only.

Practical Implications: This study reveals several new insights that help explain the pathway through which foreign market involvement activities are translated into internationalization outcomes.

Keywords: Internationalization; internationalization outcomes; SMEs; foreign market involvement; learning

1. Introduction

The impact of internationalization on firm performance is one of the four prominent themes of research within the field of international business (IB) scholarship (Seno-Alday, 2010). However, attempts to understand the relationship between internationalization and performance have yielded inconclusive results, with different theoretical perspectives being employed, including the resource-based view, transaction cost theory, organizational learning, and internalization theory (Contractor, 2012; Li, 2007; Miller et al., 2016; Nakos et al., 2019). Studies have reported no significant connection, U-shaped relationships (e.g., Capar and Kotabe, 2003; Lu and Beamish, 2001; Pisani et al., 2020), inverted U-shaped curvilinear relationships (e.g., Chao and Kumar, 2010; Chen et al., 2014; Chiao et al., 2006), 3-stage sigmoid (S)-curve relationships (e.g., Lu and Beamish, 2004), and even M-curve relationships (e.g., Lee, 2013) (see reviews by Purkayastha et al., 2020 and Schmuck et al., 2023). Most of these studies focus on large firms (Younis and Elbanna, 2022). For example, according to Schumuck et al. 2023, only 7% of the studies in their review examine small and medium-sized enterprises (SMEs). This underrepresentation underscores the importance of conducting more research that is specifically tailored to the unique characteristics, challenges, and opportunities faced by SMEs in order to fill this significant gap in the literature.

The lack of consensus regarding the internationalization-performance relationship poses a significant challenge for both researchers seeking to understand its dynamics and businesses aiming to implement effective internationalization strategies (Martin et al., 2022; Zhou et al., 2007). It also reflects the ongoing debate in the IB literature regarding the true benefits of internationalization (Pedersen and Tallman, 2023). Internationalization can introduce additional risks and costs for SMEs due to the liabilities associated with their small size, limited experience,

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3 and unfamiliarity with foreign markets (Lu and Beamish, 2006a). Most scholars concur that the
4 advantages and drawbacks of internationalization vary depending on the context, which
5 underscores the importance of a contextual perspective when examining the relationship between
6 internationalization and performance (Fariborzi et al., 2022; Schwens et al., 2018a; Yildiz et al.,
7 2022). By considering the unique circumstances and conditions of each firm and market, a deeper
8 understanding of the relationship can be attained (Child et al., 2022; O'higgins et al., 2022).
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Toward this end, previous studies have examined the contextual and contingent effects of a
firm's resources and capabilities, ownership and organizational structures, as well as the
environmental characteristics and institutions of both the home and host countries (see reviews by
Purkayastha et al., 2020 and Schmuck et al., 2023). However, further studies are needed to
investigate the moderators of the internationalization-performance relationship, particularly those
that can provide insights into the underlying mechanisms. For instance, exploring the role of
market entry mode can help elucidate how the intensity and geographic spread of international
activities influence internationalization outcomes. Additional research in this area can contribute
to a deeper understanding of the complex dynamics at play (Schwens et al., 2018a). Currently,
there is a lack of clarity regarding the interaction between levels of internationalization (hereafter,
foreign market involvement), and the learning potential of entry modes in influencing
internationalization outcomes (see for example, Martín et al., 2022). Therefore, more studies are
required to examine and elucidate this relationship.

For example, firms may be able to maximize their learning potential and opportunities in
foreign markets by going for foreign direct investment (FDI) modes (Hollender *et al.*, 2017; Kano,
2023; Schwens et al., 2018b). The rationale is that when firms use higher commitment and control
entry modes, such as joint ventures and wholly-owned subsidiaries, they are likely to allocate more

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3 resources for their international markets. Moreover, these entry modes are likely to be
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5 accompanied by a direct involvement of focal firms' personnel in managing overseas operations
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7 and/or intensive communication with staff **and business partners** in the foreign markets concerned.
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10 This creates higher levels of entry-mode learning potential which can enhance firm's overall
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12 internationalization outcomes (Martín et al., 2022).
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15 SMEs differ from large organizations in several aspects. For example, SMEs tend to face
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17 higher levels of environmental uncertainty compared to their larger counterparts. Additionally,
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19 they often have limited resources available to support their expansion into foreign markets and
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21 differ in **their competitive behavior** (Chen and Hambrick, 1995; Elbanna et al., 2020). Therefore,
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23 the application of performance measures used for large organizations to SMEs performance
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25 assessment **may be problematic**. Considering the bias toward multinational enterprises (MNEs)
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27 and the inconclusive findings of previous studies, there is a need for further research on the link of
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29 internationalization-performance in the context of SMEs which is the focus of the study reported
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31 here. This study aims to address this **need** by using a sample of 180 SMEs from both developed
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33 and emerging economies to examine the extent to which SMEs' internationalization outcomes is
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35 determined by their levels of foreign market involvement taking into consideration the moderating
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37 impact of entry-mode learning potential. We define internationalization outcomes as *the*
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39 *consequences or accomplishments of firm internationalization activities*. We assume that
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41 internationalization outcomes might be influenced by the learning experience that firms
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43 accumulate from the intensity and geographic spread of their international operations using
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45 different types of entry mode. If **their** internationalization activities do reflect relevant entry-mode
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47 learning potential, then this should have a positive effect on internationalization outcomes.
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54 Taking into account the aforementioned factors, this study contributes to the existing
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3 literature on SME internationalization and performance in several ways. First, we respond to a call
4 for more research to study how SMEs benefit from internationalization (Vanninen et al. 2022) and
5 clarify how internationalization affects SME performance (Fariborzi et al., 2022; Martín et al.,
6 2022; Paul et al., 2017; Ribau et al., 2018) and specifically “the international performance attained
7 with internationalization (Morais and Ferreira, 2020). Second, we build on the ongoing interest in
8 using organizational learning as a theoretical lens to study the complex relationship between SME
9 internationalization strategy and performance (Kang et al., 2022; Sadeghi et al., 2023). The focus
10 on the moderating effect of entry-mode learning potential, which has been underexplored in the
11 current SME internationalization literature (Brouthers et al., 2022; Dimitratos et al., 2018;
12 Schwens et al., 2018a), allows us to present novel insights on the mechanism that reinforces
13 international performance. Our study shows that increasing the intensity of foreign market
14 involvement drives positive internationalization outcomes when coupled with equity entry modes
15 because such activities offer SMEs new knowledge accumulation and value co-creation
16 opportunities with business partners and customers in foreign markets (Buccieri and Park, 2022).
17 Third, in contrast to most SME entry mode research (e.g. Amankwah-Amoah *et al.* 2022) with its
18 singular focus on a specific entry mode choice (exporting vs FDI), this paper contributes to this
19 stream of literature by considering the multi-mode entry strategy practices of SMEs and the
20 influence of their learning potential on the link between the levels of foreign market involvement
21 and internationalization outcomes. Our study highlights the importance of considering a mix of
22 internationalization strategies (breadth, depth and entry modes) and their combined implications
23 on SME performance.

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52 The paper proceeds as follows. Section 2 develops a theoretical framework and hypotheses.
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54 Section 3 discusses the methodology employed to test the proposed model and constituent
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3 hypotheses. The results and findings are presented in Section 4, and Section 5 is devoted to their
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5 discussion and a conclusion.
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10 **2. Theoretical perspective and hypothesis development**

11 **2.1 Organizational learning perspective**

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13 The organizational learning perspective explains the potential benefits of knowledge acquisition
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15 and transfer through an increase in international activity (García-García *et al.*, 2017; Kang *et al.*,
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17 2022; Lee *et al.* 2020; Ruigrok and Wagner, 2003; Schmuck *et al.* 2023). Organizational learning
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19 is defined as “*the process of assimilating new knowledge into the organization’s knowledge base*”
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21 (Autio *et al.*, 2000, p. 911), which then leads to an improvement in competitive performance. The
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23 initial (Johanson and Vahlne, 1977) and updated (Johanson and Vahlne, 2009) Uppsala models
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25 both view international expansion as a learning process in which internationalizing firms widen
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27 their knowledge base through learning about host-country context and exchanges with business
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29 network partners from each foreign market-entry experience. For SMEs, some may
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31 internationalize early (Li, 2022) through congenital learning (i.e. prior international experience
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33 and knowledge of founders or senior management teams), but as they continue to internationalize,
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35 entry-mode learning potential becomes significantly important for post-entry growth and survival
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37 (Pellegrino and McNaughton, 2017; Puthusserry *et al.* 2020). Collaboration and interactions with
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39 network partners can constitute valuable inputs to learning (i.e. vicarious learning) and help
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41 especially young firms to achieve more sales in foreign markets (Bruneel *et al.* 2010). The diversity
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43 of international activities (including the spread captured by the dispersion of a firm’s business
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45 across different geographic markets as well as the diversity of entry modes used by the firm in
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47 international operations) and the intensity of international activities are important sources of
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3 learning in the course of internationalization (Casillas and Moreno-Menéndez, 2014; Schwens *et*
4 *al.*, 2018b; Zahra *et al.* 2000). SMEs that actively explore new business opportunities in foreign
5 markets and commit appropriate resources are said to be “better in identifying foreign market
6 opportunities, risks and costs associated with international business and the solutions to the
7 potential threats and eventually achieve superior performance” (Bagheri *et al.* 2019: 135).
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15 The applicability to SMEs of studies exploring the relationship between internationalization
16 activities and their outcomes in large well-established firms has been questioned, since SMEs
17 differ significantly in terms of ownership, organizational structure, management style and
18 resources (Knight and Liesch, 2016; McDougall and Oviatt, 1996). For example, SMEs with
19 limited resources incur liabilities of foreignness (Hymer, 1976) and newness (Kostova and Zaheer,
20 1999) when they enter a new market. However, internationalization is an important growth strategy
21 for SMEs as it helps them increase their customer base, achieve higher sales volume (Lu and
22 Beamish, 2006b), and allows them to exploit tangible and intangible firm-specific advantages in
23 new markets (Delios and Beamish, 1999). Higher sales and increased production reduce input
24 costs and enable SMEs to realize economies of scale in manufacturing and economies of scope in
25 business functions like R&D, marketing, and distribution system (Hsu *et al.*, 2013). Enhanced
26 levels of production and sales increase profitability as well (Chao and Kumar, 2010). The
27 additional volume gained from foreign markets is particularly important if volume gains are
28 constrained in the domestic market due to saturation or other issues such as institutional barriers
29 and well-entrenched competitors (Boisot and Meyer, 2008). Moreover, internationalization is
30 likely to encourage SMEs to innovate in terms of adopting new technology and upgrading product
31 features to meet international standards (Love and Roper, 2015).
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54 Although SMEs suffer from resource constraints and limited international experience which
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3 may hamper their ability to internationalize and succeed in overseas markets (Lu and Beamish,
4 2001; Oviatt and McDougall, 1994; Pangarkar, 2008), compared to larger firms (Elbanna *et al.*
5 2020) they are more flexible and may be able to concentrate on a similar niche across different
6 overseas markets (Kogut, 1985; Pangarkar, 2008). Furthermore, SMEs that succeed in servicing
7 large MNEs are more likely to enhance their overall reputation and attract overseas partnerships
8 and collaborations partly because of the learning accruing from the relationship with leading firms.
9 For example, Billou *et al.* (2002) found out that a Swedish e-consulting firm was able to attract
10 high profile firms such as Sony and HP because of its ability to provide services across various
11 countries (Pangarkar, 2008). These considerations indicate that the resource-based perspective
12 commonly applied to SMEs' internationalization (e.g., Kazlauskaitė *et al.*, 2015; Westhead *et al.*,
13 2001), needs to be complemented by one that draws attention to the achievement of effective
14 internationalization through a process of learning (Laufs and Schwens, 2014).
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31 According to an organizational learning perspective, internationalization activities should
32 provide SMEs with improved knowledge of target markets which in many cases is essential for
33 their success. In addition, they are likely to inform the firm about the knowledge and resources
34 that are required for successfully operating in foreign markets. In other words, in the context of
35 internationalization, SMEs acquire relevant capabilities and knowledge about markets primarily
36 through experience; knowledge that cannot be developed internally (Nakos *et al.*, 2019). This
37 expertise is accumulated gradually over time as the firm expands into foreign markets (Martín *et*
38 *al.*, 2022) and can enhance internationalization outcomes. Thus, the ability of SMEs to learn has
39 been identified as one of the most important mechanisms influencing subsequent
40 internationalization and reaping better performance benefits (Oehme and Bort, 2015; Schwens *et*
41 *al.*, 2018b). Greater resource commitment through equity-based market entry modes can enhance
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3 learning as they allow firms to directly operate and experiment in foreign markets (Kano, 2023).

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5 As shown in Figure 1, the above discussion allows for two main possibilities:
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7 that (1) foreign market involvement (intensity and geographic spread) has a direct effect on
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9 internationalization outcomes, and (2) entry-mode learning potential moderates the relationship
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11 between levels of foreign market involvement and internationalization outcomes. The second
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13 possibility means that levels of foreign market involvement will be transformed into superior
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15 internationalization outcomes when SME managers leverage the learning opportunities arising
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17 from advanced modes of entry (beyond exporting) which can help better cater the needs and create
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19 value for clients/customers in foreign markets.
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24 **Insert Figure 1 about here**
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27 **2.2 Foreign market involvement and internationalization outcomes**

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29 Internationalization can be used strategically by SMEs to accumulate entry-mode learning
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31 potential from exploring foreign markets and to enhance their innovativeness and competitiveness
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33 (Autio, 2017; Bucciari and Park, 2022; Genc *et al.* 2019; Sadeghi *et al.*, 2023). Both intensity and
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35 geographic spread of foreign market involvement (also referred to as international intensity and
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37 breadth) are the most frequently examined internationalization patterns in the literature (Cerrato
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39 and Fernhaber, 2018; Schwens *et al.*, 2018a). Expanding business beyond domestic markets
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41 **exposes** firms to new information about different customer needs, different institutions and
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43 networks, and technological knowledge not available in the home market (Golovko and Valentini,
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45 2011; Pedersen and Tallman, 2023; Rubino *et al.*, 2018). Increasing the intensity of foreign market
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47 involvement (percentage of sales from foreign markets) provides richer opportunities for SMEs to
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49 exploit scale and scope economies. These benefits should in turn contribute to the performance of
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51 internationalizing SMEs. Brouthers *et al.* (2009), for instance, found that SMEs with high levels
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3 of internationalization tend to perform better as they accumulate knowledge in foreign markets
4 and subsequently develop a competitive advantage. Through increasing international market
5 involvement, SMEs learn to create competitive and innovative products/services or adapt existing
6 ones to cater the needs of foreign clients/customers (Mansion and Bausch, 2020). SMEs may also
7 seek to derive competitive advantage by commercializing their new products or services in
8 multiple markets, thus increasing the expected returns to their innovation (D'Angelo, Majocchi,
9 Zucchella and Buck, 2013). Moreover, network relationships with customers, suppliers or
10 government agencies at home or abroad can provide SMEs with learning benefits, such as
11 identifying new international market opportunities (Martín et al., 2022; Martineau and Pastoriza,
12 2016). Blomstermo *et al.* (2004) found that network experiential knowledge, i.e. knowledge
13 acquired from network relationships, is of a great importance to firm internationalization because
14 it helps to mitigate the liability of foreignness.
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31 The learning opportunities which internationalization provides to SMEs (Ghoshal, 1987;
32 Grant, 1987) can provide a head-start in accumulating knowledge about how to exploit capabilities
33 dynamically for entering multiple markets (Weerawardena *et al.*, 2007). The breadth of
34 internationalization described by the geographic spread of foreign market involvement of their
35 international sales can also provide firms with opportunities for learning and accumulating
36 knowledge from diverse markets and environments (e.g. the need to satisfy different customer
37 demands and to compete with different competitors in different foreign markets) (Fariborzi et al.,
38 2022; Pangarkar, 2008). These learning opportunities can then be leveraged to reduce perceived
39 risks and costs regarding international operations and contribute to the performance and
40 competitiveness of internationalizing SMEs (Hilmersson, 2014). Furthermore, operations on an
41 international scale may lead to increases in market power (Kim *et al.*, 1993). Similarly,
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3 diversification of revenues may moderate risks and contribute to better performance of the
4 company as a whole. Hence, international diversity offers a firm an opportunity to benefit from
5 more extensive networks and information they provide, which increases firm's chances for
6 survival as well as increased performance (Zahra *et al.*, 2000).
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12 According to organizational learning theory, different patterns of internationalization in
13 terms of intensity and geographic spread may impact performance through the learning that occurs
14 (Cerrato and Fernhaber, 2018). An SME's involvement in internationalization activities can
15 enhance its ability to obtain positive outcomes such as enhancing its productivity, overall
16 competitiveness and profitability of sales, as well as contributing access to new markets, and
17 stimulating innovation and business development. While SMEs encounter challenges and
18 constraints during internationalization, as outlined by Loth and Parks (2002), those that expand
19 more extensively in terms of intensity and geographic scope often achieve superior
20 internationalization results. In other words, exposure to a greater level of international involvement
21 facilitates experiential learning by accumulating knowledge absorbed in foreign markets, which in
22 turn boots the effect of "learning-by-exporting" on internationalization outcomes (Ipek 2019).
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24 Formally, we posit that:
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40 **Hypothesis 1a:** SMEs having a greater level of intensity of foreign market involvement
41 will achieve better internationalization outcomes.
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44 **Hypothesis 1b:** SMEs having a greater level of geographic spread of foreign market
45 involvement will achieve better internationalization outcomes.
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2.3 The moderating effect of entry-mode learning potential

Although some previous studies (e.g. Dikova *et al.* 2016) suggest that internationalization contributes positively to firm performance, internationalization per se may not necessarily translate directly to superior performance among SMEs, especially, when firms over-internationalize and stretch their resources too far (Buigues *et al.*, 2015). This is because there are high costs and risks related to internationalization activities such as those associated with managing operations across multiple countries with high institutional, cultural and geographic distance, and the costs associated with learning or acquiring new knowledge in foreign markets (Eduardsen and Marinova, 2016; Pedersen and Tallman, 2023; Seno-Alday, 2011). This issue is generally more acute for SMEs due to their liability of smallness and the lack of organizational slack compared to larger organizations (Fadol, 2015; Lu and Beamish, 2001; Mun, 2019). Additionally, there are numerous internal constraints and challenges facing SMEs such as shortage of managerial expertise and competence, lack of information, internal and external difficulties in communication and coordination, and finally scale and resource disadvantages compared to larger global rivals (Karagozoglou and Lindell, 1998; Qian, 2002; Yip *et al.*, 2000). Such constraints hinder the ability of SMEs to compete in international markets and adversely influence the likelihood of their long-term success in these markets.

It is argued that the knowledge gained from entering foreign markets positively influences the international performance of SMEs (Martín *et al.*, 2022). This can be attributed to the wider learning opportunities from international activities, which enhance the firms' knowledge base (Nave & Ferreira, 2023). The type of entry mode used by SMEs will also influence the intensity of learning (Bruneel *et al.*, 2010; Buccieri and Park, 2022). Exporting is the most frequently used mode of entry by internationalizing SMEs (Paul *et al.* 2017), but it involves only limited interaction

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3 with foreign markets. In contrast, having joint ventures or wholly-owned subsidiaries requires
4 managing day to day business operations and relationships with local stakeholders (Kano, 2023).
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6 Using the wrong entry mode can negatively influence firm performance in the process of
7 internationalization (Lu and Beamish, 2001). This raises the question of how SMEs can pursue
8 different internationalization patterns (intensity and geographic spread) and learn from foreign
9 markets using different entry modes to the benefit of their internationalization outcomes.

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11 SMEs seldom have the required track record to overcome the liability of foreignness and
12 quickly establish their business in foreign markets, but they can leverage or rent the reputation of
13 partner firms (Lu and Beamish, 2006b; Singh and Gaur, 2013). This strategy has been found in
14 young SMEs that operate as micro-multinationals companies in using high-commitment foreign
15 market entry modes from inception to work geographically close to international clients and
16 partners (Vanninen *et al.*, 2022; Prashantham and Birkinshaw, 2020). As opposed to exporting
17 only, through ongoing communication and coordination with local alliance partners, SMEs can
18 obtain relevant foreign market information to upgrade and adapt their knowledge base, which can
19 lead to better international performance (Martín *et al.*, 2022). Brouthers *et al.* (2015) found that
20 SMEs participating in research or marketing alliances tend to perform better in foreign markets.

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22 Using different types of entry mode reflects different levels of learning intensity that SMEs
23 experience abroad (Buccieri and Park, 2022). It is important to take into account the nature of
24 international involvement (e.g., which entry mode might best fit to capture the intensity and
25 geographic spread of internationalization) when studying the internationalization-performance
26 relationship (Yildiz, 2013). Following the logic of organizational learning, we argue that SMEs
27 will also use other entry modes, such as licensing/franchising, joint ventures or establishing
28 wholly-owned subsidiaries, in order to gain more entry-mode learning potential about how to
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3 conduct and control cross-border activities and manage international complexity as they continue
4 to expand business to foreign markets. The use of entry modes such as licensing or joint ventures,
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6 can enhance a firm's capacity to acquire more relevant information and knowledge which can then
7
8 be developed and integrated into the firm's knowledge base so that it supports the firm's
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10 international deepening strategy. SMEs can increase the proportion of international sales through
11
12 a concentrated regional market strategy (Hsieh *et al.* 2019). Nevertheless, the use of a high
13
14 resource-commitment entry mode might have an undesirable effect for SMEs that are pursuing a
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16 broad regional market strategy. This is due to the increasing challenge of managing learning in
17
18 very diverse geographic regions and SME resources could be overstretched to the extent that firm
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20 performance may be compromised. Additionally, there might be limits to entry-mode learning
21
22 potential because the internationalization knowledge developed might be regional-specific and
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24 cannot be easily transferred to new markets outside the geographic region(s) where SMEs currently
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26 operate (Schwens *et al.*, 2018b). Hence:
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33 **Hypothesis 2a:** High-level entry-mode learning potential will exert a positive moderating
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35 effect on the relationship between intensity of foreign market involvement and
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37 internationalization outcomes.
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40 **Hypothesis 2b:** High-level entry-mode learning potential will exert a negative moderating
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42 effect on the relationship between geographic spread of foreign market involvement and
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44 internationalization outcomes.
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3. Method

3.1 Sample

Our non-probability purposeful sample includes 180 SMEs evenly selected from three industries: biotechnology, software and clothing (60 firms in each industry). The three industries were selected based on Bell et al.'s (2004) typology that classifies SMEs into traditional, knowledge-intensive, and knowledge-based sectors. Clothing represents a traditional industry where advanced knowledge is not integral to the products offered in the market. On the other hand, software and biotech firms belong to the knowledge-intensive and knowledge-based categories, respectively. Software companies typically utilize advanced knowledge to create innovative offerings, while biotech firms are often pioneers in niche markets, incorporating new knowledge into their products. 334 candidate firms were contacted. The firms that agreed to participate were included in the sample until the desired sample size of 180 SMEs was reached, resulting in a response rate of 54%. The sampled firms employ less than 250 employees and are equally distributed between three developed economies (Denmark, Poland, UK) and three emerging economies (China, India, and three countries from the Arab Middle East, namely, Egypt, Jordan and the UAE which are treated as one economic area). All of the sampled firms were involved in international business and generated revenue from overseas markets. On average, 55 percent of their sales revenues came from abroad, with no statistically significant variation on this measure between the three industries or between developed and emerging economies.

3.2 Data collection

The data derive from largely open-ended interviews with principal decision-makers on internationalization. The interviews, which were digitally recorded and transcribed, lasted for between one and two hours. On several occasions, visiting the sampled firms provided an enriched

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3 understanding of their activities. The interviewers who were bilingual in English and local
4 languages, specialists in the international business field and quite familiar with the study settings,
5 conducted all interviews in the language which interviewees preferred (cf. Welch and Piekkari,
6 2006; Younis et al., 2022).
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11 To ensure consistency and reliability in the multi-country and multi-case research, the interview
12 schedule was standardized. This served as a guide for the researchers, promoting stability in data
13 collection as a means to enhance replication and data collection reliability (Miles et al., 2014;
14 Silverman, 2009). Several procedures were followed with a view to developing and maintaining
15 a common understanding within the research team of the meaning of questions and their responses.
16 These include four face-to-face meetings of all project members (three days each); various
17 personal meetings between sub-groups of project members; and one author's participation in
18 several interviews in four countries other than his own. In addition, 32 regular Skype conference
19 calls among project members (at least one hour each and all of which were minuted) played a
20 crucial role. There was also regular communication by email at least weekly.
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36 **3.3 Data coding**

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38 Each interview was electronically recorded, transcribed verbatim and translated into English where
39 necessary. This yielded 2855 pages of single-spaced transcripts. To ensure the comparability of
40 research findings, we followed Miles *et al.*'s (2014) suggestion to develop a coding scheme. Some
41 provisional coding categories were derived based on theoretically defined concepts identified in
42 previous studies (i.e., a priori coding) while other categories were created as a result of an
43 open/emerging coding process. Active communication within the international team was necessary
44 for exploring and discussing the coding of those data open to alternative interpretations. To
45 facilitate this process and achieve inter-coder reliability (Boyatzis, 1998; Yin, 2003), each project
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3 carried out the cross coding of six cases from one of the other countries and any differences from
4 their initial coding were acknowledged and addressed. Inter-rater agreement on scores for
5 individual teams was 79.7%. The above process took six months of discussions among team
6 members and led to consensus in all instances of initially different interpretations. We then used
7 the refined coding scheme to code all transcripts before entering data into an SPSS data file.
8 Frequency runs and tabulations were used to reduce validity concerns and further check coding
9 anomalies.

20 **3.4 Measures**

21
22 The process of translating the qualitative data into quantitative measures was facilitated by the
23 refined coding scheme mentioned above. The appendix provides a list of variables that were
24 included in the study, along with their operationalization methods. A priori codes were applied to
25 the data. Given the criticism of using the percentage of foreign sales to total sales as the only
26 measure of internationalization level because it fails to capture other aspects of internationalization
27 such as the geographic scope of foreign sales, two dimensions of internationalization level are
28 considered in this paper. These are the intensity of and the geographic spread of foreign market
29 involvement. Intensity of foreign market involvement (intensity of internationalization) was
30 measured as a percentage of overseas sales to total sales of SMEs (Onkelinx *et al.*, 2016). The
31 geographic spread of foreign market involvement (breadth of internationalization) is the total of
32 regions in which each firm conducts foreign business; or in other words, the dispersion of sales in
33 terms of geographic regions (Hsu *et al.*, 2013).

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50 As argued by Nakos *et al.* (2019), the literature shows that perceptual and objective
51 measures of international performance are highly correlated (Dess and Robinson, 1984). Given
52 this and referring to relevant research (Cadogan *et al.*, 2002; Dimitratos *et al.*, 2011),
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3 internationalization performance was measured in the form of internationalization outcomes
4 according to different types of performance indicators: financial and non-financial, market and
5 non-market, internal and external. Hence, our respondents were asked to assess on several
6 dimensions the extent to which their SME's involvement in foreign markets had led to the
7 following outcomes for the firm: 1) increased productivity/efficiency; 2) increased overall
8 competitiveness; 3) increase in profitability of sales; 4) better access to new markets; 5)
9 contribution to innovation/learning; 6) contribution to business development.

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19 Considering our definition of competitive performance as how a firm performs in comparison
20 to similar firms (Elbanna and Child, 2007), competitive performance was subjectively measured
21 by the respondents' assessment of overall competitive performance during the last two years in
22 comparison to direct competitors similar in size and scope (Khatri and Ng, 2000). We focused on
23 subjective overall performance because the use of quantitative measures, such as return on
24 equity/assets, may be too narrow to capture the full reality of SME performance (Goerzen and
25 Beamish, 2003) and they usually understate the learning benefit of internationalization (Pangarkar,
26 2008). Moreover, accounting-based measures can also be less reliable and difficult to obtain from
27 emerging market firms (Filatotchev *et al.*, 2009).

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40 Entry-mode learning potential was measured by the range of entry modes which SMEs use
41 for internationalization. The knowledge accumulated from a wider range of experience in modes
42 of foreign market entry will be higher (Casillas and Moreno-Menéndez, 2014). SMEs using
43 additional higher-level entry modes such as joint ventures or wholly-owned subsidiaries (WOS)
44 tend to learn more about how to manage the complexity of foreign market expansion, in
45 comparison to those using exporting only. Accordingly, we coded entry-mode learning potential
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3 on a scale from 1 (where SMEs used exporting only) to 4 (where SMEs have also established WOS)
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5 due to increasing levels of foreign market commitment and experiences (Schwens *et al.*, 2018b).
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8 We controlled for the effect of seven variables which previous research suggests can influence
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10 internationalization outcomes of SMEs. These are a firm's international experience along with its
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12 size, age and competitive performance (Dimitratos *et al.*, 2011; Elbanna *et al.*, 2020; Li and Lo,
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14 2017; Zhou, 2007), industry type (Bell *et al.*, 2004; Bell *et al.*, 2003; Zhou, 2007), level of home
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16 economy development (Ciravegna *et al.*, 2014; Li, 2022), institutional network spread (Oparaocha,
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18 2015; Ramsden and Bennett, 2005), level of competition in foreign markets and competitive
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20 strength in innovation (measures developed for this study). The operationalization of these controls
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22 is shown in the Appendix. Since the sampled firms came from three industries chosen to
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24 correspond to a threefold distinction between traditional, knowledge-intensive and knowledge-
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26 based SMEs (Bell *et al.* 2003), industry was categorized in terms of the extent that advanced
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28 knowledge plays in their activities.
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34 **3.5 Bias and memory failure**

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36 Potential concerns in this study are the possibility of a common method bias and memory failure.
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38 In order to lessen these concerns, we (1) collected data from principal decision-makers on
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40 internationalization in each firm; (2) conducted conversations with other managers when it was
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42 possible and conducted our interviews on site to better understand the firm's activities; (3) assured
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44 respondents that their responses would be used only for research purposes; (4) asked respondents
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46 to describe what precisely occurs, not what they think should happen; (5) used a diverse set of
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48 measures, including both factual and perceptual measures; (6) reduced the memory recall problem
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50 as most questions were about the firm's current situation and activities; and (7) explained the worth
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52 of this study and offered respondents the opportunity to receive a summary of its results to enhance
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3 their understanding of internationalization activities in all sampled countries. Besides the above
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5 procedures for ex ante interview design choices, we performed ex post actions to further mitigate
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7 the bias concern by undertaking cross coding of 36 cases to reach consensus on our coding as
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9 mentioned above.
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14 **4. Results**

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16 Table 1 shows the descriptive statistics, namely, means, standard deviations and correlations of
17
18 the study variables. We used the Pearson's correlation coefficient to estimate the strength and
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20 direction of associations between continuous variables, the Phi coefficient to estimate associations
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22 between dichotomous/binary variables and the point-biserial correlation for the association
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24 between one continuous variable and one dichotomous/binary variable (Field, 2013). All
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26 correlation coefficients were well below 0.70; thus, multicollinearity problems were not indicated
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28 (Field, 2013). The Cronbach's alpha reliability coefficient for internationalization outcomes is 0.87
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30 suggesting a satisfactory degree of internal consistency.
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35 **Insert Table 1 about here**

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37 Table 2 displays the regression models that were used to examine internationalization
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39 outcomes. In order to test the study hypotheses, the control variables were initially included in the
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41 equation as the first step (Model 1 in Table 2). Subsequently, the intensity of foreign market
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43 involvement and the geographic spread of foreign market involvement were added to the model
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45 (Model 2 in Table 2), followed by the inclusion of the interaction terms (Models 3 and 4 in Table
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47 2). The regression analysis of internationalization outcomes with the control variables (Model 1 in
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49 Table 2) reveals that these variables account for a significant portion, 17% ($p < 0.001$), of the
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51 variance in internationalization outcomes.
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56 Our first hypothesis suggests that greater levels of foreign market involvement (namely,
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3 intensity and geographic spread of foreign market involvement) will achieve better
4 internationalization outcomes. Incorporating the two internationalization variables (intensity and
5 geographic spread) into the equation added almost 6 percent ($p < 0.01$) to the explained variance
6 of internationalization outcomes. Both variables, along with the control variables, explain 23% (p
7 < 0.01) of the variance in internationalization outcomes. More specifically, intensity of foreign
8 market involvement ($\beta = 0.21$, $p < 0.01$) and geographic spread of foreign market involvement
9 ($\beta = 0.17$, $p < 0.05$) are significant predictors of internationalization outcomes (Model 2 in Table
10 2) thereby supporting Hypotheses 1a and 1b.

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12 To examine the second hypothesis on the moderating effects of entry-mode learning potential
13 on the relationship between intensity and spread of foreign market involvement and
14 internationalization outcomes, we used hierarchical moderated regression analysis procedures
15 (Darrow and Kahl, 1982; Hair *et al.*, 1995). Prior to the creation of the interaction terms, we mean-
16 centered the independent variable (i.e., intensity and spread of foreign market involvement) and
17 the moderator (i.e., entry-mode learning potential) based on the recommendation of Aiken and
18 West (1991).

19
20 In the initial step of the analysis, the main effects of the two foreign market involvement
21 dimensions and the control variables were simultaneously included as a single block in the
22 equation (Model 2 in Table 2). This served as the base model for the analysis. The second step
23 involved two further models that each entered interaction terms, which were calculated as the
24 product of each of foreign market involvement dimensions and entry-mode learning potential
25 (Models 3 and 4 in Table 2). In each case, we examined the change in R^2 between the restricted
26 model (main effects) and the full model (main and interaction effects). If the interaction term of a
27 particular variable produced a significant ΔR^2 (i.e., if it significantly increased the amount of
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3 variance explained in the dependent variable), then this variable was considered to be a moderator
4 of the relationship between the foreign market involvement dimensions and internationalization
5 outcomes. As shown in Models 3 in Table 2, the interaction between intensity of foreign market
6 involvement and entry-mode learning potential significantly contributed to the base model ($\Delta R^2 =$
7 $0.02, p < 0.05; \beta = 0.15, p < 0.05$) which provides support for Hypothesis 2a; while the interaction
8 between geographic spread of foreign market involvement and entry-mode learning potential did
9 not produce a statistically significant change in R^2 ($\Delta R^2 = 0.01, n.s.; \beta = 0.11, n.s.$) which suggest
10 that Hypothesis 2b is not supported.
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22 To gain a deeper understanding of the moderating effects related to H2a, additional analysis
23 was conducted on a sub-sample guided by relevant literature (Brouthers et al., 2000; Elbanna and
24 Child, 2007; Goll and Rasheed, 1997). This analysis specifically focused on the intensity of foreign
25 market involvement, as its interaction term showed significant differences between the restricted
26 and full models. In this analysis, the overall sample was split at the median of entry-mode learning
27 potential into low- and high- entry-mode learning potential groups. Then a subsequent correlation
28 analysis was performed for the relationship between intensity of foreign market involvement and
29 internationalization outcomes in both groups. The results of this analysis show that the relationship
30 between intensity of foreign market involvement and internationalization outcomes was positive,
31 but stronger for high entry-mode learning potential ($r = 0.49, p < 0.001$) than for low entry-mode
32 learning potential ($r = 0.18, p < 0.10$). Thus, Hypothesis 2a is further supported.
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5. Discussion

5.1 Theoretical implications

We recognize that theorizing about context and SME internationalization is a challenging task due to both the inherent complexity of the subject and the multifaceted perspectives brought to bear on it (Child et al., 2022). In this regard, although the relationship between internationalization and performance has been a focal point in IB research for over fifty years, there remains a lack of consensus on its exact nature. In addition, a recent review highlighted that there has been minimal advancement in broadening entry mode scholarship (Zapkau et al., 2018). This has led scholars to wonder if the literature is merely echoing previous findings (Brouthers et al., 2022). In our effort to bridge this gap, we have integrated entry-mode learning potential (emphasizing the use of additional entry modes with higher learning potential beyond just exporting) into the internationalization–outcomes relationship. This integration allows for a clearer understanding of this complex relationship.

As hypothesized, the results showed that the level of foreign market involvement (both intensity and geographic spread) positively influences internationalization outcomes. Our results also report a moderating impact of entry-mode learning potential on the relationship between intensity of foreign market involvement and internationalization outcomes.

This finding suggests that the type of entry mode can enhance overall internationalization outcomes in several ways, one of them being through fostering a positive feedback into organizational learning. Moreover, this study lends empirical evidence to organizational learning theory by providing a plausible rationale for how firms gain from internationalization, not only in a direct manner but also considering the role of entry-mode learning potential in this process. Drawing on Organizational Learning Theory (Huber, 1991; Levitt & March, 1988), our results

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3 imply an interesting dynamic in how firms internationalize. Firms with higher levels of foreign
4 market involvement, both in intensity and geographic spread, tend to achieve better
5 internationalization outcomes. This is aligned with the view that organizations learn by doing,
6 implying that more foreign market involvement provides greater experiential learning
7 opportunities, hence improving internationalization outcomes (Martín et al., 2022; Johanson &
8 Vahlne, 2009; Nave & Ferreira, 2023).
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12 Interestingly, the moderating effect of entry-mode learning potential was only observed for
13 the intensity of foreign market involvement, but not geographic spread. This suggests that the
14 quality and depth of engagement in a market (intensity) may be more critical for leveraging entry-
15 mode learning potential than the mere breadth of market exposure (geographic spread). This result
16 resonates with the learning perspective of internationalization, which underscores the importance
17 of depth over breadth in experiential learning (Eriksson et al., 2000). However, it is important to
18 note that this does not invalidate the importance of geographic spread in achieving
19 internationalization outcomes. Instead, it highlights the need for firms to focus on the depth of
20 their foreign market involvement and maximizes their learning potential, particularly when
21 employing certain entry modes.
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40 The assumption that an entry-mode learning potential contributes to the positive performance
41 effects of internationalization activities is consistent with the fact that 93 percent of our
42 interviewees said that their experience of doing business abroad influenced how they undertook
43 subsequent internationalization. Their descriptions identified several aspects of learning to
44 internationalize effectively. For example:
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51 There's learning how to set up contracts with them, how to make sure that expectations are
52 there, that's deliverable... how we make our milestones match what we need to do to
53 function as a business, you know, how we can break up what we do into milestones that
54 are suitable for the company. And that's been a learning experience and made us very
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3 cautious about doing things that we're not very confident that we can deliver.
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5 One of the advantages of working internationally already is that we can learn from others'
6 experiences in terms of how they've approached different markets, the contacts that they've
7 got and whether we can leverage those contacts as a potential to jointly market our offering.
8 That's one other advantage we have is we've leveraged Company X's experience and
9 Company Y's experience to create a wealth of experience in terms of international
10 commercialisation.
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15 A particular aspect is learning to recognize and adapt to the cultural specificities of relating to
16 customers in different foreign markets. For example:
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19 [With expanding abroad] comes better understanding. Certain people in certain cultures are
20 more demanding and then certain cultures are more liberal in their understanding in the
21 business. If you were working, for example, with the Germans, it has to be very much as it
22 is. But if you're working with the...Spanish or Italians where the cultures are different, you
23 can sit and discuss things and they are more understanding. Less developed countries are
24 more understanding about their problems than developed countries. So acting as a supplier
25 to those economies gives you a different perspective.
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29 Cultural learning was often linked to learning about how to cope with the institutional features of
30 foreign markets:
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33 The main learning experience I think is just understanding what you have to do to put, say,
34 a subsidiary in place, all the legal stuff you have to go through and the people issues you
35 have to handle along the way.
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38 While another aspect is learning about the quality of customer service that is expected in different
39 foreign markets:
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42 Looking at what the characteristics of sales people, what you need to do to set up proper
43 operations, how you support them, the level of customer care that's required and customer
44 services expected in the different markets differs very much from one country to another.
45 It's sort of things like that really that we've learnt.
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48 To summarize, the benefits of internationalization activities and their effects on
49 internationalization outcomes in the context of SMEs reinforce the view that internationalization
50 per se may not be a sufficient condition for superior performance in certain situations. For example,
51 certain types of internationalization activities such as intensity of foreign market involvement may
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3 need to be accompanied by organizational learning (i.e., entry-mode learning potential). Indeed,
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5 due to the limitation of managerial and financial resources that characterizes most SMEs, highly
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7 aggressive levels of foreign market involvement without the benefit of learning how best to use its
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9 resources may lead to negative effects on internationalization outcomes. It is therefore those SMEs
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11 capable of achieving effective internationalization that can use expansion into foreign markets as
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13 a means to enhancing overall internationalization outcomes. In theoretical terms, the conclusion is
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15 that the combination of intensity of foreign market involvement and organizational learning
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17 perspectives helps to account for better internationalization outcomes.
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22 On the other hand, there was no moderating role for entry-mode learning potential on the
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24 relationship between geographic spread of foreign market involvement and internationalization
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26 outcomes. Our findings suggest that employing entry modes that enhance an SME's involvement
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28 in a limited number of foreign markets facilitates more effective learning about those specific
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30 markets. In contrast, the use of higher learning-potential entry modes that span a broader range of
31
32 diverse markets may hinder the depth of learning achieved. Therefore, focusing on a narrower
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34 spread of foreign markets enables SMEs to acquire more profound and valuable insights about
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36 those specific markets, leading to enhanced learning outcomes. Moreover, high-learning potential
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38 entry modes are more costly than other modes, so an SME's performance should benefit from not
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40 duplicating these costs over a wider range of markets.
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45 Hence, we argue that although the internationalization-performance nexus involves some
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47 moderating effects (Elbanna *et al.*, 2020; Zhou *et al.*, 2007), it is complex relationship and the idea
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49 that entry-mode learning potential systematically or necessarily influences internationalization-
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51 performance relationship requires revision. Moreover, different measures of learning may play
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53 different moderating roles on this relationship.
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5.2 Limitations and future research

There are several limitations of our study which future research should take into account. First, we did not control for several important firm characteristics which may affect both foreign market involvement and internationalization outcomes such as managerial capabilities (Pangarkar, 2008) and availability of resources (Weerawardena *et al.*, 2007). Second, our level of analysis is the firm and we did not consider the influence of individual-level factors such as an entrepreneur's orientation towards internationalization or her/his previous internationalization experience (e.g., Hsieh *et al.*, 2019). Such factors may affect the quality of the learning that an SME obtains from internationalization. Since the internationalization processes and their outcomes may vary from one internationalization initiative to another, variations in the level of analysis may have different implications for managers of SMEs and researchers who need to consider this in their future research initiatives.

A third limitation is related to our cross-sectional data which does not permit us to examine dynamic effects such as inferences about causality among the central variables in our study, namely, foreign market involvement, learning and internationalization outcomes. This opens an opportunity for researchers to study dynamic effects and causality using longitudinal data (e.g., Buigues *et al.*, 2015; Lin *et al.*, 2011). For example, positive internationalization outcomes can potentially serve as an impetus for SMEs to invest in higher levels of internationalization intensity and geographic spread. Furthermore, favorable internationalization outcomes may encourage SMEs to pursue more committed entry modes, rather than opting for lower-risk and lower-cost strategies such as exporting. It is crucial to consider these alternative causal relationships when examining the dynamic interplay between internationalization outcomes and subsequent internationalization decisions.

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3 Forth, our empirical results were derived from a broad set of three industries and six
4 economies. While this sampling frame was controlled for industry type and level of home economy
5 development, it raises the issue of generalizability across contexts. Sixth, our sample may be
6 influenced by single-respondent bias as is typical with most studies that obtain information from
7 a single respondent. On the other hand, the key decision-maker on internationalization was, in
8 most cases, a single individual who was therefore the optimum respondent to our questions. For
9 many SMEs, “organizational learning” actually approximates to an individual’s personal learning.

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19 In addition to addressing the above limitations and despite the fact that there is a vast body of
20 literature on the internationalization activities–outcomes relationship, many unexplored issues
21 remain. For example, our study shows that instead of solely a direct association between intensity
22 of foreign market involvement and internationalization outcomes, entry-mode moderates this
23 relationship. If this is the case, it is important for IB researchers to investigate other factors that
24 may play a moderating role. For example, one potential additional moderator is an SME’s links to
25 social networks (Zhou *et al.*, 2007). Uncovering further moderating factors (see for example,
26 Elbanna *et al.*, 2020) would have practical implications for the increasing numbers of SMEs that
27 are trying to expand abroad and improve their performance. Second, given that learning is critical
28 for entrepreneurs and at the same time is a complex concept (Bruneel *et al.* 2010), future research
29 needs to examine different types of learning and show how they can differently affect the
30 internationalization-performance relationship.

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47 Third, in this study, we examined the hypothesized relationships using perceptual measures
48 for both foreign market involvement and internationalization outcomes; therefore, another
49 potential direction for future research is to replicate our study using accounting measures for both
50 variables such as international sales growth and ROA. This may point to additional learning not
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usually reflected in perceptual measures. Fourth, given the importance of industry context and the argument that in certain instances, it can be more powerful than that of country in shaping the internationalization-performance relationship, future studies can target rather narrower contexts such as the Indian pharmaceutical industry (e.g., Kumar and Singh, 2008). Fifth, considering the Uppsala model in explaining how firms gradually expand internationally through different stages (Buigues *et al.*, 2015; Kumar and Singh, 2008), another avenue for future research is to examine the nature of moderating effects examined in this study at different stages of internationalization. Finally, as argued by Brouthers *et al.* (2022), future research should explore the interplay between experiential learning and non-traditional entry modes, such as innovation outposts and virtual presence.

5.3 Managerial implications

Our study uncovers some new insights that help explain the pathway through which foreign market involvement activities are translated into internationalization outcomes. Such insights have some managerial implications for SMEs managers and owners. It is interesting that we often assume that SMEs prioritize their level of business conducted in foreign markets as the primary factor for improving the internationalization of their firms. However, the findings of this study reveal that other influential factors, such as entry-mode learning potential, can influence this relationship. These results suggest that how SMEs manage their commitment to foreign markets can also influence internationalization outcomes. Therefore, SMEs should focus on enhancing their learning capabilities to ensure that the benefits of internationalization outweigh its costs. In other words, the impact of the level of internationalization on its outcomes depends on the learning opportunities that SMEs gain from their international activities, particularly in terms of entry-mode learning potential. SME managers should also carefully consider the trade-offs between depth and

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3 breadth in the range of their international activities in terms of the learning they can derive.
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6 Additionally, policymakers and organizations, including governmental support agencies for
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8 SME internationalization, should prioritize understanding the effectiveness of SMEs' international
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10 expansion rather than focusing solely on the extent of their internationalization. It is crucial to
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12 recognize that effective internationalization entails fulfilling various requirements, including the
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14 development of appropriate capabilities. Therefore, these organizations, along with SME owners
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16 and managers, must address the task of enhancing their capabilities to facilitate successful
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18 international expansion (Pangarkar, 2008). In today's digital era, new internationalization entry
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20 modes are continually emerging (Brouthers et al., 2022). For managers, it is crucial to recognize
21
22 the value of experiential learning within these new modes to navigate the complexities of digital
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24 internationalization more effectively. Harnessing hands-on experiences in these novel modes can
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26 be a pivotal factor in ensuring successful global expansion and enhancing a firm's adaptability to
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28 varying market conditions. In addition, given the under emphasis on mode combinations and their
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30 shifts in current literature (Putzhammer et al., 2019), managers should consider the strategic value
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32 of exploring and adapting these combinations in their international business strategies.
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38 To conclude, this paper has aimed to examine the central relationship between level of foreign
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40 market involvement and internationalization outcomes of SMEs. It helps to resolve the ambiguity
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42 created by conflicting results on this relationship in previous research, by introducing entry-mode
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44 learning potential as a moderator. Informed by the organizational learning perspective, we point
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46 out that the level of foreign market involvement (intensity/geographical spread) influences
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48 internationalization outcomes and entry-mode learning potential moderates this relationship in the
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50 case of intensity. In other words, it is not only the level of internationalization per se that
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52 contributes to internationalization outcomes but also the process of that internationalization.
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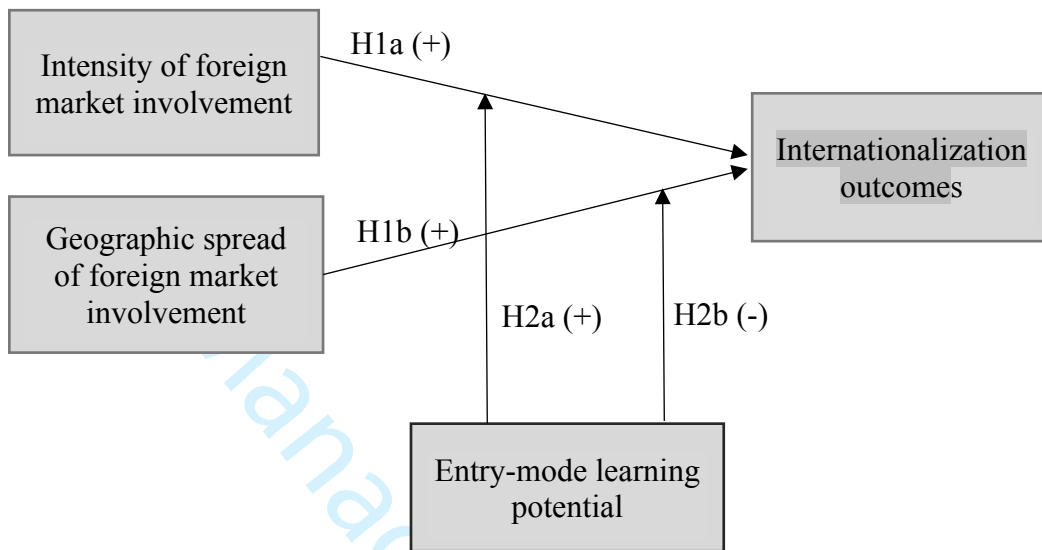
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Appendix: Operationalization of variables

Variable	Operationalization
Intensity of foreign market involvement	% of overseas sales to total sales
Geographic spread of foreign market involvement	Total number of regions in which the firm conducts foreign business. Regions were: Europe, North America, Central and South America, MENA (Middle East and North Africa), Oceania, East and South-East Asia, South Asia, Africa (excluding North Africa)
Internationalization outcomes	The extent to which respondents agree that the SME's involvement in foreign markets has led to the following outcomes: 1) increased firm's productivity/efficiency; 2) increased firm's overall competitiveness; 3) increase in firm's profitability of sales; 4) better access to new markets; 5) contribution to innovation/learning; 6) contribution to business development (1= 'strongly disagree' to 7= 'strongly agree')
Entry-mode learning potential	Based on types of the entry modes on a scale from 1 to 4. 1) if SMEs use exporting only; 2) if SMEs also use contractual alliances (licensing, franchising); 3) if SMEs also use equity-based alliances (joint ventures); 4) if SMEs also establish wholly-owned subsidiaries (greenfield investments, acquisitions)
Firm's international experience	The number of years since the firm first made any sales abroad
Firm size	Number of employees
Firm age	Number of years since establishment
Competitive performance	Rating the overall performance of the company during the last two years in comparison to direct competitors similar in size and scope (1 = much worse to 7 = much better)
Industry type	Clothing=1, Software=2, Biotech=3, according to the knowledge base typical of each industry.
Level of home economy development ¹	Emerging economy (Arab Middle East, China and India) = 1 Developed economy (Denmark, Poland and UK) = 2
Institutional and quasi-institutional network spread	The sum of key non-core discretionary links which are important to the firm's internationalization. (0 if the link is not mentioned, 1 if it is mentioned). 1) universities/research institutes; 2) government support agencies in home country; 3) government support agencies

¹ While Poland along with other Central and Eastern European economies was considered to be emerging in the 1990s (Meyer & Peng, 2016), it is today classified as a developed economy by the United Nations – see http://www.un.org/en/development/desa/policy/wesp/wesp_current/2014wesp_country_classification.pdf, accessed 02 October 2020.

	abroad; 4) industry/trade associations; 5) board/advisory group; 6) consultants; 7) venture capitalists; 8) banks
Level of competition in foreign markets	How much competition do you face in your foreign market(s)? (none = 1; a little = 2; moderate = 3; considerable = 4; very great = 5)
Competitive strength in innovation	<p>1) Whether innovation is a firm's core strength. (0 if No, 1 if Yes)</p> <p>2) Whether the firm differentiates itself from competitors in foreign markets based on innovation. (0 if No, 1 if Yes)</p> <p>We coded the sum of the above two questions as follows: 1 = no competitive strength in innovation (if the sum equals zero); 2 = low competitive strength in innovation (if the sum equals 1); 3 = high competitive strength in innovation (if the sum equals 2)</p>



Control variables: Firm international experience; firm size; firm age; competitive performance; industry type; level of home economy development; institutional network spread; level of competition in foreign markets; competitive strength in innovation

Figure 1
Internationalization and performance of SMEs

Table 1
Descriptive statistics

Study variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Intensity of foreign market involvement	55.05	33.01	1											
2. Geographic spread of foreign market involvement	3.23	1.94	0.08	1										
3. Internationalization outcomes	5.58	1.09	0.29***	0.26***	1									
4. Entry-mode learning potential	1.63	0.99	-0.04	0.11	0.05	1								
5. Firm international experience	12.10	11.07	0.19*	0.07	0.02	-0.08	1							
6. Firm size	79.75	75.71	0.00	0.13+	0.06	0.09	0.30***	1						
7. Firm age	20.23	24.94	0.11	-0.03	0.02	-0.10	0.65***	0.26**	1					
8. Competitive performance	5.41	1.21	0.14+	0.21**	0.31***	0.05	-0.12	-0.05	-0.18*	1				
9. Industry type	2.01	0.82	-0.03	0.09	0.13+	0.25**	-0.35***	-0.08	-0.34***	0.19**	1			
10. Level of home economy development	1.50	0.50	0.12	-0.15*	0.04	0.02	0.09	-0.40***	0.11	0.00	0.01	1		
11. Institutional network spread	4.44	2.49	0.16*	0.14+	0.25**	0.21**	-0.13+	0.03	0.03	0.09	0.27***	0.21*	1	
12. Level of competition in foreign markets	3.36	1.29	0.21**	-0.05	0.01	-0.06	0.20**	0.08	0.15*	-0.14+	-0.32***	0.06	0.02	1
13. Competitive strength in innovation	2.11	0.77	0.15*	0.12	0.20**	0.21**	-0.18*	-0.27***	-0.18*	0.21**	0.43***	0.19*	0.29***	-0.09

Note: +p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001

Table 2**Regressing internationalization outcomes onto foreign market involvement and entry-mode learning potential**

	Model 1	Model 2	Model 3	Model 4
Entry-mode learning potential	-0.03	-0.03	-0.02	-0.06
Firm international experience	0.04	-0.04	-0.04	-0.05
Firm size	0.09	0.08	0.11	0.10
Firm age	0.04	0.06	0.07	0.06
Competitive performance	0.29***	0.23**	0.23**	0.23**
Industry type	0.02	0.03	0.03	0.05
Level of home economy development	0.00	0.02	0.01	0.02
Institutional network spread	0.20*	0.15+	0.15+	0.14+
Level of competition in foreign markets	0.04	0.01	0.03	0.02
Competitive strength in innovation	0.12	0.07	0.09	0.08
Intensity of foreign market involvement		0.21**	0.22**	0.19*
Geographic spread of foreign market involvement		0.17*	0.13+	0.17*
Intensity of foreign market involvement x entry-mode learning potential			0.15*	
Geographic spread of foreign market involvement x entry-mode learning potential				0.11
R^2	0.17***	0.23**	0.25**	0.24
ΔR^2		0.06**	0.02*	0.01

Note: +p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001