Journal of International Management 24 (2018) 257–270

Contents lists available at ScienceDirect

Journal of International Management

journal homepage: www.elsevier.com/locate/intman

# Disentangling resource and mode escalation in the context of emerging markets. Evidence from a sample of manufacturing SMEs

Yusaf Akbar[a], Bernardo Balboni[b], Guido Bortoluzzi[b], Desislava Dikova[c,*], Andrea Tracogna[b]

[a] Central European University, Budapest, Hungary
[b] University of Trieste, Department of Economics, Business, Mathematics and Statistics, Trieste, Italy
[c] Vienna University of Economics and Business, Department of Global Business and Trade, Vienna, Austria

## 1. Introduction

Faced with persistently slow economic growth at home, and the progressive saturation of their traditional foreign markets, an increasing number of SMEs from Western countries are currently ramping up their internationalization efforts in emerging markets (EMs) (Kalinic and Forza, 2012; Bortoluzzi et al., 2014). According to the stage-based internationalization literature (Johanson and Vahlne, 1977; Petersen and Pedersen, 1997; Andersen, 1993), when establishing their business in foreign markets, firms (both large and small) typically follow a gradual approach to internationalization. They initially enter markets through low-commitment modes (e.g. indirect exports) and after some time, by drawing on market experience, gradually increase investment to medium and high commitment modes (such as joint ventures and other foreign direct investment (FDI modes). Another feature of this internationalization pattern is that foreign markets are entered sequentially, starting from those that are the closest in terms of psychic distance. The challenge with this stage-based model of internationalization is that it was originally conceived in a different economic context, where firms from advanced markets expanded mainly toward other advanced markets (Ruzzier et al., 2006). By contrast, we know less about smaller firms' establishment chain in EMs.

How do Western SMEs approach these fast-growing markets? To what extent do they have to adapt and revise modes of operation into these markets? Within the stage-based approach to EMs, what happens after initial market entry is as important as the mode of entry itself. Indeed, there is much to learn about SMEs' managerial motivations to increase or reduce initial investment in such markets (Dalli, 1994; Brouthers, 2013). Despite this, scholars have addressed mainly the theme of SMEs initial entry decisions in EMs (Sandberg, 2013, 2014; Bortoluzzi et al., 2014) while few empirical studies have analysed how SMEs get established in EMs after their entry phase (Calof and Beamish, 1995; Swoboda et al., 2011). This paper addresses this gap.

We have based our research on a sample of Italian exporting SMEs, operating across four sectors (Food, Furniture, Mechanics/Machinery, and Textile/Clothing). This sample is suitable for the goals of our study for several reasons. First, these manufacturing firms operate in traditional sectors, less affected by the “born-global” phenomena and more inclined to follow sequential patterns of internationalization. Second, while showing a strong international orientation, Italian SMEs as with many European SMEs, have a clear preference for exporting rather than FDI or JVs, both at the time of entry and at a later stage of their foreign presence (Zucchella and Hagen, 2015). Third, in many cases SMEs' foreign operations are mediated by a local distributor providing market-specific knowledge and market access.

Our research paints a comprehensive picture of manufacturing SMEs' internationalization strategies in EMs that examines two types of escalation of commitment: the first (between modes) occurs through riskier modes of operation, as typically described by the stage-based internationalization theory; the second (within modes) results in the escalation of resource commitment within the initial mode of operation. In line with stage-based internationalization theory, we posit that market-specific experiential knowledge and

* Corresponding author.
*E-mail address:* desislava.dikova@wu.ac.at (D. Dikova).

https://doi.org/10.1016/j.intman.2018.01.003
Received 1 November 2016; Received in revised form 24 January 2018; Accepted 25 January 2018
Available online 15 February 2018

performance obtained after initial market entry are associated with SMEs' decisions to escalate (reduce) their commitment in EMs. Our distinctive contribution to the literature lays in our assertion that unlike psychic distance, the obstacles created by insufficient institutional development in EMs i.e., institutional voids (IVs) are more difficult to overcome by foreign SMEs over time. IVs create uncertainties and risks for foreign SMEs, which likely hinder them from increasing their local market commitment. Our research follows previous contributions made by Meyer et al. (2009) and Santangelo and Meyer (2011) on the impact of IVs on MNE strategies, and shows that IVs have a negative direct effect on SMEs' mode escalation but not on resource escalation. Resource escalation is significantly affected by the interaction of market performance and IVs while mode escalation is significantly affected by the interaction of market experience and IVs. In sum, this paper extends the stage-based (Uppsala) model with insights from institutional theory (North, 1995) and aims for a more context-specific explanation of SMEs' escalation of commitment (resource and/or mode) in EMs.

The rest of our paper is organized as follows. In Part 2, we present the theoretical background to our research and formulate specific research hypotheses. In Part 3 we provide information about our methodology while in Part 4 we present the empirical results. Part 5 concludes the paper with a discussion on the theoretical, managerial and policy implications of our results.

## 2. Theoretical background and research hypotheses

### 2.1. Stepwise internationalization of the SME in EMs

The Uppsala model is probably one of the most enduring and cited models in international business theory (Johanson and Vahlne, 1977; Petersen and Pedersen, 1997). According to this model, firms choose their optimal mode of serving a foreign market by considering their costs and risks in this particular market and their own available resources (Hood and Young, 1979). The level of market-entry commitment is related to the firm's familiarity with the market—the more psychically distant the market, the riskier it becomes for the firm to serve this market and hence it tries to minimize its investments by choosing a less resource-intensive mode of operation. The underlying assumptions of the original model are uncertainty and bounded rationality. Specifically, firms learn from their current operations and activities in the foreign market. Over time, this learning reduces the level of uncertainty and allows the firms to strengthen their position in the market by escalating their commitment. The Uppsala model did not initially specify the form that the increased commitment might take (Johanson and Vahlne, 2009). Also, the process of increasing commitment was not designed to be deterministic; to the contrary, it has been recently suggested that commitment might decline or even cease if performance prospects are not sufficiently promising (Johanson and Vahlne, 2009). This interpretation of the model, describing the decisions about commitment level and the activities subsequently performed in the market as a direct result of a) experiential knowledge-development and b) performance evaluation, serves as the foundation of this current research.

Despite not specifically conceived to explain the internationalization process of SMEs, the Uppsala model has found wide acceptance and application in studies focusing on smaller firms (Andersson et al., 2004; Gankema et al., 2000). Many of such studies found that the typical establishment chain of the SME is characterized by low-commitment modes at the time of foreign market entry (e.g., indirect export), followed by progressive and cautious escalation in investment (e.g., direct export, licensing, JV) as the local market experience of the firm increases. Yet, in contrast to larger multinational enterprises (MNEs) that adopt internalized (and highly resource- and capability-intensive) modes of entry (e.g. FDI, see Santangelo and Meyer (2011) for further insights), SMEs are often required to externalize their activities (such as finding and cooperating with local marketing and distribution intermediaries) thereby exposing themselves to a greater degree of risk and uncertainty in the local business environments (Bortoluzzi et al., 2015).

For many SMEs, entering EMs represents an opportunistic move rather than a fully planned strategy because it compensates for a decrease in demand in advanced markets (Bortoluzzi et al., 2014). Overall, the internationalization strategy of smaller firms is characterized by low-commitment modes, high levels of “trial and error” adaptations to strategy and minor incremental investments, often interrupted by sudden de-commitment or exit moves (Ciravegna et al., 2014; Cassia and Magno, 2015). Such strategy represents an alternative to the typical sequential patterns of internationalization as described by Johanson and Vahlne (1977, 1990). In EMs in particular, SMEs appear to be subject to the disadvantages of institutional voids (IVs) that are peculiar to these markets. IVs can be so pronounced that neither a full establishment in the market nor an escalation in resource commitment are possible (Bortoluzzi et al., 2015). Often SMEs lack the full support of governmental policies and safeguards (such as credit insurance). When operating in EMs SMEs appear to be stuck in a precarious position, where they are prevented from investing the resources necessary for developing sustainable competitive advantage while still actively searching for local growth opportunities. As a consequence, the range of strategic options available to SMEs in EMs include the changes in mode of presence, as suggested by the Uppsala model (escalation along the establishment chain) and/or (de-)commitment of (additional) resources within the initial market entry mode (e.g., additional marketing investments, more dedicated personnel to specific foreign markets, etc.).

### 2.2. EM “Institutional Voids” and SMEs' commitment

Developed host markets, characterized by local institutions similar to the institutions of the home market, may not cause significant impediments to SMEs. By contrast, research on doing business in EMs presents a distinctly different picture of the local environment. EMs are associated with both great opportunities and great threats for firms. While opportunities are mainly connected to the socio-economic conditions that characterize such markets – robust economic growth coupled with favorable demographic dynamics – the threats are mainly ascribable to “unfamiliar conditions and problems” (Arnold and Quelch, 1998: 8) that specifically distinguish EMs from more developed markets. The typical problems for firms in EMs stem from operating in an environment characterized by institutional voids (IVs). IVs are characterized by under-developed legal and regulatory institutional frameworks to

support business operations (Khanna and Palepu, 1997). Due to IVs and resulting shortcomings within local institutions, such as labour market legislation, logistics infrastructure, intellectual property rights protection, market systems (including sales and distribution networks), administration and corruption control, numerous studies have indicated that foreign investors incur additional costs related to interfaces with the government sectors such as obtaining permits and getting goods through customs (Cuervo-Cazurra, 2006; Rodriguez, Uhlenbruck and Eden, 2005), suffer from information asymmetries when dealing with local market players (Chen, Ding and Kim, 2010) or from unforeseen contracting costs due to high law enforcement costs (La Porta, Lopez-de-Silanes and Shleifer, 1999; Zhou and Poppo, 2010).

Research has emphasized the influence of institutional heterogeneity (and dysfunction) relative to developing country contexts and on the efficacy of subsequent initiatives in such markets (i.e., Khanna and Palepu, 2010; Ferreira et al., 2009; Henisz, 2004; Xu and Shenkar, 2002; Kostova and Zaheer, 1999). Meyer et al. (2009) found that a high level of IVs determines a lower-commitment entry mode for large multinational firms in international markets because of the higher risks and uncertainties associated with the firm's investments in such contexts. He et al. (2013) showed that IVs have an impact on the selection of the export channel type and on subsequent export performance of the exporting firm. Broadman et al. (2004) and Welter and Smallbone (2011) noted that in the context of Eastern European countries, high IVs may discourage exporting firms from investing directly in the market. Research based on Transaction Cost Theory logic uses the role of opportunism to illustrate how SMEs handle their weaker bargaining position and increased vulnerability to opportunism compared to MNEs (Bruneel and De Cock, 2016). Hutchinson et al. (2006) argue that the limited resources of SMEs force them to adopt low control entry modes in foreign markets.

The literature discussed above suggests that the institutional setting in which SMEs operate influences directly their investment decisions to the particular market. Santangelo and Meyer (2011) argue that IVs are unlikely to cause a market withdrawal as it would be associated with a loss of the operation but instead MNEs undertake resource escalation strategies to cope with uncertainty. Unlike the arguments put forth by these authors that IVs stimulate MNEs to implement consistent resource commitment strategies we suggest that SMEs are likely to be negatively affected by IVs and therefore be more cautious than MNEs in their decisions to commit additional resources in markets characterized by substantial IVs. A recent study by Goedhuys and Sleuwaegen (2016) suggests SMEs have limited resources and need to work around institutional voids. The combination of high degree of uncertainty due to unforeseen changes and instability in the market (Akbar et al., 2014) and resource constraints typical for SMEs would result in a negative impact on their decisions to escalate resource commitments. We extend these arguments and posit that SMEs do not possess the capabilities to internalize many of their activities in the way MNEs can and are therefore unlikely to engage in resource or mode escalation in EMs. We thus hypothesize:

**H1a.** Higher institutional voids exert a negative effect on SMEs' resource escalation in EMs.

**H1b.** Higher institutional voids exert a negative effect on SMEs' mode escalation in EMs.

### *2.3. The moderating effect of market experience and market performance*

The challenges of operating in a context characterized by significant IVs are numerous. For example, IVs create opaque markets in turn causing severe information asymmetries and ultimately raising transaction costs such as monitoring and contract-enforcement costs for foreign firms (Xu and Meyer, 2013; Khanna et al., 2005). Under such circumstances, SMEs will find it harder to predict parameters they need to take strategic decisions such as escalation of market commitment (e.g., business cycles, government actions, outcomes of legal proceedings, among others). However, local market experience and market success are two critical factors that may allow such firms to modify their entry strategies in EMs and adapt to IVs. In the following sections we develop our theory to reflect our notion of the positive moderating effects local market experience and market success may exert on the relationship between IVs and market-presence escalation.

The Uppsala model establishes that over time firms accumulate local market experiential knowledge, which in turn affects their market commitment. Past research has suggested that SMEs are particularly sensitive to IVs (Cheng and Yu, 2008; Erramilli and D'Souza, 1993) however SMEs' international experience (country-specific experience in particular) allows SMEs to reduce uncertainty in their foreign market entry mode choice (Laufs and Schwens, 2014). According to Mair and Marti (2009), to cope with IVs firms make other types of institutional arrangements such as developing informal systems and networks to substitute for formal institutions (Puffer et al., 2010). Liabilities of foreignness and outsidership (e.g., the lack of necessary business relationships in the foreign environment) can be overcome through experience and learning, reducing the costs of operating in the market and creating an incentive for escalating market commitment (Johanson and Vahlne, 2009).

As a result of their improved understanding of the business, political and social systems, experienced firms have the ability to identify both opportunities and threats in EMs marked by IVs. Denrell et al. (2003) note that in a volatile environment there is continuing renewal of each firm's view of opportunities. In line with this reasoning, we stipulate that SMEs operating in EMs marred by IVs are likely to gain more understanding of the local conditions through local market experience and thus commit additional resources or engage in mode escalation. Conversely, SMEs with limited or no local experience in EMs will limit their resource commitment under IVs. It is possible that SMEs could opt for either resource (less risky escalation) or mode escalation (more risky escalation) depending on the extent of their local experience with IVs. Nevertheless, local market experience has a positive moderating effect on the relationship between IVs and both resource- and mode escalation and this leads to our second pair of hypotheses:

**H2a.** SME market experience positively moderates the negative effect of institutional voids on resource escalation in EMs.

**H2b.** SME market experience positively moderates the negative effect of institutional voids on mode escalation in EMs.

Research considers market performance indicators as one of the critical drivers of organizational change (Argote and Greve, 2007). Typically, all organizations operate in conditions of bounded rationality, where managers have limited information-gathering, attentional, and information-processing abilities (March and Simon, 1958). To cope with the complexities of operating in EMs, managers have to simplify 'the real world' for purposes of choice (Simon, 1955). Regardless of the specific goals of SMEs in EMs (e.g., improving profitability, organic growth, wealth redistribution, etc.), SME managers are likely to attend to market stimuli that they perceive as more congruent with their goal. Positive market performance naturally creates a stimulus for escalating commitment to a market.

Managers experience uncertainty when they lack confidence in understanding the shifts in major trends or when they are powerless to anticipate future demand (López-Gamero et al., 2011). This is particularly true for EMs that have opened up and grown rapidly during the past decades but generally offer unreliable information about consumers' behaviours and demand patterns (Khanna et al., 2005). Market research is often underdeveloped in EMs and building reliable consumer databases for the purpose of segmenting consumers is difficult. SME manager's ability to rely on market analysis under IVs is likely diminished, and market performance will be a major reference-point for implementing changes in the ways of serving the EMs.

Kumar et al. (2015) suggest that a firm's past strong financial performance is a precondition for substantial escalation of investments in foreign markets as good performance provides time for these investments to bear fruit. However, research indicates that entrepreneurs do not readily adjust their beliefs in the light of new information (Liesch et al., 2011). Considering the role of resource-constraints, SME managers operating in EMs with substantial IVs are likely to be more conservative regarding decisions related to escalating market presence. Firms with lower performance face similar constraints as very small firms as they lack financial and management resources for engaging in strategic planning (Brouthers et al., 2007). We posit that SMEs with lower performance in EMs will limit their resource commitment under IVs. A similar phenomenon can be observed when we consider entry modes. Conversely, good market performance is likely to influence escalation of presence in EMs. It is possible that SMEs could opt for either resource (less risky escalation) or mode escalation (more risky escalation) depending on how good their performance is in EMs marred by IVs. Nevertheless, performance has a positive moderating effect on the relationship between IVs and both resource- and mode escalation and this leads to our third pair of hypotheses:

**H3a.** SME market performance positively moderates the negative effect of institutional voids on resource escalation in EMs.

**H3b.** SME market performance positively moderates the negative effect of institutional voids on mode escalation in EMs.

## 3. Research methodology

### *3.1. Data collection*

We have based our research on a sample of Italian exporting SMEs that belong to a set of traditional manufacturing industries – Food, Furniture, Mechanics/Machinery, and Textile/Clothing. We used a multi-industry sample in order to increase observed variance and to strengthen the generalizability of our findings (Bello and Gilliland, 1997; Morgan et al., 2004). We focused exclusively on manufacturing firms due to reported differences in the specific international expansion patterns of service firms (Zou and Cavusgil, 2002; Morgan et al., 2004).

A sampling frame was generated from the Aida Bureau van Dijk database. We first identified a random sample of 974 internationalized manufacturing SMEs. Our selection was based on the definitions provided by the European Union that defines an SME as a firm employing $< 250$ persons. All firms in the sample were expected to be active both in developed and EMs. Such a varied presence offers the respective managers a more objective and grounded understanding of the characteristics of the different markets, thus guaranteeing a minimum level of internationalization knowledge. After an initial phone contact, 385 companies were excluded from the sample because they turned out not to export to EMs. Among the remaining 589 eligible firms, ninety-one firms agreed to participate in our study. Two of them were eventually excluded due to incomplete data. In the end, the sample comprised eighty-nine firms, corresponding to a return rate of 15.6%. We controlled for potential differences between our sample (89) and the eligible population (589). We tested for nonresponse bias with respect to the age of the firm, number of full-time employees and industry belonging. The lack of significant differences suggested that response bias was not a significant issue (Armstrong and Overton, 1977).

In this study, the foreign market activity (an operation of a particular SME in a specific emerging market) represents the unit of analysis. In international marketing research, this has been the unit of analysis in several previous studies (e.g., Lages et al., 2008; Lages et al., 2009; Morgan et al., 2004). More than one third of the sampled firms (34.6%) have been included in the dataset with their single foreign market activity in an EM, and the rest of the sampled firms have been included with two or more foreign market activities (operations). Overall, we identified 197 foreign market activities (foreign operations) initiated by eighty-nine SMEs.

Before conducting the data collection, we used an exploratory research approach to refine the items of measurements, based on academic literature, and reduce response bias (Hunt et al., 1982). First, a panel of academic experts in international business and EMs discussed all the items in depth. This stage was critical in evaluating the pertinence of the measures and identifying particular issues related to the specific research context, i.e. EMs. The second step of the refinement procedure was to submit a questionnaire to two CEOs and three export managers of manufacturing firms operating in different industry sectors, through structured face-to-face interviews. This stage allowed for a better definition of individual item content, clarifying the instructions, and evaluating respondent competence. Our preliminary interviews revealed that the respondents were particularly knowledgeable about their own fields and those EMs in which their firms operate.

All the questionnaire was originally developed in English, and translated into Italian to collect the data. Back-translation was employed to ensure comparability of the original and translated versions of the questionnaire. Data collection was conducted over the phone, with the support of trained interviewers, between March and May 2013. To identify key informants for data collection, we used two criteria: a) possession of knowledge about a firm's international activities and b) high level of involvement in the firm's activities in EMs. Of the respondents, 58% were either the CEO or a member of the Board of Directors; the remaining 42% were senior executives in specific positions related to international management, such as sales directors, foreign sales directors, and marketing directors.

Several checks were made in order to verify the profile of key informants and thus ensuring data validity (Kumar et al., 1993): (1) how long the informant had been working for the firm (years), (2) how knowledgeable she/he deemed her/himself regarding the firm's international activity in general and (3) regarding the firm's expansion in EMs. Items 2 and 3 were measured on a five-point Likert scale, anchored by 'very low knowledge' (1) and 'very high knowledge' (5). The average working experience of respondents in their current firm was about twelve years (eight years in their current position). The mean responses for the second and third items were 4.05 (SD = 0.74) and 4.12 (SD = 0.61), respectively. All respondents indicated that they had sufficient knowledge (higher than 3) about their firm's activities in EMs hence we consider they provided reliable information. To address the potential for common method bias, we followed recommendations for both *ex ante* survey design choices as well as performed *ex post* analyses (Conway and Lance, 2010; Podsakoff et al., 2003). Regarding *ex ante* research design, we followed the recommendations of Conway and Lance (2010). We decided to address the questionnaire to a single respondent in each firm, rather than to multiple respondents, as our study concerns mainly small and medium-sized firms where typically only one person fits key informant criteria. We verified the absence of conceptual overlap for items used to measure different constructs.

Regarding *ex-post* research design (Podsakoff et al., 2003), the potential for non-response bias was checked by comparing the characteristics of the respondents with those of the original population sample: *t*-statistics for the number of employees, sales volume and age of the company were all statistically insignificant, suggesting that there are no significant differences between the respondent and non-respondent groups. Furthermore, as all measures were collected via the same questionnaire, we used Harman's one-factor in order to check the possibility for common method bias (Podsakoff et al., 2003). This test required that we load all items into a single exploratory factor analysis. The analysis produced six factors with eigenvalues greater than one. Taken together, these factors explained 64% of the variance in the data, with the first extracted factor accounting for 14% of the variance in the data. Given that more than one factor was extracted and < 20% of the variance can be attributed to the first factor, common method bias is unlikely to be a significant issue with our data.

Table 1 below provides information on the industry distribution of the sample, number of employees, and foreign sales to total sales.

In terms of employment, the average size of the sampled firms is around thirty-three employees. The ratio of foreign turnover to total turnover averages 60%. Sales from EMs represent > 23% of the total turnover. A broad range of foreign markets is covered: the sampled firms export to thirteen developed markets and to more than ten EMs on average. Table 2 provides information about the 197 foreign market ventures in terms of their market destinations. Russia has been the most selected market, followed by Poland, and China.

### 3.2. Measurements

#### 3.2.1. Dependent variables: resource and mode escalation

The escalation of commitment can be thought of in two ways. First, the degree to which additional resources, both organizational and managerial, have been allocated to operations within a specific foreign market after the entry phase (Lages and Montgomery, 2004). To assess the change in resource commitment within the mode of operation, we assessed the ratio of the level of the resources

**Table 1**
Composition of the sample population.

| | Category | Percent |
|---|---|---|
| Sectors | Food | 26.4 |
| | Apparel, textile and other finished products | 20.8 |
| | Mechanical and electronics | 24.9 |
| | Wood and furniture | 27.9 |
| Size (n. of employees) | ≤10 | 6.5 |
| | 10–20 | 20.7 |
| | 20–50 | 58.2 |
| | > 50 | 14.6 |
| Foreign sales to total sales (%) | ≤10 | 4.5 |
| | 10–20 | 5.1 |
| | 20–50 | 29.4 |
| | > 50 | 51.0 |
| Market scope (n. of foreign markets) | < 10 | 7.6 |
| | 10–20 | 35.0 |
| | 20–50 | 54.9 |
| | > 50 | 2.5 |

**Table 2**
Emerging markets ventures.

| Market | Percentage |
|---|---|
| Russia | 15.7 |
| Poland | 9.1 |
| China | 8.6 |
| India | 7.6 |
| Turkey | 7.1 |
| Brazil | 6.1 |
| South Korea | 5.1 |
| Czech Republic | 5.1 |
| Saudi Arabia | 4.6 |
| Hong Kong | 3.6 |
| Hungary | 3.6 |
| Indonesia | 3.0 |
| Mexico | 3.0 |
| South Africa | 2.5 |
| Chile | 2.5 |
| Singapore | 2.5 |
| Egypt | 2.0 |
| Argentina | 1.5 |
| Colombia | 1.5 |
| Israel | 1.5 |
| Philippines | 1.0 |
| Thailand | 1.0 |
| Venezuela | 1.0 |
| Malaysia | 0.5 |

invested in the actual (current) phase to those resources deployed in the entry phase. We used a composite index of three indicators commonly used in literature to assess the level of resources committed in the two distinct phases (Papadopoulos and Martín, 2010): the number of employees committed to the EM activities, the level of resources invested in communication activities and advertising, and the degree of collaboration with the distribution network in the EM. For those companies that may have chosen not to invest additional resources after the entry phase, this ratio is equal to one; for those companies that may have committed more resources with respect to the entry phase, this ratio is greater than one; and for those companies that may have reduced their commitment, this ratio is below one.

Second, escalation of commitment after the entry phase in terms of additional investments into a higher mode in the establishment chain (Swoboda et al., 2011). This has been measured as the ratio of the actual (current) operations mode to the operations mode adopted in the entry phase. Since both indirect and direct forms of export are of great importance for small firms (Pedersen et al., 2002), we have relied on a wider range of modes (Swoboda et al., 2011) that provides a more detailed differentiation: 1) indirect export; 2) direct export; 3) strategic alliance (non-equity based agreements including also franchising); 4) joint ventures (equity-based agreements) and 5) Foreign Direct Investment (FDI). We asked the executives to indicate the mode of current operations and the mode of entry separately. Each mode of presence, both at entry and current level, has been captured by a dummy variable. The possibility to indicate a combination of modes of operation in the EM, both at current and entry stage, has been given to the respondents. Each combination of internationalization modes (described in Table 3) has been weighted as follows (Johnson and Tellis, 2008; Giachetti, 2016):

**Table 3**
Changes in the combination of modes.

| Entry mode | Present mode | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | |
| | Indirect export | Direct export | Direct + indirect | Strategic alliances | Strategic alliances + direct | JV/FDI | JV/FDI + direct export | |
| (1) Indirect export | **119** | 4 | 0 | 0 | 0 | 0 | 0 | **123** |
| (2) Direct export | 4 | **25** | 0 | 0 | 1 | 1 | 3 | **34** |
| (3) Direct + indirect | 0 | 0 | **24** | 0 | 0 | 0 | 0 | **24** |
| (4) Strategic alliances | 1 | 0 | 0 | **3** | 0 | 1 | 0 | **5** |
| (5) Strategic alliances + direct export | 0 | 0 | 1 | 0 | **0** | 0 | 1 | **2** |
| (6) Joint venture / FDI | 0 | 0 | 0 | 1 | 0 | **1** | 2 | **4** |
| (7) Joint venture/ FDI + direct export | 0 | 0 | 0 | 0 | 0 | 1 | **4** | **5** |
| Total | **124** | **29** | **25** | **4** | **1** | **4** | **10** | **197** |

**Table 4**
Overall firm's escalation.

| | Between modes | | Within modes | |
|---|---|---|---|---|
| | n. | % | n. | % |
| De-escalation | 8 | 4.1 | 14 | 7.1 |
| Stability | 176 | 89.3 | 132 | 67.0 |
| Escalation | 13 | 6.6 | 51 | 25.9 |
| Total | 197 | 100 | 197 | 100 |

- Indirect export: weight 1;
- Direct export: weight 2;
- Direct + indirect export: weight 3;
- Strategic alliances: weight 4;
- Strategic alliances + export modes (direct and/or indirect): weight 5;
- Joint ventures/FDI: weight 6;
- Joint ventures/FDI + export modes (direct and/or indirect): weight 7.

The escalation in mode has been calculated by dividing the weight of the current mode by the weight of the entry mode (see Appendix A). For those companies that may have chosen not to make any changes the ratio is equal to one; for those companies that may have switched from an initial mode into a mode with higher commitment this ratio is above one; and for those companies that may have reduced the mode of operations this ratio is below one.

A complete listing of the changes in the mode of presence (between modes), and in resource commitment (within mode), is provided in Table 4.

### 3.2.2. Independent variables

*Market Experience* reflects the experience that SME managers have accumulated from operating in a specific international market (Welch and Luostarinen, 1988). This variable was measured as the number of years since the SMEs made their first entrance in the foreign market (Pedersen et al., 2002). The variable was used in its logarithmic form.

*Market performance* is conceptualized as the extent to which a firm's objectives with respect to exporting a product to a market have been achieved after the entry phase (Cavusgil and Zou, 1994). In line with Pedersen et al. (2002), this construct reflects the satisfaction with the initial entry mode selected by firms. As the international business literature considers both financial and non-financial measures of international performance (Zou and Stan, 1998), we used multiple perceptual indicators of international financial and non-financial performance (Jantunen et al., 2005). Survey respondents were asked to indicate their degree of satisfaction (1 = very dissatisfied, 5 = very satisfied) with the performance achieved in the market after the entry phase, based on five dimensions: sales volume, market share, profitability, sales growth, and achievement of strategic objectives. The average of the five items was used as an overall indicator. Cronbach's coefficient alpha for this variable is 0.862.

*Institutional Voids* (*IVs*) have been operationalized through a seven-item scale that reflects the perceived conditions of the political and social system, the degree of openness, the level of patent protection, and the features of the product market, the labour market, and the capital market of the different institutional contexts (Khanna et al., 2005). The use of perceptual measures instead of available secondary measures is supported in the literature (i.e., Busenitz et al., 2000; Leonidou, 2004) and in the case of IVs is even recommended. We follow the suggestion of Brouthers (2013: 16) that "creating such measures aligns the measure better with the specific decision being examined or firm action being undertaken, improving our understanding of the impact of institutional environments on firm outcomes". As IVs is a formative construct composed by several aspects, its reliability has been checked by assessing the assumption of non-multicollinearity (Diamantopoulos and Siguaw, 2006). Variance Inflation Factor (VIF) has been evaluated and each indicator's tolerance value has resulted higher than 0.20 and lower than 3.30 (Diamantopoulos and Siguaw, 2006). The composite indicator derived from our perceptual measurements was compared to a composite measure obtained by the World Bank's Governance Indicators (Kaufmann et al., 2009), composed by several items, such as voice and accountability (measuring political, civil and human rights), political stability (measuring the likelihood of threats to or changes in government), government effectiveness (measuring the competence of the bureaucracy and the quality of public services), regulatory quality (assessing the incidence of market-unfriendly policies), rule of law (measuring the quality of contract enforcement, and the courts, as well as the likelihood of crime and violence) and corruption control (measuring the exercise of public power for private gain). The absence of significant differences represents a robustness check of our perceptual composite indicator and also mitigates the risk of potential underestimation of dynamic change of IVs over time (the results of the test are available upon request).

### 3.2.3. Control variables

Although no specific hypotheses were developed for the effects of firm size, firm age, overall international experience, industry type, business relationship context, psychic distance, ROA and liquidity ratio, these variables have been incorporated in the analysis (Table 5) as control variables (Contractor et al., 2007; Lu and Beamish, 2001). *Firm size* was measured by the natural logarithm of total sales turnover. *Firm Age w*as measured by the natural logarithm of the number of years of a firm's operations since foundation.

**Table 5**
Correlations.

| | | Mean | St. dev | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Mode escalation | 1.06 | 0.40 | 1.000 | | | | | | | | | | | | | | | |
| 2 | Resource escalation | 1.07 | 0.23 | 0.236** | 1.000 | | | | | | | | | | | | | | |
| 3 | Firm size | 16.16 | 0.53 | 0.031 | 0.014 | 1.000 | | | | | | | | | | | | | |
| 4 | Firm age | 3.68 | 0.60 | −0.102 | 0.008 | 0.109 | 1.000 | | | | | | | | | | | | |
| 5 | B2B | 0.57 | 0.50 | −0.019 | 0.023 | 0.191** | 0.115 | 1.000 | | | | | | | | | | | |
| 6 | Ind1 (Food) | 0.26 | 0.44 | −0.096 | 0.004 | 0.437** | 0.056 | −0.176** | 1.000 | | | | | | | | | | |
| 7 | Ind2 (Fashion) | 0.21 | 0.41 | 0.008 | −0.127* | −0.185* | −0.191* | 0.043 | −0.307** | 1.000 | | | | | | | | | |
| 8 | Ind3 (Furniture) | 0.28 | 0.45 | 0.233** | 0.087 | −0.219** | −0.092 | −0.349** | −0.373** | −0.319** | 1.000 | | | | | | | | |
| 9 | Ind4 (Mechanical) | 0.25 | 0.43 | −0.152* | 0.025 | −0.044 | 0.218** | 0.501** | −0.345** | −0.295** | −0.358** | 1.000 | | | | | | | |
| 10 | Int. experience | 3.02 | 0.62 | −0.064 | 0.086 | 0.116 | 0.420 | 0.068 | −0.170* | −0.005 | 0.040 | 0.137* | 1.000 | | | | | | |
| 11 | Psychic distance | 0.823 | 0.420 | 0.088 | −0.027 | −0.001 | 0.108 | −0.023 | 0.040 | −0.041 | 0.067 | −0.072 | 0.071 | 1.000 | | | | | |
| 12 | ROA | 1.04 | 0.57 | 0.056 | −0.012 | 0.093 | −0.252** | 0.192** | −0.028 | 0.061 | −0.103 | 0.078 | −0.174* | −0.135** | 1.000 | | | | |
| 13 | Liquid ratio | 5.02 | 6.39 | 0.182** | −0.019 | −0.242** | 0.032 | −0.032 | −0.070 | 0.109 | 0.004 | −0.035 | 0.087 | −0.006 | 0.398** | 1.000 | | | |
| 14 | Market experience | 1.86 | 0.50 | 0.161* | 0.197** | 0.022 | −0.049 | 0.202** | −0.253** | −0.039 | 0.161* | 0.127* | 0.074 | −0.132* | −0.020 | −0.020 | 1.000 | | |
| 15 | Market performance | −0.09 | 0.92 | −0.043 | 0.025 | 0.214** | −0.088 | 0.129* | 0.050 | 0.019 | −0.130* | 0.066 | 0.044 | 0.172* | −0.259** | 0.138* | 0.041 | 1.000 | |
| 16 | IVs | −0.02 | 0.71 | −0.247** | 0.008 | 0.097 | −0.123* | −0.155* | 0.214** | −0.090 | −0.055 | −0.077 | −0.124* | −0.227** | −0.067 | 0.084 | −0.059 | 0.304** | 1.000 |

197 observations.
* $p < 0.05$.
** $p < 0.01$.

*Overall international experience* has been approximated by the natural logarithm of the number of years of experience in international markets (both advanced and emerging markets).

A set of dummy variables for *industry* sub-sectors were included to incorporate industry-specific factors that could affect international performance. The number of dummy variables is one less than the number of sub-sectors being tested. Thus, we introduced three dummy variables for our four manufacturing sub-sectors (Fashion, Furniture, and Food) while the fourth sub-sector (Mechanical) were used as baseline. The *business relationship context* has been approximated by a dummy variable that takes value 1, in the case of business-to-business setting, and value 0, in the case of business-to-consumer setting. *Psychic distance* was measured by the psychic distance stimuli index, including differences in culture, language, religion, education, and political systems (Dow and Karunaratna, 2006). *Return On Asset (ROA)* and *Liquidity Ratio* were estimated on the basis of official secondary data (Aida Bureau van Dijk). Return On Assets (ROA) was computed as the three-year average ratio of net income to total assets. Liquidity Ratio was measured as the three-year average ratio of current assets to current liabilities. These two measures were adjusted for industry norms by subtracting the median ratio within the same industry. Finally, we introduce control variables to capture how each type of escalation may influence the other type respectively. We controlled for the impact of Mode Escalation on Resource escalation (Models 1, 2, and 3) and for the impact of Resource Escalation on Mode Escalation (Models 4, 5, and 6).

## 4. Results

Table 5 provides details on the correlations between all variables.

To test our hypotheses, we performed OLS multiple regression analysis (Table 6). To control for within-firm autocorrelation, we performed a clustering adjustment of standard errors for the firm-specific variables. Models 1, 2 and 3 test hypotheses 1a, 2a and 3a (resource escalation) and Models 4, 5 and 6 test hypotheses 1b, 2b and 3b (mode escalation). In particular, in Model 1, we regressed resource escalation against our control variables and the two main Uppsala-model variables (market experience and market performance). We then added our key independent variable (IVs) in Model 2 while in Model 3 we included the two interaction terms. The same scheme was then replicated for mode escalation (Models 4, 5, and 6).

Before creating the interaction terms, we mean-centered the variables to make them comparable (considering the variables' different scales) and to reduce multi-collinearity (Aiken and West, 1991). The variance inflation factor test underlines that the multi-collinearity between the predictor variables does not represent an issue in our regression model (VIF is $< 2.50$).

In Model 1, the whole set of control variables account for 11.9% of the variation of the dependent variable (resource escalation). No significant improvements in terms of $R^2$ can be noticed from Model 1 to Model 2 when IVs are included, while from Model 2 to Model 3 the overall fit of the model improves to 18.4% as a result of the inclusion of the interaction terms. When analysing mode escalation, the control variables in Model 4 account for 21.2% of the variation of the dependent variable. When introducing IVs in Model 5, the overall $R^2$ increases significantly to 26.8% of explained variance. Finally, the fit improvement increases to 28.9% in Model 6 when the interaction terms are considered. All the levels of improvements are consistent with the range recommended by Cohen et al. (2003).

The results from the analysis presented in Model 1 show that no control variables have a significant influence on resource escalation, with the exception of the mode escalation whose impact is statistically significant ($\beta = 0.25$; $p < .01$). Furthermore, Model 1 shows that market experience significantly influences the escalation of resource commitment in EMs ($\beta = 0.16$; $p < .05$). This result echoes past Uppsala-model based studies showing that greater market experience allows SMEs to better evaluate and seize market potential by further investing in the foreign market. We do not find that market performance exerts any significant direct influence on the decision to escalate the resource commitment. Model 4 shows that three of the controls, firm size ($\beta = 0.20$; $p < .05$), furniture industry ($\beta = 0.28$; $p < .01$) and liquidity ratio ($\beta = 0.28$; $p < .01$) positively influence mode escalation. Larger and/or cash-rich SMEs and those operating in the furniture industry appear to be more inclined to escalate their mode of presence in comparison to firms belonging to the mechanical industries (as baseline), smaller or cash-constrained counterparts. However, neither market experience nor market performance has a significant impact on mode escalation. Models 2 and 5 add the main independent variable, IVs. We find IVs to have no direct effect on resource escalation, thus not supporting Hypothesis 1a. We however find a significant and negative direct effect on mode escalation ($\beta = -0.26$; $p < .01$) which provides support to Hypothesis 1b.

In Models 3 and 6 we introduce the moderating effects of market experience and market performance and test hypotheses 2a, 2b, 3a and 3b. Results indicate a negative interaction coefficient ($\beta = -0.24$; $p < .01$) of market performance and IVs in determining resource escalation decisions in EMs. This provides support to hypothesis 3a. This result shows that IVs are significantly related to resource escalation only when the moderating effect of market performance is considered. We find no moderating effect of market experience on the relationship between IVs and resource escalation. Thus, hypothesis 2a is not supported. Finally, Model 6 shows that Market Experience has a significant moderating effect on the relationship between IVs and Mode Escalation ($\beta = -0.15$, $p < .05$). This provides support for hypothesis 2b, while there's no significant moderating role of market performance on the relationship between IVs and mode changes. Thus, hypothesis 3b is not supported. Table 6 summarizes the results of our regression models.

In order to better interpret the results obtained in Model 3 and in Model 6, we plot only the significant interaction terms (Figs. 1 and 2). Fig. 1 shows that at higher levels of IVs, well-performing SMEs show a lower proclivity for escalating resource commitment. At higher levels of IVs, in the presence of low market performance, SMEs moderately increase resource commitment.

Fig. 2 depicts the impact that market experience has on the relationship between IVs and Mode escalation. Here we see that at low levels of market experience, the effect of IVs on mode escalation is negligible. It is only when market experience is high, that the

**Table 6**
Multiple regression results.

| Predictors | Resource escalation | | | | | | | | | Mode escalation | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Model 1 | | | Model 2 | | | Model 3 | | | Model 4 | | | Model 5 | | | Model 6 | | |
| | Beta | St. error | Sig. | Beta | St. error | Sig. | Beta | St. error | Sig. | Beta | St. error | Sig. | Beta | St. error | Sig. | Beta | St. error | Sig. |
| Constant | | 2.443 | 0.016 | | 2.439 | 0.016 | | 2.546 | 0.012 | | −1.910 | 0.058 | | −1.866 | 0.064 | | −1.858 | 0.065 |
| Firm age | −0.018 | −0.217 | 0.828 | −0.013 | −0.153 | 0.878 | −0.092 | −1.087 | 0.278 | −0.049 | −0.615 | 0.539 | −0.063 | −0.826 | 0.410 | −0.058 | −0.734 | 0.464 |
| Firm size | −0.113 | −1.249 | 0.213 | −0.118 | −1.296 | 0.197 | −0.102 | −1.157 | 0.249 | **0.209*** | **2.462** | **0.015** | 0.212* | **2.579** | **0.011** | 0.209* | **2.567** | **0.011** |
| B to B | 0.011 | 0.121 | 0.904 | 0.024 | 0.261 | 0.794 | 0.002 | 0.022 | 0.982 | 0.048 | 0.568 | 0.571 | −0.000 | −0.001 | 0.999 | −0.001 | −0.007 | 0.995 |
| Ind1 (Food) | 0.100 | 0.910 | 0.364 | 0.092 | 0.829 | 0.408 | 0.087 | 0.809 | 0.420 | −0.030 | −0.289 | 0.773 | 0.000 | 0.001 | 1.000 | −0.012 | −0.123 | 0.902 |
| Ind2 (Fashion) | −0.115 | −1.257 | 0.210 | −0.110 | −1.202 | 0.231 | −0.147 | −1.637 | 0.103 | 0.124 | 1.438 | 0.152 | 0.101 | 1.200 | 0.232 | 0.101 | 1.208 | 0.229 |
| Ind3 (Furniture) | −0.019 | −0.177 | 0.860 | −0.021 | −0.195 | 0.846 | −0.054 | −0.517 | 0.606 | **0.281**** | **2.849** | **0.005** | **0.268**** | **2.807** | **0.006** | **0.267**** | **2.811** | **0.005** |
| Int. experience | 0.147 | 1.763 | 0.080 | 0.155 | 1.845 | 0.067 | 0.198 | 2.399 | 0.017* | −0.163* | −2.070 | 0.040 | −0.180 | −2.364 | 0.019* | −0.170 | −2.209 | 0.028* |
| Psy_Dist | −0.038 | −0.520 | 0.603 | −0.026 | −0.357 | 0.722 | −0.037 | −0.508 | 0.612 | 0.106 | 1.552 | 0.122 | 0.059 | 0.881 | 0.380 | 0.041 | 0.612 | 0.541 |
| ROA | 0.050 | 0.555 | 0.580 | 0.049 | 0.551 | 0.582 | 0.037 | 0.430 | 0.668 | −0.094 | −1.116 | 0.266 | −0.087 | −1.068 | 0.287 | −0.098 | −1.211 | 0.228 |
| Liquid ratio | −0.102 | −1.119 | 0.265 | −0.108 | −1.189 | 0.236 | −0.080 | −0.900 | 0.369 | **0.288**** | **3.447** | **0.001** | **0.292**** | **3.621** | **0.000** | **0.296**** | **3.693** | **0.000** |
| Mode escalation | **0.255**** | **3.366** | **0.001** | **0.275**** | **3.497** | **0.001** | **0.252**** | **3.245** | **0.001** | | | | | | | | | |
| Resource escalation | | | | | | | | | | **0.228**** | **3.366** | **0.001** | **0.229**** | **3.497** | **0.001** | 0.219** | 3.245 | 0.001 |
| Market experience | **0.162*** | **2.123** | **0.035** | **0.161*** | **2.113** | **0.036** | **0.162*** | **2.185** | **0.030** | 0.080 | 1.102 | 0.272 | 0.074 | 1.054 | 0.293 | 0.077 | 1.106 | 0.270 |
| Market performance | −0.001 | −0.012 | 0.990 | −0.024 | −0.293 | 0.770 | −0.021 | −0.271 | 0.787 | 0.042 | 0.575 | 0.566 | 0.118 | 1.605 | 0.110 | 0.111 | 1.530 | 0.128 |
| IVs | | | | 0.077 | 0.955 | 0.341 | 0.072 | 0.914 | 0.362 | | | | **−0.267**** | **−3.745** | **0.000** | **−0.260**** | **−3.678** | **0.000** |
| IVs* market experience | | | | | | | −0.045 | −0.632 | 0.528 | | | | | | | **−0.150*** | **−2.268** | **0.025** |
| IVs* market performance | | | | | | | **−0.244**** | **−3.370** | **0.001** | | | | | | | 0.046 | 0.654 | 0.514 |
| $R^2$ | 0.119 | | | 0.123 | | | 0.184 | | | 0.212 | | | 0.268 | | | 0.289 | | |
| Δ $R^2$ | 0.119 | | | 0.004 | | | 0.060 | | | 0.212 | | | 0.056 | | | 0.021 | | |
| Δ F-value | 1.900 | | | 0.911 | | | 6.644 | | | 3.787 | | | 14.026 | | | 2.597 | | |
| N. obs. | 197 | | | 197 | | | 197 | | | 197 | | | 197 | | | 197 | | |

Standardized coefficients.
* $p < 0.05$.
** $p < 0.01$.

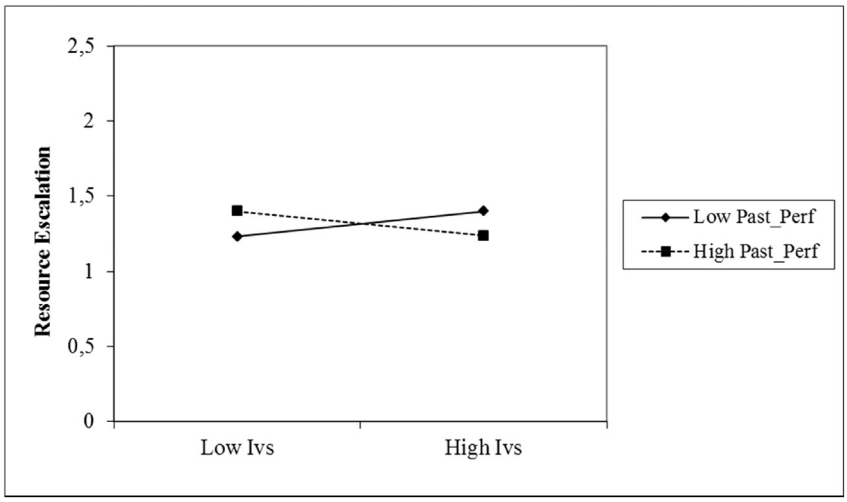


**Fig. 1.** The moderating effect of Market Performance on the relationship between Institutional Voids (IVs) and Resource Escalation*.
*Variables have been mean-centered in line with Aiken and West (1991).

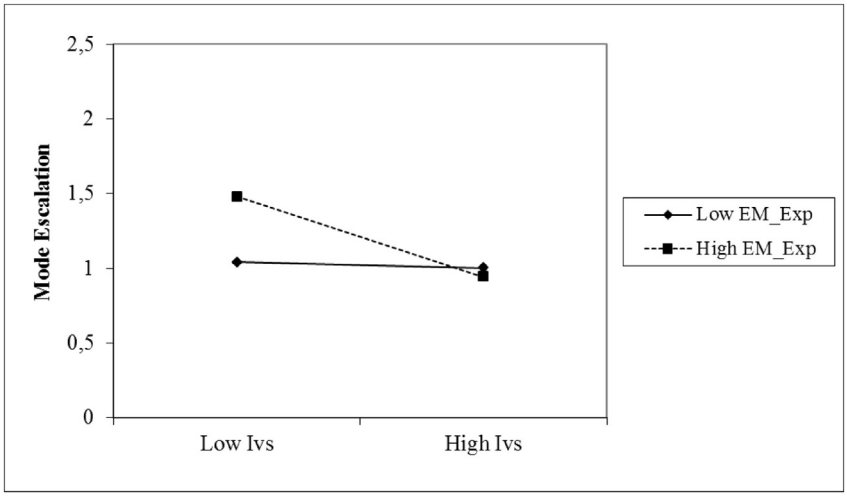


**Fig. 2.** The moderating effect of Market Experience on the relationship between Institutional Voids (IVs) and Mode Escalation*.
*Variables have been mean-centered in line with Aiken and West (1991).

relationship between IVs and Mode escalation takes a negative slope. Without market experience, SMEs avoid escalating their mode of presence irrespective of the level of IVs. Only with accumulation of market experience do SMEs escalate mode of presence in low IVs markets.

## 5. Discussion and conclusions

In the IB literature, one of the most debated issues is whether the Uppsala model of internationalization has 'passed its time' and may no longer be suitable to adequately explain internationalization patterns of SMEs. The phenomenon of 'born global' firms is often used as an illustration of such a challenge to the Uppsala model. We have taken a different approach and have suggested that while some firms may leapfrog stages in the foreign-market establishment chain, others choose a more conservative approach to increase their foreign market presence. We have relied on the foundations of the stage-based internationalization theory (Johanson and Vahlne, 1977), that market-specific experiential knowledge and market performance obtained after initial market entry are associated with SMEs' decisions to escalate (or reduce) resource commitment. To this we added the mechanism by which this process of escalation of commitment occurs in the context of EMs. We took into account obstacles posed to SMEs when entering EMs marked by IVs and suggested that the impact of market experience and market performance is conditional on IVs.

Through the explicit use of IVs, we thus contribute to advancements made by previous research (e.g., Santangelo and Meyer, 2011) by incorporating institutional theory elements to the original Uppsala model. In contrast to previous studies that have primarily focused on the influence of IVs on multinational firms, our study shows that IVs discourage SMEs from escalating market presence, depending on the kind of escalation undertaken. Our results allow us to conclude that ignoring IVs in EMs might distort our understanding of strategic choices SMEs take in these markets. Furthermore, IVs seem to be a more persistent impediment to firms than psychic distance. In our findings, psychic distance does not appear to significantly influence subsequent escalation decisions in EMs while IVs do. It seems that over time, SMEs are able to overcome the constraints imposed by psychic distance however substantial IVs remain an obstacle for further escalation in EMs. Our research verified the complementarity of institutional theory to the original ideas proposed by the Uppsala model.

Unlike previous research that either examined resource escalation or mode escalation, we have disentangled the two types of escalation (mode and resource) into two distinct dependent variables and have measured the different effects of our set of independent variables (IVs, market experience and market performance). Our findings show that IVs have a negative direct effect only on mode escalation, while resource escalation is not directly affected by IVs. Instead, resource escalation is directly and positively influenced by local market experience. These findings point to interesting practice and research implications. For example, by separating the two distinct forms of market-presence escalation, our findings indicate that under severe constraints caused by IVs, SMEs are likely to refrain from mode escalation but could still signal local commitment by engaging in less risky forms of escalation (i.e., by committing additional resources to the local market). We believe our finding that SMEs' positive past performance was not a factor that influenced either form of market presence escalation is worthy of further research attention.

We examined several interaction effects which resulted in unexpected and interesting findings. More specifically, we found that mode escalation is significantly affected by the interaction effect of market experience and IVs, while resource escalation is significantly affected by the interaction effect of market performance and IVs. These findings are not fully consistent with our hypotheses and are somehow unexpected. Nevertheless, they shed a new light on the escalation patterns of SMEs in EMs. When IVs are substantial, even under conditions of high market performance, SMEs adopt a cautious approach in mode escalation, and show a stronger preference for resource escalation. To the contrary, SMEs with substantial local market experience show a greater desire to escalate their mode of presence, even under high IVs.

According to our findings, and in line with past research (Santangelo and Meyer, 2011) experienced SMEs behave similarly to MNEs, and show a preference for inter-modal escalation as compared to resource escalation, while inexperienced SMEs are more cautious in their mode escalation, irrespectively of the level of IVs they face. This finding echoes Levinthal and March (1993: 96–97) who argue that even highly capable individuals and firms are confused by the difficulties of “using small samples of ambiguous experience to interpret complex worlds”. Our research also shows that, under conditions of substantial IVs, SMEs who are underperforming, may pursue resource escalation as an attempt to mitigate the negative impact of IVs, with a view to improve performance. SMEs with strong market performance opt for more conservative approaches, choosing resource de-escalation, perhaps as a means to consolidate their past and current gains while reducing future risk exposure.

A closer analysis of our sample supports these insights. In the case of a cheese producer operating in Thailand via indirect export we notice that in spite of the positive market performance achieved, the high perception of institutional voids prevented this particular SME from further resource commitments in the market. It is likely that SMEs commit additional resources only in markets exhibiting relatively low IVs, because the reliability of performance as an indicator of future profitability is lower in environments with higher IVs. Past research indicates that when environmental uncertainty is high, the preference for low-commitment entry modes is a means to lower risk exposure (Giachetti, 2016). Our results are aligned as they reveal that positive performance under severe IVs is unlikely to stimulate SMEs to substantially escalate resource commitment. Complementary to this observation is the case of a kitchen manufacturer operating in Russia: the achievement of positive market performances combined with a relative low perception of IVs stimulated resource escalation (e.g., by hiring additional salespeople).

As with all empirical research, the limitations of our study should encourage further exploration of the behaviour of SMEs in EMs. The industries featured in the analysis could be extended to other sectors; this would put at test the replicability of our findings. Future research could examine other countries with important SME sectors, such as Germany, in doing so providing an interesting comparison with the Italian firms featured in our study. The average size of the firms in our sample was relatively small. Future research looking at mid-sized firms could add further insights into the behaviour of SMEs in EMs and the direct and moderating impact of IVs on them. We compromised on how we measured market experience. For example, the intensity of learning from FDI may be higher than for exporting even if the same number of years of experience is counted. Another limitation is our inability to specifically account for the role of local branding which could be a determinant of escalating or sustaining commitment in an EM. In this regard, unfortunately Italian SMEs are required by law to report investments in intangible assets but not to have it broken down to separate categories (e.g., technological and marketing/branding assets) so we were unable to access specific secondary information on branding. Despite the relatively small sample size, our study hints at important behaviours that could be the basis for further empirical exploration.

In conclusion, the results of our study allow us to make suggestions to SMEs' considering or actively expanding their operations in EMs. First, SME managers should capitalize on their market experience when making decisions on mode escalation under IVs. Second, SMEs should pay closer attention to their market performance when they consider a less risky form of escalation, i.e. through additional resource commitment. Accumulation of both market experience and collection of feedback from the market are necessary conditions to develop an adequate strategic response in EMs as both opportunities and threats can be integrated in the local-market strategy. However, strategic responses can take different forms as SMEs can either increase commitment through resources or mode escalation.

## Appendix A

| Dimensions | Entry Phase | Present Phase | Change |
|---|---|---|---|
| **Escalation of Modes** | (1) Indirect Export | (1) Indirect Export | Present Mode / Entry Mode (α) |
| | (2) Direct Export | (2) Direct Export | |
| | (3) Indirect + Direct export | (3) Indirect + Direct export | |
| | (4) Strategic Alliances (S.A.) | (4) Strategic Alliances (S.A.) | |
| | (5) S.A. + export modes | (5) S.A. + export modes | |
| | (6) JVs* or FDI | (6) JVs* or FDI | |
| | (7) JV/FDI + S.A. + export modes | (7) JV/FDI + S.A. + export modes | |
| **Escalation within Mode** | Overall degree of resource commitment (1. Low - 5. High) within the selected mode(s) of presence, in terms of: | | Present Resource Commitment / Entry Resource Commitment (β) |
| | a. No. of employees committed to international activities | a. No. of employees committed to international activities | |
| | b. communication activities and advertising | b. communication activities and advertising | |
| | c. collaboration with the distribution network | c. collaboration with the distribution network | |
| | Sum of scores (a)+(b)+(c) | Sum of scores (a)+(b)+(c) | |

*The difference between strategic alliance and JV is the equity participation in the latter.

## References


Armstrong, J.S., Overton, T.S., 1977. Estimating nonresponce bias in mail surveys. Retrieved from. http://repository.upenn.edu/marketing_papers/17.

Aiken, L.S., West, S.G., 1991. Multiple Regression, Testing and Interpreting Interactions. Sage, Thousand Oaks, CA.

Akbar, Y., Bortoluzzi, G., Tracogna, A., 2014. Beyond entry mode—SME escalation in emerging markets: a conceptual framework. Journal for International Business and Entrepreneurship Development 7 (4), 326–340.

Andersen, O., 1993. On the internationalization process of firms: a critical analysis. J. Int. Bus. Stud. 24 (2), 210–231.

Andersson, S., Gabrielsson, J., Wictor, I., 2004. International activities in small firms: examining factors influencing the internationalization and export growth of small firms. Canadian Journal of Administrative Sciences 21 (1), 22–34.

Argote, L., Greve, H.R., 2007. A behavioral theory of the firm—40 years and counting: introduction and impact. Organ. Sci. 18 (3), 337–349.

Arnold, D.J., Quelch, J.A., 1998. New strategies in emerging markets. Sloan Manag. Rev. 40 (1), 7–20.

Bello, D.C., Gilliland, D.I., 1997. The effect of output controls, process controls, and flexibility on export channel performance. J. Mark. 61 (1), 22–38.

Bortoluzzi, G., Chiarvesio, M., Di Maria, E., Tabacco, R., 2014. Exporters moving toward emerging markets: a resource-based approach. Int. Mark. Rev. 31 (5), 506–525.

Bortoluzzi, B., Chiarvesio, M., Tabacco, R., 2015. Managing distribution networks in emerging markets. Evidence from the furniture sector. Eur. Bus. Rev. 27 (6), 617–637.

Broadman, H.G., Anderson, J., Claessens, C.A., Ryterman, R., Slavova, S., Vagliasindi, M., 2004. Building market institutions in South Eastern Europe. In: Comparative Prospects for Investment and Private Sector Development. World Bank Publications, Washington, DC.

Brouthers, K.D., 2013. A retrospective on, institutional, cultural and transaction cost influences on entry mode choice and performance. J. Int. Bus. Stud. 44 (1), 14–22.

Brouthers, K.D., Brouthers, L.E., Nakos, G., 1998. Entering Central and Eastern Europe: Risks and cultural barriers. Thunderbird Int. Bus. Rev. 40 (5), 485–504.

Bruneel, J., De Cock, R., 2016. Entry mode research and SMEs: a review and future research agenda. J. Small Bus. Manag. 54, 135–167 Supplement.

Busenitz, L.W., Gomez, C., Spencer, J.W., 2000. Country institutional profiles: unlocking entrepreneurial phenomena. Acad. Manag. J. 43 (5), 994–1003.

Calof, J.L., Beamish, P.W., 1995. Adapting to foreign markets: explaining internationalization. Int. Bus. Rev. 4 (2), 115–131.

Cassia, F., Magno, F., 2015. Marketing issues for business-to-business firms entering emerging markets. Int. J. Emerg. Mark. 10 (1), 141–155.

Cavusgil, S.T., Zou, S., 1994. Marketing strategy-performance relationship: an investigation of the empirical link in export market ventures. J. Mark. 58 (1), 1–21.

Chen, C.J.P., Ding, Y., Kim, C., 2010. High-Level politically connected firms, corruption, and analyst forecast accuracy around the world. J. Int. Bus. Stud. 41 (9), 1505–1524.

Cheng, C., Yu, M.J., 2008. Institutional pressures and initiation of internationalization: evidence from Taiwanese small- and medium-sized enterprises. Int. Bus. Rev. 17 (3), 331–348.

Ciravegna, L., Lopez, L., Kundu, S., 2014. Country of origin and network effects on internationalization: a comparative study of SMEs from an emerging and developed economy. J. Bus. Res. 67 (5), 916–923.

Cohen, J., Cohen, P., West, S.G., Aiken, L.S., 2003. Applied Multiple Regression/Correlation Analysis for the Behavioral Sciences. Lawrence Erlbaum Associates, London.

Contractor, F.J., Kumar, V., Kundu, S.K., 2007. Nature of the relationship between international expansion and performance: the case of emerging market firms. J. World Bus. 42 (4), 401–417.

Conway, J.M., Lance, C.E., 2010. What reviewers should expect from authors regarding common method bias in organizational research. J. Bus. Psychol. 25 (3), 325–334.

Cuervo-Cazurra, A., 2006. Who cares about corruption? J. Int. Bus. Stud. 37 (6), 806–822.

Dalli, D., 1994. The exporting process: the evolution of small and medium sized firms towards internationalisation. Adv. Int. Mark. 6 (8), 85–110.

Denrell, J., Fang, C., Winter, S.G., 2003. The economics of strategic opportunity. Strateg. Manag. J. 24 (10), 977–990.

Diamantopoulos, A., Siguaw, J.A., 2006. Formative versus reflective indicators in organizational measure development: a comparison and empirical illustration. Br. J. Manag. 17 (4), 263–282.

Dow, D., Karunaratna, A., 2006. Developing a multidimensional instrument to measure psychic distance stimuli. J. Int. Bus. Stud. 37 (5), 578–602.

Erramilli, M.K., D'Souza, D.E., 1993. Venturing into foreign markets: the case of the small service firm. Enterp. Theory Pract. 17 (4), 29–41.

Ferreira, M.P., Li, D., Yong, Suk J., 2009. Foreign entry strategies, strategic adaptation to various facets of the institutional environments. Development and Society 38 (1), 27–55.
Gankema, H.G.J., Snuif, H.R., Zwart, P.S., 2000. The internationalization process of small and medium-sized enterprises: an evaluation of stage theory. J. Small Bus. Manag. 38 (4), 15–27.
Giachetti, C., 2016. Competing in emerging markets: performance implications of competitive aggressiveness. Manag. Int. Rev. 56 (3), 325–352.
Goedhuys, M., Sleuwaegen, L., 2016. International standards certification, institutional voids and exports from developing country firms. Int. Bus. Rev. 25 (6), 1344–1355.
He, X., Brouthers, K.D., Filatotchev, I., 2013. Resource-based and institutional perspectives on export channel selection and export performance. J. Manag. 39 (2), 27–47.
Henisz, W.J., 2004. The institutional environment for international business. In: Buckley, P.J. (Ed.), What Is International Business? Palgrave, London, pp. 85–109.
Hood, N., Young, S., 1979. The Economics of Multinational Enterprise. Longman, London.
Hunt, S.D., Sparkman, R.D., Wilcox, J.B., 1982. The pretest in survey research: issues and preliminary findings. J. Mark. Res. 19 (2), 269–272.
Hutchinson, K., Quinn, B., Alexander, N., 2006. SME retailer internationalisation: case study evidence from British retailers. Int. Mark. Rev. 23 (1), 25–53.
Jantunen, A., Puumalainen, K., Saarenketo, S., Kyläheiko, K., 2005. Entrepreneurial orientation, dynamic capabilities and international performance. J. Int. Entrep. 3 (3), 223–243.
Johanson, J., Vahlne, J.E., 1977. The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments. J. Int. Bus. Stud. 8 (1), 23–32.
Johanson, J., Vahlne, J.E., 2009. The Uppsala internationalization process model revisited: from liability of foreignness to liability of outsidership. J. Int. Bus. Stud. 40 (9), 1411–1431.
Johnson, J., Tellis, G.J., 2008. Drivers of success for market entry into China and India. J. Mark. 72 (3), 1–13.
Kalinic, I., Forza, C., 2012. Rapid internationalization of traditional SMEs: between gradualist models and born globals. Int. Bus. Rev. 21 (4), 694–707.
Kaufmann, D., Kraay, A., Mastruzzi, M., 2009. Governance matters VIII: aggregate and individual governance indicators, 1996–2008. In: World Bank Policy Research Working Paper 4978. World Bank Publications.
Khanna, T., Palepu, K., 1997. Why focused strategies may be wrong for emerging markets. Harv. Bus. Rev. 75 (4), 41–48.
Khanna, T., Palepu, K., 2010. Winning in the Emerging Economies: A Road Map for Strategy and Execution. Harvard Business Press, Cambridge, MA.
Khanna, T., Palepu, K., Sinha, J., 2005. Strategies that fit emerging markets. Harv. Bus. Rev. 83 (6), 63–76.
Kostova, T., Zaheer, S., 1999. Organizational legitimacy under conditions of complexity, the case of the multinational enterprise. Acad. Manag. Rev. 24 (1), 64–81.
Kumar, N., Stern, L.W., Anderson, J.C., 1993. Conducting interorganizational research using key informants. Acad. Manag. J. 36 (6), 1633–1651.
Kumar, J.N., Pangarkar, N., Yuan, L., Kumar, V., 2015. Internationalization of Indian software firms through establishment of global development centers: a contingency perspective. The Multinational Business Review 23 (2), 90–110.
La Porta, R., 1999. Corporate ownership around the world. J. Financ. 54 (23), 471–517.
Lages, L.P., Montgomery, D.B., 2004. Export performance as an antecedent of export commitment and marketing strategy adaptation: evidence from small and medium-sized exporters. Eur. J. Mark. 38 (9), 1186–1214.
Lages, L.F., Jap, S.D., Griffith, D.A., 2008. The role of past performance in export ventures: a short-term reactive approach. J. Int. Bus. Stud. 39 (2), 304–325.
Lages, L.F., Silva, G., Styles, C., 2009. Relationship capabilities, quality, and innovation as determinants of export performance. J. Int. Mark. 17 (4), 47–70.
Laufs, K., Schwens, C., 2014. Foreign market entry mode choice of small and medium-sized enterprises: a systematic review and future research agenda. Int. Bus. Rev. 23 (6), 1109–1126.
Leonidou, L.C., 2004. An analysis of the barriers hindering small business export development. J. Small Bus. Manag. 42 (3), 279–302.
Levinthal, D., March, J.C., 1993. The myopia of learning. Strateg. Manag. J. 14 (8), 95–112.
Liesch, P.W., Welch, L.S., Buckley, P., 2011. Risk and uncertainty in internationalization and international entrepreneurship studies: review and conceptual development. Manag. Int. Rev. 51 (6), 851–873.
López-Gamero, M.D., Molina-Azorín, J.F., Claver-Cortés, E., 2011. The relationship between managers' environmental perceptions, environmental management and firm performance in Spanish hotels: a whole framework. Int. J. Tour. Res. 13 (2), 141–163.
Lu, J.W., Beamish, P.W., 2001. The internationalization and performance of SMEs. Strateg. Manag. J. 22 (6/7), 565–586.
Mair, J., Marti, I., 2009. Entrepreneurship in and around institutional voids: a case study from Bangladesh. J. Bus. Ventur. 24 (5), 419–435.
March, J.G., Simon, H.A., 1958. Organizations. John Wiley and Sons, New York, NY.
Meyer, K.E., Estrin, S., Bhaumik, S.K., Peng, M.W., 2009. Institutions, resources, and entry strategies in emerging economies. Strateg. Manag. J. 30 (1), 61–80.
Morgan, N.A., Kaleka, A., Katsikeas, C.S., 2004. Antecedents of export venture performance: a theoretical model and empirical assessment. J. Mark. 68 (1), 90–108.
North, D., 1995. The new institutional economics and third world development. In: Harris, J., Huner, J., Lewis, C. (Eds.), The New Institutional Economics and Third World Development. Routledge, London, UK, pp. 17–26.
Papadopoulos, N., Martín, O.M., 2010. Toward a model of the relationship between internationalization and export performance. Int. Bus. Rev. 19 (4), 388–406.
Pedersen, T., Petersen, B., Benito, G.R.G., 2002. Change of foreign operation method: impetus and switching costs. Int. Bus. Rev. 11 (3), 325–345.
Petersen, B., Pedersen, T., 1997. Twenty years after — support and critique of the Uppsala internationalisation model. In: Björkman, I., Forsgren, M. (Eds.), The Nature of the International Firm. Munksgaard, Copenhagen, pp. 117–134.
Podsakoff, P.M., MacKenzie, S.B., Lee, J.Y., Podsakoff, N.P., 2003. Common method biases in behavioral research: a critical review of the literature and recommended remedies. J. Appl. Psychol. 88 (5), 879.
Puffer, S.M., McCarthy, M.J., Boisot, M., 2010. Entrepreneurship in Russia and China: the impact of formal institutional voids. Entrep. Theory Pract. 343, 441–467.
Rodriguez, P., Uhlenbruck, K., Eden, L., 2005. Government corruption an the entry strategies of multinationals. Acad. Manag. Rev. 30 (2), 383–396.
Ruzzier, M., Hisrich, R.D., Antoncic, B., 2006. SME internationalization research, past, present, and future. Journal of Small Business and Enterprise Development 13 (4), 476–497.
Sandberg, S., 2013. Emerging market entry node pattern and experiential knowledge of small and medium-sized enterprises. Int. Mark. Rev. 30 (2), 106–129.
Sandberg, S., 2014. Experiential knowledge antecedents of the SME network node configuration in emerging market business networks. Int. Bus. Rev. 23 (1), 20–29.
Santangelo, G.D., Meyer, K.E., 2011. Extending the internationalization process model: increases and decreases of MNE commitment in emerging economies. J. Int. Bus. Stud. 42 (7), 894–909.
Simon, H., 1955. A behavioral model of rational choice. Q. J. Econ. 69, 99–118.
Swoboda, B., Olejnik, E., Morschett, D., 2011. Changes in foreign operation modes: stimuli for increases versus reductions. Int. Bus. Rev. 20 (5), 578–590.
Welch, L.S., Luostarinen, R., 1988. Internationalization: evolution of a concept. J. Gen. Manag. 14 (2), 36–64.
Welter, F., Smallbone, D., 2011. Institutional perspectives on entrepreneurial behavior in challenging environments. J. Small Bus. Manag. 49 (1), 107–125.
Xu, D., Meyer, K.E., 2013. Linking theory and context: 'Strategy research in emerging economies' after Wright et al. 2005. J. Manag. Stud. 50 (7), 1322–1346.
Xu, D., Shenkar, O., 2002. Institutional distance and the multinational enterprise. Acad. Manag. Rev. 27 (4), 608–618.
Zhou, Z., Poppo, L., 2010. Exchange hazards, relational reliability and contracts in China: the contingent role of legal enforceability. J. Int. Bus. Stud. 41 (5), 861–881.
Zou, S., Cavusgil, S.T., 2002. The GMS: a broad conceptualization of global marketing strategy and its effect on firm performance. J. Mark. 66 (4), 40–56.
Zou, S., Stan, S., 1998. The determinants of export performance: a review of the empirical literature between 1987 and 1997. Int. Mark. Rev. 15 (5), 333–356.
Zucchella, A., Hagen, B., 2015. The internationalization of SMEs in Italy. In: Ghauri, P.N., Kirpalani, V.H.M. (Eds.), Handbook of Research on International Entrepreneurship Strategy. Improving SME Performance Globally. Edward Elgar, Cheltenham, UK - Northampton, MA, USA.