

Baimai, Chaiwat; Mukherji, Anada

**Article**

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# International entrepreneurial culture of Thai SMEs

Chaiwat Baimai<sup>1\*</sup> and Anada Mukherji<sup>2</sup>

\* Correspondence:

cbaimai@hotmail.com

<sup>1</sup>Department of Management,  
Faculty of Business Administration,  
Maejo University, 63 Moo4  
Nonghan Sansai, Chiangmai 50290,  
Thailand

Full list of author information is  
available at the end of the article

## Abstract

This study examines an entrepreneurial culture of international small and medium-sized enterprises (SMEs). Organizational culture is one of the crucial aspects that can differentiate one firm from another. We highlight the role of organizational culture under a new construct International Entrepreneurial Culture (IEC), with a particular emphasis on how cultural values embedded in organizational cultures might influence SMEs' performance through a strategic management process. Using data from SMEs engaged in international transactions based in Thailand, results suggest that IEC consists of three dimensions which are somewhat different from what was conceptually explained in the literature. The combination of these dimensions significantly affects strategy formulation and strategy implementation in a consequential manner, although it is not directly influential in international performance. The findings offer theoretical contribution in the international entrepreneurship literature as well as managerial implications for policy makers dealing with SMEs in small open economies found in emerging markets.

**Keywords:** International entrepreneurship; Cultural dimensions; Emerging markets; SMEs

## Background

Internationalization is an important growth strategy for firms regardless of age and size. Specifically, the role of new firms that seek opportunity in the international arena has been more active during the past decade. Developed largely as an alternative framework to the traditional model of incremental internationalization (Johanson and Vahlne, 1977) suggesting that firms expand abroad after acquiring their own knowledge and experience, internationalization of new firms is an emerging area in management arguing that new firms can engage in international expansion at the beginning of their life cycle (McDougall, 1989). Traditionally, international business studies focus on phenomenon of multinational enterprises (MNEs), while entrepreneurship research emphasizes on management of new firms within a domestic context. After the emerging of globalization of the world economy, the two areas of study have been converged leading to a distinctive paradigm of new firm internationalization (Etemad and Wright, 2003; Knight, 2000). In other words, new firms' internationalization is a way to view international business from an entrepreneurial perspective, thereby linking knowledge in international business, strategic management, and entrepreneurship (Oviatt and McDougall, 2005; Young et al. 2003). Focusing on new firm internationalization, there has been significantly increasing in recent years in both the popular press and in

academic literature of these new, highly entrepreneurial firms, in the context of small and medium-sized enterprises (SMEs) (Kuivalainen et al. 2010; Renee, 1993; Rialp et al. 2005; Storey, 1994).

Despite the fact that international SMEs have received much attention in the past decade, little is known about SMEs' cultural orientations that they employ in order to expand abroad. Also, past research related to organizational culture tends to build around two dominant concepts. The first concept focuses on entrepreneurial value as a behavior of firms to search for an innovation known as entrepreneurial orientation (Covin and Slevin, 1989; Miller, 1983). The second perspective emphasizes marketing value that puts the customer in the center of the organizational behavior in the concept known as market orientation (Kohli and Jaworski, 1990; Narver and Slater, 1990). These two traditional orientations were developed over a decade ago before the emergence of globalization without much emphasis on international contexts, with few notable exceptions (e.g., Knight and Cavusgil, 2004; Knight and Kim, 2009; Zhou et al. 2010).

Although this centrality of organizational culture paints a clearer picture related to management studies, our understanding of how the values embedded in organizational culture and its translation to success in an international business perspective is still limited. In fact, a growing body of research suggests that firms simultaneously emphasize multiple cultural orientations (Howard, 1998; Kalliath et al. 1999). As important as these two orientations, other forms of cultural variability have been overlooked. For example, modern internationalization largely emphasizes the role of network orientation (Aldrich and Martinez, 2001; Coviello, 2006; Havnes and Senneseth, 2001; Johanson and Vahlne, 2009) to overcome limited resources for SMEs. Thus, the current body of research related to organizational culture is somewhat fragmented. As a result, applying these cultural orientations to international SMEs might need some more elaboration, in a cohesive manner, to be more appropriate in the current globally changing environment. Along these lines, whether organizational culture of the SMEs influences their performance remains an open question. Thus, it is essential to create a set of cultural dimensions that can represent the organization's culture of international SMEs.

This study responds to these limitations by emphasizing the role of organizational culture of international SMEs and its effect on the firms' performance. We highlight the role of organizational culture with a new construct called International Entrepreneurial Culture (IEC) which was conceptually developed by Dimitratos and Plakoyiannaki (2003). Unlike the two previous dominant concepts that have been investigated individually by numerous studies, IEC is a bundle of various orientations that expect to influence firm performance. As a higher construct, IEC is also a cultural web that incorporates insights from multiple disciplines—international business, strategic management, and entrepreneurship.

IEC consists of six interrelated key firm orientations. The basic premise is that, in general, cultural properties containing these six dimensions are embedded in international SMEs but different international SMEs may prefer some over others. By integrating various perspectives from major management subjects, IEC tends to provide a more holistic assessment of organizational culture than what was previously demonstrated in the literature. Additionally, as mentioned by Zahra (2005), the six dimensions of the IEC conception might suggest many important issues that require an empirical investigation. For instance, new findings could be drawn from linking IEC to the pursuit of entrepreneurial opportunities, entrepreneurial strategies, or entrepreneurial implementation as these

different dimensions may recognize different types of opportunities or activities. In responding to these research gaps, the primary research question of this study is therefore to empirically explore a direct effect of IEC on performance of international SMEs. Because strategy and implementation involve members at all levels and across all functional areas in firms (Burgelman, 1983), we also examine a consequential process of IEC through mediating effects (i.e., entrepreneurial strategy and entrepreneurial implementation), how SMEs are able to achieve their goals, and the mechanism of their success. By linking the six cultural variables of IEC to international performance through these dual linkages, this study fills a gap in the international business literature regarding how the values embedded in organizational cultures might influence firm performance in the context of strategic management process. Considering a neglected domain of culture at the firm level, this study also expands an understanding of cultural construct focusing on a different aspect of multiculturalism research.

## **Theoretical background and hypotheses**

### **Entrepreneurial perspective of organizational culture**

The concept of entrepreneurship goes beyond launching a new business. Since new firms generally start on a small scale, the concept of small and newness has been used interchangeably with different terms such as born globals (Renee, 1993), international new ventures (McDougall et al. 1994; Oviatt and McDougall 1994), or entrepreneurial firms (Lu et al. 2010), depending on the speed of their internationalization. Nevertheless, the creation of value by such firms is conceptually opposite to conservative firms which are generally reluctant to innovate. Entrepreneurial firms are likely to search for richer innovative opportunities, while conservative firms naturally tend to be forced into innovation by adaptation. Being innovative could mean newness or internationalization in the sense that a new firm has been created or a new market has been searched. Innovation is the very basic domain of entrepreneurship, and internationalization or new entry is considered an innovative act. As pointed out by Schumpeter (1934), the role of innovation can be done in the form of a firm's creative destruction in which innovations destroy the market positions of firms committed to old technology, and new combinations in which resources are combined through, among others, opening new markets. That is, expanding into new markets presents a critical opportunity for growth and value creation.

### **International Entrepreneurial Culture (IEC)**

Dimitratos and Plakoyiannaki (2003) propose a conceptualization of IEC which is a holistic framework involving all hierarchical level of the firm. Past research focused on organizational culture mainly from two competing constructs rooted from an entrepreneurial or marketing perspective. IEC is different in a way that it is a cultural dimensions that incorporate the two classic models with other cultural variables ranging from well-developed concept (international learning orientation) to emerging literature (networking orientation) and less-developed literature (international motivation). Based on a review of selected 160 studies relevant to organizational culture, cultural artifacts emerges from an in-depth content analysis of major management literatures in social sciences. From this deductive approach, IEC consists of six elements namely international market orientation, international learning orientation, international innovation

propensity, international risk attitude, international networking orientation, and international motivation. These elements are a critical conceptual foundation of cultural influences.

A number of quantitative analyses have shown that firms with strong cultures outperform those with weak cultures (Burt et al. 1994; Kotter and Heskett, 1992; Sackmann, 1991). Traditional cultures such as entrepreneurial orientation, which includes innovation propensity and risk attitude, as well as market orientation has been widely observed and most studies shown that the relationship between these orientations and firm performance is positive (Amario et al. 2008; Baker, 1999; Dimitratos et al. 2004; Han et al. 1998; Runyan et al. 2008; Wiklund and Shepherd, 2005). Moreover, an emerging international entrepreneurship literature named learning advantages of newness theory suggests that early new firms' internationalization have natural advantage leading to positive international performance (Autio et al. 2000). Networking has also been found as a key success factor for small firms to be competitive in the global environment, especially for entrepreneurial firms (Coviello, 2006; Hoang and Antoncic, 2003; O'Donnell et al. 2001). Lastly, although less observed in the literature, the hypothesis that strong cultures enhance firm performance is typically based on the premise that firms benefit from having highly motivated employees dedicated to common goals (Sorensen, 2002; Wilkins and Ouchi, 1983). These components are expected to jointly determined IEC and firms' performance. Collectively, these arguments lead to the first hypothesis.

**Hypothesis 1** The relationship between IEC and firm performance is positive.

Culture is a philosophy of firms that guides an organization's policy. An organization is an entity set up for specific purposes responding to its environment (Calof and Beamish, 1995). Organizational culture, therefore, acts as lens on the environment, filtering external stimuli and shaping its flow through a firm to process strategic choices (Johnson, 1992; Schwartz and Davis, 1981). This shaping of information flow came about through internal mechanisms which guide the rise of strategy. However, neither environment nor firms themselves creates strategy. Their members rather do. These members set up strategy through mechanistic channels at the cognitive, cultural level or organizational culture (Adams and Markus, 2004; Katezenback et al. 2012). Stated differently, the guidance that gives emergence of strategy tends to derive from core assumptions believes and values which are specific and relevant, and organizational culture is the deeper level of these core values shared by members within the bounds of the firm. Hence, organizational culture can be seen as a cognitive sift that shows the important links between firms and strategy.

Strategy is related to logical systems of analysis and planning. Specifically, business strategy has been a major mainstream in contemporary management, and many schools of thought argue about business strategy in both general strategy and international business strategy (Porter 1980, Bartlett and Ghoshal, 1989). Culture also largely affects strategy of international firms (Hennart and Larimo, 1998). Particularly for small firms that adopt internationalization into foreign market such as SMEs, a number of interconnected lines of empirical analyses relate various forms of organizational cultures to firms' strategies. For example, Knight (2000) found that organizational culture in term of entrepreneurial orientation of small firms is positively associated with marketing leadership strategy. Knight and Cavusgil (2004) investigate the relationship of organizational cultures of born global firms including international entrepreneurial orientation and

international marketing orientation and their effects on business strategy. They found that, in general, business strategy is a function of organizational cultures. Thus, we conjecture the following hypothesis:

**Hypothesis 2** The relationship between IEC and entrepreneurial strategy is positive.

The impact of internal culture on organizational implementation is well documented in the literature. For example, Bass (1990) posits that a significant contribution to the organization comes from transformational leadership, and Leithwood and Jantzi (2000) found a strong significant relationship between organizational conditions and such leadership style. Using data from an emerging country such as Indian, Deshpande and Farley (1999) discover that firms with some particular organizational characteristics including organizational culture and market orientation grow much faster than those that lack of these distinctive dimensions. Sorensen (2002) proves that organizational culture enhanced coordination and control within the firm and improved organizational alignment within the firm. Cooper (1994) proposes that information technology implementation can be used to facilitate organization efficiency and a significant source of that efficiency comes from organizational culture. Organization effectiveness is often determined by control systems that firms operate Wilkins and Ouchi (1983). These research findings lead to the third hypothesis.

**Hypothesis 3** The relationship between IEC and entrepreneurial implementation is positive.

### **Entrepreneurial strategy**

Strategy is used as an umbrella term to denote the broad range of firm missions and goals that encompass the range of activities firms engage in to formulate and enact their goals (Dess et al. 1997; Rumelt, 2005). In this sense, strategy can also be seen as changes in the pattern of decisions taken by the organization, and refers to a firm-level process that incorporates the range of activities that firms undertake to reach their overall goals. Firm strategy, therefore, is a consequence of many aspects of an organization's culture or share value system (Hart, 1992). Therefore, developing strategy tends to result from overall context or culture of the firm. Strategy of an entrepreneurial firm, therefore, is the means through which an organization establishes a wide fundamental set of strategic issues that entail an innovative search for new opportunities and involves competitive-related activities. Research shows that pursuit of strategy is supported in an organization that has an entrepreneurial orientation (Dess et al. 1997). A mix of business strategies is found to be significantly related to performance of small exporting firms (Knight and Cavusgil, 2004).

A number of studies investigate a relationship between entrepreneurship and firm strategy (Miller and Friesen 1983; Morris and Paul, 1987; Covin and Slevin, 1989; Dess et al. 1997). In strategy literature, many studies mention entrepreneurial strategy as a pattern of behavior by the firm, such as Mintzberg's entrepreneurial mode (Mintzberg 1973, 1978), Miles and Snow's prospectors (Miles and Snow, 1978), or Miller and Friesen's entrepreneurial firms (Miller and Friesen, 1983). Furthermore, research shows that pursuit of strategy is supported in an organization that has an entrepreneurial orientation (Dess et al. 1997). For international small firms, Knight and Cavusgil (2004) and Namiki (1988) suggest that superior performance of international SMEs is determined by



four types of somewhat similar competitive strategies; global technological competence (innovation differentiation), unique product developments (segmentation differentiation), quality focus (products service), and learning foreign distributor competencies (marketing differentiation). Strategy is also another important variable that plays a mediating role between entrepreneurial orientation (Atuahene-Gima and Ko, 2001) as well as learning orientation (Julien and Ramangalahy, 2003) market orientation (Knight and Cavusgil, 2004) and firms' performance. Therefore, we posit that:

**Hypothesis 4a** Entrepreneurial strategy significantly mediates the relationship between IEC and firm performance.

#### **Entrepreneurial implementation**

Culture of a firm strongly affects and inherently connects to its strategy and implementation. The success of firms under globalization is largely related to both strategy formulation and strategy implementation (Porter, 1980). Organization culture is influential in shaping how members feel about implementation. Deal and Kennedy (1982) explain with a number of case studies that culture enhances implementation. A case study conducted by Acosta et al. (2004) also showed that cultural differences strongly affect the implementation of manufacturing strategy in Mexico. Thus, entrepreneurial implementation would be undertaken in an overall collaboration of strategy and the culture of the firm. Since implementation is embedded in social norms as a set of cultures, it cannot be considered culture-free. It is unlikely that firms would perform well in the competitive international environment without internally consistent implementation within the cultural context.

A difficulty of implementation is its time-consuming process that involves every entity throughout firms. Moreover, it always generates significant changes that do not usually please everyone. People usually perceive change as a threat and resist it, making moving firms in a new direction difficult (Lasher, 1999). The likelihood of culture causing resistance to change seems to be even greater within a complex set of cultural context. Consequently, implementation is normally a complex and challenging task in today's global business environment. Implemented effectively, however, the entrepreneurial change creates a unique source of competitive advantage. Rivals can hardly match an array of interlocked activities if firms have a set of difficult-to-imitate implementations. Hence, entrepreneurial implementation can lead to superior performance. Following this discussion, we hypothesize that:

**Hypothesis 4b** Entrepreneurial implementation significantly mediates the relationship between IEC and firm performance.

#### **International performance**

Firm performance is a regular construct in most management studies. The most frequently used performances seem to be financial aspects such as sales volume, sales growth, and market share (Hudson et al. 2001). However, financial performances have received numerous criticisms because they capture only some historical aspects and lack information regarding potential facets for future performance. In response to such criticisms, we include another aspect of measuring performance in the long run called strategic performance. Strategic performance is an assessment of organizational aspects that facilitate the quality

of firm's long-term survival (Chakravarthy, 1986). Further, Chandler and Hanks (1993) found that significant performance measures the growth, while strategic performance captures the survival of firms in this study. With traditional and strategic performance included in the scale, the new measurement tool can be seen to adequately cover almost all aspects of multidimensional nature of international performance construct.

The development process of strategy and implementation is a result of certain values embedded in the deep structural component of firms. Important values may be expressed in the combination form of orientations explaining what is important and how to behave. Accordingly, firms come to reflect in their strategies and implementations as they evolve. Strategy deals with how firms choose a different set of activities to deliver a unique mix of value (Porter, 1996) and the mixture of competitive strategy of a firm strongly determines its performance (Grant, 1991). In a similar vein, implementation reflects what values firms see appropriate and different aspects of organization implementation have been discussed in the literature. For example, Becker et al. (2009) showed that organization implementation such as customer relationship management implementation has an impact on firm performance, although it does not impact performance equally for different aspects of the CRM process. Also, Ruppel and Harrington (2001) found that intranet implementation is facilitated by firm's culture that emphasizes an atmosphere of various cultural aspects such as ethical culture, developmental culture, and hierarchical culture. How well firms perform financially and strategically is, therefore, a consequence of strategy they chose and implementation they selected. Consistent with this logic, we postulate the final set of hypotheses:

**Hypothesis 5** Entrepreneurial strategy positively affects firms' international performance.

**Hypothesis 6** Entrepreneurial implementation positively affects firms' international performance.

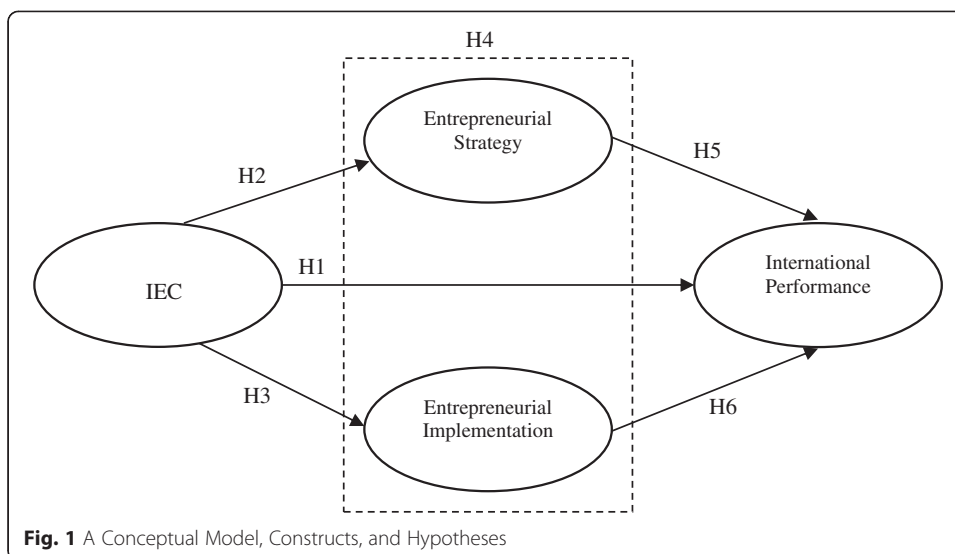
A literature review outlines relationships among focal constructs namely organizational culture, entrepreneurial strategy, entrepreneurial implementation, and performance of international SMEs. IEC is positioned as a key component that drives strategy and implementation of international SMEs which in sequence enhance their overall performance. We argue that international SMEs that have a certain mix and configuration of particular cultures, strategies, and implementations tend to perform better in the international marketplace than those do not possess similar characteristics. A conceptual model of IEC and interrelated linkages is illustrated in Fig. 1. The model and all hypotheses proposed in this section guide research methodology explained next.

## Methods

### Sample and data collection

The target samples in this study are SMEs in an emerging market during the exporting phase of their internationalization process. Because export involves relatively low levels of commitment and risk, it is usually a starting point for entering foreign markets and an important internationalization strategy for SMEs (Leonidou and Katsikeas, 1996; Young et al. 1989). SMEs from developing countries or emerging markets seem to experience the liability of foreignness and exhibit a more disadvantageous position when venturing abroad compared to those from a relatively more advanced economy





(Zhou et al. 2010). So far, numerous studies regarding SME exporting have been conducted in developed countries, particularly in North America. Little is known about the international entrepreneurship phenomenon in emerging markets. Most studies concerning emerging markets were conducted in countries that have large market size such as India and China. However, scholarly research from small open economies in emerging markets is still insufficient. Given this purpose, Thailand is a target sample because it is small in market size but fast growing in terms of its economy in Asia. Due to the importance of international trade and exports for the Thai economy, samples of SMEs from Thailand would probably be appropriate as a good demonstrative small country in an emerging market. It is also representative of other small, fast-growing emerging economies such as Malaysia, Poland, and Venezuela, each of which has relatively similar market size and market growth rates (Market Potential Index for Emerging Markets, 2009). Data of Thai SMEs were obtained from the Institute of Small and Medium Enterprises Development. All SMEs registered in the institution are companies consisting of 50–200 employees and Baht 30–200,000 000 (about US\$ 1–6.67,000 000) in total investment.

**Mail questionnaire**

The perceptual measures of a cross-industry field survey were used in this study. First, the survey instrument was developed in English following appropriate procedures (Churchill, 1979; Nunnally, 1978). Then, the questionnaire was reviewed by five international business scholars, two doctoral students international business administration majors and three business school faculty members, in order to refine and improve the survey instrument. After the refinement, it was translated into the Thai language by professional translators who are knowledgeable and bilingual. Following the method suggested by Brislin (1970), it was also back-translated to English again in order to identify and correct ambiguities that might occur from the translation. The questionnaire was specifically addressed to a key person who is knowledgeable about the overall culture, strategy, implementation, and performance in the firm. The key informants

methodology (Phillips 1981) is widely used in research and is used to ensure that the respondents are in a position to provide relevant information on all the constructs in the research model. The definition of each variable and its measure are explained in Table 1.

The questionnaire was sent to 1083 randomly selected SMEs. The returned surveys were 110 replies, a response rate of 10.16 %. Respondent firms consist of a wide variety of industries including manufacturing (62 %), service (11 %), wholesale, retail, and maintenance (12 %), and other industries (15 %). On average, SMEs have 58 employees and Baht 37,800,000 (about US\$ 1.26,000,000) in total investment.

## **Analyses and results**

### **Data assessment**

Nonresponse rate bias (Armstrong and Overton, 1977) was assessed using t-test comparing early (1–2 weeks) and late respondents (after 2 weeks) of selected firm-related variables such as firm age, number of employees, total investment, foreign revenues, and key performance measurements – sale growth, increase in unit production, ROI, ROS of international operations. Table 2 displays the comparison of means for each of these key variables. The results showed that the differences between early and late responses on any key measures are generally equal which can be implied that there is no significant between early and late responders ( $p > .05$ ). Thus, non-response bias is not the case to significantly affect the result in this study. The descriptive statistics describing summated scale means, standard deviations, and observed correlations for all seven constructs in the trimmed model is showed in Table 3.

### **Measurement model**

The data were initially analyzed with the exploratory factor analysis (EFA). Because the phenomenon of IEC has not been empirically tested and the relationships between the observed and latent variables are uncertain, EFA was conducted to examine the covariation among a set of observed variables in order to make sense of information on their underlining latent constructs. The analysis helps determine how and to what extent the observed variables are correlated to their underlining latent factors. It is widely recognized that EFA can be quite useful in early stages of experimentation or test development. Therefore, EFA was conducted with the purpose of exploring the empirical data to discover and detect characteristic features and interrelationships without imposing any definite model on the data. After running the EFA, the data were factor analyzed using a common extraction method, Varimax. The reliability of each measuring item was also calculated to assess internal consistency values. The results of factor and reliability analyses the first order factor analysis contains 14 constructs which leads to 63 hypotheses that need to be tested.

Then, a higher order factor analysis was conducted in order to reduce the number of constructs in the model. The results of the second order factor analysis show that, besides international performance, all items can be combined into a single construct. For the main construct, the three sub-constructs (IEC1, IEC2, and IEC3) are all combined into a new construct named *IEC*. For the two mediators, the four elements (ES1, ES2, ES3, and ES4) from the first order factor analysis are merged into the new construct

**Table 1** Main Variables, Conceptual Definitions, and Measurements

Variable	Definition	Measurement
IEC	Organizational culture which facilitates and accommodates the entrepreneurial activities of the firms in the international marketplace.	
International market orientation	The posture and behavior that the firm can adopt in order to create superior value for its customers in foreign markets	Knight & Kim (2009)
International learning orientation	The propensity of the firm to actively obtain and use its advantage intelligence on foreign markets.	Zhou et al. (2010)
International innovation propensity	The proclivity of the firm to espouse new and creative ideas, products, or processes designed to service foreign market.	Covin & Slevin (1989)
International risk attitude	The extent to which the firm is prepared to undertake significant and risky resource commitments in foreign markets.	Knight & Cavusgil (2004)
International networking orientation	The extent to which the firm obtains resources from the environment through alliance creation and social embeddedness to use in its activities in foreign markets.	Zhou et al. (2010)
International motivation	The process of initiation, direction, and energization of human behavior of organizational members regarding ventures in foreign markets.	(newly developed scale)
Entrepreneurial strategy	The development of a specific collection of strategies for SMEs.	Knight & Cavusgil (2004)
Global technological competence	The firm's technological ability relative to cohort firms in its industry.	
Unique product development	The creation of distinctive products, and is akin to differentiation strategy, which involves creating customer loyalty by uniquely meeting a particular need.	
Quality focus	Products that meet or exceed customer expectations with respect to features and performance.	
Leveraging foreign distributor competencies	The tendency of early internationalize firms to rely on foreign independent distributors and those distributors' specific competences to maximize performance outcomes associated with downstream business activities abroad.	
Entrepreneurial implementation	An administrative task that involves working with people, procedures, information, and the structure of the firm in order to put strategy in action.	
Transformational leadership	The need to transform individuals, teams, and firms by going beyond the status quo and, in so doing, affects their firms' ability to innovate and adapt.	Ling et al. (2008)
Participating in growing markets	Firms' ability to operate in future markets where there is only an average-to-low intensity of competition.	Chaston & Mangles (1997)
Organizational alignment	The idea that strategic vision, work processes and employee rewards are fine-tuned and in synch.	Berg (2007)
Information technology	All forms of technology used to create, store, exchange and utilize information in its various forms.	Cooper (1994)
Performance appraisal	Periodically monitoring performance expectations and goals for individuals in order to channel efforts toward achieving organizational objectives.	(newly developed scale)

**Table 1** Main Variables, Conceptual Definitions, and Measurements (*Continued*)

International performance	Firm's ability to grow in the international markets.	
Traditional performance	Short-term measurement mostly financial driven.	Davis (1988); Dess & Davis (1984); Dess & Robinson (1984)
Strategic performance	An assessment of organizational aspects that facilitate the quality of firm's long-term adaptation.	Tanvisuth (2007)

called *Entrepreneurial Strategy*, whereas the two components (IM1 and IM2) from are merged into the new construct named *Entrepreneurial Implementation*. For international performance, the construct can be trimmed down to four items. While strategic performance remains unchanged, market-based performance I and market-based performance II merged into the new construct named *Market-based Performance*. However, accounting-based performance and UPIO&SG cannot be merged because the new combination has very low reliability.

In short, the unidimensionality of measurement models was assessed by investigating convergent validity and reliability tests. For convergent validity, values of factor loadings range from 0.630 to 0.922. All factor loadings show values above the generally acceptable level of 0.50 indicating an adequate level of validity (Hair et al. 2006). For reliability tests, the range for Cronbach's alpha is 0.577 to 0.979. Overall, the coefficients of reliability (Cronbach's alpha) of most constructs are generally greater than the cutoff (0.70) suggesting that the measurement models present acceptable reliability. The coefficients of Cronbach's alpha of two constructs (market-based performance and accounting-based performance) are slightly lower than 0.70. However, the model may raise a concern since IEC had its value relatively lower than the cutoff.

**Structural model**

In structural modeling, convergent validity and reliability tests can be assessed using different parameters. The coefficient of convergent validity can be assessed with Average Variance Extracted (AVE) whereas the coefficient of reliability tests can be assessed with Composite Reliability (CR). The results reveal that values of CR range from 0.459 to 0.963, except for IEC and entrepreneurial strategy which have alpha values of 0.459 and 0.553, respectively. However, values of most CRs are greater than 0.70 which

**Table 2** T-test for Non-response Bias

Variable	Mean	S.D.	T coefficient	P value	N
Firm age	17.31/19.13	11.398/15.864	-0.690	0.492	55/55
Number of employee	52.55/68.38	53.055/67.951	-1.362	0.176	55/55
Total investment	32.634/47.045	44.369/66.186	-1.341	0.183	55/55
Foreign revenue (last year)	44.400/44.564	26.930/30.036	-0.030	0.976	55/55
Sale growth of international operations	25.545/24.636	21.039/19.913	0.233	0.816	55/55
Increase in unit production of international operations	25.163/25.836	18.572/22.547	-0.171	0.865	55/55
ROI of international operations	21.709/21.090	12.480/10.905	0.277	0.783	55/55
ROS of international operations	18.090/20.636	10.147/13.011	-1.144	0.255	55/55

**Table 3** Descriptive Statistics

Constructs	No. of Items	Scale Mean	S.D.	1	2	3	4	5	6	7
1) IEC	14	3.3889	.62439	1						
2) ES	16	3.5206	.68249	.847 <sup>a</sup>	1					
3) IM	16	3.6417	.64548	.625 <sup>a</sup>	.687 <sup>a</sup>	1				
4) SP	12	3.7197	.94191	.666 <sup>a</sup>	.749 <sup>a</sup>	.563 <sup>a</sup>	1			
5) Mkt.-based	6	3.3432	.72244	.417 <sup>a</sup>	.498 <sup>a</sup>	.470 <sup>a</sup>	.278 <sup>a</sup>	1		
6) Acc.-based	5	8.2076	3.94825	.235 <sup>b</sup>	.201 <sup>b</sup>	.058	.110	.234 <sup>b</sup>	1	
7) UPIO&SG	2	25.2955	19.32486	.246 <sup>a</sup>	.198 <sup>b</sup>	.020	.061	.092	.375 <sup>a</sup>	1

<sup>a</sup>Correlation is significant at the 0.01 level (2-tailed)

<sup>b</sup>Correlation is significant at the 0.05 level (2-tailed)

indicate an adequate level of convergent validity (Bagozzi and Yi, 1988). AVE ranges from 0.354 to 0.823. Values of most AVEs, besides IEC and entrepreneurial strategy, meet the 0.50 minimum cutoff level suggested by Fornell and Larcker (1981). Summary of final measurement scale properties is shown in Table 4.

The results from Table 4 imply that convergent validity of the constructs was satisfied. In general, the results provide evidence of the measures' sound validity and reliability. All analyses lead to a second order factor analysis model which consists of seven constructs. Path diagram of the model is showed in Fig. 2. Solid lines represent significant paths whereas dotted lines represent non-significant paths. The results of causal or path analysis after a measurement purification process revealed the following indices: (1)  $\chi^2 / df$  of 0.669 [  $\chi^2 = 2.099$  ( $P = 0.552$ );  $df = 3$  ], (2) RMSEA of 0.0, (3) SRMR of 0.0187, (4) GFI of 0.995, and (5) AGFI of 0.949. All five goodness-of-fit statistics meet the fit standards suggesting that the model fits the empirical data.

The results of the path analysis show that out of all 6 hypotheses, 4 are supported (H2, H4a, H4b, H5, H6, H7). Note that H7 was not addressed in the conceptual model. However, standard fit indices improve significantly by adding the relationship between entrepreneurial strategy and entrepreneurial implementation. Moreover, this relationship is a common feature of strategic management process (Christensen and Donovan, 1998). After adding this path into the model, standard indices improve significantly suggesting that this model fits much better than what was previously emerged from the original trimmed model. The structural components of the model represents the hypothesis that international performance as evidenced in strategic performance and market-based performance derives from entrepreneurial strategy and entrepreneurial implementation which, in turn, are influenced by IEC.

**Discussion**

**The Independent Construct (IEC)**

Based on first-order factor analysis, IEC consists of three sub-constructs which are IEC1, IEC2, and IEC3. To be more specific, IEC1 includes variables related to international innovation propensity and international risk attitude. IEC2 involves variables related to international market orientation and international motivation. IEC3 is related to international networking orientation. The combination of these dimensions of the IEC is salient to the entrepreneurial strategy, entrepreneurial implementation, and international performance of SMEs.

**Table 4** Summary of Final Measurement Scale Properties

Construct	Factor loading	Cronbach's Alpha	CR*	AVE**
1) IEC		.577	.459	.354
IEC1	.846			
IEC2	.675			
IEC3	.748			
2) Entrepreneurial Strategy		.732	.553	.421
ES1	.763			
ES2	.538			
ES3	.803			
ES4	.850			
3) Entrepreneurial Implementation		.762	.863	.675
IM1	.910			
IM2	.910			
4) Strategic Performance		.979	.952	.800
SP1	.922			
SP2	.922			
SP3	.920			
SP4	.917			
SP5	.914			
SP6	.908			
SP7	.905			
SP8	.902			
SP9	.895			
SP10	.893			
SP11	.893			
SP12	.848			
5) Market-based Performance		.695	.749	.567
Market-based performance I	.829			
Market-based performance II	.829			
6) Accounting-based performance		.635	.766	.586
ACC1	.882			
ACC2	.869			
ACC3	.791			
ACC4	.711			
ACC5	.630			
7) UIOP&SG		.877	.963	.823
UIPIO1	.918			
UIPIO2	.906			

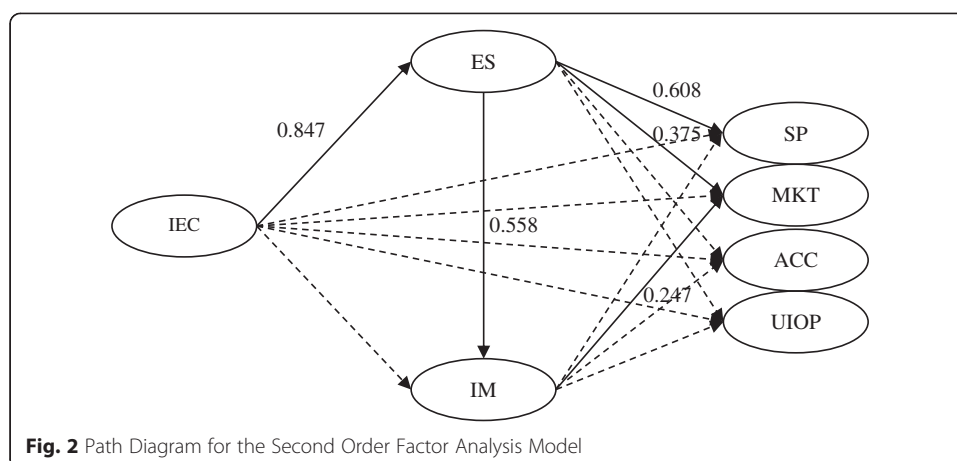
(\*) Composite reliability computed as  $CR = \frac{\text{Explained Variance}}{\{\text{Explained Variance}\}^2 + \{\text{Error Variance}\}^2}$

(\*\*) Average variance extracted computed as  $AVE = \frac{\{(X_1)^2 + (X_2)^2 + \dots + (X_n)^2\}}{N}$

where X = explained variance, N = numbers of variable in the model

The results provide general support for positive relationships between IEC and international performance. The finding is consistent with the previous works in the field in the sense that dimensions of IEC1 are fairly similar to that of entrepreneurial orientation. Again, IEC1 includes two concepts that are related to innovativeness and riskiness.





As explained in the literature review, a large number of studies show positive relationships between entrepreneurial orientation and firm performance (Wiklund, 1999). The findings from this study support this hypothesis, stressing the importance of innovation and risk taking for entrepreneurial behavior of firms. IEC2 also goes in line with another well-grounded concept, marketing orientation, regarding its positive relationship with firm performance (Pelham, 2000). IEC3 is an emerging concept in international entrepreneurship literature. The finding in this study is consistent with the previous works which show that high degree of networking would result in higher performance by the firm (Ritter and Gemunden, 2003). Our findings therefore offer additional evidence for positive effects for innovation, motivation, risk-taking, marketing, and networking orientation on firm performance. International learning orientation construct was eliminated during the first order factor analysis process. The results suggest that IEC is a multidimensional construct that taps specific orientations of international SMEs. However, the IEC construct being employed in this study can be disputed as it has been challenged recently by Dimitratos et al. (2012) which provides a sound basis on a measurement of the IEC construct. One of the main differences of our findings and that of Dimitratos et al. (2012) study is that we found IEC includes international innovation propensity and international risk attitude whereas these two variables do not form separate factors in Dimitratos et al. research. Thus, our finding partly challenges Dimitratos et al. (2003, 2012) IEC construct which may need additional surveys.

We then look at the relationship between IEC and entrepreneurial strategy. The findings of this study show that the relationship between IEC and entrepreneurial strategy is the highest path coefficient, at 0.847. The strength of the relationship is also the highest as the  $R^2$  is 0.717. Moreover, entrepreneurial strategy is the only construct directly influenced by IEC. The results suggest that, without entrepreneurial strategy, entrepreneurial implementation and international performance do not seem to suggest any connection with IEC. The results corroborate with that of past research in the fields which show that organizational culture positively affects strategy (Shrivastava, 1985). As we can make out, strategy plays an important role in the strategic management process transferring organizational culture to entrepreneurial implementation and firm performance. Overall, the findings suggest that entrepreneurial strategy is a consequence of a combination of different orientations of organizational culture.

Building strong culture would allow employees to create an environment that facilitates innovative ideas for new opportunities. Hence, IEC is culturally predisposed to mitigate a SMEs' willingness to try new business strategies.

Another aspect that we examine is the relationship between IEC and entrepreneurial implementation. The results show that IEC does not directly affect entrepreneurial implementation because the path coefficient between the two constructs is insignificant. Instead, the implementation is influenced through entrepreneurial strategy, which is a result of IEC. The results are somewhat consistent with the literature in the sense that implementation involves a complex set of activities within a firm (Birkinshaw, 1997). It is time-consuming and requires some processes that involve strategic changes. Entrepreneurial implementation is an important construct for SMEs to expand abroad. However, there is overlap before implementation takes place as it needs a preceding process, that is, strategy formulation. Hence, effective implementation depends on successful strategy formulation resulting from the entrepreneurial culture in the firm.

#### **The two mediators (entrepreneurial strategy and entrepreneurial implementation)**

Besides observing direct effects of IEC, we also examine its impact on strategy formulation and strategy implementation as mediators. The findings show that entrepreneurial strategy is a mediator in the structural model. Particularly noteworthy among the findings from the data analyses is the insignificant role that entrepreneurial strategy plays between IEC and international performance. As mentioned earlier, as IEC positively affects entrepreneurial strategy, it can then be concluded that entrepreneurial strategy mediates the relationship between IEC and firm performance.

Also noteworthy is a significant path coefficient in connection with the two mediating constructs. This path was added later on because the results from the data analysis show that goodness-of-fit indices improve significantly compared to the previous model without the path in the middle. The addition also makes both logical and theoretical sense. The path coefficient between entrepreneurial strategy and entrepreneurial implementation is 0.558. It appears that the relationship between entrepreneurial strategy and entrepreneurial implementation plays a significant role in translating IEC to international performance. In short, analyses show that entrepreneurial strategy acts as the initial mediator while entrepreneurial implementation then mediates between entrepreneurial strategy and firm performance.

#### **The dependent construct (international performance)**

Using a separate hierarchical model for each performance measure, we next examine the relationship between the two mediators and firm performance. The direct effect of entrepreneurial strategy on strategic performance is 0.608 while the effect on market-based performance is 0.375. The findings show that entrepreneurial strategy acts as a strong predictor of entrepreneurial implementation. In addition, entrepreneurial strategy even acts as a stronger predictor of strategic performance but a weaker predictor of market performance. Analyses show that entrepreneurial strategy plays a different role between IEC and the two types of international performance.

Finally, we investigate the relationship between entrepreneurial implementation and international performance. Entrepreneurial implementation only positively affects

market-based performance. The path coefficient between the two constructs is the lowest value, among other paths, at 0.247. The strength of the relationship is also considered the lowest because the R square 0.28. The findings provide further support for the conclusion that strategy implementation positively affects firm performance (Dobni and Luffman, 2003; Govindarajan, 1988). However, analyses show that financial performance evidenced in terms of market-based performance might not be a good explanation of international performance as it appears to show low-value R square. Or, perhaps this may occur due to the level of information disclosure when financial data are available. This issue will be discussed more in the next section.

### **Limitations and future research**

This study has some limitations that may guide further investigations. First, collecting data was randomly selected from the entire population. It is clear that a more comprehensive survey would be helpful. Further research could try to solicit responses from all SMEs on the company list for a higher response rate. Doing so would allow all constructs that were collapsed from the second order factor analysis to be more elaborated. A larger sample size is also highly likely to yield a much higher response rate, which in turn would allow researchers to conduct a comparative study of different types of entrepreneurial firms.

Along these lines, the results of this study were country-specific which might raise a concern about generalizing the findings to other countries. Samples from other countries as well as comparative studies of different countries are essential to extend the generalizability of the results. One recommendation is a comparative study between born globals and international new ventures engaged in domestic as well as in international transactions.

Second, measuring financial performance uses perceptual scales which might resolve the problem of self-reported bias. Although financial data are available through a governmental institution in Thailand, it is almost impossible for an outsider to get this information. Any attempt to acquire financial performance and cross-checking the accuracy between perceptual and actual performance would be worthwhile.

Third, this study is a cross-sectional survey research which by nature does not allow the ability to detect changing variables over time or to make definitive causal connections. A longitudinal data collection would be useful to capture causal relationships between constructs. Finally, lack of supplemental literature is normally a concern for novel research themes. Consequently, researchers should always conduct studies in an emerging field using an inductive approach. Because international entrepreneurship in emerging markets, especially in a small open economy is a new research area, qualitative studies utilizing an inductive approach from academic literature as well as practitioner materials such as case studies and in-depth interviews could increase an understanding in this emerging research stream.

### **Contributions**

#### **Theoretical contributions**

The findings of this study fill some research gaps in IE literature. From conceptual definitions, we empirically investigate a new construct called IEC. As a higher-order

construct, IEC includes three key-lower indicators namely IEC1, IEC2, and IEC3. Together with the new construct, the mechanism that IEC can be translated to superior performance is also highlighted. Furthermore, departing from past research that focus mainly on high-technology sectors in developed countries, this study looks at IE in an emerging market across a wide variety of industries. Finally, unlike most studies in the field that use financial performance as an outcome, this study adds a new angle of performance in the main dependent variable. International performance was measured from two different perspectives. Due to some limitations of financial performance as explained in the literature, we include strategic performance that focuses on a future-oriented perspective. By integrating these two perspectives of firm performance, the results of this study seem to provide useful insight not only for academics but also for business practitioners.

### **Managerial implications**

This study suggests a way for SMEs to step out of their domestic territories. Because most SMEs encounter limited resources, this study offers a way to overcome such a scarcity of tangible resources to succeed in the global markets. The practical implication of these findings suggest that SMEs in an emerging markets such as Thailand can improve facets of their strategic performance by developing such intangible resource as IEC. In particular, as orientation is about what things are prioritized ahead of others, the first priority should go to international innovation and international risk-taking (IEC1) because they have the strongest impact on strategic performance. Later urgency could go to such aspects as international market orientation and international motivation (IEC2) because these two constructs show stronger impact than aspects of networking of IEC3. Thus, SMEs are advised to give second priority to developing their international networking orientation, and the last priority on international marketing orientation and international motivation. These facets of organizational culture are expected to facilitate entrepreneurial strategy and entrepreneurial implementation, respectively. Having this assessment framework, managers can find a way to evaluate their readiness to expand abroad more effectively. For policy makers and institutions who promote the success of SMEs in their region, seminars and trainings should be developed to build strong firm culture in order to increase SME competitiveness in the international markets.

### **Conclusions**

Internationalization is a necessity for most firms including SMEs. This study expounds on how SMEs can successfully engage in international markets by managing their own culture. We have extended the conceptual model of IEC, making it a testable product and have empirically confirmed that the phenomenon exists among a sample of SMEs in the emerging country of Thailand. As a higher order construct, IEC consists of multiple first order constructs which are worthwhile even when presenting simultaneously with other orientations. Building on the strategic management process framework, the results of this study suggest how organizational culture can lead to superior performance. Overall, the findings reveal that IEC plays an important role in strategy formulation and strategy implementation, although it does not directly effect on firm

performance. The results of this study provide additional supplementation to the IE literature. International SMEs should seek to develop IEC and the particular orientations that it presents when expanding abroad.

#### Competing interests

The authors declare no competing interests.

#### Authors' contribution

CB carried out this study, participated in the sequence alignment and drafted the manuscript. All authors read and approved the final manuscript.

#### Author details

<sup>1</sup>Department of Management, Faculty of Business Administration, Maejo University, 63 Moo4 Nonghan Sansai, Chiangmai 50290, Thailand. <sup>2</sup>Division of International Business and Technology Studies, Texas A&M International University, 5201 University Boulevard, Laredo, TX 78041, USA.

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