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SME foreign market entry mode choice and foreign venture performance: The moderating effect of international experience and product adaptation



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ABSTRACT

Firms' foreign market entry mode choice attracts considerable research attention. However, the performance implications of this choice remain inconclusive, particularly in the context of small and medium-sized enterprises (SMEs). The present paper draws on the resource-based view (RBV) and develops a theoretical model specifically tailored to the context of SMEs in order to study the relationship between entry mode choice and foreign venture performance. Testing hypotheses on 133 German SMEs, we show that international experience as a resource and product adaptation as a capability improve the performance of non-equity entry modes by mitigating liabilities of smallness inherent to SMEs. We furthermore find empirical support for the joint moderating effect of international experience and product adaptation on the focal relation. Our findings contribute to the SME foreign market entry mode literature and have implications for practitioners and future research.

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1. Introduction

Foreign market entry mode choice is an important strategic decision determining a firm's organizational structure when initially entering a host country market (Nakos & Brouthers, 2002). This choice can be classified into two categories: equity entry modes encompass direct investments into the host country (e.g., joint ventures or wholly-owned subsidiaries). Non-equity entry modes include direct and indirect exporting as well as contractual agreements such as licensing (Pan & Tse, 2000). Extant literature demonstrates that entry mode choices can have major performance implications (Brouthers, 2002; Chen & Hu, 2002). To this end, the advantages and disadvantages of the respective modes have to be taken into consideration (Shrader, 2001). That is, equity entry modes demand a higher level of initial resource commitment (Sharma & Erramilli, 2004), but facilitate greater closeness to host country markets and customers (Zahra, Ireland, & Hitt, 2000). Non-equity entry modes are less resource intense and provide greater flexibility to the firm (Brouthers & Nakos, 2004), while firms simultaneously lack market closeness impeding the monitoring of foreign market developments (Yeoh, 2004).

Two research deficits motivate the present paper. First, given the advantages and disadvantages of different entry modes, studies examining the foreign market entry mode choice and performance association obtain largely inconclusive findings. For example, a study finds joint ventures to be the best performing mode (Beamish & Banks, 1987), while other studies reveal greenfield operations to perform best (Nitsch, Beamish, & Makino, 1996; Woodcock, Beamish, & Makino, 1994), or do not find a significant direct influence on performance at all (Brouthers & Nakos, 2004; Rasheed, 2005). To contribute resolving inconsistent findings, prior literature began to examine the influence of moderating factors on the relationship between foreign market entry mode choice and performance incorporating the industry context (Anand & Delios, 1997), R&D and advertising intensity (Shrader, 2001), or environmental factors (Rasheed, 2005). While these studies provide valuable insights into the boundary conditions of the entry mode choice–performance relationship, there is a need to contextualize this association even further to advance existing theorizing regarding firms' resource deployment in internationalization (Crook et al., 2008).

Second, extant literature has largely focused on the performance implications of the foreign market entry mode choice of large MNEs (Anand & Delios, 1997; Pan & Chi, 1999) with comparably fewer studies focusing on SMEs (e.g., Lu & Beamish, 2001; Rasheed, 2005). However, SMEs differ from large MNEs in at

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least three specific liabilities of smallness (Aldrich & Auster, 1986; Maekelburger, Schwens, & Kabst, 2012) that are likely to stress the entry mode choice–performance relationship. First, SMEs suffer from limited financial and personnel resources and the respective capabilities to employ these resources (Nakos & Brouthers, 2002), making them highly vulnerable to costly failures in foreign markets (Buckley, 1989). Second, SMEs often lack foreign market knowledge as they are less internationally diversified and possess fewer international engagements compared to their larger counterparts (Lu & Beamish, 2001). Third, SMEs are particularly sensitive to external challenges arising in the host country market (Brouthers & Nakos, 2004; Buckley, 1989).

The aim of the present paper is to investigate the relationship between SMEs' foreign market entry mode choice and foreign venture performance by drawing on the resource-based view (RBV; Barney, 1991; Wernerfelt, 1984). According to the RBV, resources and capabilities contribute to a firm's competitive advantage if they are valuable, rare, and hard to imitate or substitute (Barney, 1991; Barney, Wright, & Ketchen, 2001). The paper's main premise is that such resources and capabilities enable the firm to pursue strategies with greater efficiency (Ainuddin et al., 2007) by reinforcing the benefits of a firm's strategy while mitigating potential drawbacks (Ortega, 2010). Therefore, we study the efficiency (in terms of foreign venture performance) of foreign market entry mode choice (as a strategy) under particular consideration of the moderating impact of 1) *prior international experience* as a resource and 2) *product adaptation* as a capability enabling SMEs to mitigate their liabilities of smallness (i.e., drawbacks). International experience reflects the extent to which a firm and its management team have been previously engaged in international business (Burgel & Murray, 2000; Maekelburger et al., 2012) and constitutes tacit, firm-specific knowledge (Barney et al., 2001; Hennart & Park, 1993). Product adaptation is a firm's ability to adapt its products to foreign markets' idiosyncrasies (Cavusgil & Zou, 1994). We establish that international experience and product adaptation allow mitigating SMEs' lack of foreign market knowledge as well as their high sensitivity to external challenges in host country markets without overstressing their limited (personnel and financial) resources. To study the boundary conditions of the entry mode choice and performance relationship comprehensively, we examine the moderating influences of international experience and product adaptation (i.e., by employing separate two-way interactions) as well as their joint effect in a configurational model (i.e., by employing a three-way interaction).

Our paper offers three contributions to extant research. First, we contribute to theory advancement in the SME foreign market entry mode choice literature by drawing on the RBV and developing arguments for the moderating effect of international experience and product adaptation on the relationship between entry mode choice and performance. Prior SME entry mode choice studies drawing on resource-based argumentations are scant as recently identified as a research deficit (Laufs & Schwens, 2014). Given SMEs' liabilities of smallness (Aldrich & Auster, 1986; Maekelburger et al., 2012), the yet limited consideration of a resource-based perspective is surprising. We contribute to reducing this deficit by grounding our work in the RBV and developing theoretical mechanisms that are directly tailored to SMEs overcoming their liabilities of smallness.

Second, we advance extant literature by including a three-way interaction showing how a resource and a capability *jointly* affect the relation between entry mode choice and performance. By this means, we adhere to more recent advances of the RBV identifying a missing link between the possession of resources and their exploitation so as to impact a firm's competitive advantage (Eisenhardt & Martin, 2000; Newbert, 2007, 2008; O'Cass & Sok, 2012; Sok & O'Cass, 2011). This literature suggests that resources

may only fully unfold their potential to increase firms' competitive advantage when coupled with appropriate capabilities to effectively exploit resources—an argument that we incorporate in our work by theorizing and empirically validating a configurational effect.

Third, contextualizing the relationship between entry mode choice and foreign venture performance contributes to reducing the inconclusive findings prevailing in the field. That is, we offer a more detailed understanding of the boundary conditions under which SMEs' entry mode choices enhance performance. In this regard, our study is consistent with and enhances prior literature contextualizing the relationship between foreign market entry mode choice and performance (Anand & Delios, 1997; Rasheed, 2005).

2. Theory

2.1. The resource-based view, entry mode choice, and the particularities of SMEs

The RBV considers a firm's valuable, rare, hard to imitate or substitute resources and capabilities as foundation of sustainable competitive advantages and, in turn, superior firm performance (Barney, 1991; Wernerfelt, 1984). According to Wernerfelt (1984), resources encompass the tangible or intangible strengths or weaknesses tied semipermanently to the firm. In contrast, capabilities are firm-specific abilities that combine firm resources to achieve a desired outcome (Amit & Schoemaker, 1993). Hence, capabilities constitute complex combinations of skills and knowledge that are embedded in firms' processes and routines with the purpose of directly or indirectly creating value for the firm (Grant, 1996; O'Cass & Sok, 2012). Capabilities are idiosyncratic due to their inertness (Kogut & Zander, 1992) and cannot be readily provided by markets (Teece & Pisano, 1994; Teece, 1982). Consequently, a major tenet of the RBV is that firms are heterogeneous regarding the resources and capabilities they possess while both are imperfectly mobile across firms (Barney, 1991). In turn, resources and capabilities enable firms to pursue strategies with greater efficiency (Ainuddin et al., 2007).

The foreign market entry mode choice determines a firm's organizational structure when initially entering a host country market (Nakos & Brouthers, 2002). One important distinction is between equity and non-equity entry modes (Pan & Tse, 2000), as both types differ regarding their inherent advantages and disadvantages (Shrader, 2001). That is, equity entry modes allow firms a greater closeness to foreign markets and customers (Zahra et al., 2000), but require significant managerial and financial resources in order to set up such foreign operations (Sharma & Erramilli, 2004). In contrast, non-equity entry modes require lower amounts of resources and provide greater flexibility (Brouthers & Nakos, 2004), but lack foreign market closeness (Yeoh, 2004). Entry mode decisions are critically important strategic decisions (Brouthers, 1995), as such choices are hardly reversible (Root, 1987) and have considerable performance implications (Brouthers, 2002; Chen & Hu, 2002).

Despite the importance of resources in SME entry mode choice, a recent literature review reveals a dearth of studies applying a resource-based perspective (Laufs & Schwens, 2014). This lack of RBV studies is particularly surprising given that SMEs typically suffer from liabilities of smallness (Aldrich & Auster, 1986; Maekelburger et al., 2012). First, they generally face scant financial and managerial resources and also lack the adequate capabilities to exploit these resources effectively (Nakos & Brouthers, 2002). Second, smaller firms typically have limited foreign market knowledge, as they often have a domestic focus with fewer international activities (Brouthers & Nakos, 2004). Hence, SMEs

often lack familiarity with international business affairs and the firm's domestic competencies are not fully applicable to its operations in foreign markets (Lu & Beamish, 2001). Third, SMEs are characterized by a strong sensitivity to external challenges in foreign countries (Brouthers & Nakos, 2004; Buckley, 1989), as they are more easily affected by their environment than larger firms (Cheng & Yu, 2008). SMEs' limited ability to predict future events implies increased vulnerability to changes in market conditions or in the institutional and technological environment (Buckley, 1989).

2.2. International experience and product adaptation

International experience represents an intangible organizational resource (Barkema, Bell, & Pennings, 1996), as it provides specialized experiential knowledge on how to organize and manage the firm in international environments (Dow & Larimo, 2011; Eriksson et al., 1997). This knowledge is tied semipermanently to the firm mostly in the form of its employees' human capital (Carpenter, Sanders, & Gregersen, 2001). International experience represents tacit and firm-specific knowledge that is difficult to obtain in disembodied form (Hennart & Park, 1993). International experience is valuable as it enables firms to anticipate and respond to changes in host countries as well as to better understand foreign markets and customers (Lages, Jap, & Griffith, 2008). Prior research also considers international experience "a critical, but often scarce skill" in the context of a firm's foreign market entry mode choice (Dow & Larimo, 2011, p. 325). Internationally experienced managers are rare and this rareness is intensified as such experience is often coupled to specific firms or industries (Carpenter et al., 2001). This also makes international experience firm-specific, and, hence, difficult to imitate or substitute, especially as experience often is a result of unique historical circumstances (Daily, Certo, & Dalton, 2000; Peng, 2001). Therefore, international experience as a resource lies at the core of the RBV (Andersen, 1997).

Product adaptation refers to firms' ability to adapt the physical characteristics as well as the attributes of products in order to better meet the needs of foreign customers (Calantone et al., 2004). Product adaptation represents a capability as it combines knowledge and competences from various functions such as product design, branding, or labelling (Lages et al., 2008) thereby constituting a complex combination of skills and knowledge. The firm-specific ability to adapt products creates value for the firm, as customizing product offerings helps firms to better position their products in foreign markets (Filipescu, Prashantham, Rialp, & Rialp, 2013) and, in turn, represents a major source of competitive advantage (Cooper & Kleinschmidt, 1985; Shoham, 1999). The capability to adapt products enhances innovation and idea creation specifically tailored to changes in foreign customers' needs (Leonidou, 1996). Thus, firms possessing this capability can achieve a competitive advantage abroad without overly compromising their resource base (O'Cass & Julian, 2003; Rundh, 2007).

The present paper studies the moderating impact of international experience and product adaptation on the relationship between foreign market entry mode choice and foreign venture performance of SMEs. We argue that international experience and product adaptation enable SMEs to mitigate their liabilities of smallness and, in turn, to pursue their foreign market entry mode strategy with greater efficiency (leading to an improved foreign venture performance) (Ainuddin et al., 2007; Ortega, 2010). More concrete, the theoretical mechanisms (as developed in the hypotheses section) are specifically tailored to the particularities of SMEs in such that we explain how international experience and product adaptation enable SMEs to mitigate their liabilities in terms of limited foreign market knowledge (Brouthers & Nakos,

2004; Lu & Beamish, 2001) and a strong sensitivity to external challenges in foreign countries (Schwens, Eiche, & Kabst, 2011), without overly compromising their scant resources (Nakos & Brouthers, 2002).

According to Andersson et al. (2014), the theoretical rationale for a potential direct effect of a moderator on the dependent variable should differ from the rationale explaining the moderating effect in within-level interaction models. Adhering to this condition, we explain how prior literature argued for the direct influence of international experience and product adaptation on performance. Prior research investigating international experience's direct impact on performance mainly argues from an organizational learning perspective in such that experience is a key source of learning (Barkema & Vermeulen, 1998). According to this literature, performance effects are achieved through cost savings and productivity gains when experience is reapplied (Luo & Peng, 1999). Consistently, some studies find a positive effect of international experience on performance (e.g., Carlsson, Nordegren, & Sjöholm, 2005; Carpenter et al., 2001; Luo & Peng, 1999). However, others find no significant effect (e.g., Autio, Sapienza, & Almeida, 2000; Brouthers, 2002; Chao & Kumar, 2010). These ambiguous findings lead some researchers to model international experience as a moderator to explain international performance (e.g., Hultman, Katsikeas, & Robson, 2011) as is consistent with the premise of our paper. To explain the direct influence of product adaptation on performance, studies primarily use institutional theory (North, 1990). That is, firms need to adapt their products to prevailing norms in foreign markets to obtain legitimacy and achieve better performance (Brouthers, O'Donnell, & Keig, 2013; Hultman, Robson, & Katsikeas, 2009). Consistent with this argument some studies report significant positive effects between product adaptation and performance (e.g., Brouthers et al., 2013; Calantone et al., 2004). Others, however, report significant negative or non-significant results (e.g., Hultman et al., 2009; Zou, Andrus, & Norvell, 1997). Based on these inconclusive direct effects, several studies argue for a contingency perspective requiring a fit between the firm's underlying (internationalization) strategy with the degree of product adaptation to enhance firm performance (Schmid & Kotulla, 2011), which is similar to our paper's premise. Comparing the above arguments for the direct influences of international experience and product adaptation on performance with the moderator arguments developed in the present paper, we conclude that the rationales are different and, hence, fulfill the requirement by Andersson et al. (2014). Moreover, we note that several studies emphasize a moderating influence of international experience and product adaptation as is consistent with our perspective.

Recent assessments of RBV research strongly urge not to consider resources in isolation, but rather to investigate combinations of resources and capabilities so as to solve empirical inconsistencies concerning performance effects (Kraaijenbrink, Spender, & Groen, 2010; Newbert, 2007). Building on Penrose (1959), Mahoney and Pandian (1992) state that the pure possession of resources is not sufficient for firms to achieve superior performance. Instead, competitive advantages may be achieved through distinctive capabilities in exploiting resources effectively (Kraaijenbrink et al., 2010; Makadok, 2001). Resources hence contain a latent value that needs to be exploited through capabilities in order to realize their full potential (Eisenhardt & Martin, 2000; Newbert, 2007). From an empirical stance, this view is consistent with authors stating that configurational models (containing three-way interactions) add explanatory power beyond moderator models (containing only two-way interactions), especially when studying firm performance (e.g., Dess, Lumpkin, & Covin, 1997; Dimitratos, Lioukas, & Carter, 2004; Kotabe, Srinivasan, & Aulakh, 2002).

3. Hypotheses

3.1. The direct effect of foreign market entry mode choice on foreign venture performance

Non-equity entry modes require a relatively low upfront resource commitment making such modes especially viable for SMEs whose resource pool is restricted (Nakos & Brouthers, 2002). Because of their short-term nature (Pan & Tse, 2000), non-equity entry modes provide great flexibility. For example, SMEs may easily renegotiate contractual arrangements, switch business partners, or even exit the market (Brouthers & Nakos, 2004). Non-equity entry modes are contract-based suggesting that no physical presence in the host country is required, as firms typically collaborate with local agents or business partners who handle most direct interactions in the foreign market (Erramilli, Agarwal, & Dev, 2002). This way, SMEs do not run the risk of overstretching their managerial capacity (Brouthers & Nakos, 2004). However, this lack of direct market presence even aggravates the usually limited foreign market experience of SMEs and makes it difficult for firms to monitor foreign markets (Yeoh, 2004). If firms cannot closely observe foreign market developments, they become more vulnerable to external challenges such as changes in the institutional set-up, in the foreign market environment, or in customer demands and market conditions (Lu & Beamish, 2001). This issue is particularly detrimental for SMEs' foreign venture performance given their high sensitivity to external challenges (Brouthers & Nakos, 2004; Buckley, 1989). Moreover, non-equity modes yield relatively low potentials for return (Anderson & Gatignon, 1986). For example, in the case of licensing, the licensee owns all turnover generating assets, whereas the SME only receives a lump-sum payment and royalty fees (Hill, Hwang, & Kim, 1990). In addition, non-equity modes may even increase the risk of losses as local partners (such as distributors) may behave opportunistically (Beamish & Banks, 1987; Lu & Beamish, 2001).

Equity entry modes enable SMEs to achieve greater market closeness through physical presence, whereby firms may better monitor markets, customers, and competitors, as well as gather information (such as feedback from suppliers) and detect new trends (Zahra et al., 2000). This aspect is fostered by the ongoing direct interaction abroad with local parties (Pan & Tse, 2000), whereby firms get a detailed understanding of local markets and customers, which in turn facilitates product design, marketing, and, in turn, performance (Yeoh, 2004). However, equity entry modes demand significant financial and managerial resource commitments to the foreign operation (Anderson & Gatignon, 1986). This is particularly tenuous because greater resource commitment implies reduced flexibility (Lu & Beamish, 2001) and the risk of losing increasing amounts of resources in the course of foreign operations (Hill et al., 1990). Yet these risks may be outweighed when considering the significantly greater potential for returns of equity entry modes (Anderson & Gatignon, 1986). For example, firms may enhance their performance by moving their production to countries where factor inputs are cheap, while simultaneously benefiting from efficiency gains in the form of scale economies (Li & Rugman, 2007).

In sum, SMEs may yield a higher foreign venture performance through equity entry modes compared to non-equity entry modes. Specifically, through equity entry modes, SMEs benefit from direct market monitoring and efficiency gains despite greater resource commitments. In contrast, the lower resource demands and the flexibility of non-equity modes do not outweigh the lack of market closeness, the higher vulnerability to external challenges and the greater risk for opportunistic behavior of foreign partners as well as the generally lower return potential of such modes. Hence, we hypothesize:

H1. SMEs that choose an equity entry mode achieve a higher foreign venture performance.

3.2. The moderating effect of international experience

We argue that international experience helps SMEs that employ non-equity entry modes to overcome their lack of foreign market knowledge as well as their sensitivity to external challenges in foreign markets. In turn, overcoming these liabilities of smallness improves the performance of such modes.

International experience includes knowledge about foreign markets, competitors, governments, institutions, rules, norms, and values (Eriksson et al., 1997), providing SMEs with processes and routines to handle international business activities (Blomstermo, Sharma, & Sallis, 2006; Luo, 2001). We argue that non-equity entry modes that involve the collaboration with local associates (Erramilli et al., 2002) are particularly beneficial if combined with international experience, as it helps SMEs to better choose foreign partners and predict their behavior. This reduces uncertainty (Brouthers & Nakos, 2004) and enhances efficiency as well as performance (Sorenson & Sørensen, 2001). In contrast, equity entry modes already involve greater market presence (Zahra et al., 2000) facilitating a rapid understanding of foreign market peculiarities (Lord & Ranft, 2000). Hence, the additional benefit of international experience in equity entry modes is rather marginal compared to non-equity foreign market entries.

International experience also helps to mitigate SMEs' sensitivity to external challenges in foreign markets (Brouthers & Nakos, 2004; Buckley, 1989). Comprehensive knowledge about foreign markets and international business practices enhances firms' ability to strategically position their organization and respond to specific international conditions (Ciešlik, Kaciak, & Thongpapanl, 2015). In turn, SMEs with abundant international experience are better able to identify and exploit arising opportunities while simultaneously avoiding threats in turbulent environments (Bloodgood, Sapienza, & Almeida, 1996; Zou & Stan, 1998). Barkema and Drogendijk (2007, p. 1135) call this an enlargement of firms' and managers' "opportunity horizon". In contrast, equity entry modes that are associated with direct exposure to foreign markets and customers allow for close market observations (Zahra et al., 2000). Thus, the additional benefit of international experience is comparatively negligible if coupled with equity entry modes. Instead, international experience particularly helps reducing SMEs' sensitivity to external challenges if combined with non-equity entry modes, as these modes involve only low levels of market closeness (Yeoh, 2004). Plus, the more flexible non-equity entry modes coupled with international experience allow SMEs to quickly respond to and capitalize on arising opportunities in changing environments (Brouthers & Nakos, 2004; Zou & Stan, 1998). Hence, we hypothesize:

H2. The relationship between foreign market entry mode choice and foreign venture performance is moderated by international experience in such that non-equity entry modes enhance SMEs' foreign venture performance in the presence of high levels of international experience.

3.3. The moderating effect of product adaptation

We argue that product adaptation is an important capability when entering foreign markets through non-equity entry modes helping SMEs to overcome their liabilities of smallness by taking full advantage of their flexibility.

In non-equity entry modes, SMEs experience a particular lack of foreign market knowledge due to a want of market closeness

(Yeoh, 2004). However, if SMEs combine the flexibility of non-equity entry modes with the capability to adapt products, they are able to mitigate this deficit and, in turn, to achieve higher performance. The capability to adapt products to demand differences across customer groups enables SMEs to flexibly adapt their products to foreign market needs even if detailed foreign market knowledge is missing. Brouthers (1995) supports this rationale by emphasizing that firms choose non-equity modes when foreign customer tastes significantly differ from those in the domestic market. This hints at the importance of coupling product adaptation with the flexibility of non-equity entry modes. In contrast, SMEs choosing equity entry modes are already closer to the market and, hence, benefit from this capability to a lesser extent.

The capability to adapt products to new markets in combination with non-equity entry modes also helps SMEs to overcome their sensitivity to external challenges in foreign markets. Product adaptation capabilities fully exploit SMEs' flexibility advantage enabling them to quickly react to environmental changes (Nieto & Rodríguez, 2011; Nooteboom, 1994). SMEs with strong capabilities in adapting products to new markets possess a good understanding of customers' needs, which enables them to better cope with changing customer demands (Blesa & Ripollés, 2008). As tailored products enhance customer loyalty (Samiee & Roth, 1992), SMEs with strong product adaptation capabilities are well suited to mitigate fluctuating market conditions resulting in higher foreign venture performance. Particularly non-equity entry modes allow to take full advantage of the benefits of product adaptation, as these modes allow the SME to retain greater flexibility, for example, in terms of switching partners (Brouthers & Nakos, 2004). In contrast, SMEs employing equity entry modes will benefit to a lesser extent from product adaptation capabilities. Such modes are more costly (Sharma & Erramilli, 2004) and facilitate closer market observations due to the direct presence in the foreign market (Zahra et al., 2000) making quick reactions to unanticipated changes in market conditions less necessary. Hence, we hypothesize:

H3. The relationship between foreign market entry mode choice and foreign venture performance is moderated by product adaptation in such that non-equity entry modes enhance SMEs' foreign venture performance in the presence of high levels of product adaptation.

3.4. Joint effect of international experience and product adaptation

Consistent with recent calls in the RBV literature to consider the interplay of resources and capabilities (Newbert, 2007; O'Cass & Sok, 2012), we argue that international experience and product adaptation jointly help SMEs to mitigate liabilities of smallness particularly when employing non-equity entry modes increasing the performance of such modes.

An advanced understanding of international business contexts and foreign markets through international experience enables SMEs to better appreciate and consider foreign customers' needs by means of product adaptation (Cavusgil & Zou, 1994; Lages et al., 2008). Hence, abundant international experience coupled with the capability to adapt products to foreign markets enables SMEs to compensate their lack of foreign market knowledge more effectively. Several studies support this notion by suggesting that international experience supports product adaptation (Calantone et al., 2004; Cavusgil & Zou, 1994; O'Cass & Julian, 2003). We expect the interplay of international experience and product adaptation to particularly increase the performance of non-equity entry modes. In contrast, the proposed mechanism is less beneficial for firms

employing equity entry modes, as these more costly modes already include a direct market presence (Zahra et al., 2000).

SMEs possessing both international experience and the capability to adapt products may be particularly able to overcome their sensitivity to external challenges by flexibly responding to market changes. International experience caters to identifying and exploiting arising opportunities in turbulent foreign market environments (Zou & Stan, 1998). Coupling such experience with the capability to quickly adapt products to new market opportunities enables SMEs to mitigate their sensitivity to external challenges particularly in combination with flexible non-equity entry modes. In contrast, less flexible equity entry modes that already include direct exposure to foreign markets and, hence, closer market observations (Zahra et al., 2000), benefit comparatively less from the interplay of international experience and product adaptation.

In hypothesizing a joint effect of international experience and product adaptation, we adhere to Eisenhardt and Martin (2000), Newbert (2007, 2008), and O'Cass and Sok (2012) stressing the importance of investigating resources and capabilities in combination. Moreover, we adhere to Dess et al. (1997) who emphasize that three-way interactions are able to explain firm performance even beyond moderation effects. Hence, we hypothesize:

H4. A configuration of non-equity entry modes coupled with high levels of international experience and product adaptation will positively influence SMEs' foreign venture performance.

4. Methods

4.1. Data

We test our hypotheses on a sample of German SMEs, defined in accordance with the German Institute for SMEs as firms with up to 500 employees (Günterberg & Kayser, 2004). Contact details of 1730 internationally active SMEs were obtained from the AMADEUS database. In order to investigate the internationalization of SMEs, we conducted an online survey among their CEOs. We chose this target group because of its crucial influence on strategic decisions, as is consistent with prior research (Maekelburger et al., 2012; Mesquita & Lazzarini, 2008). We sent out emails to our target group containing a direct link to the web-based survey. Our questionnaire included German questions and was sent to German firms only. Adhering to back-translation recommendations (Brislin, 1970; Hui & Triandis, 1985; Van de Vijver & Hambleton, 1996), we used established items.

The survey was conducted in 2012 and achieved 192 responses (11.1% response rate). However, 59 cases were excluded prior to the empirical analysis. That is, 15 firms indicated that they were in fact no longer internationally active. Moreover, 33 cases did not disclose values for the dependent variable foreign venture performance reflecting respondents' unwillingness to report performance data, which is rather common in SME research (e.g., Brouthers & Nakos, 2004; Brouthers, 2002). Further 11 cases were excluded as they displayed missing values across the control, independent, and/or moderator variables. Our final sample for analysis includes 133 firms with an average firm size of 173 employees. The drop-out rate of 30.7% (59 of 192 cases) is consistent with prior studies employing web-based surveys (Boehe & Cruz, 2010; Oetzel & Getz, 2012; Shi et al., 2010). Prior literature notes several possible explanations for drop-outs in web-based surveys. For example, respondents might not have been familiar with web forms such as pull-down menus (Sheehan, 2002). Plus, keeping respondents' attention high until the end of the web-based questionnaire constitutes a challenge for researchers (Schonland & Williams, 1996). Lastly, a comprehensive

comparison of research techniques by Bosnjak and Tuten (2001) notes that drop-out rates are generally higher in web-based designs than in paper-based questionnaires.

In accordance with Armstrong and Overton (1977), we tested for nonresponse bias comparing early and late respondents (first and last 20%). To this end, we used a *t*-test as suggested by Miller and Smith (1983) with regard to key firm characteristics, such as firm age or firm size, but did not find significant differences between early and late respondents.

4.2. Measurements

Our dependent variable *foreign venture performance* refers to the firm's performance in the foreign market entered most recently. We used established items (e.g., Brouthers & Nakos, 2004; Brouthers, Brouthers, & Werner, 1999) measured on 5-point Likert scales to assess respondents' satisfaction with firm performance (e.g., with regard to sales volume, sales growth, profitability, market share, or marketing). We supplemented this scale with two items measured on 5-point Likert scales referring to respondents' satisfaction with their firm's overall performance and with their firm's overall performance relative to competitors with regard to the most recent foreign market entry (adapted from Jaworski & Kohli, 1993). The latter items are of particularly relevance for SMEs that may consider their overall performance to be satisfactory despite single performance dimensions, such as market share, not being high in absolute terms (Lumpkin & Dess, 1996). A factor analysis showed that all items loaded onto a single factor with no factor loading below 0.657. A Cronbach's alpha of 0.923 suggests a high reliability of this construct.

The use of subjective performance measures has been debated in prior literature. While objective performance measures are less susceptible to common method bias (Stam & Elfring, 2008), subjective measures are common in strategy research and advised where objective financial data are not available or inaccurate (Dess & Robinson, 1984). As extant research demonstrates that firms are rather unwilling to provide objective performance measures (Woodcock et al., 1994), especially when they are privately owned (Dess & Robinson, 1984) as in the case of many SMEs, we decided to employ such a subjective measure. Prior studies suggest high correlations of subjective performance measures with objective measures (Dawes, 1999; Dess & Robinson, 1984; Geringer & Herbert, 1991; Glaister & Buckley, 1998), which indicates that subjective measures are suitable as valid and reliable measures also in the SME context (Zapkau, Schwens, & Kabst, 2014). This receives support by authors finding strong convergent validity between subjective and objective measures (Wall et al., 2004). Moreover, subjective performance measures can potentially reveal dimensions of performance otherwise not expressible in financial terms (Brouthers & Nakos, 2004; Brouthers, 2002) and performance and profit differences across industries make the use of subjective performance measures more advisable (Bettis, 1981).

Our independent variable *foreign market entry mode choice* was dichotomized according to the classification by Pan and Tse (2000) with non-equity entry modes coded "0" (i.e., direct export, export through distributors, franchises, and licensing) and equity entry modes coded "1" (i.e., joint ventures, equity participations, acquisitions, and wholly-owned subsidiaries). The measure refers to a firm's entry mode when initially entering a foreign market and is widely established in the entry mode literature (e.g., Brouthers & Nakos, 2004).

International experience (Cronbach's $\alpha = 0.876$) is a two-item measure that was adapted from prior studies (Brouthers & Nakos, 2004; Schwens et al., 2011). While prior research tends to focus on the effect of organizational experience but mainly disregards the effect of managerial experience (Sapienza, Autio, George, & Zahra,

2006), we composed a variable of items measuring both the firm's and its top management's international experience. To this end, we employed the items "Our firm had prior and long standing international experience" and "The management team had prior and long standing international experience" (5-point Likert scale; 1 = fully disagree, 5 = fully agree). Both items loaded onto a single factor with factor loadings of 0.943 in a factor analysis. *Product adaptation* (Cronbach's $\alpha = 0.751$) is a two-item measure adapted from prior studies (e.g., Knight & Cavusgil, 2004; Lee & Griffith, 2004) comprising the adaptation of products or services to foreign markets in comparison with competitors and the consideration of foreign customers' needs in the context of product development. We asked respondents to assess these facets of product adaptation on a 5-point Likert scale (1 = fully disagree, 5 = fully agree). The precise items read "Compared to our competitors, we adapt our products/services to foreign markets" and "When developing new products/services, we consider foreign customers' tastes and preferences". Both items loaded onto a single factor with factor loadings of 0.896 in a factor analysis.

We furthermore included several control variables in our analysis. We controlled for *firm age*, measured as the year of data collection less the year of firm foundation. Research suggests that firm age can potentially influence international operations and their performance (Zahra et al., 2000). *Firm size* tends to increase firms' propensity to choose equity entry modes (Contractor, 1984). We hence included it as control variable, measured by the number of employees. We obtained this measure from the AMADEUS database. In addition, prior research shows that family firms differ from non-family firms in various aspects influencing firms' strategies (Block, 2010; Stavrou, Kassinis, & Filotheou, 2007). Hence, we controlled for firms that represent a *family business* (coded "1" for family-owned firms and "0" for non-family firms). Prior research also identifies *international scope* as important determinant of firm performance (Delios & Beamish, 2001; Zahra et al., 2000). We included this as control variable measured by the number of countries in which the firm sells its products. We also controlled for the *time elapsed since the firm's most recent foreign market entry*. We measured this time span by the year of data collection less the year in which the last foreign market was entered (Chauri & Buckley, 2003). The rationale for this control variable is that the most recent market entry might have occurred several years ago giving firms the opportunity to generate higher returns over a longer time period, whereas in the case of more recent market entries, firms may still have to deal with starting losses from initial investments. We controlled for a firm's industry affiliation, as prior studies emphasize industry differences in entry mode choices (e.g., Brouthers & Brouthers, 2003; Erramilli & Rao, 1993). Moreover, in some industries it may be easier to adapt products than in other industries. We therefore included an *industry dummy variable*, coded "1" for high-tech firms and coded "0" otherwise. Due to the assumption that strategic motives influence entry modes (Sarkar & Cavusgil, 1996), we included the *motive cost advantages*, the *motive market exploitation*, and the *motive risk diversification*. Respondents were asked to assess the importance of each motive for their most recent foreign market entry on 5-point Likert scales (1 = very unimportant, 5 = very important). Likewise, *overall performance* was measured on a 5-point Likert scale tapping managerial satisfaction with the overall firm performance (irrespective of the most recent foreign market entry). We included this variable as high overall performance has been shown to influence strategic decision-making (Hayward & Hambrick, 1997).

4.3. Assessing common method variance

Survey-based research may face the problem of common method variance (CMV) due to self-reported measures from a single source. However, we do not consider CMV to be a major

problem in our study. First, we conducted Harman's one factor test as suggested by Podsakoff and Organ (1986). Entering all variables into a principal component analysis produced six factors with the biggest factor accounting for only 15.5% of the variance. Second, our dependent variable is a subjective measure asking respondents to assess their satisfaction with foreign venture performance. We compared the measures from our questionnaire with objective performance data in order to achieve validation for our measurement (Chandler & Lyon, 2001). We found a significant positive correlation between firms' operating revenue obtained from the AMADEUS database and firms' level of turnover from our survey ($r=0.248$, $p=0.043$, $n=67$). The magnitude of this correlation is consistent with prior studies comparing subjective with objective performance measures (Morgan, Vorhies, & Mason, 2009; Stam & Elfring, 2008). Third, we included interaction terms in our analyses which are likely to reduce potential CMV, as such complex constructs are not likely to belong to a respondent's theory-in-use (Chang, van Witteloostuijn, & Eden, 2010).

5. Analysis and results

Table 1 displays the means, standard deviations, variance inflation factor values and correlations of the variables in our analyses. We do not find evidence of multicollinearity as all correlations are below 0.7 (Dormann et al., 2013) and the highest variance inflation factor (VIF) amounts to 1.80 which is below the critical threshold of 2.5 (Allison, 1999).

The mean value of 0.46 for the independent variable foreign market entry mode choice indicates that 46% of the SMEs in our sample chose an equity entry mode for their most recent internationalization, while 54% opted for non-equity entry modes. This proportion is consistent with prior entry mode studies. For example, 43% of the firms studied by Mackelburger et al. (2012) and 36% of the SMEs in the Brouthers and Nakos (2004) study chose equity entry modes.

Table 2 reports the results of the hierarchical linear regression analysis. Presenting regression results in five different models allows for comparisons of model fit and explanatory power between models (Aiken & West, 1991). Consistent with Andersson et al. (2014), we report in the following the direct effects of the

control, independent and moderator variables before analyzing the interaction effects. Model 1 shows the effect of the control variables on foreign venture performance. None of the controls is significant and the model's R^2 value is 0.041.

Model 2 additionally includes the direct effects of foreign market entry mode choice and the two moderator variables (i.e., international experience and product adaptation) on foreign venture performance whereby the R^2 increases to 0.136. Contrary to hypothesis 1, entry mode choice has no significant direct effect on foreign venture performance (-0.156 , $p>0.1$), which implies that no type of entry mode yields better performance per se. It appears that the respective benefits of non-equity entry modes and equity entry modes as well as the respective shortcomings counterbalance each other. This implies that neither mode of entry is more beneficial in all situations. Instead, the non-significant effect emphasizes the need to contextualize the entry mode choice and foreign venture performance relationship. Of the moderators, international experience significantly ($p\leq 0.05$) and positively affects foreign venture performance indicating that SMEs with more extensive international experience have greater satisfaction with their firms' performance in the foreign market entered most recently. In contrast, product adaptation does not significantly influence foreign venture performance.

Model 3 additionally includes the effect of the interaction between foreign market entry mode choice and international experience. The R^2 of the model increases to 0.182 ($\Delta R^2=0.046^*$ compared to model 2 without interaction terms). The interaction term's standardized regression coefficient is negatively significant (-0.330 ; $p\leq 0.05$), which supports hypothesis 2 as it shows that the performance of non-equity entry modes improves in the presence of high international experience. Similarly, we find a significant and negative effect of the second interaction term between foreign market entry mode choice and product adaptation (-0.297 , $p\leq 0.05$) in Model 4. This finding lends support to our hypothesis 3 proposing that non-equity entry modes lead to higher performance in the presence of high levels of product adaptation. The inclusion of this interaction term in Model 4 enhances the R^2 value significantly to 0.173 ($\Delta R^2=0.037^*$ compared to model 2 without interaction terms).

Table 1
Mean values, standard deviations, variance inflation factor values, and correlations.

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Mean	3.21	0.46	3.85	3.85	58.86	172.68	0.63	0.42	28.66	1.44	2.28	4.08	2.97	3.80
SD	0.65	0.50	0.91	0.70	45.26	122.87	0.48	0.50	31.93	2.80	1.02	0.93	1.09	0.68
VIF	–	1.33	1.80	1.49	1.34	1.32	1.24	1.12	1.39	1.17	1.23	1.13	1.15	1.12
1 Foreign venture performance	1													
2 Foreign market entry mode choice (0 = non-equity, 1 = equity)	–0.115	1												
3 International experience	0.278**	–0.105	1											
4 Product adaptation	0.171*	0.015	0.488**	1										
5 Firm age	0.023	–0.096	0.033	–0.065	1									
6 Firm size	0.046	0.175*	0.083	0.010	0.290**	1								
7 Family business	–0.086	–0.048	–0.015	0.115	0.322**	–0.010	1							
8 Industry	0.015	–0.113	0.192*	0.031	–0.087	0.021	–0.043	1						
9 International scope	0.032	–0.099	0.375**	0.083	0.206*	0.294**	0.084	0.086	1					
10 Time elapsed since the firm's most recent foreign market entry	0.005	0.200*	–0.270**	–0.125	0.026	–0.031	0.082	–0.119	–0.212*	1				
11 Motive cost advantages	–0.028	0.343**	–0.065	0.113	–0.084	0.001	0.087	0.006	0.026	0.148	1			
12 Motive market exploitation	0.121	0.072	0.207*	0.082	0.063	–0.007	–0.005	0.145	0.121	–0.048	–0.063	1		
13 Motive risk diversification	0.143	0.012	0.079	0.168	–0.095	–0.102	–0.150	0.163	–0.067	0.009	0.076	0.189*	1	
14 Overall performance	0.008	0.043	0.197*	0.058	–0.110	–0.158	0.033	0.066	–0.018	–0.117	–0.019	0.048	0.012	1

** $p\leq 0.01$; * $p\leq 0.05$.

$n=133$.

Table 2
Linear regression analysis.

	Model 1	Model 2	Model 3	Model 4	Model 5
Control variables					
Firm age	0.034	0.023	−0.020	0.044	0.043
Firm size	0.046	0.081	0.093	0.084	0.109
Family business	−0.080	−0.090	−0.096	−0.108	−0.120
Industry	−0.021	−0.070	−0.075	−0.075	−0.085
International scope	0.023	−0.095	−0.072	−0.115	−0.095
Time elapsed since the firm's most recent foreign market entry	0.024	0.096	0.077	0.077	0.096
Motive cost advantages	−0.025	0.036	0.052	0.042	0.056
Motive market exploitation	0.094	0.078	0.035	0.041	0.027
Motive risk diversification	0.127	0.099	0.131	0.096	0.168
Overall performance	0.019	−0.017	−0.029	−0.016	−0.048
Direct effects					
Foreign market entry mode choice (0 = non-equity, 1 = equity)		−0.156	−0.164	−0.151	−0.248*
Moderator variables					
International experience		0.291*	0.514***	0.322**	0.454**
Product adaptation		0.038	0.060	0.249	0.182
Interaction effects					
EM × IE			−0.330*		−0.153
EM × PA				−0.297*	−0.149
IE × PA					−0.148
Configuration					
EM × IE × PA					0.357*
Model fit					
R ²	0.041	0.136	0.182	0.173	0.233
ΔR ² (vs. model 2)			0.046*	0.037*	0.097*
F	0.517	1.442	1.873*	1.765*	2.057*

Note: dependent variable = foreign venture performance; standardized regression coefficients; EM = foreign market entry mode choice; IE = international experience; PA = product adaptation.

***p ≤ 0.001; **p ≤ 0.01; *p ≤ 0.05.

n = 133.

Model 5 additionally includes the three-way interaction between entry mode choice, international experience, and product adaptation. Correct interpretation of higher-order interactions requires that all lower-order interactions and all direct effects are included in the model (Brambor, Clark, & Golder, 2006). The inclusion of the three-way interaction significantly increases the R² value to 0.233 (ΔR² = 0.097* compared to model 2). The standardized regression coefficient of the three-way interaction is positively significant (0.357; p ≤ 0.05) lending support to hypothesis 4 stating that a configuration of non-equity entry modes together with high levels of international experience and product adaptation will positively influence SMEs' foreign venture performance. This finding further supports the notion that resources and capabilities need to be studied in combination (Newbert, 2007, 2008).

Interaction effects need to be plotted to facilitate meaningful interpretation (Dawson, 2014). Figs. 1 and 2 hence display the plots of the two-way interactions. Fig. 1 illustrates the relationship between a firm's foreign market entry mode choice and its foreign venture performance moderated by international experience. For equity entry modes, high or low levels of international experience do not have a strong influence on foreign venture performance. For non-equity entry modes, however, higher international experience significantly improves firm's foreign venture performance. The plot in Fig. 2 reveals a similar picture. That is, the effect of foreign market entry mode choice on foreign venture performance is largely unaffected by the level of product adaptation in the case of equity entry modes. In contrast, non-equity entry modes have significantly higher foreign venture performance in the presence of high product adaptation. Additionally, we conducted simple slope tests as suggested by Aiken and West (1991). These tests display

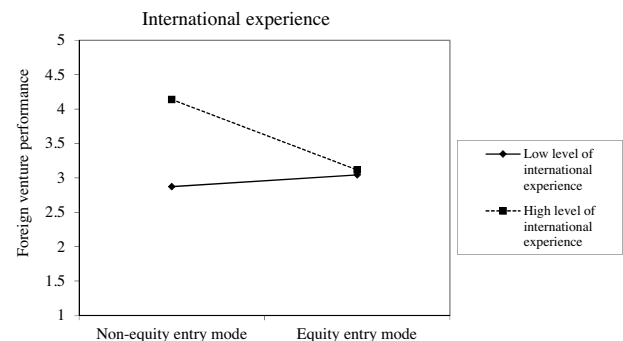


Fig. 1. Foreign Market Entry Mode Choice x International Experience.

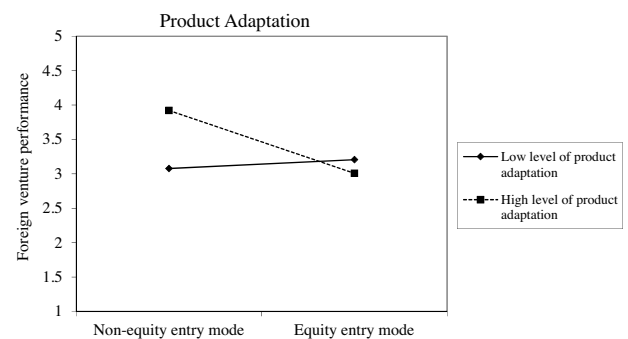


Fig. 2. Foreign Market Entry Mode Choice x Product Adaptation.

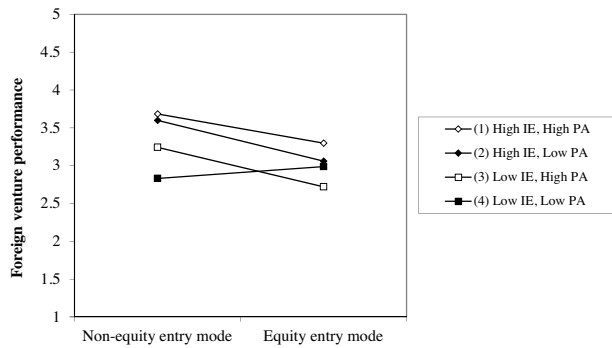


Fig. 3. Three-Way Interaction.

significant results for each interaction lending support to the direction and significance of the interactions' effects.

Fig. 3 displays the joint effect of foreign market entry mode choice, international experience, and product adaptation on foreign venture performance. Firms' entry mode choice is depicted on the x-axis and foreign venture performance on the y-axis. Simple slope testing (Aiken & West, 1991) reveals that slope 1 (which is relevant for hypothesis testing) is significantly different from zero in predicting foreign venture performance. This slope depicts a configuration with high levels of international experience and product adaptation suggesting that foreign venture performance is highest in the case of non-equity entry modes.

6. Discussion

Drawing on the RBV (Barney, 1991; Wernerfelt, 1984), the present study investigates the relation between SME foreign market entry mode choice and foreign venture performance. Besides analyzing the direct influence, the study accounts for the moderating impact of international experience and product adaptation on this relationship. Except for the non-significant direct effect, we find empirical support for our research model. Following recommendations on how to discuss findings from analyzing within-level interaction effects (Andersson et al., 2014), we first discuss the direct relationship before reflecting on the findings from the moderator analysis and the configurational model.

According to our results, SMEs' foreign market entry mode choice has no direct effect on foreign venture performance. This finding is consistent with prior research (Brouthers & Nakos, 2004; Rasheed, 2005) and suggests that the benefits and shortcomings of equity and non-equity entry modes compensate each other. Equity entry modes require a higher initial resource commitment (but have a higher return potential), whereas non-equity entry modes are comparatively less costly (but have a lower return potential) and provide greater flexibility (Brouthers & Nakos, 2004; Sharma & Erramilli, 2004). While equity entry modes facilitate greater closeness to host country markets, non-equity entry modes impede foreign market monitoring (Yeoh, 2004) and expose SMEs to external challenges as well as to potential opportunistic behavior of foreign partners (Beamish & Banks, 1987; Lu & Beamish, 2001).

The insignificant direct effect of entry mode choice on foreign venture performance further emphasizes the context-dependency of the performance outcomes of firms' entry mode choices (Anand & Delios, 1997; Rasheed, 2005) particularly in resource-based contexts (Brouthers, Brouthers, & Werner, 2008; Shrader, 2001). As Brouthers and Nakos (2004, p. 235) put it in the context of SMEs, "(...) there is not one best performing mode choice (otherwise all firms would always use this mode), but (...) managers hope to

make contingency model-based mode choice decisions that they expect will provide them with the best performing mode choice". Thus, the performance effects of entry mode choices must not be investigated in isolation, but rather under consideration of contextualizing factors (Brouthers, 2013; Woodcock et al., 1994). To this end, prior research emphasizes the need to align a firm's strategy (i.e., entry mode choice) with such moderating factors (Rasheed, 2005).

The latter notion is consistent with our RBV-based argumentation that resources and capabilities help SMEs to pursue (entry mode) strategies with greater efficiency (Ainuddin et al., 2007), as we find international experience and product adaptation to help SMEs mitigate their liabilities of smallness and to overcome the disadvantages of non-equity entry modes. Beyond the role of international experience as a predictor of foreign market entry mode choice (e.g., Delios & Beamish, 1999; Schwens et al., 2011), we advance the literature by emphasizing its performance enhancing mechanism for non-equity entry modes. Our results indicate that international experience provides knowledge and routines for international activities (Blomstermo et al., 2006; Eriksson et al., 1997), which is particularly useful to reduce liabilities of smallness and to overcome the disadvantages of non-equity entry modes such as lacking foreign market closeness. Our findings even suggest that in flexible non-equity entry mode settings, SME may use international experience to strategically position their firm as well as to identify and exploit arising opportunities reducing their sensitivity to changes in foreign market conditions (Cieřlik et al., 2015; Zou & Stan, 1998).

Given that international experience particularly improves the relation between non-equity entry modes and performance, future research may also investigate experience-related mechanisms that also enhance the performance of equity entry modes. For example, Gaur and Lu (2007) find a negative effect of host country experience on subsidiary survival that diminishes with increasing ownership levels. Moreover, future research may investigate the influence of specific sub-dimensions of international experience to understand which specific aspects of international experience make SMEs' foreign market entries more successful. For example, Luo and Peng (1999) find that intensity and diversity of experience positively influence subsidiary performance, yet with diminishing returns of experience intensity over time. The claim to disentangle international experience receives additional support by scholars who trace inconsistent findings in the literature back to different international experience measures (Brouthers & Hennart, 2007; Dow & Larimo, 2009).

Product adaptation as a capability also significantly influences the entry mode choice and performance relationship. This result expands findings from Blesa and Ripollés (2008) who emphasize that the adaptation of products helps firms to overcome liabilities of foreignness, by showing that such adaptation also enables SMEs to mitigate liabilities of smallness. Product adaptation helps SMEs to take full advantage of the flexibility of non-equity entry modes by quickly responding to changing customer demands without the need for extensive foreign market knowledge or the closeness to foreign markets provided by equity entry modes (Yeoh, 2004; Zahra et al., 2000). In contrast to Anderson and Gatignon (1986) who consider equity entry modes to be more suitable for adapted products, we show that adapting products improves the foreign venture performance particularly of non-equity entry modes. From a resource-based stance, adapting products to foreign markets represents an alternative way of resource commitment (Leonidou, 1996; Petersen, Welch, & Nielsen, 2001), which is beneficial for resource-constrained SMEs (Zacharakis, 1997).

To build on our findings, future scholars may investigate varying degrees of product adaptation in foreign markets to better understand this capability. This issue could be of high relevance for

SMEs, which are often niche market players (Yap & Souder, 1994), and would also add to prior research finding a “systematic under-adaptation” of export products (Dow, 2006, p. 212). Future research should also consider that adapting products may also negatively influence the performance of certain entry modes, for example, as it increases the complexity of managing foreign operations (Contractor, Kundu, & Hsu, 2003).

Although it is accepted that well-planned strategies (e.g., entry mode choices) influence organizational performance (Brouthers, 2013; Dess & Davis, 1984), the direct theoretical relation of international experience (based on organizational learning theory) and product adaptation (based on institutional theory) with foreign venture performance warrants the discussion of reverse interaction (i.e., entry mode choice moderates the influence of international experience and product adaptation on performance) (Andersson et al., 2014). The premise of such a view would be that resources and capabilities unfold their value only in the context of certain strategies (Lynch, Keller, & Ozment, 2000). However, even though such a theoretical rationale exists in principle, there is a dearth of studies applying this perspective in the entry mode field. In contrast, a body of research holds that a better fit between a firm’s strategy and specific characteristics increases firm performance (Carter, Stearns, Reynolds, & Miller, 1994; Covin & Slevin, 1989; McDougall et al., 1994). Prior entry mode research adopts this view and likewise investigates under which boundary conditions firms’ foreign market entry mode strategies become more successful (Anand & Delios, 1997; Rasheed, 2005; Shrader, 2001), which is consistent with our paper’s premise. However, the lack of studies mirrors a general deficit in strategy research, as “[. . .] those who have attempted to link capabilities and firm performance have not incorporated strategy” (Lynch et al., 2000; p. 47). In fact, research advises not to view both perspectives as conflicting, but rather to integrate them, as neither strategies nor resources/capabilities alone create variance in firm performance (Barney & Zajac, 1994; Edelman, Brush, & Manolova, 2005). We fully concur with this notion and suggest that the different arguments should be considered complementary rather than contradictory in order to advance extant knowledge. Therefore, we encourage future scholars to go beyond our configurational analysis (that provides a first step in this regard) and to delve deeper into the interdependencies between resources, capabilities, firm strategy, and performance.

The present study also advances extant research by studying the joint effect of international experience and product adaptation on the entry mode choice and foreign venture performance relationship. This approach concurs with the notion that resources and capabilities should best be investigated in combination in order to explain variances in firm performance (Newbert, 2007, 2008). Our findings support the notion that SMEs develop a better understanding of international business contexts (Eriksson et al., 1997), which also includes a deeper and more comprehensive understanding of foreign customers’ needs as reflected in product adaptation (Cavusgil & Zou, 1994; Lages et al., 2008). These mechanisms compensate SMEs’ lack of foreign market knowledge effectively, especially in combination with flexible non-equity entry modes (Brouthers & Nakos, 2004). Therefore, our findings advance studies suggesting that international experience supports product adaptation (Calantone et al., 2004; Cavusgil & Zou, 1994; O’Cass & Julian, 2003). Greater flexibility in responding to market changes by means of product adaptation also enables SMEs to mitigate their sensitivity to external challenges by additionally benefiting from international experience. International experience in combination with product adaptation increases firms’ ability to identify and quickly exploit opportunities (Barkema & Drogendijk, 2007; Bloodgood et al., 1996). Given the complementarity of resources and capabilities, we encourage future scholars to

investigate other resource-capability configurations to explain variances in firm performance even beyond moderating effects (Dess et al., 1997).

Finally, we believe that the interplay of resources and capabilities is worth being investigated in a promising field of research, i.e. that of micromultinational enterprises (mMNEs). This firm type has been identified by Dimitratos et al. (2003) and represents SMEs that internationalize through advanced entry modes beyond exporting (Prashantham, 2011). While our research design was not targeted at this specific firm type, the proportion of firms choosing equity entry modes in our sample (46%) emphasizes the relevance of SMEs that operate through advanced market servicing modes. Nevertheless, research on mMNEs to date comprises a limited number of studies. Most researches investigate determinants or characteristics of mMNEs, such as social capital (Prashantham, 2011), industries in which mMNEs operate (Ibeh et al., 2004), or international entrepreneurship, networks, and learning processes (Dimitratos et al., 2014). We encourage scholars to advance this promising field of research by investigating which resources and capabilities are of particular importance for mMNEs (as opposed to SMEs) and how performance gains can be achieved.

7. Limitations and implications

Like most empirical research, our study suffers from limitations. First, the choice of a particular entry mode type might be regarded as endogenous (subject to self-selection) (Brouthers & Hennart, 2007; Shaver, 1998). Shaver (1998) points to the danger of endogeneity especially when employing unobservable variables. This could potentially be the case in our study, as we mostly use self-reported measures. Yet, we do not believe that this constitutes a major problem to our study. In order to validate the subjective performance estimates provided by the respondents of our study, we ran correlation analyses with objective indicators obtained from the AMADEUS database and found significantly positive correlations. Plus, selecting our sample could have introduced endogeneity. However, given the respectability and the representativeness of the AMADEUS database, an adequate response rate, and no significant tests for nonresponse bias, we believe that sample selection did not cause endogeneity issues (Maekelburger et al., 2012).

Second, one should be aware that other resources and capabilities beyond international experience and product adaptation exist that may also address the idiosyncrasies inherent to SMEs with regard to the entry mode choice and foreign venture performance relationship. While we theorize that international experience and product adaptation are highly relevant moderators in our study’s context, investigating further resources and capabilities was beyond the scope of our work, constituting a promising area for future research.

Third, other limitations refer to our dependent variable. Performance is subject to development, while our study provides rather static results. We thus encourage future research to implement longitudinal studies. Moreover, the use of a perceptual performance measure might have introduced biases. For example, respondents could have had a lower (or higher) risk perception, which accordingly would have led to over-optimism (or over-pessimism) (Keil et al., 2000). While we cannot fully rule out such bias, the significant correlations between our subjective performance measure and objective performance data from the AMADEUS database lend support to the robustness of our performance measure.

Fourth, the sampled firms last entered a foreign market on average 1.44 years ago. CEOs make errors when retrospectively assessing strategic decisions (Golden, 1992). While this rather

short period of time elapsed fosters respondents' ability to recall strategic decisions, it may also mean that many CEOs may not have had time to adequately reflect on their firms' performance in the respective market (Vermeulen & Barkema, 2002). We therefore encourage future research to conduct longitudinal studies in order to corroborate our results and rule out any potential bias stemming from retrospective evaluations.

Lastly, our findings have implications for SME managers. Most SMEs are limited in their strategic choices due to resource deficiencies and therefore often prefer non-equity entry modes (Brouthers & Nakos, 2004). Our results indicate that managers and firms should try to acquire international experience, as it enhances the performance of particularly non-equity entry modes. Moreover, firms should consider combining non-equity entry modes with the adaptation of their products to foreign markets' demands. Similar to international experience, our findings indicate that adapted products enhance foreign market performance in the case of non-equity entries. Hence, pairing non-equity entry modes with international experience and product adaptation enables resource-constrained SMEs to compensate the performance disadvantages of non-equity entry modes compared to the more resource-intensive equity entry modes.

Appendix A. : Measurements items

Variable	Source
Dependent variable: Foreign venture performance	
Please indicate how satisfied you are . . .	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the sales growth in the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the sales volume in the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the (pre-tax) profitability in the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the market share in the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the market access to the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the marketing activities in the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with the distribution in the foreign market entered most recently.	adapted from Brouthers & Nakos, 2004; Brouthers et al., 1999
. . . with your firm's performance in the foreign market entered most recently.	adapted from Jaworski and Kohli (1993)
. . . with your overall performance in the foreign market entered most recently, relative to your competitors.	adapted from Jaworski and Kohli (1993)
Independent variable: Foreign market entry mode choice	
Non-equity entry modes coded "0": Direct export, export through distributors, franchises, licensing, long-term contractual agreements	Brouthers & Nakos, 2004; Maekelburger et al., 2012; Nakos & Brouthers, 2002; Pan & Tse, 2000; Schwens et al., 2011
Equity entry modes coded "1": Joint ventures, equity participations, acquisitions, and greenfield wholly-owned subsidiaries.	
Moderator variable: International experience (5-point Likert scale)	
Our firm had prior and long standing international experience.	Brouthers & Nakos, 2004; Schwens et al., 2011
The management team had prior and long standing international experience.	Brouthers & Nakos, 2004; Schwens et al., 2011

(Continued)

Variable	Source
Moderator variable: Product adaptation (5-point Likert scale)	
Compared to our competitors, we adapt our products/services to foreign markets	adapted from Lee & Griffith, 2004
When developing new products/ services, we consider foreign customers' tastes and preferences.	adapted from Lee & Griffith, 2004
Control variables	
Firm age (Year of data collection less founding year of the firm)	Lu, Zhou, Bruton and Li (2010)
Firm size (Number of employees)	AMADEUS database
Family business (0 = no, 1 = yes)	Maekelburger et al., 2012
International scope (number of countries in which firm sells products)	Agarwal & Ramaswami, 1992; Cavusgil & Zou, 1994
Time elapsed since the firm's most recent foreign market entry	Ghuri & Buckley, 2003
Industry (1 = hightech, 0 = other)	Brouthers, 2002
How important were the following motives at the time of entry into the foreign market entered most recently?	
Motive cost advantages (5-point Likert)	Maekelburger et al., 2012
Motive market exploitation (5-point Likert)	Maekelburger et al., 2012
Motive risk diversification (5-point Likert)	Maekelburger et al., 2012
Satisfaction with overall firm performance (5-point Likert)	Jaworski and Kohli, 1993

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