

SMEs' Foreign Operation Mode Package Development

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This paper aims to provide a theoretical explanation to the observed phenomenon that SMEs develop a foreign operation mode (FOM) package. The findings demonstrate that SMEs' FOM package was developed based on an opportunity development logic. Specifically, SMEs develop multiple opportunities sequentially and simultaneously which end up as a FOM package. The authors identify the antecedents - existing knowledge and networks, and additional influential factors of affordable loss and the level of commitment to develop a theoretical explanation. Practitioners can apply opportunity development logic to evaluate a SMEs FOM decision.

INTRODUCTION

'Mode package' has been proposed by Benito, Petersen and Welch (2009) to describe the phenomenon observed in firms' foreign operation mode (FOM) choices. The package is the result of all the modes adopted by a firm internationally. Accordingly, this concept captures the multi-faceted and dynamic characteristics of foreign market entry. This stream of literature adopts the behavioral perspective to explain the decision mechanism that incorporates past experiences and current operations, various influential factors and a large number of decisions at different points in time (Larimo, 1995). Thus, mode package offers a nuanced and realistic understanding of firms' internationalization (Benito et al., 2009; 2011).

In the International Entrepreneurship (IE) field, a large stream of research also acknowledges the behavioral perspective to explain firms' operation mode (e.g. Galkina & Chetty, 2015; Oviatt & McDougall, 1994). Numerous scholars emphasize entrepreneurial behaviors in explaining firms' operation mode choice and changes which emphasizes the sensitivity to environmental uncertainty (Schwens et al., 2011), the influence of business networks (Oehme & Bort, 2015), experience in promoting entrepreneurship (Manolova et al., 2008), and the importance of knowledge and technology learning (Zahra et al., 2000). Liability of resources, among other reasons, can explain this emphasis on entrepreneurial behaviors (e.g. Gabrielsson & Gabrielsson, 2013; Schweizer, et al., 2010). Focusing on the entrepreneurial behavior, this research addresses Benito, Petersen and Welch's (2009, p. 1467), question of how and why entrepreneurs develop their foreign operation mode package. In doing so, this

paper contributes to the literature providing a theoretical explanation of SMEs' FOM package development.

The authors chose the Uppsala model (Johanson & Vahlne, 2009) and effectuation theory (Sarasvathy, 2001) as the theoretical foundation. The Uppsala model is the classic behavioral theory which considers firms' internationalization as a process and focuses on the mechanism of experiential learning, network and commitment building with the outcome of international opportunity development (Johanson & Valne, 2009). The effectuation theory emphasizes the co-creation process, uncertainty, the role of stakeholders in controlling unpredictable futures, and commitment in decision making. These two theories have been widely used in entrepreneurial international behavior because they both emphasize cross border uncertainty, limited resources and network dynamics (e.g. Sarasvathy et al., 2014).

Opportunity has been highlighted in both theories and bridges these two theories. According to effectuation theory, entrepreneurs are opportunity oriented in their internationalization efforts (Sarasvathy et al., 2014; Schweizer et al., 2010). The revisited Uppsala model (2009) also highlights international opportunity creation, as a critical part of the internationalization process. Thus, this research identifies the opportunity as the key concept linking these two theories. The authors also elaborate other concepts in these two theories to develop new insights on the theoretical explanation of SMEs' FOM package development.

This study contributes to the IE literature. First, it combines two theories and applies them to explain the entrepreneurial FOM decisions. This research explores the way of combining two theories through identifying a central construct included in these two theories, choosing related concepts in each theory, and developing an explanation based on the empirical research. This theoretical explanation answers the call for more research to apply behavioral perspective to understand how firms choose FOM (Asmussen et al., 2009; Li & Dimitratos, 2014; Petersen & Welch, 2002). Second, following Galkina and Chetty (2015), this study focuses on opportunity as the central construct in both theories to advance IE literature. Third, this research contributes to FOM choice by deepening our understanding regarding the dynamics of entrepreneurial FOM package as a sequential or simultaneous opportunity development process by means of a qualitative methodology (Hoang & Antoncic 2003; Slotte-Kock & Coviello 2010).

The structure of this paper is as follows. A review of the Uppsala model and effectuation theory, with focus on the concept of opportunity in each theory is presented. The case study method adopted in this research is explained followed by the discussion of the findings of the data analysis. Finally, this paper explains the theoretical contributions, limitations, research implications, and managerial implications of this research.

THEORETICAL BACKGROUND

Concept of Opportunity in the Uppsala and Effectuation Theory

The Uppsala model and effectuation theory have been widely used in IE research because these two theories focus on "opportunity" as a central concept and highlight the critical importance of entrepreneurial behaviors in international opportunity development. Perceived environmental uncertainty, limited resources, networks and the importance of experience in decision-making are emphasized in both theories (Johanson & Vahlne, 2009; Sarasvathy, et al., 2014).

The development of mode combination is a process of mode choice and change over time (Benito, Petersen & Welch, 2009). It is consistent with the process view of firms' internationalization (Johanson & Vahlne, 1977; 2009), in the sense that each foreign market entry can be considered as an international opportunity (Galkins & Chetty, 2015). Effectuation and Uppsala model as entrepreneurial approaches to study SMEs' operation mode combination considers these behaviors settled in the network of relationships (e.g. Gabrielsson & Gabrielsson, 2013; Johanson & Vahlne, 2009; Sarasvathy, et al., 2014; Schweizer, et al., 2010). According to the Uppsala view, the internationalization of SMEs is a process of experiential learning (Blomstermo et al., 2004) enabled by the interplay of experiential learning, commitment and trust building (Johanson & Vahlne, 2009). Learning from interaction with the members of network impacts on the commitment in new relationships in foreign markets and through commitment in these relationships firms gain more knowledge from their experience, which can provide more internationalization opportunities (Johanson & Vahlne, 2006; 2009). According to this perspective,

international opportunity development is the outcome of uncertainty reduction through trust and commitment building during the internationalization process (Johanson & Vahlne, 2009).

From the effectuation perspective, SMEs' foreign operations mode choice is associated with firms' limited resources and experience which make them vulnerable in uncertain conditions (Schwens et al., 2011). According to this approach, outcomes of internationalization efforts are unknown and therefore prediction of outcomes and probabilities are impossible (Sarasvathy, 2008). Indeed, the unpredictability of uncertain futures and the liability of resources and experience make it difficult, if not impossible, for SMEs to invest in market research and business analysis to predict the future and prepare a specific plan for their efforts (Kalinic et al., 2014; Sarasvathy, 2001; Sarasvathy et al., 2014). Hence, they deal with perceived environmental uncertainty based on the logic of control and affordable loss (Dew et al., 2009; Kalinic et al., 2014). In doing so, future return on investments is not a focus of their decisions (Sarasvathy et al., 2014); rather, they focus on the downside risk of their actions and think of what they will lose in the worst case (Dew et al., 2009). Entrepreneur's risk-taking proclivity determines what they "are willing to lose in order to follow a course of action" (Dew et al., 2009) in their internationalization efforts. That is, if they can afford the possible future loss, they will take action; otherwise they will quit and try another option. In this process of trial and error, internationalizing SMEs proceed via learning by doing (Sarasvathy, 2008), which brings them experiential learning and improves their network relationships and finally reduces the perceived uncertainty (Johanson & Vahlne, 2009). By having this approach to perceived uncertainty, effectuators, have some control of their future and co-create internationalization opportunities (Sarasvathy, et al., 2014).

Opportunity Development in Entrepreneurial FOM Behavior

The international entrepreneurship perspective conceives firms' internationalization as a process of international opportunity development (Coviello et al., 2011; Zahra & George, 2002). In the effectuation theory (Sarasvathy, 2001, 2008), knowledge and interactions inside networks (Johanson & Vahlne, 2009), thus entrepreneurs' international behaviors are mainly driven by a focus on their existing resources, referred to be "who I am, what I know and whom I know". According to this view, FOM package can be considered as a result of multiple opportunities that are explored and exploited simultaneously or sequentially (Zahra & Wright, 2011). This perspective aligns with the concept of a FOM package proposed by Benito, Petersen and Welch (2009, 2011) whereby internationalizing firms use several modes at the same time in one or more countries. In this sense, firms do not necessarily change their operation modes, rather they combine them (Benito et al., 2009) during their internationalization.

Extant research suggests the influence of networks on firms' operation mode change (see Chetty & Agndal, 2007; Yiu, Lau & Bruton, 2007). Due to their liabilities, internationalizing SMEs need to look for opportunities and rely on the knowledge, experience and resources of other members in their networks (Hohenthal, Johanson, & Johanson, 2014). SMEs need to look for advantages not through planning internationalization and controlling resources by internalization, but in being flexible in dealing with market changes (Gassmann & Keupp, 2007), being able to join to related networks or create their own network of relationships (Schweizer et al., 2010), and being alert to opportunities which emerge inside networks (Schweizer et al., 2010). By defining a market as a network of relationships (Johanson & Vahlne, 2009), the networks acquire critical importance in the internationalization of SMEs. In this sense, internationalization is a matter of being an insider in related foreign network (s), rather that overcoming the liability of foreignness (Johanson & Vahlne, 2009; Schweizer et al., 2010). In this point of view, SMEs rely on knowledge and resources provided by the network (Forsgren, 2002) and commit themselves to relationships inside the networks, and therefore, they get more trust and knowledge from others (Johanson & Vahlne, 2009).

Taking this view, SMEs' knowledge of the market, involvement in the market which brings experience to them, and their commitment to the market are key to understanding their internationalization behaviors (Lamb & Liesch, 2002).

Firms can be involved in multiple operations modes simultaneously (Benito et al., 2009; Zahra & Wright, 2011) due to the interdependent nature of opportunity development inside network(s), whereby each opportunity may lead to another (Welter & Alvarez, 2015). Indeed, internationalizing SMEs may consider emerging opportunities that can be exploited by relying on the knowledge and resources

provided inside a network (Galkina & Chetty, 2015), negotiation between stakeholders, trust building, and commitment development (Sarasvathy, 2001). Experiential learning as feedback from each opportunity development effort enables entrepreneurs to moderate the effects of perceived uncertainty (Sarasvathy et al., 2014). Therefore, different opportunity development efforts may lead to the sequence of modes during SME internationalization, which happen as a mix of planned, serendipitous and unplanned opportunities.

Consistent with Zahra and Wright (2011), this study focuses on the multiple opportunities that appear sequentially or simultaneously during the internationalization process. By doing so, this study can explain how entrepreneurs come up with a package of FOMs in their internationalization process. This process happens inside the network of relationships, in which “the sequence of phases” (p. 8) takes place and leads to increasing commitment between network members (Johanson & Vahlne, 2009).

CASE STUDY METHOD

This research uses a case study method, focusing on the internationalization of six firms (see Table 1), mainly following the guidelines of Yin (2014), Eisenhardt (1989), and Eisenhardt and Graebner (2007). The case study method enables the researcher to capture the development of the firms’ FOM package, which is a process composed of events over a period of time (Pratt, 2009). This study collects retrospective data of the firms, from the time of their inception until their latest mode action. In-depth data about what happened in firms’ mode action and the reasons behind that are collected in this study mainly through face-to-face interviews. Case study method is a suitable approach to observing and explaining the choice and evaluation of the mode package which are how and why questions (Yin, 2014). It also allows the researcher to explore theory in a different context (Eisenhardt & Graebner, 2007); therefore, it is appropriate since the FOM literature is in the early stage of development (Benito et al., 2009). As this study brings the opportunity-based view to explain the FOMs of firms, the unit of analysis is the opportunity in the context of SMEs’ FOM.

Case Selection

The number of the cases in this study was determined following Eisenhardt’s (1989) advice that between four and ten case studies is appropriate, as out of this range may yield too much or too little data, making it difficult to generalize the findings. This research was structured in two rounds of data collection over a two-year period. The first round of data collection helped to determine the optimal number of cases when the data reached saturation. In this research, after six cases, no more new theoretical insights emerged (Eisenhardt, 1989). As this study focuses on the development of FOM package as a process, the number of FOMs rather than the number of cases is the sample size (Langley et al., 2013). In these six cases, this study observes a total number of 36 FOMs.

This study chose Chinese SMEs because they show the variation of FOMs during their internationalization including direct exporting, exporting through agents and distribution; even establishing sales offices in lead markets (Loane & Bell, 2011). In addition, these SMEs show entrepreneurial behaviors in their FOM during internationalization. They rely less on predetermined plans and they obtain more benefit from the opportunities which appear as a result of networking (Ellis, 2011; Xie & Amine, 2009). They are more opportunity-centric and try to co-create opportunities in the process of internationalization (He & Karami, 2016).

Focusing on the Chinese context was also decided because China has been one of the most successful emerging economies during last several decades and SMEs contribute greatly to this country’s development through their activities in overseas markets (Zhu et al., 2012). Chinese SMEs as emerging entrants face a more complicated environment in the global market. Therefore, their behaviors in developing foreign operations modes reflect how a firm chooses and evaluates opportunities realistically. As China is poised to become one of the world’s biggest overseas investors (Boisot & Meyer, 2008), studying the development of FOMs of Chinese SMEs could help to understand how they consider and achieve foreign direct investment that in most situations leads to the critical foreign operation, e.g. developing subsidiaries.

TABLE 1
BRIEF INFORMATION OF THE SELECTED CASES AND THEIR FOMs

Initials of case	Case A	Case B	Case C	Case D	Case E	Case F
Number of employees (2013)	640	350	2000	400	5	20
Year of start of internationalization	1995	1992	1991	1998	2008	1997
% of foreign sales	31.6%	50%	80-90%	70%	100%	100%
Products	Silk fabric, clothing and silk bedding	Goose products	Lamps	Bamboo floors	Motor parts	Equipment
Participants	The owner/ the deputy general manager/three sales representatives	The owner/the deputy general manager/the sales manager	The owner/ the sales manager	The owner/ the deputy general manager/the sales manager	The owner	The owner/ the sales manager
FOM package	Indirect exporting through exporter, direct exporting to the foreign importer and foreign wholesaler, and foreign subsidiary development	Indirect exporting through exporter, direct exporting to the foreign importer, foreign agent and wholesaler	Indirect exporting through exporter, direct exporting to the foreign importer, foreign wholesaler and foreign consumer	Indirect exporting through exporter, direct exporting to the foreign importer, agent, wholesaler and customers, and developed foreign subsidiaries	Indirect exporting through exporter, direct exporting to the foreign importer, wholesaler and retailer	Indirect exporting through exporter, direct exporting to the foreign importer and wholesaler

Both theoretical purposeful sampling and “snowballing” of the case selection have been conducted following case study method guidelines (Eisenhardt, 1989; Yin, 2014), and to overcome the difficulty of getting access to the cases in China (Kriz et al., 2013). This research selected Chinese privately owned SMEs following the definition of SMEs in The Promotion Law of China's Small and Medium-Sized Enterprises (2003) mainly based on the number of employees in different industries. Due to the labor-intensive nature of manufacturing, SMEs in this industry can have a maximum 2000 employees. In all other industries, SMEs are defined as having less than this number. Privately owned is defined as a firm owned by an ordinary individual who was raised in the domestic environment, and this person should own more than 50% of the shares and have control of the enterprise (Liu et al., 2008). This ownership criterion is used to differentiate them from state-owned and collectively owned firms to make sure the case selected are entrepreneurially oriented. In addition, the firms should conduct at least two operation modes to meet the requirement of forming the package. The participants (especially the owners of the firms) who have the experience and knowledge of the firm’s internationalization should be willing to participate in the study. Getting access to the potential cases relies on the researchers’ personal relationships and contacts. Table 1 reports the key information on the selected cases regarding the purposeful sampling in this study and their FOM package.

Data Collection and Analysis

This research has two rounds of data collection over a two-year period. It includes accessing the cases, obtaining basic information on the cases, deciding the number of cases, collecting the information related to each foreign operation mode, and getting back to confirm and gain more detailed information. This study uses face-to-face, semi-structured interviews and researcher’s direct observation. The authors conducted 20 interviews with the owners (the main informants), the marketing managers, the international market managers or the sales representatives. These various informants and data sources ensured the trustworthiness of the data (Eisenhardt & Graebner, 2007). To overcome the barriers of collecting qualitative data of SMEs in China, and increasing the reliability, the author has spent as much time as required to get involved in informal social activities with the informants, which helped to obtain more information and understanding.

The data analysis was designed as a step-by-step process mainly following Eisenhardt (1989) and Miles and Huberman (1994). Firstly, a retrospective history of each firm was written and this was provided to the key informant to check for accuracy. Then, each case’s history has been coded initially based on the mode behaviors, which put all the information related to the individual mode behavior together. Then, all the data related to each behavior in the mode package development was coded and ordered chronologically. Descriptive information about each behavior from the opportunity-based view has been provided.

This study codes the FOM behavior following the international channel-of-distribution categories (Cateora et al., 2011). The coding largely reflects the type of intermediaries involved in product distribution. As a result, this study codes the mode behavior to be indirect exporting, exporting to foreign importers, agents, wholesalers, and retailers, and developing foreign sales subsidiaries. It is also believed that being more involved in a foreign market means a higher level of resource commitment. This study also codes the FOM action to be mode continuation, within-mode addition and deletion, mode addition and deletion, and mode change (Benito et al., 2009). This coding process makes sense identifying the patterns to explain the FOM package development of the case firms. In addition, this research systematically coded the data by examining each FOM as opportunity development. By providing the thick description of who, when, what and how questions relating to the opportunity development, this research uses terms from the literature about the opportunity discovery or creation (e.g. Alvarez & Barney, 2007) to code the mode action from an opportunity-based view. Next, the results of analysis are presented.

Case Study

Case A

A started with the plan to use existing domestic business network to access foreign markets. As result, A exported indirectly to South East Asian at inception. For about a decade, A gained some experience that led it to learn how to explore the market directly. The experience of indirect selling and business networking brought some alertness to A's entrepreneur, and increased his knowledge for internationalization. As a result, A got enough confidence to search for new markets directly. Thus, serendipity happened with the interactions with the clients from Korea, the US and some other countries. By having the experience of selling directly to these clients, A got more knowledge of international marketing and expanded the entrepreneur's social and business networks. The knowledge and networks increased and led him to become involved in foreign direct investment, which ended up with a sales subsidiary in Canada. Considering all the process, A kept all the FOMs from the beginning, to reduce the uncertainty, to maintain and develop networks, and to make his business profitable in long term. The chain of events which are related and dependent finally led to a package of FOMs.

Case B

The first FOM of B was limited to indirect exporting because B totally relied on the domestic state-owned trade companies to enter into South East Asia which was its main foreign market. However, this indirect exporting restricted B's profits which initiated B to change the mode to direct exporting. With the increased knowledge and expanded networks, B gained serendipitous opportunities from foreign agents and wholesalers. B has kept carrying on direct exporting since 1996 until now. The one reason provided by B's entrepreneur was lack of resources due to high commitment.

Case C

C began with the indirect exporting to get internationalization experience. When C increased the internationalization knowledge and had direct contact with the foreign clients, C intentionally increased the commitment with some existing business networks. After that, C had the alertness to search for new types of foreign clients to penetrate new foreign markets through attending the trading exhibitions and accessing the internet. As a result, C exported to foreign importers, wholesalers and agents. At the same time, C continuously used Chinese exporters for selling new products. Examining the process, case C captured the serendipitous opportunities over time and added a new mode which is the development of FOM package to the existing modes.

Case D

Starting with indirect exporting through Chinese trading companies, D gained the experience and enhanced their capabilities of internationalization. When the new opportunities emerged serendipitously, D had the alertness to capture it and increased their commitment in the networks to export directly. However, D never deleted the existing business to control the risk and reduce the uncertainty of committing resources in foreign markets. With the increased knowledge and networks, D decided to create his advantage in foreign markets by establishing the foreign subsidiaries. Through hiring overseas staff, D accomplished this objective. At the same time, D nevertheless reacted to the opportunities to new markets by choosing low commitment rather than established subsidiaries everywhere.

Case E

With limited financial resources and having only five staff, E started with indirect exporting to survival. E reduced the risk by relying on the resources of a Chinese trading company. Even the networks with clients came from the entrepreneur's prior experience. When knowledge and networks increased through experiential learning, E exported directly to the existing business networks. Also, E intentionally searched different business networks to penetrate the foreign markets. Again, due to limited resources, E captured serendipitous opportunity in different markets. By accumulating these opportunities, the FOM combination of E has been developed.

Case F

F exported indirectly through an exporter from 1997 to 2004. With the experience gained through internationalization, F exported directly to a foreign importer and wholesaler through extended networks. During the interview, F's entrepreneur explained the reason to be that both F and its clients preferred the low commitment mode of direct exporting to avoid the risk of a large resource commitment due to the small size of F. As a SME, F did not have enough financial resources to handle the failure of high commitment of mode in foreign markets.

FINDINGS AND DISCUSSION

Mode Action as an Opportunity Development

This research finds that internationalizing SMEs do not plan and develop distribution channels in foreign markets; rather they deal with each operation mode as an internationalization opportunity development focusing on reducing the perceived uncertainty. These firms took small and incremental steps to increase their commitment in foreign markets. They mainly relied on their networks and experience to try additional modes while maintaining existing mode(s) to decrease the level of perceived uncertainty. By doing so, they reduced the risk in two ways - keeping their existing position in distribution channels and giving themselves more time to evaluate new opportunities.

For example, the cases of A, B, C, and D started an international business by exporting indirectly through a Chinese domestic state-owned exporter. They manufactured stock in response to these exporters' orders. Through working with an exporter who had the knowledge of international business, these case firms reduced the uncertainty of entering a totally new market. Even when they started exporting directly to the foreign markets, indirect exporting still took a large percentage of their total sales. Taking mode addition while keeping indirect exporting as the main mode shows how they managed uncertainty. As the owner of case B said,

We used to export goods through a Chinese state-owned exporter. They took the orders, and we produced the goods. We did not worry about the marketing and sales at that time. [Later], we tried to explore some new foreign clients by ourselves. We failed a lot, but it was all right for us because we still had this state-owned exporter to export what we produced.

In addition to limited resources, case firms evaluated the opportunity based on whether they can afford the cost if they failed in making a high-level commitment or losing their existing networks. Also, the unbalanced resource relocation of the case firms in developing distribution channels increased the uncertainty of losing existing partners. For the case firms, reducing the uncertainty is more important than penetrating the foreign markets. Thus, they usually maintained their existing FOMs to reduce the risk of trying new high commitment modes. For example, the entrepreneur of case A explained why his firm maintained all existing modes when they have already developed a foreign subsidiary to develop its retail brand:

We need to keep the existing clients including foreign importers and wholesalers. We need to keep our existing producing amount in order to survive. If now we change totally to let the foreign subsidiary to develop the retail brand and target the foreign customers, we will die. The existing clients do not trust our new brand.

Opportunity development is adopted as the logic of FOM due to SMEs limited internationalization knowledge and networks. The case firms do not have the specific knowledge about internationalization and foreign markets and lack business and social networks; therefore, they perceived the high level of uncertainty in foreign markets. To deal with these weaknesses, the case firms relied on their partners' resources and experience to penetrate new markets. When their partners changed, including domestic exporters and foreign importers, wholesalers, agents and retailers, the mode actions varied. In addition, the firms' entrepreneur's social networks brought some opportunities of FOM. For instance, case A and C relied on family members living overseas and foreign employees to develop foreign subsidiaries.

The level of commitment in business networks also influences the FOM of case firms. Their commitment to existing relationships reduced the uncertainty of a higher level of commitment and therefore, increased the trust in the relationships and enhanced the company's position in the distribution channel. When new opportunities emerged, case firms were more willing to keep existing networks to enhance the trust and maintain their network positions.

The findings of this research show that FOM package development is an outcome of a sequential process. Indeed, each case firm demonstrated a particular order in developing its FOM package in which multiple opportunities have been developed simultaneously or sequentially. The summaries of the case studied in this research (see above) show how the knowledge gained and network relationships in each opportunity became the inputs for developing subsequent opportunities. As is demonstrated, the outputs became resources to develop the sequential opportunity and reduce associated uncertainty. As is illustrated through the example of case A, this firm gained the knowledge of international business from exporting indirectly through a Chinese domestic exporter, and then enhanced its capability to export directly to foreign clients. Through direct exporting to Korea, the US and other countries for six years, A was confident to make a high-level commitment based on its increasing knowledge of internationalization and extended networks to penetrate foreign markets. Later, case A developed a new retail brand in North America to sell to the foreign customers because its profit from the existing exporting business helped to withstand possible failure.

At the same time, through experiential learning, the case firms felt the pressure to make a higher commitment in foreign markets. Case D felt pressure because a large number of Chinese manufacturers produce similar products and use similar foreign distribution channels. Therefore, it used new foreign sales subsidiaries in the US, Australia and Canada to develop its own distribution channel in foreign markets. Meanwhile, it decided to maintain the existing FOM and add the higher-level commitment mode to balance the uncertainty. As a result, the FOM package of case D included low and high-level commitment modes added at different points in time.

To summarize the findings above, the opportunity-centric perspective of SMEs' FOM package development provides a behavioral explanation of this pattern. This explanation focuses on the multiple opportunities which happen simultaneously or sequentially during the internationalization process, as the central concept in explaining firms' FOM behaviors. Developing opportunities depends on internationalization knowledge, business and social networks, experiential learning, the level of commitment and affordable loss. In addition, the FOM package is the outcome of the multiple mode actions in which each action depends on the previous action, to manage uncertainty during internationalization.

FOM Package Development, Theoretical Explanation

Based on the findings of this research, the authors combine the re-visited Uppsala model and effectuation theory to develop a conceptual model to explain SMEs' FOM package development. Although the recent literature argues that opportunity development is central to entrepreneurial SMEs' internationalization (Johanson & Vahlne, 2009; Sarasvathy et al., 2014), explaining SMEs' FOM package development as an outcome of successive or simultaneous development of internationalization opportunities has not been focused on. This research explains SMEs' FOM package development as an outcome of multiple opportunities development. The model developed (see Figure 1) identifies the antecedents and influential factors of multiple opportunities development to create a package of FOM. It highlights the mechanism of experiential learning in the sequence of opportunity development. Table 2 illustrates the interpretations of the constructs in this conceptual model by comparing these constructs in two theories

The underlying assumption of this model is that the resources of internationalizing SMEs are limited (Sarasvathy et al., 2014) due to constrained internationalization knowledge, and business and social networks. Indeed, their existing knowledge and the network of relationships provide them with some understanding of internationalization opportunities and associated uncertainty. Thus, from a firm's

perspective, the relationship between the new mode and existing mode and the overall balance of modes depends on the perceived uncertainty based on their existing resources.

The entrepreneurial process of internationalization starts from the managers' prior experience, knowledge and relationships (Sarasvathy et al., 2014). Indeed, their existing knowledge about themselves and internationalization and their network of relationships give them some perception of internationalization opportunities and associated uncertainties (Sarasvathy, 2001, 2008). In their internationalization process, SMEs have no clear idea about the outcome of their efforts; rather, they interact with other members of the network and make commitments to relationships (Johanson & Vahlne, 2009). By doing so, SMEs identify and obtain new resources and even define new specific goals in their internationalization, which can lead to entering a new foreign market (Sarasvathy et al., 2014). Indeed, their internationalization is an "unplanned" process of co-creation inside networks (Fuerst and Zettinig, 2015; Galkina and Chetty, 2015; Kalinic et al., 2014),

In this model, the two influential factors are affordable loss and the level of commitment. Considering the liability of limited resources, the affordable loss plays a key role when SMEs perceive opportunities and associated uncertainties (Read, et al., 2009; Sarasvathy, et al., 2014). Developing new opportunities depends on whether or not firms can afford the loss if they fail. On the other hand, they need to control the risk of over-relying on existing foreign markets. Therefore, although maintaining the existing modes is the way to maximize the affordable loss and manage uncertainties, penetrating new foreign markets is necessary for their long-term growth in international markets. The level of commitment in distribution channel also influences the mode action. From the network approach of firms' internationalization (Johanson & Vahlne, 2009), the level of commitment in business networks determines a firm's network position in foreign markets that in turn influences the resources it can obtain from the networks. Thus, making a high level of commitment in a foreign distribution channel is the way to penetrate the international market (Schweizer, et al., 2010). Meanwhile, the higher level of commitment means higher perceived uncertainty. Maintaining the existing modes along with the new FOMs is the solution to balance the uncertainty of increasing the commitment of resources.

The logic behind FOM package development is the dynamic of opportunity development, facilitated by experiential learning. Internationalizing SMEs proceed via learning by doing (Sarasvathy, 2008), improve their network relationships and reduce the perceived uncertainty (Johanson & Vahlne, 2009). As the owner of the firm in case A explained: "I consider the internationalization of my company as a process, a learning experience. It should be step by step. It is impossible to start with developing some new foreign brands." FOM package development can be conceptualized as a sequence of opportunities created through a dynamic process of gaining more knowledge and networks, increasing and maintaining the level of commitment, and calculating affordable loss. This explanation is in line with research that explains the entry mode strategy as enhancing the firm's capabilities through experiential learning (Song, 2002). The current state of each firms' FOM package can be understood only in terms of the history of developing each mode action during their internationalization, that is a sequential process. Thus, each firm has a somewhat different FOM package. This model, shown in Figure 1, provides the theoretical explanation for SMEs' FOM package development. Based on this model, the next section develops a set of research propositions to understand why and how entrepreneurial SMEs choose their FOM actions.

FIGURE 1
A CONCEPTUAL MODEL OF SMEs' FOM PACKAGE DEVELOPMENT

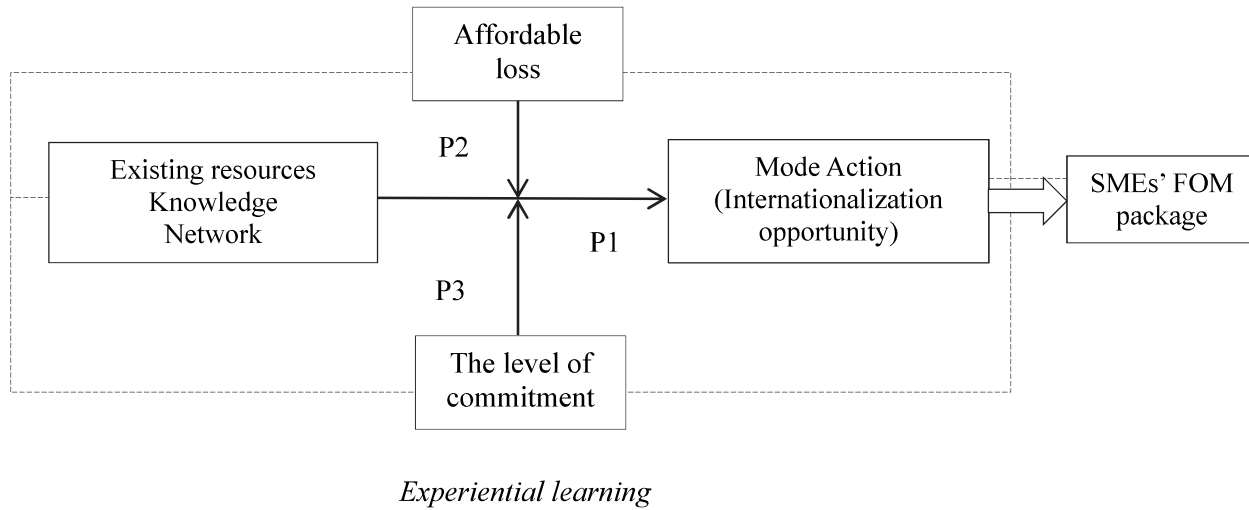


TABLE 2
COMPARING THE CONSTRUCTS IN THE UPPSALA MDEL AND EFFECTUATION THEORY

Construct	The Uppsala model (Johanson and Vahlne, 2009)	Effectuation theory (Sarasvathy, 2001; 2008)
Opportunity development	Opportunities are both discovered and created through networks at the firm level	Perception based on knowledge and associated uncertainties Opportunities are not given as exogenous but are created and co-created together with other stakeholders at the level of an individual entrepreneur
Networks	Networks to enter foreign markets Emphasis on business networks	Who I know? Emphasis on personal and social networks
Knowledge	Knowledge about the internationalization and networks	General knowledge and the experience of the entrepreneurs
Affordable loss	N/A	Considering the downside risk in decision making instead of anticipated return on investment.
The level of commitment	Commitment in networks. It is the matter of overcome the liability of outsidership	Commitment between stakeholders. It is the matter of gaining or giving up the control of resources.
Experiential learning	Learning by previous internationalization process(es)	Learning by doing

Research Propositions: Explaining SMEs' FOM Package Development

To address our research objective, to explain why and how SMEs make a package of FOMs, four propositions are developed. Firstly, the limited internationalization knowledge and networks are the

underlying reasons why SMEs adopt an opportunity development perspective to their internationalization. With limited resources, internationalizing SMEs cannot plan their internationalization process; rather they stay alert and look for opportunities (Kalinick et al., 2014). Indeed, firm's perceived uncertainty in internationalization is based on its existing and accessible resources (Sarasvathy, et al., 2014), which in turn influence the firm's opportunity exploration efforts. Indeed, internationalization can be seen as a result of firm's effort to reduce their perceived uncertainty (Johanson & Vahlne, 2006). Effectuation assumes pure uncertainty conditions in which entrepreneurs reduce the uncertainty by leveraging networks of relationships (Read, et al., 2016b). By building networks, effectuators add up complementary resources, including knowledge and experiences and converge toward a common goal (Sarasvathy, 2001). This research finds that SMEs' FOMs depend on internationalization knowledge, and existing business and social networks. Among the six case firms in this research, case A and C had greater internationalization knowledge, and overseas social networks (see Table 2) that are essential for them to develop their distribution channel in foreign markets. By utilizing network ties in target foreign markets, these firms reduced their perceived uncertainty and exploited FOM opportunities. In contrast, case E is relatively small, so that even with a similar number of years' experience in exporting, it had no resources to penetrate foreign markets to that extent. It is because of the lack of related networks in domestic or target market to provide necessary resources to enter to foreign markets.

The networks provide different options to choose from and change their operation modes in various markets simultaneously. Having access to the resources of other firms through networks of relationships plays a critical role in firms' internationalization processes (Johanson & Vahlne, 2009). SMEs discover opportunities sometimes within their existing business and social networks; and then add them to the existing FOM. Thus, this study proposes that:

P1: SMEs utilize existing resources of knowledge and networks to develop internationalization opportunities which in the long-term create a foreign operation mode package.

Considering the liabilities of limited resources, SMEs evaluate opportunity of FOM in relation to the affordable loss. Opportunity development intertwines with uncertainty management (Johanson & Vahlne, 2006, 2009); so that, uncertainty and opportunity are considered as two sides of the same phenomenon. Uncertainty plays a more important role in SMEs' FOM behavior. The critical importance of affordable loss for internationalizing SMEs is due to their limited resources (Sarasvathy, 2008). This research finds that the affordable loss (Sarasvathy, 2001, 2008) is the influential factor in SMEs' understanding of uncertainty and evaluation of FOM opportunity. Resource constrained SMEs face an uncertain environment in which they cannot predict the outcome of their internationalizing efforts. Therefore, SMEs maintain their existing FOMs to reduce the risk of trying a new high commitment mode in foreign markets. Although SMEs could maximize their affordable loss with the increased knowledge and network relationships, they are more willing to select the safer modes to reduce the risk and manage the uncertainty. Thus, this research proposes that:

P2: Given their existing knowledge and network resources, SMEs are more likely to develop an opportunity to diversify FOM package when their perception of affordable loss is higher.

In addition, development of international opportunity and forming a FOM package by internationalizing SMEs is influenced by perception of their level of commitment in the distribution channel. Given that internationalization is a process of entering a foreign market network (Johanson & Vahlne, 2009), increasing their commitment in the networks of partners in distribution channel is a means of internationalization. The previous level of commitment in networks impacts on the SMEs' perception of choosing a new operation mode. Specifically, a relatively high commitment in a previously entered network leads to maintaining the existing mode to reduce the perceived uncertainty (Johanson & Vahlne, 2003); which at the same time, leads to accumulation of new knowledge and extended networks to increase the commitment in foreign markets. Thus, this research proposes that:

P3: Given their existing knowledge and network resources, SMEs are less likely to develop an opportunity to diversify FOM package when their perception of level of commitment is higher.

Considering the dynamic nature of opportunity development of mode action, SMEs learn by trial and error in each internationalization effort. Therefore, they reduce their perceived uncertainty through “learning by doing” (Sarasvathy, 2001). Through developing internationalization opportunities by adding higher level commitment modes, SMEs increase their internationalization knowledge and networks as the resources that lead their sequential opportunity development (Schweizer, et al., 2010). In other words, experience from the previous FOMs is the starting point for the sequential mode behaviors. Therefore, sequential and sometimes simultaneously opportunity development drives FOM package development. Our model shows that previous mode actions influence the order and types of different modes of the FOM package development. As this research argues:

P4: Experiential learning as the feedback mechanism for SMEs internationalization influences the development of foreign operation mode package.

Contributions

The major contribution of this study is to advance the IE literature by integrating two existing theories in a specific field of FOM. It enriches the literature by providing a new theoretical explanation focusing on the opportunity development. By doing so, it further explores the combination of two important behavioral theories, the Uppsala revisited model (Johanson & Vahlne, 2009) and effectuation theory (Sarasvathy, 2001; Kalinic et al., 2014) in the field of IE. Also, through developing the opportunity centric model of FOM package development (see Figure 1) and four propositions, this study empirically investigates the concept of opportunity as a key construct in two theories and identifies related constructs, then develops the relationships between these constructs. At the same time, reflected in the methodology, this research considers opportunity as a unit of analysis and advances the SMEs’ FOM literature. The traditional ownership-location-internationalization (OLI) framework (e.g. Brouthers, 2002, 2013; Chen, 2008) cannot fully explain the phenomena observed in the FOM package development of SMEs. With the limited resources, SMEs usually do not plan their internationalization. Also, the OLI framework has been widely used to explain decision-making but could not explain a phenomenon which happened over a period of time.

Limitation and Future Research

This study has several limitations and therefore offers directions for future research. Although this research explains SMEs’ FOM package as a result of multiple internationalization opportunities development, it does not focus on the process of opportunity development. The opportunity development process and the nature of opportunities (e.g. opportunity discovery and creation) as two important concepts in the opportunity literature deserve more attention in the context of FOM. Future research can further expand the opportunity-based view to explain firms’ FOM by using opportunity development as the unit of analysis.

Studying the cases in only one country has the limitation of its contextual boundaries. For example, Chinese firms’ internationalization might be argued to be more influenced by the home country’s institutional environment (Peng, 2003; Peng & Heath, 1996), which might be a constraint in generalizing the findings. Although we achieved theoretical generalization by using reliable methods, we believe studying more cases in different countries including developed economies, other emerging economies, and developing economies could provide richer explanations.

The method used in this research also has some limitations. One of the major challenges is accessing cases. The “snowballing” method provides the possibility of access but also brings the problem that these cases might be too similar. In addition, this research uses retrospective data. Future research can be designed to collect longitudinal data to fulfill the objective of explaining the foreign mode package development which is a process and a dynamic concept. Finally, the propositions developed in this research could be tested by collecting quantitative data in future research.

Managerial Implications

Applying findings of this research, SME managers can take the opportunity development perspective when selecting the FOM. This mechanism is reasonable and realistic for firms with limited resources and experience. Rather than making detailed plans in advance, focusing on opportunities can help firms move forward and enter new foreign markets and penetrate existing markets following emergent opportunities. Considering internationalization as a process of multiple opportunity development increases the chance for firms' growth and survival in international markets. By doing so, firms will be able to maximize their benefits with limited resources. At the same time, entrepreneurs might learn from this study that taking proactive and high-risk behaviors is necessary to gain the competitive advantage. Actively co-creating opportunities within strong social networks, especially in overseas networks, could be a solution. In addition, penetrating foreign markets relies on increasing internationalization knowledge and extending networks through experiential learning. SMEs should try to be vigilant and learn from their daily relationships with other network members who have complementary experience in foreign markets. By doing so, they can incrementally resolve their liability of limited knowledge. Also, entrepreneurs should pay more attention to learn from networks to enhance their cognitive capabilities of alertness.

Lastly, the mechanism of FOM development has insights for MNEs. Facing turbulent market environments and competition, MNEs can also be opportunity-centric in designing their internationalization strategy. Uncertainty increases in foreign markets with major differences in cultural, institutional, and social environments when MNEs expand to multiple new countries (Brouthers, 2013). Adopting the opportunity-oriented logic can help them to reduce the risk in investing in internationalizing.

CONCLUSION

In comparison to MNEs, research on the foreign market entry and operations of SMEs is scarce. Considering the liabilities of SMEs, looking at their foreign market entry and operations from an opportunity-based perspective offers new insights for theory and practice. Using effectuation theory and the Uppsala revisited model, this research demonstrates how internationalizing SMEs develop a FOM package as an outcome of the process of multiple opportunity development with the mechanism of commitment to relationships and experiential learning. This research explains that SMEs' opportunity development of FOMs depends on existing knowledge and networks, influenced by the level of commitment in distribution channels and affordable loss. Considering that perceived uncertainty, and the way SMEs cope with it plays the key role in SMEs' survival, internationalizing SMEs mainly add new modes rather than adopting different strategies in foreign markets. Therefore, in the longer term, they come up with a package of FOMs, which is the outcome of different courses of actions in sequential opportunity development efforts.

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