



Article

Entrepreneurial orientation and SME international performance: The mediating role of networking capability and experiential learning

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Abstract

This article extends knowledge of entrepreneurial orientation (EO) by examining EO in the context of international performance of small- and medium-sized enterprises (SMEs). We enhance understanding of foreign market entry of SMEs by taking into account the mediating mechanisms (i.e. networking capability and experiential learning) through which firm EO leads to superior performance across borders. A sample of 164 internationalising SMEs in New Zealand supported the direct impact of EO on international performance as well as the mediating role of experiential learning and networking capability in this focal relationship. These findings reveal the importance of EO in internationalisation of SMEs.

Keywords

entrepreneurial orientation, experiential learning, international performance, networking capability

Introduction

For more than three decades, scholarly interest in entrepreneurial orientation (EO) has continued to grow rapidly (Covin and Wales, 2019). EO in the international entrepreneurship (IE) context has recently gained momentum, largely due to the increasing globalisation of markets. IE is defined as the discovery, enactment, evaluation and exploitation of opportunities across national borders to create and capture value (Coviello et al., 2011; Oviatt and McDougall, 2005). In this view, foreign market entry, like other forms of market entry, is explained as a process of opportunity development (Jones et al., 2011), which is certainly an entrepreneurial act (Knight and Cavusgil, 2004).

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EO, defined as the firm's strategic posture relating to the processes and decision-making activities that lead to new market entry (Lumpkin and Dess, 1996), plays a particularly critical role because entering a foreign market requires a completely different mindset and a business model that enhances the firm's capability to adapt to new environments (Khanna, 2014).

However, gaps exist in current research on EO in IE. First, while much research has examined the role of EO for cross-border entry of large established multinationals, little research has investigated the utility of EO for international performance of small- and medium-sized enterprises (SMEs) (Gupta and Batra, 2016). Compared with larger corporations, SMEs suffer from liabilities of newness and smallness (Aldrich and Auster, 1986), limited resources (Tang et al., 2017) and lack of internationalisation experience (Galkina and Chetty, 2015; Johanson and Vahlne, 2009). These liabilities become more salient when SMEs struggle to improve their international performance, particularly for small economies (Rochford, 2010) in a distant country away from the world's major markets (Scott-Kennel, 2013), such as in New Zealand in which SMEs account for 97% of all enterprises (Ministry of Business, Innovation and Employment (MBIE), 2016). As New Zealand is highly reliant on these SMEs to gain competitive advantages in the international market (Chetty et al., 2018), how EO helps these SMEs create and capture value in foreign markets deserves more research attention.

Second, given the importance of EO in the IE context (Jones and Coviello, 2005), however, 'firms with high EO are likely to produce a distribution of outcomes, ranging from *home runs* to *total losses*' (Wales, 2016: 5), that is, EO is not always associated with successful performance. Assuming a direct association between EO and international performance seems theoretically simplistic and practically useless (Wales, 2016; Wales et al., 2013, 2015; Wiklund and Shepherd, 2011). Thus, a deeper understanding of the impact of EO on international performance will be gained by comprehending the process through which the effect takes place. In this regard, research has yet to identify factors which help internationalising SMEs in managing the variance in performance and therefore shifting towards more successful performance.

This article attempts to address these gaps by surveying SMEs in New Zealand to investigate potential mechanisms through which EO influences the international performance of SMEs. In this regard, IE literature suggests experiential learning (Baum et al., 2000; De Clercq et al., 2005) and networking capability (Galkina and Chetty, 2015; Johanson and Vahlne, 2009) as two established factors leading to the successful internationalisation of SMEs. Networking capability refers to the ability of the firms to 'develop and utilize inter-organizational relationships to gain access to various resources held by others' (McGrath and O'Toole, 2014: 897). Experiential learning refers to the process of transforming firm experiences into applied knowledge, particularly through reflections upon both local and international experiences (Eriksson et al., 1997). These factors can provide SMEs with much-needed knowledge and complementary resources, and therefore, facilitate their adaptation to the international context (Vahlne and Johanson, 2017).

In order to compete in the international context, first and foremost, SMEs need to enhance their contextual intelligence – the ability to understand the limits of their knowledge and to adapt that knowledge to foreign markets (Khanna, 2015). Unfortunately, 'mental models often persist unaltered' (Khanna, 2015: 181), and internationalisation is an iterative process in which entrepreneurial firms rarely get their internationalisation efforts right on their first iteration. Under such circumstances, EO will play an important role to help SMEs adapt their mental models to better fit the foreign markets (hence improve their international performance) because EO often encourages firms to seek creative ideas and solutions for new market entry (Lumpkin and Dess, 1996). Furthermore, research suggests that EO facilitates a firm's understanding that they *know less than they think they know* (Khanna, 2015). Therefore, higher EO motivates firms to be humbler rather than more contented with their achievements. As a result, higher EO firms

will strive to gain more knowledge and information in the foreign market and to better adapt to the foreign market through accelerating their networking activities (e.g. networking capability) and learning from their own experiences as well as experiences of other members in their networks (e.g. experiential learning).

EO scholars also highlight that, although less explored, both networking capabilities and organisational learning are causal paths through which EO influences various organisational outcomes (Wales et al., 2013). Thus, in this article, we explore how EO as a posture-based entrepreneurial strategic orientation (Lumpkin and Dess, 1996) leads to greater SME international performance through networking and experiential learning. Capturing this indirect relationship between EO and international performance can provide substantial theoretical implications for how we theorise EO (Wales, 2016; Wales et al., 2015; Wiklund and Shepherd, 2011) in the IE context.

Theory and hypotheses

EO and SME international performance

Scholars have investigated internationalisation as an entrepreneurial act of identifying and exploiting international opportunities (Coviello et al., 2011; Johanson and Vahlne, 2009). Within the IE literature, a consensus exists that international opportunities are developed in pursuit of competitive advantages and better performance (Coviello et al., 2011). Considering that internationalisation usually takes place in an uncertain environment (Sarasvathy et al., 2014), EO accelerates a firm's opportunity-seeking behaviours in the internationalisation context (Covin and Miller, 2014) because it engages firms in 'uncertain, entrepreneurial activities over time' (Wales, 2016: 4). Indeed, EO reflects how exploration and exploitation of market opportunities drive the growth objectives of the firms (Baker and Sinkula, 2009). Thus, it would be particularly pertinent to investigate the link between EO and international performance (Brouthers et al., 2015).

IE scholars have approached EO from two perspectives. While some scholars have studied the traditional EO construct in the internationalisation context, others have considered international EO (IEO) as a distinct construct and defined IEO as the 'behavior elements of a global orientation' that 'captures top managements propensity for risk taking, innovativeness, and pro-activeness' (Freeman and Cavusgil, 2007: 3). As indicated by Covin and Miller (2014), 'IEO is, in essence, a subcategory of EO that shares the core elements of the broader EO construct yet includes an additional distinguishing element – namely, an "international" emphasis' (p. 14). Covin and Miller (2014) further suggest that 'neither body of research is inherently superior to the other as far as the validity of the research design is concerned' (p. 14). Hence, in this study, we follow the traditional, and more established, approach to studying EO and treating internationalisation as a context in which EO is manifested (Covin and Miller, 2014).

A large body of research reveals that EO has positive impact on firm growth, profitability, innovation, and overall performance (Wales et al., 2013), particularly for SMEs (Tang et al., 2017; Thanos et al., 2017). This positive impact holds true in the context of IE as well (Wales et al., 2015). For instance, previous studies offer evidence that EO influences the degree of internationalisation (Javalgi and Todd, 2011), export performance (Mostafa et al., 2006) and overall international performance (Frishammar and Andersson, 2009; Jantunen et al., 2005). In addition, (Thanos et al., 2017) found that IEO stimulates international opportunity exploration and exploitation, and that EO is particularly important for firms to tap into potential opportunities in highly hostile environments.

Existing research suggests that introducing factors that help firms decrease variance in performance by explaining the mechanisms through which a firm's EO can result in high success are

important steps in improving EO theorising (Wales, 2016; Wiklund and Shepherd, 2011). In this vein, existing research has investigated several mediation mechanisms, such as network strategies (Stam and Elfring, 2006); engendering business strategies (Knight and Cavusgil, 2004); the scope and scale of born global strategies (Kuivalainen et al., 2007); and learning (Zou and Ghauri, 2010). Building upon this line of research and in response to a call for examining the mechanisms through which EO relates to firm performance across borders (De Clercq et al., 2005), this research considers networking capability and experiential learning as two important mechanisms for the EO–international performance relationship by digging deeper to unearth the connection between these constructs in the context of SME internationalisation.

EO, networking capability and international performance

Networking capability has been considered a critical factor in the internationalisation of SMEs due to their limited resources and lack of foreign market entry experience (Galkina and Chetty, 2015; Johanson and Vahlne, 2009). However, conflicting arguments exist in the literature. For example, Gabrielsson and Gabrielsson (2013) posit that there is an over emphasis on the role of networking in internationalisation of firms, and (Nummela et al., 2004) suggest that having an extended network of relationships decreases the speed of internationalisation.

IE literature suggests that our understanding of the internationalisation process will be enriched by addressing ‘the impact of the firms’ role and position within a network of relationships’ (Coviello and Munro, 1995: 58). Business network ties refer to ‘the relationships entrepreneurs develop with customers, suppliers, and competitors in an industry’ (Boso et al., 2013: 713). According to the network view, internationalisation is no more the matter of overcoming the liability of foreignness; instead, it is the matter of overcoming the liability of outsidership from related networks. By entering related networks, SMEs can alleviate such liabilities, as close and lasting relationships inside related networks function as a social exchange process which increases the joint productivity of internationalisation efforts through knowledge accumulation, trust building and commitment development (Nahapiet and Ghoshal, 1998).

By connecting with international knowledge and interacting with firms operating in specific countries (Johanson and Vahlne, 2009; Schweizer et al., 2010), SMEs gain localised advice, complementary resources and therefore implement their entrepreneurial activities more rapidly (Boso et al., 2013; Fernhaber and Li, 2013). Resource and market intelligence sharing can further optimise resource exchange and decrease the risk of failure in foreign markets (Chen and Jaw, 2014) as well as facilitate inter-firm collaboration (Walter et al., 2006). Prior research found that networking with local partners during the internationalisation process boosted the international performance of SMEs (Lu and Beamish, 2001).

By now, we have argued that both EO and networking capability enhance SME international performance. We further propose that EO enhances SME international performance through its effect on networking capability. SMEs with a high EO are more proactive in the search for foreign market entry opportunities (Jantunen et al., 2005). They are more alert and prepared for opportunity recognition (Johanson and Vahlne, 2009). As EO prompts firms to be more risk-taking and open in their relationships, high EO SMEs are eager to join related networks in foreign markets to gain better access to complementary resources and knowledge, build mutual trust and develop commitment between partners, which in turn will help them pursue opportunities across borders (Johanson and Vahlne, 2006). As posited by Johanson and Vahlne (2009), ‘opportunities are likely to emerge as a consequence of the privileged knowledge that two partners develop during their interaction’ (p. 1419). All in all, SMEs with higher EO will be better able to overcome their liabilities and compete in foreign markets successfully through developing the related networks and

strengthening their position in networks (Brouthers et al., 2015; Forsgren, 2016). Based on the reasoning above, we propose that EO increases international performance of SMEs through the mechanism of networking:

Hypothesis 1. Networking capability mediates the relationship between EO and international performance of SMEs.

EO, experiential learning and international performance

Experiential learning occurs through reflections upon experiences, assumptions and beliefs (Eriksson et al., 1997). It is the result of direct experience of the firm which can be acquired through (un)intentional, (un)systematic efforts (Huber, 1991). Prior EO research has examined the role of organisational learning in linking EO with performance (e.g. Wang, 2008). In our study, we focus on experiential learning because it helps firms shape their distribution of outcomes to be more favourable (Wiklund and Shepherd, 2011) as entrepreneurial firms learn how to cope with failure through their life and work experience (Politis and Gabrielsson, 2009). Experiential learning is particularly crucial for the IE context, perhaps due to the high uncertainty in this environment which derived from lack of information in unfamiliar markets (Baum et al., 2000). When facing insufficient information and environmental uncertainty, SMEs learn by reflecting on their own experiences and the experience of other members in their network to reduce uncertainty (Baum et al., 2000; Cope, 2011).

We propose that experiential learning has a positive impact on international performance of SMEs. It is argued in the organisational literature that 'learning generally increases average performance' (Levinthal and March, 1993: 106). As noted by Baum et al. (2000), international market expansion 'can be understood as a product of organizational learning by boundedly rational decision makers whose attention, search, and choice are shaped by their organizations' experience' (p. 767). Firms learning capability facilitates experimentation, risk-taking, interaction within the context and collaborative decision-making, thereby increasing internationalisation experience (Bruneel et al., 2010; Levinthal and March, 1993) and overall improving the international performance of firms (Fernández-Mesa and Alegre, 2015).

Accordingly, foreign market entry can be seen as a learning process in which internationalising firms experientially learn how to build trust and develop commitments as a precondition of international opportunity exploration (Johanson and Vahlne, 2011; Schweizer et al., 2010). Reflecting on international experiences helps firms realise limits of their existing knowledge on other contexts and adapt their knowledge to different environments (Khanna, 2014). As knowledge about different aspects of business and management plays out differently in different countries, existing knowledge will not automatically translate into successful entry to every foreign market. Therefore, internationalising firms have to revise their assumptions about foreign markets and key resources, and adapt their operation models by experimenting with new market entry strategies (Khanna, 2014). They can achieve this adaptation with reflective thinking, that is, rethinking experiences, including both grand experiences of deals and disasters, and everyday experiences of minor actions (Gosling and Mintzberg, 2003). This continuous experiential learning facilitates the successful start-up as well as managing existing ventures for better performance (Politis, 2005).

As a case on point, Metro Cash & Carry, a German wholesaler, successfully entered markets of Western Europe, Eastern Europe, Russia, China and India through learning from each market entry experience (Khanna, 2015). Operating in diverse international markets requires unique technological knowledge in each market (Zahra et al., 2000). However, in order to succeed in these foreign

markets, Metro Cash & Carry has moved far beyond an understanding of what technology is used in which country to subtler areas as diverse as ‘intellectual property rights, aesthetic preferences, attitudes toward power, beliefs about the free market, and even religious difference’ (Khanna, 2014: 61). This continuous learning from each foreign market experience has contributed to superb performance of Metro Cash & Carry across nations.

By now, we have argued that both EO and experiential learning enhance SME international performance. We further propose that EO enhances SME international performance through its effect on experiential learning. EO scholars suggest that EO can be better understood through learning theory (Covin and Lumpkin, 2011). As noted by Smilor (1997), ‘effective entrepreneurs are exceptional learners. They learn from everything. They learn from customers, suppliers, and especially competitors’ (p. 344). Exploring new markets and experimenting with new products all accelerate learning of the firms (Anderson et al., 2009) and nurtures values of learning and open-mindedness within the firm (Wang, 2008). That is, firms with a higher EO have a greater inclination towards learning (Sapienza et al., 2005) and thus, are better able to utilise experience as vital means to searching for novel ideas and solutions as well as to developing competitive advantages. Prior literature also suggests that EO stimulates experiential learning from both domestic and international experiences (De Clercq et al., 2005; Wales et al., 2015) as a continuous process. Taking the above reasoning and evidence together, we argue that EO engages firms with experiential learning to overcome perceived uncertainty and adapt properly to the foreign environments, which, in turn, increases SME international performance:

Hypothesis 2. Experiential learning mediates the relationship between EO and international performance of SMEs.

Methodology

Sample and data collection

In order to test our hypotheses, this study draws on data collected from manufacturing SMEs in New Zealand (NZ). SMEs play a critical role in NZ economy. According to the NZ MBIE (2016), SMEs account for 97% of the country’s firms and contribute to 26% of the country’s gross domestic production. The NZ Ministry of Economic Development defines firms with fewer than 200 employees as SMEs. For the purpose of this research, we have considered SMEs that have already entered a foreign market. Following these criteria, we used Kompass Database to identify internationalising SMEs in different manufacturing industries across the country. In addition, we evaluated the websites of the firms and telephoned these firms to screen out those with no current international activities and those who were subsidiaries of other international firms. As a result, our targeted sample reached 820 firms. Of these 820 firms, 560 firms did not participate in the survey because of reasons such as having no interest in the research topic, or being overloaded by business activities. Among the 260 firms who agreed to respond to our survey, 96 cases did not start nor submit the survey after three reminders. Thus, our final sample consisted of 164 complete responses.

The data collection began in September 2016 and concluded in February 2017. We surveyed founders or top executives in charge of the firm’s international business (IB) since they are the most knowledgeable about their international activities of firms. The survey was created via Qualtrics and administered online, as an online survey can control for the risk of unrepresentative samples (Sills and Song, 2002). We applied several techniques to improve the response rate. Simply, we followed the rationale of social exchange theory to motivate respondents in terms of

perceived costs and benefits (Dillman, 1991). First, pre-notice emails were sent before the link to the online survey was distributed to ensure that our respondents did not consider the email as unsolicited (Sheehan and Hoy, 1999). We followed up with telephone calls to check if respondents received the pre-notice emails and whether they were interested to respond to the survey. After receiving their approval, we emailed the online survey presented in both desktop and mobile versions for the convenience of respondents. We also sent out follow-up emails four weeks and seven weeks afterwards to non-respondents. Second, we assured confidentiality of respondents by confirming that only aggregate findings (rather than findings related to any single firm) would be published (Sills and Song, 2002). Third, we promised that the summary of findings would be shared with respondents (Im and Rai, 2008). We assumed this could be an important motivation for respondents to complete the survey due to the importance of learning from other successful SMEs. In addition, techniques such as personalised emails and cover letters, mentioning the research sponsorship along with bold and italicised texts, were used (Dillman, 1991).

In order to assess non-response bias, we first followed Armstrong and Overton (1977) and employed independent *t*-tests to check for any potential non-response bias between early and late responses in terms of our key variables (e.g. EO, experiential learning, networking capability and performance) as well as control variables (e.g. firm size, firm age and international business experience). We did not find any significant differences between these two groups. Furthermore, we employed the same tests to check for a non-response bias between our final sample of 164 cases and the 560 firms who did not accept our invitation to participate in the survey, as well as between our final sample of 164 cases and the 96 cases who agreed but did not actually complete the survey (Sluis and De Giovanni, 2016) in terms of firm characteristics such as firm size and firm age. No significant differences were found, suggesting there was no major threat of non-response bias for our data.

Controlling common method variance

We undertook several steps to control for the potential common method variance (CMV). First, following Podsakoff et al. (2012), we conducted Harman's single factor test. We entered all items in one exploratory factor with a principal axis factoring extraction and Varimax principal rotation technique. As a result, seven factors emerged, explaining 63.7% of the total variance. The first factor accounted for 18.73% of the total variance, indicating that no single factor is explaining the majority of the variance. Second, we employed Williams et al.'s (1989) approach to check for the extent to which CMV exists. Using AMOS software, we first estimated a full measurement model with all of the substantive variables included. Then, another measurement model including all substantive measures and an uncorrelated method factor was estimated. According to this approach, if the method factor model improves the fit indices significantly, CMV might be an issue. Results indicate that the fit indices of the method factor model (root mean square error approximation (RMSEA)=.08, comparative fit index (CFI)=.92, goodness of fit index (GFI)=.77, normed fit index (NFI)=.85, Chi-square=621.14, *df*=314 and standardized root mean square residual (SRMR)=.064) did not improve the fit indices of the measurement model (RMSEA=.08, CFI=.91, GFI=.79, NFI=.85, Chi-square=456.22, *df*=224 and SRMR=.061). Furthermore, to determine the extent to which the CMV influences the total variance, the variance explained by the method factor was calculated by summing the squared loadings. Results indicate that the CMV accounted for 18% of the total variance, less than the average amount of method variance observed by Williams et al.'s (1989), that is, 25%. Taking all these steps together, we believe that CMV did not pose a pervasive problem in our data. Nevertheless, we appreciate that these tests could not remove the CMV totally.

Measures

International performance. We employed Gerschewski et al.'s (2015) scale to measure the international performance of SMEs: (1) international sales volume; (2) international sales growth; (3) international profitability; (4) overall international performance; (5) return on investment (ROI) from international business; (6) market share in international markets; (7) new product/service introduction in international markets; (8) time to market for new products/services internationally; (9) international reputation of the firm; (10) gaining a foothold in international markets; and (11) success of your main international business ('1' = 'completely unsuccessful' and '7' = 'completely successful').

Networking capability. We adopted Chen et al.'s (2009) scale to measure the networking capability of SMEs: (1) we analyse what we would like to achieve with our collaborators; (2) we rely on close individual relationships to secure personnel and financial resources; (3) we decide in advance which possible partners to talk to about building relationships; (4) we appoint managers/employees who are responsible for the relationships with our collaborators; (5) we discuss with collaborators regularly on how to support each other to achieve success; (6) we can deal flexibly with our collaborators; and (7) we almost always solve problems constructively with our collaborators ('1' = 'strongly disagree' and '7' = 'strongly agree').

Experiential learning. We utilised Blomstermo et al.'s (2004) scale to measure experiential learning. Respondents were asked to think of their early foreign market entries and then report the extent to which each of the following has been useful in subsequent foreign market operations: (1) our firm's experience in the development and adaptation of products for foreign markets; (2) our firm's experience in doing business in foreign markets; (3) our firm's experience in cooperating with other firms in other countries; (4) our firm's familiarity with foreign market(s); and (5) our firm's experience in doing business with new international customers ('1' = 'very low' and '7' = 'very high').

EO. We adopted Walter et al.'s (2006) scale to measure EO: (1) in our firm, entrepreneurial behaviour is a central principle; (2) in our firm, people are not very dynamic (reverse-coded); (3) in our firm, innovation is emphasised above all; (4) in our firm, people are willing to take risks; (5) in our firm, willingness to continuous progress is the joint foundation; and (6) in our firm, people are eager at being always first to market ('1' = 'strongly disagree' and '7' = 'strongly agree').

Control variables. Several variables were controlled that might influence constructs of interest. *Firm size* was measured with the total number of employees. Firm size was included because larger firms may have more resources that influence their degree of internationalisation (Zahra et al., 2000). *Firm age* was measured by the years that the firm has been in business. Firm age is an important factor in firm internationalisation process because older firms have more resources and more network relationships which may impact the firm's tendency to enter foreign markets (Zahra et al., 2000). Internationalisation experience of firms was controlled with the number of years of operating in international markets (Brouthers and Nakos, 2005). Finally, we included nine manufacturing *industry* groups by following The Australia and New Zealand Standard Industrial Classification (ANZSIC, 2006): (1) food, beverage and tobacco products; (2) textile, leather, clothing and footwear; (3) wood and paper products; (4) printing; (5) petroleum, chemical, polymer and rubber products; (6) non-metallic mineral products; (7) metal products; (8) transport machinery and equipment; and (9) furniture and other manufacturing. As high-technology firms may be more likely to internationalise (Johnson, 2004; Oviatt and McDougall, 2005), we categorised these

industry types into high- or low-technology industries based on standardised scores for R&D intensity and the percentage of knowledge workers in each industry (Tang et al., 2012; Thornhill, 2006). As a result, high-technology industries included industries 5, 6 and 7 listed above and were coded as '1'. Low-technology industries included the rest of the industries listed above and were coded as '0'.

Analysis and results

We estimated a model using partial least squares (PLS) to examine the relationship between EO, networking capability, experiential learning and firm international performance. PLS is a variance-based structural equation modelling (SEM) useful for exploring the relationship between latent variables and for explaining variance in firm performance (Reinartz et al., 2009), especially when the sample size is relatively small (Hair et al., 2013). In addition, PLS requires minimal demands on distributional assumptions and measurement scales (Wold, 1982). We used SmartPLS 3 software to analyse our data and test our hypotheses (Ringle et al., 2015). Table 1 shows the descriptive statistics of all variables.

The measurement model

Our analysis consists of a measurement model and a structural model. The measurement model demonstrated acceptable fit (SRMR = .06, NFI = .81, Chi-Square/df = 3.58) (Hu and Bentler, 1998). Please note that even though SmartPLS includes some model fit criteria, these criteria may not always be useful for PLS-SEM and must be used with great caution (Hair et al., 2013). In addition, 'these criteria are in their very early stage of research and not fully understood (e.g., the critical threshold values)'.¹ We carried out several tests with the measurement model to assess the validity and reliability of our items. First, we assessed the Cronbach's alpha for all substantive constructs, and all alphas were above the accepted threshold of .7 (Nunnally, 1978). Second, we assessed if the shared variance between the items of our scales and the related construct is higher than the variance between the construct and the error terms. Results indicate no cross-loading between items, and all items of our key constructs have loadings above the accepted threshold of .7 (Hulland, 1999). Third, to assess the convergent validity of our measures, we controlled for the average variance extracted (AVE). The AVE of all items was above the accepted level of .5 (Hulland, 1999). Fourth, we assessed the internal consistency of our scales by performing the composite reliability test. As shown in Table 1, all scales have composite reliability above the accepted level of .7 (Hair et al., 2013). Finally, to assess the discriminant validity of our measures, we calculated the square root of the AVE (indicated on the diagonal in Table 1). All scores are greater than the values in related columns and rows, indicating acceptable discriminant validity of our measures (Birkmshaw et al., 1995).

The structural model

To test our hypotheses, we examined with the structural model the size and significance of structural paths and the explained variance in each path. The SEM technique has several advantages in testing meditation models: all the paths are directly tested and none are omitted and 'complications of measurement error, correlated measurement error, and even feedback are incorporated directly into the model' (Baron and Kenny, 1986: 1177). Following Hair et al. (2013), we applied a non-parametric technique of bootstrapping (with 500 sub-samples) to test the precision of structural paths in the model (Efron and Tibshirani, 1993).

Table 1. Means, standard deviations and correlations.

Variable	Composite reliability	Cronbach's alpha	AVE	Mean	SD	1	2	3	4	5	6	7	8
1. Firm size	–	–	–	35	28.75								
2. Firm age	–	–	–	28	22.93	.02							
3. IB experience	–	–	–	16	12.15	.05	.62**						
4. Industry	–	–	–	0.10	0.31	-.22*	-.03	.02					
5. EO	.90	.86	.64	5.56	1.05	.03	-.25*	-.12	-.00	(.80)			
6. Networking capability	.90	.86	.70	5.57	1.20	-.00	-.17	-.08	-.10	.49**	(.84)		
7. Experiential learning	.94	.93	.77	5.35	1.18	.09	-.00	.24*	-.02	.45**	.32**	(.88)	
8. International performance	.95	.95	.70	5.03	1.07	.09	.05	.11	-.10	.33**	.27**	.53**	(.82)

AVE: average variance extracted; SD: standard deviation; EO: entrepreneurial orientation.
 *Correlation is significant at the 0.05 level; **correlation is significant at the 0.01 level (two-tailed test).

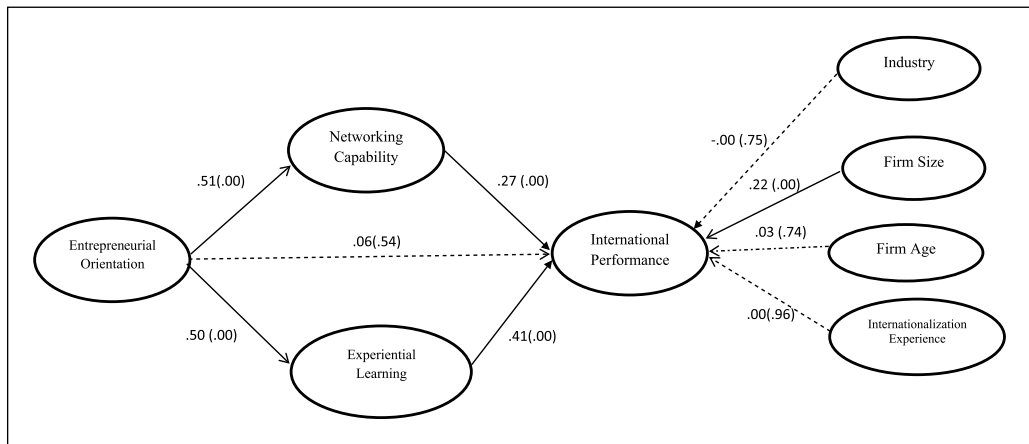


Figure 1. The mediation structural model (standardised parameter estimates are shown with p values in parentheses).

In order to test the mediation hypotheses, we first tested the direct association between EO and international performance. We specified a direct effect model in which EO predicted international performance. The direct effect of EO on international performance was significant ($\beta = .39$, $t = 5.48$, $p < .01$). Next, we specified a mediation model in which we added the mediating variables of networking capability and experiential learning (please see Figure 1). According to this structural model, the majority of the variance (.38) in our dependent variable, the international performance of firms, was explained by the mediating variables. The explained variance (R^2) adjusted for our endogenous mediating variables as follows: .26 for networking capability and .25 for experiential learning. Among the control variables, firm size had a significant and positive impact on international performance ($\beta = .22$, $t = 3.15$, $p < .01$), and this result was consistent with previous research that larger firms have greater resources that influence their foreign market entry positively.

We followed Baron and Kenny (1986) to test our mediation model. Three conditions must be met for full mediation models: (1) the independent variable (i.e. EO) is significantly related to the mediators (i.e. experiential learning and networking capability) and the dependent variable (i.e. international performance); (2) the mediators are significantly related to the dependent variable; and (3) after the mediators are added, the significant path between the independent and dependent variables does not exist anymore.

Hypothesis 1 proposed that networking capability mediates the positive relationship between EO and international performance, and *Hypothesis 2* predicted the mediating role of experiential learning in the EO-international performance relationship. As reported above, the direct effect of EO on international performance was significant. Furthermore, as Figure 1 indicates, the path between EO and networking capability ($\beta = .51$, $t = 7.16$, $p < .01$), as well as the path between EO and experiential learning ($\beta = .50$, $t = 7.76$, $p < .01$), was shown to be statistically significant. These results meet the first condition for mediation models. Figure 1 also indicates that networking capability and international performance were significantly related ($\beta = .27$, $t = 3.17$, $p < .01$) and experiential learning and international performance were also significantly related ($\beta = .41$, $t = 4.93$, $p < .01$). These results meet the second condition for mediation models. Finally, the direct association between EO and international performance was not significant anymore when these two mediators were added ($\beta = .06$, $t = 0.61$, $p = .54$), offering evidence that the third condition for full mediation models was met. Overall, these results support both *Hypothesis 1* and *Hypothesis 2*.

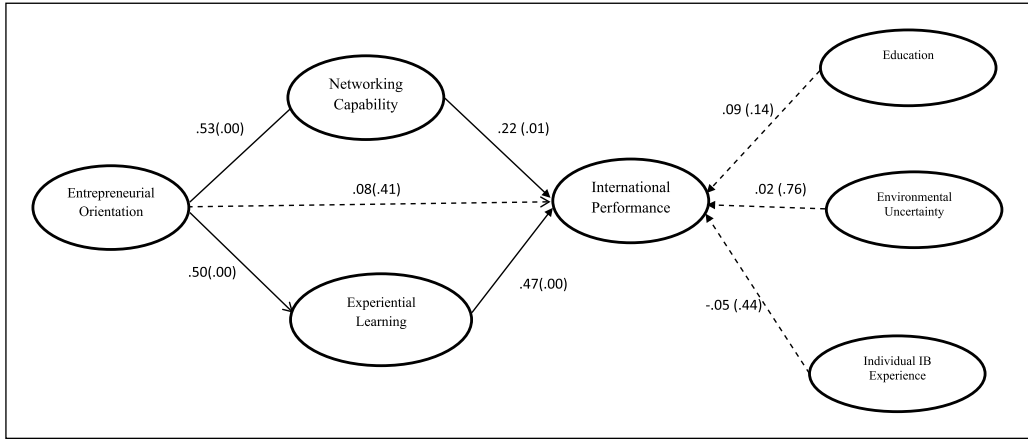


Figure 2. The mediation structural model with competing set of control variables (standardised parameter estimates are shown with *p* values in parentheses).

Robustness checks

To assure the appropriateness of our applied statistical tests, we conducted two robustness checks. First, we checked for possible multicollinearity in our findings. Results indicate that the highest variance inflation factor (VIF) was 3.80, which is below the accepted threshold value of 5. Second, we controlled for potential alternative explanations by conducting the same analysis with another set of control variables (i.e. education of respondents, individual IB experience and environmental uncertainty) which were also suggested by prior research to have an impact on our research model (Cuervo-Cazurra et al., 2016). Results were reported in Figure 2 and were largely consistent with the results reported in Figure 1. This comparison test reduced our concern for potential alternative explanations for our dependent variable.

Discussion

Research on EO in the international business field has been vibrant because EO has been suggested to exert a positive impact on firm's capabilities, growth and survival during their internationalisation. To add to the rich theoretical and empirical investigations of EO in the context of IE, this study explores how EO impacts SMEs performance in their foreign market entry. By investigating the role of experiential learning in developing contextual intelligence (Khanna, 2014) and networking as the main channel of gaining complementary resources to exploit opportunities (Chen and Jaw, 2014; Johanson and Vahlne, 2009), we shed light on new avenues that help SMEs shape their distribution of outcomes from their EO (Wales, 2016). By doing so, we respond to Wales' (2016) call for more robust theorising in EO scholarship by advancing our understanding of how and why EO enhances firm performance in the internationalisation context.

Our study makes several contributions. First, our results confirmed the full mediating effects of networking capability and experiential learning to capture the indirect association between EO and international performance. Previous IE literature explains internationalisation as a matter of overcoming the liability of outsidership (Johanson and Vahlne, 2009; Schweizer et al., 2010) and established the contributing roles of experiential learning (Baum et al., 2000; De Clercq et al., 2005) and networking capability (Galkina and Chetty, 2015; Johanson and Vahlne, 2009) for

internationalising firms. In particular, two well-established behavioural theories, the Uppsala model and the effectuation theory, shed light on the roles of experiential learning and networking capability for internationalising firms. According to the Uppsala model, internationalisation is the matter of learning inside networks, which leads to trust building and commitment development as the mechanisms of exploring international opportunities (Vahlne and Johanson, 2017). Along the same line, effectuation theory emphasises the importance of networking as a mechanism of turning initial means into valuable resources (Sarasvathy et al., 2014). In line with these theories and by investigating the role of experiential learning in developing contextual intelligence (Khanna, 2014) and networking as the main channel of gaining complementary resources (Chen and Jaw, 2014), we suggest new avenues that help SMEs manage the variance in international performance from their EO and shift towards more successful internationalisation (Wales, 2016; Wiklund and Shepherd, 2011).

Our findings also fit into the resource-based view (RBV) which posits that different assets such as international connections and foreign licences can be considered as resources. Although RBV is suggested as a promising line of research for EO scholarship (Covin and Miller, 2014), there is also a concern that these 'assets may make EO or IEO less predictive of internationalization as there may be less need for it given the strong position and abundant, superior opportunities open to the company' (p. 35). In line with the Uppsala model, we link resources to a firm's dynamic capabilities and assume internationalisation as a dynamic process of change through learning and resource commitment, in which dynamic capabilities are co-evolved (Vahlne and Johanson, 2017). Accordingly, EO, as an initial resource of internationalising SMEs (Lechner and Gudmundsson, 2014), can be further developed within the network of relationships (Read et al., 2009) and later turned into an intangible resource (Gerschewski et al., 2015) through experiential learning and networking. The central point in this view is the dynamic nature of resources. This view is closer to the resource-advantage (R-A) theory of competition which considers any tangible and intangible accessible resources as a basis to create value (Hunt, 2000). Therefore, by considering EO as a resource and the crucial function of networking and learning in the internationalisation process, we address Covin and Miller's (2014) concern by arguing that although networking and experiential learning may reduce the direct impact of EO on international performance, these mechanisms accelerate the indirect impact of EO both as tangible and as intangible resources.

In addition, our research contributes to the understanding of the impact of EO, experiential learning and networking capability on internationalisation of *SMEs* in New Zealand. While the validity of EO has been adequately examined in international settings, systematic examination of the impact of EO on the performance of *international SMEs* remains rare (Brouthers et al., 2015). SMEs with a higher EO are more prone to discover international opportunities, yet their liabilities of newness and smallness, constrained resources and lack of internationalisation experience prevent them from fully exploiting these opportunities. In this regard, developing networks with various stakeholders in the foreign market can provide SMEs with explicit and tacit knowledge (Nahapiet and Ghoshal, 1998), as well as crucial information and resources (Galkina and Chetty, 2015; Johanson and Vahlne, 2009). Similarly, experiential learning enables SMEs to learn from their experience as well as experiences from suppliers, customers and competitors in the international market (Johanson and Vahlne, 2009), which will facilitate their adaptation to the new environment (Khanna, 2014). Therefore, networking capability and experiential learning can promote exploitation of international opportunities by SMEs and eventually enhance their international performance. Our model also suggests that it is important to consider networking capability and experiential learning simultaneously due to the role of social interactions in generating and the exchange of knowledge within networks (Nahapiet and Ghoshal, 1998). Overall, our research extends the discussion of EO towards

internationalisation of SMEs by demonstrating that EO provides a robust foundation upon which to explain the SME performance across national borders.

Finally, our research contributes to the understanding of SMEs in New Zealand in particular, which highly relies on internationalising SMEs to advance its economy (Chetty et al., 2018). As a small developed economy with well-developed institutions, New Zealand is geographically distant from the rest of the world. This geographic distance could result in psychic distance, namely, the: 'sum of factors preventing the flow of information from and to the market' due to differences in language, religion, business practice, industrial development and so on (Johanson and Vahlne, 1975). However, SMEs in our sample have successfully entered a large array of foreign markets regardless of geographical or psychic distance, such as Thailand, China, Malaysia, India, South Africa, Poland, the Netherlands, Spain and Middle East, employing different entry modes such as exporting, importing, licencing, franchising, distributing, strategic alliances and joint ventures. We suspect this is, at least partly, due to the relatively high EO of these SMEs, experiential learning and networking capabilities and greater experience in international business (average of 16 years, please see Table 1), which have undoubtedly helped these SMEs enhance their internationalisation efforts regardless of geographic or psychic distance. Thus, by studying international SMEs in New Zealand, this study sheds new light on 'culture and geo-demographic factors' (Wales et al., 2013: 364) in EO research.

Managerial implications

Our study offers implications for practitioners as well. First, our results suggest that internationalising SMEs could benefit from experiential learning. Thus, founders and managers of SMEs should encourage learning in the organisation as it boosts the firm's international performance and long-term competitive advantages (Gerschewski et al., 2015). As recommended by Khanna (2014), firms should 'immerse their high-potential employees in particular local contexts' (p. 68). By doing so, they provide opportunities for organisational members to reflect upon and learn from new internationalisation experiences. This process can boost the firm's capability to exploit business opportunities across borders and to persevere in encountering different situations in foreign markets, hence promoting internationalisation success.

Second, our study suggests that networking with other successful SMEs inside or outside their home country is another mechanism that helps SMEs overcome various liabilities. Networking increases the value of existing means of SMEs and turns them into valuable resources (Read et al., 2009). Therefore, it would be beneficial for SME managers to effectively take advantage of their existing network relationships in both domestic and foreign markets by developing regular conversations with their associates. This will allow further development of their existing resources as well enable the flow of information and knowledge necessary to achieve the goals of firms. Furthermore, SME managers should be vigilant to identify new network connections in both domestic and foreign markets to broaden their access to important information and other complementary resources.

Limitations and suggestions for future research

Our study is limited in a few aspects. First, we focused on international performance of SMEs without giving adequate attention to an important aspect of IE: the exploitation of international opportunities (Jones et al., 2011). International opportunity exploration and exploitation could have a significant impact on the subsequent international performance of SMEs. Future research could investigate how opportunities are explored and exploited across borders as a result of high

EO, and how opportunity exploration and exploitation mediate the association between EO and international performance.

Second, we investigated international performance of SMEs as a consequence of firm-level characteristics such as EO, networking capability and experiential learning. Considering the prominent role of founders in SMEs, future research could investigate a multilevel analysis through which the characteristics of founders transform to firm-level EO which, in turn, impacts international performance of SMEs. In this regard, effectuation theory (Sarasvathy, 2001) offers insights by providing a clear explanation of the role of existing resources, including personal values, beliefs, knowledge, experience and relationships, in creating new opportunities in high EO firms.

Third, we adopted Walters et al.'s (2006) scale to measure EO as consistent with the posture-based conceptualisation of EO adopted in this study, which is common in IE literature (Covin and Miller, 2014). Although, more widely employed Covin and Slevin's (1989) scale is more holistic and measures both new product introductions and new market entry (Wales et al., 2015), this study's focus was on factors that drive new market entry, more in line with Lumpkin and Dess' (1996) conceptualisation. We appreciate the limitations of the adopted scale and suggest that future research employ other scales to measure EO. Furthermore, as discussed earlier, this study did not treat EO as a distinct construct from IEO. Future research could consider IEO as a distinct construct and investigate the impact of IEO on international performance of SMEs (Covin and Miller, 2014).

In addition, the data employed to test our hypotheses were primarily collected via self-reports. Although we undertook careful ex-ante and ex-post steps to reduce concerns for CMV, the potential for this threat cannot be ruled out completely. Furthermore, a burgeoning body of empirical research has adopted content analysis (e.g. computer-aided text analysis) to measure EO objectively (e.g. Boling et al., 2016; Engelen et al., 2015, 2016). Thus, in order to confirm the utility of EO in the rarely reached context of international SMEs in countries such as New Zealand, future research is warranted to provide a more objective measure of EO (e.g. collected from archival sources) and to test whether the objective EO matters for international SMEs in New Zealand in a similar fashion.

Finally, PLS was used to analyse data in this study. Although PLS has certain advantages, it also has several important limitations that future research should take into account. The main concern is perhaps related to the stability of the results. According to Sosik et al. (2009), these limitations are as follows. First, the stability of identified path coefficients might be questioned due to smaller sample sizes. Therefore, future research is required to better judge the suggested path coefficients by employing larger sample sizes. Second, PLS is somewhat ad hoc and may produce different results depending on the choice of the number of latent vectors by the researcher. Future research should consider 10–12 indicators per substantive construct to control for bias in PLS estimations (Chin, 1995). Third, due to using bootstrapping techniques to test the significance of path coefficients, results might be variable; therefore, inferences about the significance and magnitude of coefficients should be understood cautiously.

Conclusion

The impact of EO on international performance of SMEs is an important issue in IE studies. Since EO can produce a range of effects on firm performance, research is called for to introduce theoretically and practically relevant variables that reduce this variance. This study proposed and found evidence for networking capability and experiential learning as mediating mechanisms through which EO contributes to international performance of SMEs. We tested our model in New Zealand, a small economy with a high reliance on internationalising SMEs. We hope this research adds value to and improves theorising in EO research.

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Note

1. <https://www.smartpls.com/documentation/functionalities/model-fit>

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