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Foreign market entry knowledge and international performance: The mediating role of international market selection and network capability

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ABSTRACT

While the literature emphasizes the importance of knowledge and foreign market knowledge for international performance, it is unclear about the intervening/mediating relationships. From a knowledge-based view and network approach, we posit that previous foreign market entry (FME) knowledge can be used in the selection of international markets and to enhance network capabilities and international performance. We test the relationships between these constructs in a sample of 140 Australian SMEs. We contribute to the international SME literature by explaining important mechanisms through which FME knowledge affects SMEs' international performance. International market selection and network capability mediate its relationship with international performance.

1. Introduction

Firms possessing international market experience and knowledge are expected to follow a less uncertain internationalization process, and to commit to international markets (Johanson & Vahlne, 1977; 1990). Previous foreign market entry (FME) knowledge constitutes a critical subset of international market experience and knowledge when SMEs face new FME decisions. FME knowledge is expected to be reflected in the extent to which early FMEs have been useful in subsequent FMEs in aspects such as understanding the market, learning from previous operations and developing new technical knowledge. FME knowledge is important given that it not only implies less uncertainty in subsequent FMEs, but it can also benefit SMEs in terms of FME success (Chetty, Karami, & Martín Martín, 2018).

SME internationalization research in the last 20 years has moved from a more rationalistic perspective where market knowledge plays a salient role to a more pragmatic approach in which firms' relationships and ties and firms' position in business networks are seen as the main drivers of internationalization (Johanson & Vahlne, 2003; 2006; 2009). The rationality perspective has been questioned in the context of MNEs (*cf.*, Ciabuschi, Forsgren, & Martín Martín, 2011) where difficulties to transfer information and knowledge from subsidiaries to HQs and decisions from HQs to subsidiaries call for a better-grounded view of the modern MNE. Although SMEs are different in structure (e.g., size and ownership) and behave differently (e.g., flexible) compared to MNEs (Knight & Liesch, 2016), we purport internationalizing SMEs are another suitable context where we need to understand the relevance of international market knowledge, in particular the role of FME knowledge, and business networks.

As regards the network approach, an underlying assumption is that markets are borderless and that internationalization occurs in a network setting (Johanson & Vahlne, 2003; 2006; 2009). The customer, and not the country, is the most appropriate unit of analysis in many industries (Andersen & Buvik, 2002). As a result, the traditionally country-based international market selection approach may be irrelevant in this context. Being an insider in a network allows firms to discover and create opportunities (Chetty et al., 2018; Knight & Liesch, 2016) more effectively than the pursuit of what has been seen as theoretical opportunities (Johanson & Vahlne, 1977; 2009) based on blurred market potential knowledge. Scholars have considered network (Manolova,

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Manev, & Gyoshev, 2010; Walter, Auer, & Ritter, 2006; Young, Dimitratos, & Dana, 2003) and effectuation theories (Sarasvathy, Kumar, York, & Bhagavatula, 2014; Schweizer, Vahlne, & Johanson, 2010) as relevant for resource-poor SMEs in the early phases of their internationalization (Sarasvathy, 2001).

When firms have an effectual resource-driven approach in their networking then they tend to be open to contingencies rather than having a fixed goal and plans (Bai, Johanson, Oliveira & Ratajczak-Mrozek, 2021; Prashantham, Kumar, Bhagavatula, & Sarasvathy, 2019; Sarasvathy et al., 2014). Several empirical studies have confirmed that SMEs are inclined to use network and effectuation approaches in the early phases of internationalization to acquire relevant resources and new opportunities to thrive in their internationalization efforts (Galkina & Chetty, 2015; Prashantham et al., 2019; Vissak, Francioni, & Freeman, 2020). The effectuation approach can also be used to explain the behavior of more traditional and older internationalizing SMEs (Galkina & Chetty, 2015). One explanation for this is that traditional and older SMEs experience similar challenges as new ventures when they enter new foreign markets, as they suffer from liabilities of smallness (Hannan & Freeman, 1984) newness (Stinchcombe, 1965) and foreignness (Zaheer, 1995) and have overstretched resources and high uncertainty (Fraccastoro, Gabrielsson, & Chetty, 2021; Freixanet & Renart, 2020; Sarasvathy et al., 2014; Tolstoy, Nordman, Hånell, & Özbek, 2021).

Our study combines a rational approach related to an effective use of knowledge and a more systematic international market selection, with the effectual network approach (Johanson & Vahlne, 2003; 2006; 2009) linked to more resource-driven networking and relationships with collaborators, as the mediating mechanisms that link FME knowledge and international performance. While the literature suggests that systematic international market selection has a positive effect on international performance (Brouthers, Mukhopadhyay, Wilkinson, & Brouthers, 2009; Brouthers & Nakos, 2005), more recent literature explaining internationalization and international performance in the context of SMEs has typically relied on networks and business relationships as the main drivers (e.g., Torkkeli, Puumalainen, Saarenketo, & Kuivalainen, 2012).

Against this background, and from a knowledge-based view and network approach, we propose that SMEs' previous FME knowledge has a positive effect on systematic international market selection and network capabilities and is conducive to international performance. Since (i) the internationalization literature suggests that the relationship between knowledge and international performance should consider broader conceptualizations and new constructs measuring network relationships (Papadopoulos and Martín Martín, 2010) and (ii) there is scant literature about the relationships between the four concepts, we focus on some important mechanisms through which FME knowledge affects SMEs' international performance. Our first objective is, therefore, to addresses this research gap by modeling and testing the relationships between these four constructs. Second, despite its undisputed theoretical relevance, there are no conceptualizations and operationalizations of the construct FME knowledge in the literature, which precludes its potential integration in empirical studies. We build on Eriksson, Johanson, Majkgård and Sharma's (1997) measure of experiential knowledge regarding foreign business and foreign institutional knowledge but also add technical knowledge (Saemundsson, 2005) to develop our concept and measure of FME knowledge.

Our main contribution to the international SME literature is by presenting novel intervening/mediating relationships between FME knowledge and positive international performance. While the literature emphasizes the importance of knowledge and foreign market knowledge for international performance (e.g., Autio, Sapienza, & Almeida, 2000; Jin & Jung, 2016; Stoian, Rialp, & Dimitratos, 2017), it pays limited attention to the role played by FME knowledge and the mediating mechanisms connecting knowledge and international knowledge with performance and/or international performance (for exceptions see Bai, Holmström Lind, & Johanson, 2016; Falahat et al., 2020; Martin & Javalgi, 2019). Uncovering the black box of mechanisms driving SMEs' international performance offers managers and policy makers new possibilities to make better informed FME decisions and design more effective incentives, actions and programs aiming at enhancing international performance. Systematic international market selection and network capability mediate the relationship between FME and SME international performance.

In the next section, we provide theoretical background to our model and then we elaborate five hypotheses explaining the relationships between the constructs included in the model. Later, we continue with a description of the methodology employed to implement our ideas. We present the empirical results in the fifth section. We finally discuss our findings, elaborate on their implications and outline avenues for future research.

2. Theoretical background

We combine two main steams of literature to develop the theoretical framework for our research, which includes the knowledge-based view (Grant, 1996; Kogut & Zander, 2003) and the network approach to internationalization (Johanson & Vahlne, 2003; 2006; 2009). First, besides the value creation potential of knowledge, there is a stream of literature relating to the role of knowledge in firms' internationalization (Johanson & Vahlne, 1977; Eriksson et al., 1997; Freixanet & Renart, 2020; Yli-Renko, Autio & Tontti, 2002). A corollary is that it is important for firms to understand the foreign markets in which they do business to succeed internationally. Second, the network approach to internationalization emphasises the importance of being an insider in the business network in the foreign market where the firm is conducting business (Johanson & Vahlne, 2009). The partners that SMEs collaborate with help them to gain access to useful information, contacts with other partners and opportunities (Galkina & Chetty, 2015; Sarasvathy et al., 2014; Walter et al., 2006), and include suppliers, distributors, customers, etc.

2.1. The knowledge-based view and internationalization

The knowledge-based view of the firm purports that knowledge is the most important asset in value creation and that the main role of the organization is coordinating how knowledge is applied (Grant, 1996). The firm gains advantage when it has the ability to learn from experience and to accumulate superior knowledge that is difficult for its competitors to imitate. In the context of internationalization, a firm acquires knowledge mainly through experience and this knowledge is collected gradually over a period of time as it expands into foreign markets (Eriksson, Johanson, Majkgård, & Sharma, 2001; Johanson & Vahlne, 1977; Kogut & Zander, 2003). The mechanism to transfer specialized knowledge embedded in distinct sections within the firm is essential for its efficient integration and co-ordination so that the cumulative knowledge is applied effectively, and it becomes a capability that other firms do not have (Grant, 1996). When the firm has standard procedures, routines, and evaluation systems, it demonstrates shared knowledge that is easily transferable within the organization. This knowledge can be subsequently recombined with new knowledge when the firm enters new foreign markets. Knowledge that is difficult to observe, teach or codify will be transferred within the firm but it is not easily transferable outside the firm (Argote & Miron-Spektor, 2011; Kogut & Zander, 2003).

One of the major obstacles for firms during their internationalization is the lack of market knowledge rather than their capacity to acquire this market knowledge (Johanson & Vahlne, 1977; 2009; Figueira-de-Lemos, Johanson & Vahlne, 2011). Indeed, the development of knowledge plays a central role in the internationalization process of the SME, and this happens primarily through experience (Bai, Johanson, & Martín Martín, 2017; Hilmersson, 2014; Johanson & Vahlne, 1977). One

assumption in Johanson and Vahlne's internationalization process model, which is valid for firms of any size (Eriksson et al., 1997), is that prior to internationalization, the firm's main experience is accumulated in their domestic market. Consequently, they have limited access to knowledge in their foreign markets, but as firms gain knowledge during active engagement in a foreign market, they will commit more resources to that market. The gradual accumulation of this knowledge reduces uncertainty and subsequently prepares the firm for entering other new foreign markets or to expand within an existing foreign market. Previous knowledge gained from foreign markets can be transferred to another foreign market, especially if the markets are homogenous (Carre`re & Strauss-Kahn, 2017; Hilmersson & Johanson, 2016; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975).

The lack of experiential knowledge is costly for the firm as it is unable to identify what knowledge is useful to overcome challenges in foreign markets (Barkema, Bell, & Pennings, 1996; Carre`re & Strauss-Kahn, 2017; Eriksson et al., 1997). This could include the cost of acquiring knowledge about the rules and regulations, governments and cultures in foreign markets (Eriksson et al., 1997), and the administration and coordination costs for international sales and network relationships that are in geographically and culturally diverse countries (Abdi and Aulakh, 2018). The costs refer to the time and money the firm invests to visit the foreign market to seek, build and maintain relationships with partners in the host country, to adapt products and production processes to adjust to the partners' requirements and the cost of doing market research. As the firm acquires relevant useful knowledge about the foreign market this influences how it perceives the cost of its internationalization efforts (Eriksson et al., 1997). This cost can be reduced by collaborating with partners who have this knowledge (Argote & Miron-Spektor, 2011; Bai et al., 2021; Monaghan and Tippmann, 2018). Advances in information and communication technology reduce the cost of gaining access to the knowledge their partners possess (Nambisan, Zahra and Luo, 2019; Ojala, Evers, and Rialp, 2018). For example, the cost of travelling to visit their partners could be reduced by using social media and the Internet. As a result of this experiential knowledge gained through its partners, the firm does not have to invest additional resources to determine where to seek information and what information is reliable and relevant to exploit emerging opportunities (Eriksson et al., 1997; Hilmersson, 2014).

The accumulation of new knowledge depends on the firm's existing knowledge and its ability to integrate new knowledge, which Cohen and Levinthal (1990) name 'absorptive capacity'. While internationalizing firms gain experience sequentially in foreign markets, they develop their organizational structures, capabilities, and routines to recombine and accumulate new knowledge (Autio et al., 2000; Barkema et al., 1996; Eriksson et al., 1997; Johanson & Vahlne, 1977). Firms that conduct business in a diversity of foreign markets accumulate rich knowledge from this array of very different institutional and cultural contexts (Barkema & Vermeulen, 1998; Eriksson, Johanson, Majkgård, & Sharma, 2000; Johanson & Vahlne, 1977; Zahra, Ireland, & Hitt, 2000) and some firms are better at absorbing and recombining this new knowledge than others.

Similarly, prior research has shown that heterogeneous experiences are more useful to increase the firm knowledge than homogeneous experiences (Argote & Miron-Spektor, 2011; Chetty, Johanson, & Martín Martín, 2014; Johanson and Johanson, 2021; Pellegrino and McNaughton, 2017; Schilling, Vidal, Ployhart, & Marangoni, 2003). Heterogeneous experiences in a diversity of foreign markets strengthen the firm's organizational routines and increase its capability to search for information and to interpret this new information (Eriksson et al. 1997). Heterogeneous experiences from culturally and geographically diverse countries increase the firm's absorptive capacity to accumulate new knowledge as it expands internationally compared to homogenous experiences of firms engaged in repetitive activities in a few similar markets (Chetty et al., 2014; Johanson and Johanson, 2021; Scalera, Perri and Hannigan, 2018). Firms operating in several diverse foreign markets gain access to wide knowledge and this has a positive impact on their performance (Choquette, 2019; Delios & Beamish, 2001; Kuivalainen, Sundqvist, and Servais, 2007).

There are at least four different types of experiential knowledge, including internationalization knowledge, foreign business knowledge, foreign institutional knowledge (Eriksson et al., 1997), and relationship specific knowledge (Johanson & Vahlne, 2003). Based on Johanson & Vahlne (2003), we consider *relationship specific knowledge* as the learning and opportunity discovery and development that occurs within business relationships in foreign markets. We build on Eriksson et al.'s (1997 p. 343) definition of internationalization knowledge, foreign business knowledge and foreign institutional knowledge. *Internationalization knowledge* relates to experiential knowledge of the firm's resources and capabilities to conduct business in foreign markets, and this knowledge is entrenched in firms' routines. *Foreign business knowledge* relates to the firm's experiential knowledge about customers, competitors, and the way of doing business in foreign markets. *Foreign institutional knowledge* relates to experiential knowledge about the government, institutions, standards, rules, regulations, and norms in specific foreign markets. Eriksson et al. (1997) found that when the firm lacks internationalization knowledge then this also reduces its foreign business knowledge and foreign institutional knowledge, which subsequently impedes its internationalization efforts. FME knowledge, the relevant subset of international market experience and knowledge used when SMEs face new FME decisions, is a distinct construct closer to the content domain of foreign business knowledge and foreign institutional knowledge but also encompassing technical knowledge. Technical knowledge (Saemundsson, 2005) deals with machines, processes, and materials such as mechanical equipment, tools, programming languages, design programs, etc. relevant for completing complex tasks and successful internationalization of SMEs in many industries.

Through market research, SMEs can also obtain objective knowledge from facts. Reports, brochures, websites, social media, and other information sources on the Internet are typically used by firms targeting foreign markets (Fraccastoro et al., 2021). Objective knowledge is explicit and created and stored within the firm. It is thus specific to the firm but transferable (Grant, 1996). Objective knowledge facilitates a systematic approach to selecting foreign markets (Pellegrino and McNaughton, 2017) rather than relying on ambiguous and sparse information about a market. In contrast, experiential knowledge accumulated through collaboration in business relationships is specific to a particular relationship. It can only be gained through interaction and is hard to codify and thus not easily transferable (Eriksson et al., 1997; 2000; Hilmersson and Johanson, 2016). This interaction in business relationships, which more recently also occurs digitally through social media and global platforms (Fraccastoro et al., 2021; Nambisan et al., 2019; Ojala et al., 2018), enable firms to gain experiential knowledge (Scalera et al., 2018). Scholars such as, Johanson and Vahlne (1977), Denis and Depelteau (1985) and Reid (1983) consider that objective knowledge is of minimal importance in the firm's internationalization. This is supported by Eriksson et al. (1997) and Hilmersson (2014) who provide empirical evidence that experiential knowledge is the critical factor in advancing the firm's internationalization.

2.2. Network theory and internationalization

Several studies have confirmed that networks play an important role in the internationalization of SMEs (e.g., Ellis, 2000; Galkina & Chetty, 2015; Hohenthal, Johanson, & Johanson, 2014; Prashantham et al., 2019; Yli-Renko et al., 2002). To understand the behavior and performance of SMEs, it is therefore important to consider the networks in which they are embedded (Gulati, Nohria, & Zaheer, 2000; Johanson & Johanson, 2021; Powell, 1998). An influential stream of literature is based on Johanson and Vahlne's (2003; 2006; 2009) markets as networks approach where business occurs in multiple relationships in a network setting, and internationalization is an outcome of interactions

in these relationships. When the firm gains a central position (insider) as opposed to being in the periphery in the business network in a foreign market, the firm overcomes its liability of being an outsider and foreigner (Johanson & Vahlne, 2009). Insidership positions in the relevant foreign market provides credibility, legitimacy, and new opportunities. Being an insider in a network means that the firm gains access to new information, new ideas for products, technology or processes that cannot be acquired through market research. When a firm is outside the relevant network then it suffers from the liability of foreignness and thus lacks knowledge about the foreign market. Johanson and Vahlne (2009) purport that it is challenging for the firm to become an insider in foreign markets. Furthermore, insiders in the network have to be motivated to invest time and resources to accept the newcomer into the network, especially if the network is tightly knit and closed (Yamin & Kurt, 2018).

Collaboration with other firms occurs in a dyadic relationship which is connected to other business relationships that are embedded in a business network, thus extending the firm's knowledge base (Anderson, Håkansson, & Johanson, 1994; Blankenburg Holm, Eriksson, & Johanson, 1996; Johanson & Vahlne, 2009). The commitment and value creation in a focal relationship increases when the knowledge and adaptations are connected to the focal firm's other relationships in a network (Blankenburg Holm, Eriksson, & Johanson, 1999). Business relationships become interdependent when firms commit to each other, for example, by making adaptations to their products or production systems to suit their customer requirements. As the firms interact with each other, they learn about their partners' resources and capabilities and develop mutual commitment in the relationship. Consequently, they find solutions to problems by building on their strengths to develop new knowledge and opportunities, such as products and innovations that they could not accomplish on their own (Andersson, Dasi, Mudambi, Pedersen, 2016; Bai, Johanson, & Martín Martín, 2019; Galkina & Chetty, 2015; Keupp & Gassmann, 2009; Nordman and Tolstoy, 2016; Sarasvathy et al., 2014).

Internationalizing SMEs generally suffer from lack of resources (Chandra, Styles, & Wilkinson, 2009; Sarasvathy et al., 2014; Tolstoy et al., 2021) and lack of market knowledge (Argote & Miron-Spektor, 2011; Gulati, 1999; Johanson & Vahlne, 2009). Therefore, they rely on collaborating with partners to acquire the necessary knowledge and resources (Ellis, 2011; Galkina & Chetty, 2015; Hohenthal et al., 2014). During this process they also learn how to collaborate, so that they can use this knowledge in other situations (Powell, 1998). Knowledge generated in a relationship depends on what is happening within the connected relationships in the partners' domestic and international networks (Bai et al, 2019; Chetty, Eriksson, & Lindbergh, 2006; Hohenthal et al., 2014). During their internationalization, SMEs continuously learn from their business partners and about the business and institutional environment in foreign markets (Chetty et al., 2006; Eriksson et al, 1997). This knowledge is useful for the SME when it enters other countries, as it can build on this by adding new knowledge through further collaborations (Andersson et al., 2016; Chetty et al., 2006; Johanson & Vahlne, 1977). In particular, if the knowledge required in the new countries is similar to their existing knowledge.

While networks provide opportunities, they can also hinder the firm's international expansion because firms can become locked into poorly performing relationships that become a liability and they subsequently miss out on new opportunities that can emerge (Gulati, 1999). In addition, SMEs can become ensnared in strong relationships that provide poor quality information, which subsequently results in low performance (Musteen, Francis, & Datta, 2010). However, as SMEs accumulate more knowledge and experience about foreign markets, they develop network capabilities to form and maintain new networks. These network capabilities enable them to seek suitable partners that provide valuable resources to achieve their goals, and to terminate existing networks that do not provide the required resources and hinder their goals (Prashantham et al., 2019). Furthermore, prior knowledge and experience enhances their capabilities to develop future relationships such as to strategically select new partners (Gulati, 1999; Ozcan & Eisenhardt, 2009), and to combine their knowledge with their partners' knowledge to create something novel to pursue new opportunities that emerge (Galkina & Chetty, 2015; Robson, Katsikeas, Schlegelmilch, & Pramböck, 2019; Yli-Renko et al., 2002). As SMEs participate in networks, they learn more about the partner when they interact and get to know each other's competencies and shortcomings. Over time, they mutually commit to the relationship by adapting to each other (Chetty et al., 2018; Johanson & Vahlne, 2009), such as ensuring that they have the production capacity and flexibility to accommodate their customers' product requirements and jointly finding solutions to customers' problems.

3. Model and hypotheses

We present first the rationale for an impact of FME knowledge on international market selection, network capability and international performance. We continue with the hypothesized effects of network capability on international market selection and international performance. The third subsection provides the logic for a relationship between international market selection and international performance. Fig. 1 presents our hypothesized model.

3.1. Foreign market entry (FME) knowledge effects

Managerial cognition has a critical role to play in the internationalization of firms (Niittymies & Pajunen, 2020). A deep knowledge and understanding not only of the decision but also of the setting in which it will be made is a typical requirement for the adoption and implementation of systematic decision-making methods by managers. FME knowledge provides part of this knowledge from previous and earlier SMEs' market entries. Uncovering international customers' preferences, understanding international standards and regulations such as technical barriers and customs tariffs, new technological knowledge, and international experience can be conducive to formal approaches of international market research and selection. Experienced managers are able to create a more detailed cognitive representation of problems (Maitland & Sammartino, 2015) and managers having international experience are expected to better understand the importance of properly researching and analyzing foreign markets (Pellegrino and McNaughton, 2017).

According to Simon (1972), "Theories that incorporate constraints on the information-processing capacities of the actor may be called *theories of bounded rationality*". International market selection is a bounded rational decision (Papadopoulos & Martín Martín, 2011) involving risk, uncertainty, lack of information and managerial cognitive limitations. Decision-making in this context is constrained by managers' cognitive ability and is expected to be influenced by factors such as personal goals and evaluation criteria (Aharoni, Tihanyi, & Connelly, 2011). Managers, experience pressure to make accurate and timely decisions, which typically also require cognitive efforts. There is a tradeoff between speed and accuracy of decision making (Clark, Li, & Shepherd, 2018), and managers are more willing to put more effort in the decision-making process when they are knowledgeable about how to better solve a problem. They prefer managerial approaches that they expect to provide better results. Thus, when this is the expectation, managers can accept more formal and analytical decision making. This approach implies effortful and deliberate calculations that are slower but also more accurate, controlled, and rational (Clark et al., 2018; Kahneman, 2003), while rationality is a characteristic of behaviors that are logical in pursuing goals (Dean and Sharfman, 1993; Elbanna and Child, 2007).

A decision-making process is systematic if it follows an ordered set of rules and procedures (Papadopoulos & Martín Martín, 2011). Rules and procedures guide decision makers and can avoid or limit mistakes and uncertainties arising from intuitive decision making and mental models. Managers knowledgeable about models and tools incorporating these

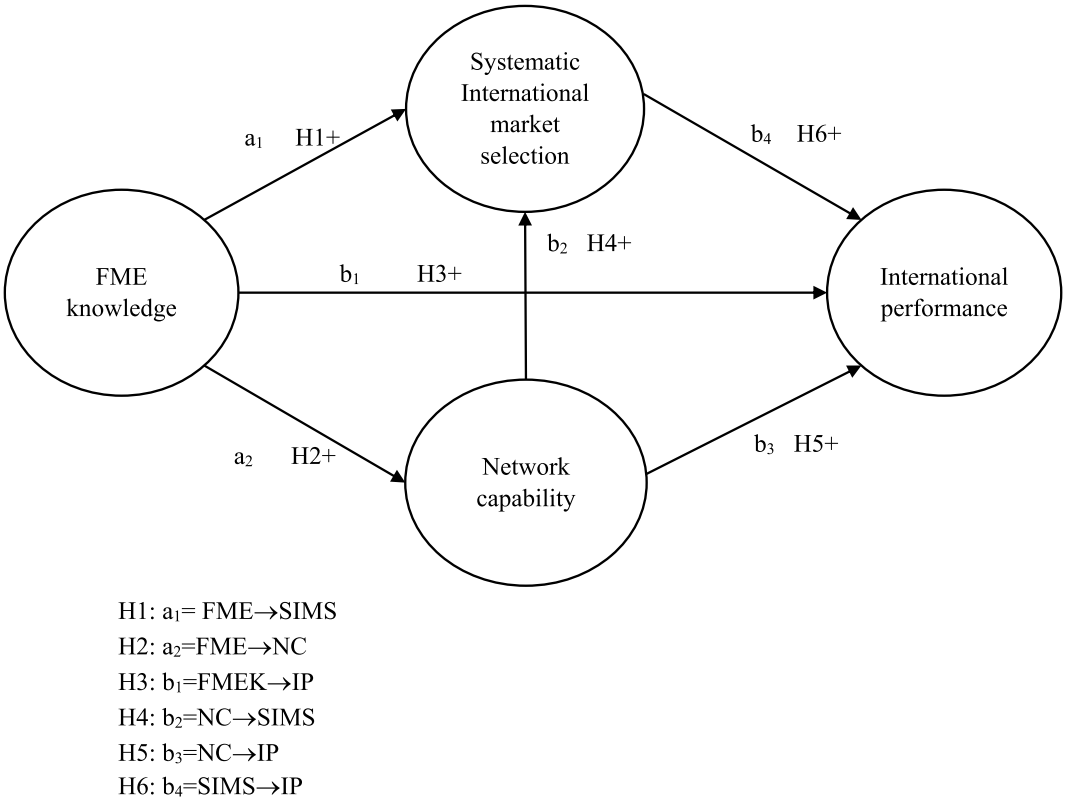

Fig. 1. Hypothesized model.

rules and procedures will feel comfortable when making use of them. SME managers reduce international market uncertainty and information-related problems as they increase their FME knowledge and use it in systematic international market selection approaches. Based on the rationale above we propose:

Hypothesis 1. Foreign market entry knowledge has a positive relationship with systematic international market selection of SMEs.

As the firm learns from its prior foreign market entries, it acquires the capability to successfully develop new networks (Gulati, 1999; Hohenthal et al., 2014). Thus, in our study, we focus on the effects of having FME knowledge on network capabilities. By network capability we refer to "a firm's ability to develop and utilize inter-organizational relationships" (Walter et al., 2006). As such, it is expected that SMEs possessing network capabilities are able to regularly, flexibly and constructively collaborate with agents, distributors, customers, suppliers and other network members to successfully solve problems together. Developing this network capability occurs through learning from prior experience in network partnerships (Anand & Khanna, 2000; Hohenthal et al., 2014).

Firms engage in networking under uncertainty and networking processes involve unpredictability, goal ambiguity, and an interactive and changing environment (Engel, Kaandorp, & Elfring, 2017). Hence, we suggest that FME knowledge can decrease uncertainty (Johanson and Vahlne, 1977) and unpredictability of networking processes in international markets. FME knowledge can increase the decision-makers' perceived ability to understand the market and market-influencing factors. Lack of knowledge due to differences across international markets in terms of language, culture and institutions creates difficulties to decision making connected with the development of international operations (Johanson & Vahlne, 1977) such as selecting the right partners and business relationships in foreign markets.

When uncertainty is high, effectuation (resource-driven) guides action (Kerr & Coviello, 2019) and firms network with interested partners to increase resources and to create goals jointly, while when uncertainty can be reduced, firms prefer a careful selection of international partners considering predefined network goals and following a causal process (systematic, plan-driven) of partner selection (Galkina & Chetty, 2015). Lack of market information creates uncertainty while FME knowledge reduces it and can be conducive to identification and creation of suitable international business relationships and networks. The following quote by a CEO from our qualitative study[2] demonstrates how a firm with networking capability acquired from prior FMEs uses the capability to develop international partnerships systematically in foreign markets:

"The whole strategic technology alliance idea was basically conceived for the UK market, and then we decided to do it [strategic technology alliance] in Australia as well. I guess that structure was conceived as a way to hit Europe. Anything we learn, in any country, comes back to Australia, and is then distributed back out [to other foreign markets]… But each country manager adapts their strategy to that country. And the key thing for us is, 'how was the product decision made'? So, in the Netherlands the wholesaler has a lot more impact [when deciding what product to use], whereas in the Nordics it is the manufacturer and in Australia it is the consulting engineers who have more influence. So, each market is learning from the other market, but each market strategy is tailored to that particular country, and we're constantly adjusting our strategy, and responding to what's working and what's not" (firm AL).

SMEs lacking FME knowledge tend to use opportunity seeking behaviors in developing their networks, such as relying on unsolicited

[2] Before the survey, we conducted an in-depth qualitative study by interviewing CEO's and senior management involved in international business decisions in five small Australian manufacturing firms. By drawing on this qualitative evidence we strengthen the development of our hypotheses. This approach is similar to Prashantham's (2011) study on SME internationalization and Autio, Sapienza and Almeida's (2000) study on international entrepreneurial firms where they use qualitative evidence to support the development of hypotheses.

orders or experimenting, while SMEs possessing knowledge tend to use a more systematic approach in developing their networks during the internationalization process (Chetty, Ojala, & Leppäaho, 2015; Vissak et al., 2020). We put forward our second hypothesis:

Hypothesis 2. Foreign market entry knowledge has a positive relationship with network capabilities of SMEs.

As explained above, the knowledge based-view of the firm posits that knowledge is the most important source of firms' value creation and competitive advantage (Spender & Grant, 1996). A relevant type of knowledge during internationalization is FME knowledge. Early foreign market entries provide firms with international experience and knowledge which can be useful elsewhere when markets are similar (Johanson & Vahlne, 1977). Previous foreign market entries can be a source of knowledge and competence when responding to international customers' needs and wants and competing with local and international market offerings to pursuit new opportunities.

Similarly, doing business in a foreign market requires some degree of familiarity with the foreign market, understanding customers' preferences and cultural norms, and adapting to technical and legal requirements of the market (Eriksson et al., 1997; Bai et al., 2019). Part of this marketing and technical knowledge could have been obtained in early foreign market entries and be useful in later foreign market entries. Effective integration of this knowledge into the firms' knowledge is expected to result in increased innovation (Bai et al., 2019; Kleinschmidt, De Brentani, & Salomo, 2007; Yli-Renko, Autio, & Sapienza, 2001). Innovation is positively related to SMEs' international performance in terms of international sales growth, return on investment from international business, market share in international markets, international profitability and overall international performance (Donbesuur, Ampong, Owusu-Yirenkyi, & Chu, 2020). For instance, a firm could have entered a foreign market with an innovative product and through regular ongoing interactions with local partners and actors discover that they can combine their knowledge with their local partner's knowledge to adapt the product or to create a new product that can be used in a different industry or country setting.

This FME experience and learning about international customers' preferences and development of new technical knowledge provides the firm with the knowledge to skillfully integrate the new systems, processes, and products within the firm to achieve positive outcomes. The process of learning from one FME to adapt the product for a different industry and country context is illustrated by the following quote from a CEO in our qualitative study of Australian manufacturing firms:

"One thing we developed for New Zealand was that they wanted a completely different feature in our product because they wanted to use the product in a different industry. So, we adapted the product with this new feature for them, but then we introduced that to the UK, and they loved it, and then we brought it back to Australia, and they loved it as well. So, a big lesson is to take lessons that you've learned from one market and share them with your other markets, because they could really be very profitable" (Firm AE).

When SMEs have the knowledge required to make international business and marketing decisions, they can avoid mistakes and more effectively satisfy customers' preferences and demand, meet legal requirements, develop new products, and take advantage of opportunities in foreign markets (Stoian et al., 2017). As a result, we suggest our third hypothesis:

Hypothesis 3. Foreign market entry knowledge has a positive relationship with international performance of SMEs.

3.2. Network capability effects

Although Galkina and Chetty (2015) found that SMEs often form business relationships serendipitously with interested partners (e.g., customers, distributors) from heterogeneous countries to enter foreign markets, we suggest that network capability leads to more systematic search, identification and selection of business relationships, partners, and foreign market entry opportunities. Over a period of time, firms may realize that they have run out of business opportunities from their existing relationships, and they would need to seek out new relationships in foreign markets (Prashantham & Dhanaraj, 2010; Yli-Renko et al., 2001). While this phenomenon could happen in weakening or redundant relationships (Burt, 2002; Jack, 2005; Poppo, Zhou & Zenger, 2008) it may also occur when relationships are strong (Prashantham & Dhanaraj, 2010; Yli-Renko et al., 2001). As firms learn relationship skills when they collaborate (Powell, 1998), such as how to leverage their existing relationships to build new relationships (Fraccastoro et al., 2021; Pinho & Prange, 2016; Prashantham & Dhanaraj, 2010), they develop their network capability. This network capability enables firms to be focused and skillful in selecting partners, collaborators, and foreign market entry opportunities, and thus making them more likely to rely on formal strategy and procedures. Network capability implies more systematic networking leading to the identification of a group of possible partners and an increased interest in the characteristics of their countries. Similarly, several scholars consider that firms using a goal-oriented approach to networking will deliberately target strategic trustworthy partners who will help them to achieve their goals efficiently (Hallen & Eisenhardt, 2012; Prashantham et al., 2019; Sarasvathy et al., 2014).

Thus, we argue that a firm's ability to develop and utilize inter-organizational relationships is conducive to a more systematic search and selection of foreign market entry opportunities and international markets. SMEs with this ability are better equipped to fruitfully explore and exploit international market entry opportunities implying the evaluation of potential partners and collaborators. Furthermore, strategic selection of partners consumes considerable resources, and thus the firm has to carefully select its foreign markets so that it does not extend itself too thin across multiple foreign markets that may overstretch existing resources (Prashantham et al., 2019).

International market selection methods are multi-criteria and many use indicators dealing with customers, competitors and other stakeholders which require international market research in their assessment (Papadopoulos & Martín Martín, 2011). As SMEs develop their networking capability to form successful relationships abroad, they are also more systematic in their foreign market entry opportunity selection approach. SMEs possessing networking capability are more likely to be able to define relationship and network-related criteria and collaborators' requirements that can be used in systematic market entry opportunity selection. Being able to study what SMEs would be likely to achieve with partners and collaborators will have a positive impact on the interest of the firm in researching foreign markets and in conducting systematic and formal international market research activities for identifying, evaluating, and selecting potential relationships and foreign market entry opportunities. Therefore, we posit:

Hypothesis 4. Network capabilities have a positive relationship with systematic international market selection.

The firm's ability to collaborate in networks is a useful resource because it is challenging, time consuming and costly to form and maintain networks (Gulati et al., 2000). Network capability includes the relational skills that firms possess to initiate, develop, and coordinate their business relationships for mutual gain (Fraccastoro et al., 2021; Walter et al., 2006) and how firms actually behave during these interactions with business partners, under conditions of uncertainty (Engel et al., 2017; Sarasvathy et al., 2014) such as in unknown foreign markets. This network capability could be either systematic plan-driven or effectual resource-driven (Prashantham et al., 2019). Systematic plan-driven involves SMEs having sufficient knowledge about their existing partners or deliberately searching for partners to achieve a goal. Effectual resource-driven involves SMEs collaborating with easily

available partners and being flexible, adaptable, experimenting by combining their resources, and joint problem solving with their partners in foreign markets to co-create new opportunities.

Since network capability is idiosyncratic and embedded within the firm to use its resources efficiently, it cannot be imitated by competitors (Gulati et al., 2000; Walter et al., 2006). The SME's network capabilities enable it to acquire resources, legitimacy and to develop new opportunities in foreign markets (e.g., Galkina & Chetty, 2015; Hohenthal et al., 2014; Johanson & Vahlne, 2009; Rovira Nordman, & Melén, 2008). Network capabilities also enhance the collaboration with trustworthy local partners in foreign markets. This enables SMEs to gain access to reliable and valuable local knowledge (Barkema & Vermeulen, 1998; Galkina & Chetty, 2015; Blankenburg Holm et al., 1999) which subsequently may increase their international performance (Zahra et al., 2000; Musteen et al., 2010). This local knowledge could include discovering how codified rules and regulations are actually applied in practice, the nuances of forming business relationships in a specific foreign market and flexibility to adapt to local product standards and customer preferences. Through ongoing regular interactions with their partners, SMEs learn about how they can combine their own knowledge with their partners' knowledge to develop unique products or processes that are of mutual benefit and can lead to better performance outcomes. The idiosyncratic knowledge acquired through networks enables SMEs to recognize new opportunities that are not transparent to other firms. The SMEs network capabilities provide them with skills to determine whether they have adequate knowledge and resources to pursue these new opportunities with their partners, which could subsequently increase their international performance.

Prior research also shows that network capabilities have a positive influence on a firm's performance indicators such as sales growth, sales per employee and profit attainment (Walter et al., 2006) and that social capital, an expected outcome of network capabilities, has a positive and significant relationship with small firm performance (Stam, Arzlanian, & Elfring, 2014). SMEs with network capabilities have the skills to initiate and maintain business relationships in foreign markets that provide privileged access to resources and new opportunities, which has an impact on the firm's international performance.

Hypothesis 5. Network capabilities have a positive relationship with international performance of SMEs.

3.3. International market selection and international performance

Despite the fact that we have recent holistic models of entry choices integrating important interlinked entry aspects (Markman et al., 2019; Zachary, Gianiodis, Payne, & Markman, 2015), "it remains unclear how managers make the complex, demanding, and critically important decision of foreign market selection" (Clark et al., 2018, p. 443). Previous research illustrates that a formal and systematic approach to export policy, planning, and market information influences the firm's international performance (e.g., Aaby & Slater, 1989; Brouthers & Nakos, 2005; Cavusgil & Zou, 1994). In their meta-analysis of the relationship between business planning and performance in small firms, Brinckmann, Grichnik and Kapsa (2010) confirm that firms with systematic and formal business plans have superior performance. They also found that the cultural context of the country and attitudes towards high and low uncertainty avoidance (Hofstede & Hofstede, 2005) moderates the relationship between business planning and performance, and that business planning is less useful for performance in cultures with high uncertainty avoidance (Brinckmann et al., 2010) because firms stick closely to their business plans, which prevents them from quickly adapting to changes in the environment.

Similarly, information about foreign market regulations, customers and overall conditions is important for firms' decision-making when entering foreign markets (Belich & Dubinsky, 1995; Lu, Zhou, Bruton, & Li, 2010) and the potential links between information search and SMEs' performance have been well studied (Choo, 1998; Julien & Ramangalahy, 2003). Thus, systematically collecting and using information about foreign markets is considered a positive enabler of SMEs' international performance and a systematic approach to selecting foreign markets is important when making international decisions (Papadopoulos & Martín Martín, 2011). In particular, Julien and Ramangalahy (2003) indicate that export-related information boosts the competitiveness of SMEs' export strategy and international performance. By the same token, Brouthers and Nakos (2005) reveal that SMEs that apply a systematic market selection strategy outperform SMEs that use an ad hoc foreign market selection. In view of the above we formulate our sixth hypothesis:

Hypothesis 6. Systematic international market selection has a positive relationship with international performance of SMEs.

4. Methods

4.1. Sample and data

This study involves survey data collected from 140 manufacturing SME respondents in Australia who have international sales and 250 or fewer employees. We used the Dunn and Bradstreet database to build a total population frame of 2,595 potential firms from three Australian States (New South Wales, Victoria, and Queensland) because most manufacturing in Australia occurs in these states and they are representative of Australian SME manufacturers with international sales. The Dunn and Bradstreet database provides details that include industry classification code, number of employees, international sales, contact person, email, telephone numbers, location, website, and other relevant information. The computer-assisted telephone interview (CATI) system that was used to collect the data, automatically randomized the 2,595 SMEs to select a pilot population frame of 470 SMEs for a pre-test. The remaining 2,125 SMEs constitute the main sampling frame used to collect the final data to estimate our model.

The randomly obtained 140 collaborating firms are quite experienced in manufacturing, having been in operations for close to 39 years on average, and with a mean of 36.2 employees. They are also internationally experienced, as they, on average, have been doing international business over 21 years. The sampled SMEs have an incipient level of internationalization, operating in 12.9 foreign markets and obtaining 25.5% of sales abroad on average. Most firms use several foreign market entry modes, including direct sales to final customers (74.3%), exporting via distributors (41.4%) and agents (35.7%). Foreign direct investment, which requires a relatively higher degree of international commitment, was used less frequently (26.4%). The respondents are either the owner or the international manager of the firms, which, on average, have been working in the company more than 17 years, and have close to 20 years of international business experience. Accordingly, the respondents have good knowledge about their companies, as well as the details about their international business operations. As Powell (1998) states, a large amount of knowledge about the firm resides with the key decision makers, and according to Ozcan and Eisenhardt (2009) such respondents provide reliable information. Our choice of respondents is also consistent with previous studies on SME internationalization that have interviewed owners or senior managers who are key players in decision-making (Melén Hånell, Rovira Nordman, & Sharma, 2014; Musteen, Datta, & Francis, 2014; Pinho & Prange, 2016).

4.2. Questionnaire and field research

The questionnaire included questions dealing with the firm and its managers, business relationships, FMEs, and international performance. Considering that the measures of both the exogenous and endogenous

constructs were going to be obtained from the same respondents, we tried to minimize the potential impact of common method bias during the design of the questionnaire. We used different end points in our seven-point scales (e.g., strongly agree – strongly disagree", "never – always", "completely unsuccessful – completely successful", "extremely useless – "extremely useful" and "very low – very high") and asked first about international performance.

We added the following question that we expected to be unrelated to the main constructs included in our model: "Please specify to what extent you use the Web when searching for advertising information". We used a seven-point scale (1 = "Never"; 7 = "Always") and three items: "When searching for advertising services in general"; "When searching for advertising information relating to pre-specified advertising services", and "When searching for information that compares online advertising with traditional advertising". We followed the CFA marker technique (Williams, Hartman, & Cavazotte, 2010) and estimated a series of models (see Table I) by bringing this additional construct as a marker construct in the hypothesized model. The comparison of the Method-C with the Method-R model provides the statistical test of the biasing effects of the marker variable on substantive relations and reveals whether the correlations of investigated constructs were significantly biased. The results show that the chi-square difference between the Method-C and Method-R is 0.10, lower than the 0.05 chi-square critical value for 6 degrees of freedom of 12.59, therefore supporting the claim that the estimated constructs' correlations are not significantly biased. In conclusion, the research design and the ad hoc analyses indicate that common method bias is of limited concern in our data.

We carried out a qualitative pre-test with scholars to enhance the readability of the questions. Later, we engaged a reputable independent market research company to conduct the interviews. To encourage these manufacturers to participate in the study, we mailed an invitation letter, using the university logo, to each of the firms to introduce the research project and the market research company who was conducting the interviews. In this letter we also guaranteed the confidentiality of the information that they provided. The independent market research company conducted the CATI with senior managers who made the international business decisions for their organization. The market research company randomly contacted 441 firms (29 from the pilot population frame of 470 were unusable and had to be omitted) during the pilot interviews. After some small changes to improve the administration of the questionnaire, the research company called 966 randomly selected firms from the main sampling frame of 2,125 firms used for the main study. The final sample of 140 responses was collected in the first quarter of 2017 and the interviews lasted an average of 28 minutes.

Table 1
CFA marker technique results.

Model	χ^2	*df*	CFI
1.CFA	224.49	142	0.97
2. Baseline	232.17	146	0.97
3. Method-C	204.95	130	0.97
4. Method-U	224.84	144	0.97
5. Method-R	224.74	150	0.97
Chi-Square Model Comparison Tests			
△Models	$\triangle\chi^2$	$\triangle df$	Chi-Square Critical Value; 0.05
1.Baseline vs. Method-C	7.33*	2	5.99
2.Method-C vs. Method-U	19.83	14	23.68
3.Method-C vs. Method-R	0.10	6	12.59

* if $\triangle\chi^2$ is bigger than the Chi-square critical value, the chi-square difference is significant.
CFI = comparative fit index
CFA model: A normal confirmatory factor analysis (CFA) that allows a complete set of correlations among the six investigated constructs and the marker variable.
Baseline model: Correlations between the marker construct and other constructs are forced to zero.
Method-C model: From the baseline model, all items of investigated constructs load on the marker construct, and the factor loadings are constrained to be equal.
Method-U model: From the baseline model, all items of investigated constructs load on the marker construct, and the factor loadings are freely estimated.
Method-R model: Based on the Method-C model, the correlations of investigated constructs are restricted to values obtained with the baseline model.

4.3. Measures

The conceptualization of each construct and, where existent, scales and measures used in previous studies, guided us in the development of our measures. The specific items used to operationalize each construct in the model and their descriptive statistics appear in Table 2.

4.3.1. Foreign market entry (FME) knowledge

We wanted to measure the extent to which early FMEs had been useful in subsequent FMEs in terms of relevant aspects such as the development of technical knowledge, understanding the market, and learning from previous operations. Specifically, we instructed managers to think of their early foreign market entries and asked them about the extent to which their firms' foreign market entries have been useful in subsequent foreign market entries to develop new technical knowledge, uncover international customers' preferences, understand international standards and regulations, and acquire international business experience. To the best of our knowledge, there are no previous measures of this construct in the literature.

4.3.2. Systematic international market selection

The four items included in our scale are adapted from Brouthers and Nakos' (2005) study. Thus, we focused on the extent to which the selection of foreign market entry opportunities was well-informed and systematic and expected this to be reflected in four items capturing whether international market research activities for selecting foreign markets are systematic and formal; secondary sources of information are effective learning tools about products in foreign countries; the firm uses specific criteria to assess foreign markets, and much effort is put into foreign market research.

4.3.3. Network capability

We developed our measure of network capability based on Walter et al. (2006). The first two items, "We analyze what we would like to achieve with our collaborators" and "We discuss with collaborators regularly on how to support each other to achieve success" are measures of the coordination dimension of networks (Walter et al., 2006). The third and fourth items, "We can deal flexibly with our collaborators" and "We almost always solve problems constructively with our collaborators" capture relational skills regarding the use of relationships to partners (Walter et al., 2006).

4.3.4. International performance

There are two modes to assess performance and international performance, and these include subjective and/or objective measures (Katsikeas, Leonidou, & Morgan, 2000; Katsikeas, Morgan, Leonidou, & Hult, 2016). Many empirical studies use subjective measures such as asking respondents to evaluate a set of performance indicators over a certain period. We followed this approach and used four common indicators to measure firms' international performance over the past three years in a seven-point scale (where 1 means "completely unsuccessful" and 7 means "completely successful") in terms of international sales volume, international sales growth, international profitability, and overall international performance. Similar items and scales have been used in a plethora of international business studies (e.g., Gerschewski, Rose, & Lindsay, 2015). Excellent reviews of international and export performance can be found in Hult et al. (2008) and Chen, Sousa and He (2016).

Table 2
Operationalization of the constructs.

Construct/ Items	Mean	S.D.	Standardized loadings	CR	AVE
Foreign market entry knowledge (FMEK)				0.91	0.71
Think of your early foreign market entries. To what extent have they been useful in subsequent foreign market entries in terms of					
helping to develop new technical knowledge?	4.17	1.81	0.82		
uncovering international customers' preferences?	4.58	1.54	0.87		
understanding international standards and regulations?	4.98	1.60	0.83		
acquiring international business experience?	5.08	1.53	0.85		
Systematic international market selection (SIMS)				0.87	0.63
Think of the way your firm finds or selects foreign market entry opportunities. To what extent do you agree or disagree with the following statements?					
Our international market research activities for selecting foreign markets are systematic and formal	3.12	1.77	0.76		
We learn about product-related activities in foreign countries by reading magazines, journals, websites etc.	3.83	1.96	0.70		
We have specific criteria to help us determine whether a foreign market is worthwhile	4.23	1.93	0.83		
We put considerable effort into researching foreign markets	3.80	1.92	0.87		
Network capability (NC)				0.92	0.75
Think of your international business relationships with your collaborators and partners (such as suppliers, distributors, customers, etc.). To what extent do you agree or disagree with the following statements?					
We analyze what we would like to achieve with our collaborators	4.88	1.62	0.72		
We discuss with collaborators regularly on how to support each other to achieve success	5.13	1.70	0.85		
We can deal flexibly with our collaborators	5.61	1.47	0.94		
We almost always solve problems constructively with our collaborators	5.83	1.31	0.94		
International performance (IP)				0.92	0.74
Please evaluate your firm's performance over the past three years in terms of the following:					
International sales volume	4.40	1.53	0.91		
International sales growth	4.37	1.63	0.92		
International profitability	4.61	1.47	0.67		
	4.50	1.46	0.92		
Overall international performance					
Firm Age	39.53	26.88	1.00	1.00	1.00
Firm Size	36.23	34.23	1.00	1.00	1.00
International Experience	22.51	14.75	1.00	1.00	1.00
Industry	0.39	0.49	1.00	1.00	1.00
Entry Mode (FDI)	0.26	0.44	1.00	1.00	1.00
Level of Internationalization	0.26	0.27	1.00	1.00	1.00
Education	2.54	1.09	1.00	1.00	1.00
Geographic Distance	3.84	3.00	1.00	1.00	1.00
Cultural Distance	1.94	1.97	1.00	1.00	1.00

All standardized coefficient loadings are significant at $p<0.01$.
CR = Construct reliability; AVE = Average variance extracted for each multi-item construct in the research model.

4.3.5. Controls

We used several controls having the potential to explain part of the variance of international performance: Firm age (number of years operating), firm size (number of employees), international experience, industry (light vs. heavy manufacturing), entry mode (whether or not the entry mode implied more commitment in terms of foreign direct investment), level of internationalization (the average ratio of foreign sales to total sales in the past three years), and managers' educational qualification. We also controlled for geographic distance and cultural distance. For geographical distance we calculated de number of km between the capital of the most important foreign market of the SME and Canberra. The calculation of cultural distance used Kogut and Singh's (1988) index, which is based on four Hofstede's cultural value dimensions (individualism, uncertainty avoidance, power distance, and masculinity), and differences between the SME's most important foreign market and the home country.

4.4. Data analysis technique

We designed the study including four latent variables to measure the main constructs in our model. As a consequence, we used Structural Equation Modeling (SEM) to estimate it. Mplus 8.3 was the software applied to this purpose.

5. Results

Following standard SEM procedures, we tested the measurement model before considering the structural model. First, we assessed the reliability and validity of the constructs. The results of an exploratory factor analysis indicated that all items loaded on their respective constructs without cross, or low, factor loadings (Ju, Jin, & Zhou, 2018). Furthermore, a confirmatory factor analysis of the measurement model (including FME knowledge, systematic international market selection, network capability, and international performance) demonstrated satisfactory fit indices (*Chi*-square = 174.33; *d.f.* = 98; *RMSEA* = 0.075; *CFI* = 0.97; NNFI = 0.96) and a good model fit (Bentler, 1990). Table 2 also presents the standardized loadings on the corresponding constructs, the construct reliability values, and the average variance extracted (AVE) for each construct. As mentioned, all items loaded on their respective constructs (standardized loadings $\geq$ 0.67), and the construct reliability values for all constructs range between 0.87 and 0.92 (see column 5 in Table 2), which are appropriate (Werts, Lin, & Jöreskog, 1974). Besides, all AVE values are clearly over the threshold point of 0.50, which provides support for convergent validity (Fornell & Larcker, 1981).

To complete the assessment of the measurement model results, Table 3 presents the square root of the AVE statistics for each latent variable along the diagonal, which are greater than the corresponding

Table 3
Correlation matrix of constructs ($N = 140$).

Construct	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) FME knowledge	**0.84**												
(2) Systematic Int'l market selection	0.33**	**0.79**											
(3) Network capability	0.42**	0.40**	**0.87**										
(4) International performance	0.39**	0.36**	0.40**	**0.86**									
(5) Firm age	-0.06	0.07	0.04	-0.09	**1.00**								
(6) Firm size	0.05	0.13	-0.01	0.12	-0.01	**1.00**							
(7) International experience	0.06	0.06	-0.04	0.13	0.14	0.14	**1.00**						
(8) Industry	0.01	0.01	-0.02	0.04	-0.13	0.01	-0.07	**1.00**					
(9) FDI entry mode	0.06	0.27**	0.07	0.20*	-0.05	0.12	0.15	-0.08	**1.00**				
(10) Level of internationalization	0.32**	0.19**	0.04	0.36**	-0.16	-0.04	0.23	0.00	**0.10**	**1.00**			
(11) Education	0.01	0.12	0.02	0.03	-0.12	0.14	0.11	-0.01	0.06	**0.04**	**1.00**		
(12) Geographic distance	0.17*	-0.12	-0.05	0.07	-0.03	0.06	0.08	0.04	0.05	-0.03	-0.04	**1.00**	
(13) Cultural distance	0.01	0.01	0.00	-0.10	0.14	-0.01	-0.02	0.08	-0.18*	0.02	-0.03	0.04	**1.00**

*$p < .05$; **$p < .01$ (level of confidence, two-tailed tests)
Diagonal values in bold are the square roots of the variance shared between the constructs and their measurements.
For discriminant validity to be established, the diagonal elements must be greater than the off-diagonal elements in the corresponding rows and columns.

inter-construct correlations in the off-diagonal elements. This provides evidence in favor of the discriminant validity of the constructs. Based on the above results, our measures present adequate measurement properties and, thus, can be used for hypothesis testing.

As a second step, we ran the structural model to test the hypothesized relations. As presented in Table 4, the results support four out of the six hypotheses. Specifically, FME knowledge is significantly and positively associated with systematic international market selection (H1) ($\gamma = 0.42$, $p = 0.000$) and network capability (H2) ($\gamma = 0.33$, $p = 0.000$). The latter is significantly and positively associated with systematic market selection (H4) ($\gamma = 0.46$, $p = 0.000$) while systematic international market selection is in turn significantly associated with international performance (H6) ($\gamma = 0.39$, $p = 0.006$). Yet, the relations between FME knowledge (H3) ($\gamma = 0.04$, $p = 0.732$) and network capability (H5) ($\gamma = -0.05$, $p = 0.634$), with international performance, are not significant. The effect size is medium for the two determinants of systematic international market selection, and small for the relation between FME knowledge and network capability, and between systematic international market selection and international performance (see the fifth column in Table 4). In addition, all control variables except industry are not significant, and there were no substantial changes in path coefficients when control variables were included or excluded. Industry (light industry) is negatively related to international performance ($\gamma = -0.19$, $p = 0.021$). Lastly, the goodness-of-fit indices show a good model fit (*Chi*-square = 418.537; *d.f.* = 248; *RMSEA* = 0.07; *CFI* = 0.91).

Table 4
Model's paths, significance, and results.

Hypothesis	Standardized estimate	t-value (*p*-value)	Decision	f^2
H1 FME knowledge → Systematic international market selection	0.42	5.73 (0.000)	Supported	0.291
H2 FME knowledge → Network capability	0.33	3.95 (0.000)	Supported	0.117
H3 FME knowledge → International performance	0.04	0.34 (0.732)	Not supported	0.000
H4 Network capability→ Systematic international market selection	0.46	6.48 (0.000)	Supported	0.308
H5 Network capability→ International performance	-0.05	-0.48 (0.634)	Not supported	0.003
H6 Systematic international market selection → International performance	0.39	2.75 (0.006)	Supported	0.068

Controls: Industry (-0.19, t = -2.01, $p = 0.04$) is significant. Firm age (-0.09), Firm size (0.11), International experience (-0.07), FDI entry mode (0.09), Level of Internationalization (-0.15), Education (0.04), Geographic distance (0.07), Cultural distance (-0.03) all are not significant.

The significant relations between FME knowledge, systematic international market selection, network capability and international performance hint at three potential mediating effects. In other words, network capability and international market selection can be regarded as mechanisms for conveying the effects of FME knowledge on international performance. Accordingly, we conducted mediation tests for further investigation. We applied the bootstrapping procedure to test mediation effects in Mplus. Specifically, we draw on the coefficients of the direct paths (a_1, a_2, b_2, b_3, b_4) (see Fig. 1) to calculate the products of the direct paths that form the three indirect paths FMEK→SIMS→IP, FMEK→NC→IP, and FMEK→NC→SIMS→IP (including a_1b_4, a_2b_3, and $a_2b_2b_4$). We then used bias-corrected percentile bootstrap to generate a 95% confidence interval (CI) for "a_1b_4", "a_2b_3", and "$a_2b_2b_4$" respectively (Lau & Cheung, 2012). The indirect effect intervals provide evidence of the indirect effect significance when they do not include zero. The results (see Table 5) show that the mediating effect of systematic international market selection on the relation between FME knowledge and international performance is significant, while the mediating effect of network capability on the indirect path FMEK→NC→IP is not significant. In addition, the mediating effect of both network capability and systematic international market selection on the indirect path FMEK→NC→SIMS→IP is significant.

6. Discussion, implications, limitations and future research

We discuss our findings' theoretical contribution, identify implications for practice and present limitations and future research directions.

6.1. Discussion

Our study offers one main theoretical contribution. The existing international business literature has paid limited attention to the

Table 5
Mediating test results.

Mediating path	Point estimate	Correct bias percentile bootstrap 95% confidence interval[1]	
		Lower	Upper
FMEK→SIMS→IP (a_1b_4)	0.163	0.001	0.632
FMEK→NC→IP (a_2b_3)	-0.017	-0.140	0.120
FMEK→NC→ SIMS→IP ($a_2b_2b_4$)	0.057	0.009	0.164

1.The number of bootstrap samples is 5000.

mediating mechanisms between SMEs' knowledge/international knowledge and international performance. Our study contributes to the international SME literature by presenting novel insights on the mechanisms linking FME knowledge and SMEs' international performance. The results from our study imply that SMEs' systematic market selection and network capabilities play a significant role in attaining successful international performance. While the extant literature (Delios & Beamish, 2001; Jin & Jung, 2016; Stoian et al., 2017) considers the positive association between previous foreign market knowledge and international performance, our study reveals that FME knowledge does not per se have a significant direct relationship with international performance.

We interpret this finding to mean that FME knowledge alone is not sufficient because knowledge emerges from complex processes involving multiple factors. It could be that with the exception of technical and international standards and regulations knowledge, most FME knowledge is appropriate for a single foreign market or homogenous foreign markets (Hilmersson & Johanson, 2016; Johanson & Vahlne, 1977) so it cannot be easily transferred into heterogeneous foreign markets (Eriksson et al., 1997; 2000) and immediately improve performance. Our results also imply that FME knowledge cannot leverage opportunities and innovation and lead to performance in isolation but with the assistance of some intervening factors (e.g., network capabilities). This is consistent with recent findings emphasizing the mediating role of competitive capabilities in the relationship between international knowledge and international performance (Falahat et al., 2020).

Specifically, our findings reveal that instead of a direct route there are two indirect ones to convey the effects of FME knowledge on international performance. A systematic approach to the search and evaluation of foreign market opportunities plays a relevant role in both, while network capability is also a driver in the long route. By uncovering important mechanisms through which FME knowledge has a positive impact on international performance, our study highlights not only the ultimate relevance of previous FME knowledge in successful international performance but also the connections between network capability and systematic international market selection in SMEs' internationalization. As firms gain FME knowledge they reduce uncertainty and unpredictability, develop their networking capability, and rely more on systematic, formal, and informed international market selection. They become more systematic in their selection of new partners who have the relevant resources to achieve their goals and foreign market entry opportunities. Thus, our study confirms that SMEs that systematically select foreign market entry opportunities and the right partners to build fruitful relationships can improve their international performance. Network capabilities enable firms to avoid spreading their resources too thinly through *ad hoc* entry into a wide range of very different international markets that can be time consuming and expensive.

By the same token, while our study highlights that knowledge from prior foreign market entries has a positive effect on network capability, these network capabilities do not necessarily lead directly to superior international performance of SMEs. As Gulati, Lavie and Singh (2009) state, prior experience in one partnership cannot necessarily be transferred into another partnership because trust and knowledge sharing routines may be specific to one partner. They differentiate between partner specific experience and general partnering experience and found that general experience in partnerships is not necessarily beneficial for the firm. Similarly, Eriksson et al. (1997; 2000) state that because knowledge developed in a relationship is specific to that relationship, it is hard to transfer it into other relationships. These studies imply that network capability does not necessarily mean that all new partnerships will be successful and lead to new opportunities and positive outcomes. As firms enter diverse foreign markets with very different cultural and institutional settings, they may face challenges when transferring their network capabilities into new relationships to become insiders in these very diverse foreign markets.

A second contribution to the international SME literature is embodied in the conceptualization and operationalization of FME knowledge. International business studies have largely ignored, and not explicitly hypothesized and empirically tested, the effects on subsequent internationalization of FME knowledge that is obtained through previous international market entries. Building on influential international business literature (Eriksson et al., 1997), we provide this construct and measure and test it in a sample of SMEs.

6.2. Managerial relevance

Among the implications for managers and policy makers, we suggest that previous international market and technical knowledge and international business experience be considered as key drivers of successful later foreign market entries. As such, it is particularly important to ensure that there is an effective way implemented in the firm to store, retrieve, and share FME knowledge. By providing resources and structure to SMEs, internationalization support programs can facilitate FME knowledge integration and use within these firms. Helping firms to understand and have better information about foreign markets, use systematic tools for international strategic decision making and planning, and strengthen their relational skills can be effective means of enhancing SMEs firms' international performance. Internationalization support programs could be geared towards ultimately reducing international market uncertainty and enhancing FME. SMEs could benefit from additional support to have a more formal and systematic approach to their foreign market research and selection of FME opportunities. This foreign market research could be carried out by a supporting organization conducting formal and systematic research on behalf of the SME. Supporting organizations could use their websites to provide easily accessible resources, such as market research reports about specific countries, and templates with specific criteria to assess foreign markets. These resources would encourage SMEs to select their FMEs systematically.

In addition, supporting organizations could organize networking events and workshops to train SMEs to develop their international relational skills as these, in turn, will help them enhance their international performance. This networking support could also be in the form of trade missions to specific foreign markets, and internationalization advisors with expertise about specific foreign markets and relational skills. Such assistance would enable SMEs to be systematic in finding suitable business partners with the relevant resources to become insiders in foreign markets. SMEs that are operating successfully in foreign markets could be invited to share their valuable knowledge and experiences in seminars or mentoring programs. International market uncertainty and complexity can be reduced by organizing an ecosystem in the home country where multiple organizations such as government, education, customs control, credit office and international trade promotion organizations are aligned to provide trustworthy information and advice for internationalizing SMEs.

Since our study is based on data from Australia, a country that has a relatively low uncertainty avoidance score (Hofstede & Hofstede, 2005), our results confirm that systematic market selection has a strong impact on performance in a culture with low uncertainty avoidance (Brinckmann et al., 2010). An implication for managers who use systematic selection of FME opportunities is that they need to be flexible to changes in the environment and the exploitation of FME knowledge. A word of caution for SMEs with prior experience in partnerships and who have developed network capability is that they should not become overconfident about their abilities to find and create opportunities in future partnerships to directly enhance their international performance.

6.3. Limitations and future research

Among the limitations of our empirical study is the use of cross-sectional data from one country. Future studies can capitalize on longitudinal research designs that can test the causality of our hypothesized

relationships. Although common method bias was not found to be an issue according to our robustness tests, future studies should use larger data sets from multiple data sources to strengthen confidence in the research design and empirical findings. Besides, while Australia is an active player in international business, and a suitable research context to study the effects of FME knowledge, our findings may not apply directly to contexts with different economic, geographic, or cultural characteristics. In particular, Australia is a developed but "remote" market, and its culture leans towards low uncertainty avoidance that tends to be associated with systematic market selection (Brinckmann et al., 2010). Accordingly, the validity of our findings can be further explored in emerging markets and other country settings, so their international and cross-cultural validity can be better assessed. The variance of different destination markets should be studied in detail to enhance our understanding of the role of FME knowledge in international operations. In addition, internationalizing service firms and digitalized firms that conduct their businesses online and are in dynamic industries with shifting industry boundaries, can be suitable contexts to further study the role and effects of FME knowledge.

Empirical studies with low survey response rates can induce estimation bias, have effects on the sample representativeness, and reduce the external validity of the research findings. However, our study's response rate (14.5%) is in line with the average response rate based on telephone survey. In addition, the estimation bias may be less of a concern in our study because a large proportion of nonresponses (21.9%) is due to passive reasons such as incorrect phone numbers and busy schedules (Mellahi & Harris, 2016). Also, the literature suggests that low response rates typically lead to underestimation of the theorized parameters (Newman, 2014).

Another opportunity for future research is related to the fact that it is also feasible that network capabilities result in the firm gaining more knowledge. As explained above, we hypothesized the opposite effect in view of its theoretical relevance and novelty, and we operationalized FME knowledge accordingly. Thus, our model has a built-in time lag: our FME knowledge questions refer to previous foreign market entries while network capabilities capture international business relationships with collaborators and partners in the respondent's present time.

Perceptual measure-based data are vulnerable to rater error and correlated error, so we had it into account in the research design stage. *Post hoc* analyses also indicate that this is of limited concern in our data, and in line with literature suggesting that perceptual performance data may not necessarily be as biased as one might expect (Wall et al., 2004). However, future studies may develop objective measures to replicate and further validate our research findings. Finally, our construct and measure of FME knowledge offers opportunities to scholars interested in testing its effects in a diversity of international business and internationalization studies and settings. Future research can explore the variance of destination markets in detail to enhance our understanding of the role of FME knowledge in each specific market.

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