

Foreign Market Knowledge and SME's International Performance: Moderating Effects of Strategic Intent and Time-to-Internationalization

Mariola Ciszewska-Mlinarič

ABSTRACT

Objective: The objective of the article are threefold. First, to examine the significance of knowledge based resources for internationalization of small and medium sized enterprises. Second, to verify the strategic intent as a factor enhancing SMEs' ability to accumulate the knowledge about foreign markets. Third, to examine whether and how strategic intent and time-to-internationalization moderate the relationship between foreign market knowledge and SMEs' international performance.

Research Design & Methods: The study was conducted on a sample of 89 Polish firms operating in a low-tech but fairly internationalized sector. In line with a theoretical background, hypotheses are developed and tested with linear regression models.

Findings: The findings reveal that foreign market knowledge (FMK) is positively associated with international performance (IP), and both, strategic intent and firm's age at internationalization are moderators of FMK-IP relationship.

Implications & Recommendations: Firms' ability to clearly formulate the strategic intent brings important consequences for ability to accumulate knowledge. Strategic intent enhances the development of the stock of foreign market knowledge, which in turn enables firms to achieve better performance in international markets.

Contribution & Value Added: The article seeks to contribute to the ongoing discussion on factors supporting the accumulation of foreign market knowledge by focusing on the role of strategic intent and time to internationalization in this respect.

Article type: research paper

Keywords: foreign market knowledge; strategic intent; age at internationalization; international performance; SMEs

JEL codes: F23

Received: 18 June 2015

Revised: 16 September 2016

Accepted: 20 September 2016

Suggested citation:

Ciszewska-Mlinarič, M. (2016). Foreign Market Knowledge and SME's International Performance: Moderating Effects of Strategic Intent and Time-to-Internationalization. *Entrepreneurial Business and Economics Review*, 4(4), 51-66, DOI: <http://dx.doi.org/10.15678/EBER.2016.040404>

INTRODUCTION

Foreign market knowledge (FMK) is one of central concepts within international business strategy research. Its importance has been recognized in the incremental model of internationalization, i.e. the Uppsala Model (Johanson & Vahlne, 1977) that explains the process of international expansion in terms of experiential learning and accumulation of foreign market knowledge. Researchers have also validated the significance of foreign market knowledge for the firm performance in international markets (Eriksson, Johanson, Majkgard & Sharma, 2000; Mogos Descotes & Walliser, 2013; Musteen, Datta & Butts, 2014), triggering the studies examining learning processes of internationally oriented firms, sources of foreign market knowledge, or antecedents/factors enhancing accumulation of foreign market knowledge (Musteen *et al.*, 2014; Fink & Kraus, 2007). Knowledge about foreign markets is particularly important for small firms (Liesch & Knight, 1999) that originate from transition economies (Musteen & Datta, 2011), as they often lack resources and capabilities.

While prior studies have cumulatively formed the sound body of knowledge, much of them focus on samples originating from developed economies. Given that emerging market firms, both large and small, are increasingly active in the international marketplace, undertaking research in this context is well-justified to fill in this gap. Foreign market knowledge can be particularly important for firms originating from such economies, as liberalization of trade and foreign direct investments have opened their home markets to foreign competitors, which in turn forced firms to search for international growth opportunities (Luo & Tung, 2007). Thus, this paper enriches extant research on foreign market knowledge within the context of Central East European region, by providing evidence from Polish SMEs.

Another gap in the extant literature refers to factors enhancing the accumulation of foreign market knowledge. Factors other than firm's international experience, network ties, technological orientation or firm size have been seldom examined. In this respect, the concept of strategic intent (Hamel & Prahalad, 1989; 1993; 1994) seems to be largely sidelined. The current study investigates the significance of strategic intent for developing the stock of knowledge about foreign markets, while controlling for other, above mentioned variables. It is proposed that the strategic intent perspective should be included in research examining organizational learning and the accumulation of foreign market knowledge. I argue that strong strategic intent, by providing direction of organizational efforts oriented on learning, leads to the accumulation of knowledge about foreign markets, which in turn increases the likelihood of achieving greater international performance by small and medium sized enterprises. Additionally, the study examines how the relationship between foreign market knowledge and international performance is moderated by the firm age at internationalization.

Therefore, the objectives of the paper are threefold. First, to examine the significance of knowledge based resources for SMEs' internationalization. Second, to verify the role of strategic intent as a factor enhancing SMEs' ability to accumulate the knowledge about foreign markets. Third, to identify conditions affecting the relationship between knowledge of foreign markets and performance (including as moderators strategic intent and age at internationalization). In order to test the hypothesised relationships, the

study employs a sample of 89 Polish firms that operate in the furniture manufacturing sector.

The present study contributes to extant understanding of foreign market knowledge in the successful internationalization of small and medium sized firms in three ways. The first is by proposing a novel factor, i.e. strategic intent that explains the accumulation of foreign market knowledge, leading in that way to greater international performance. The second is by verifying the significance of strategic intent and a firm's age at internationalization for the relationship between foreign market knowledge and international performance, thus bringing empirical support for the conditions explaining the relationship.

The article is structured as follows. In the first section, theoretical background is discussed and research hypotheses are developed. The second section presents details on the sample, data selection procedure, and operationalization of variables. Then, results of statistical analyses and key findings are provided. The paper closes with conclusions and future research recommendations.

LITERATURE REVIEW

Foreign Market Knowledge and International Performance

In line with prior research (Johanson & Vahlne, 1977; Musteen & Datta, 2011), foreign market knowledge (FMK) is defined as "the knowledge of business practices and potential opportunities as they relate to foreign markets. It includes knowledge related to local culture, competitive conditions, customer needs, and the broader institutional environment" (Musteen & Datta, 2011, p. 93). Internationalization literature postulates that knowledge about foreign markets is an essential concept that explains internationalization behaviour/commitment of firms. According to Uppsala model such knowledge has experiential character and is growing along with a firm's international experience.

FMK is seen as one of the most important resources in the internationalization process (Johanson & Vahlne, 2003; Autio, Sapienza & Almeida, 2000), as it is necessary to understand opportunities and deal with uncertainties (Andersen, 1993) and risks (Liesch, Welch & Buckley, 2011). The lack of FMK represents a significant barrier to firm's internationalization (Eriksson *et al.*, 1997). Numerous studies confirm this thesis, providing evidence that lack of FMK deteriorates directly or indirectly performance in the foreign markets, both in the context of developed market firms (Mogos Descotes & Walliser, 2013), and emerging market firms (Musteen & Datta, 2011; Musteen *et al.*, 2014; Elango & Pattnaik, 2007). For instance, Musteen and Datta (2011, p. 96) argue that "superior understanding of the foreign competitive and political environments should mitigate the liability of foreignness, enabling entrant firms overcome the barriers set up by incumbent firms and governments and allow them to compete more effectively in international markets". However the incremental character of internationalization, and the assumption that knowledge is acquired via first-hand experience have been questioned by numerous researchers, pointing to the abundance of born-global (BG) firms (Zhou, 2007) and other than experiential modes of learning (Forsgren, 2002). Searching for explanations of the phenomenon of early internationalization, where firms have no or very limited knowledge about foreign markets, scholars have pointed either to learning advantages of newness or/and others sources of learning and knowledge accumulation,

that can be used by BGs, in general agreeing with the value of foreign market knowledge for the performance. Thus, in line with traditional theorizing it is hypothesized that:

- H1:** Foreign market knowledge is positively related to a firm's international performance.

Strategic Intent and Foreign Market Knowledge

Antecedents or predictors of knowledge about foreign markets constitute another popular research theme. Among most often employed predictors are prior international experience, network ties, size, and technological orientation (Fink & Kraus, 2007; Ellis, 2011; Musteen *et al.*, 2014). While controlling for the typically employed predictors of FMK, this paper builds on strategic intent perspective (Hamel & Prahalad, 1989; 1993; 1994) to shed novel light on organizational learning and the resulting stock of foreign market knowledge.

The term strategic intent was developed and popularized by Hamel and Prahalad (1989). Analysing the post-war growth of Japanese firms they argued that these firms have used a different approach to strategy formation than their Western peers. Hamel and Prahalad (1993) posit that long term competitiveness of global companies is determined by managers' willingness to challenge continually the assumptions, premises, and accepted wisdom ('managerial frames', 'mindset') that relate to how companies compete. According to the authors, competition takes place not so much at the level of products, but at the level of managerial mindsets. They contend that "creating stretch, a misfit between resources and aspirations, is the single most important task senior management faces" (Hamel & Prahalad, 1993, p. 78). It demands more creativity in finding or creating new market space, identifying unmet needs of customers, avoiding competitive confrontation (focus is rather on encirclement or making competition irrelevant) – in short, finding ways to achieve more, while possessing less or "getting the most from the least" (Hamel & Prahalad, 1993, p. 78). They argued that clearly defined and communicated strategic intent (which gives the sense of direction, destiny, and discovery) is critical for firms' success, as it creates the misfit between goals and resources and opens the way to leveraging resources.

However, in the field of international business and international entrepreneurship, the concept of strategic intent is rather forgotten. Some exceptions in this respect, include the arguments on strategic intentionality of Johanson and Vahlne (2009) who point to the importance of strategic intentions, that may determine the focus of managerial attention, how managers interpret information, and what decisions and actions they may undertake. Such arguments lead to the use of strategic intent (measured as export intention) as a moderator of the relationship between learning and export intensity (Casillas, Barbero & Sapienza, 2015), or – more broadly – the concept of strategic thinking for the pace of internationalization (Wach, 2015).

This study puts forward the notion that clearly defined and shared strategic intent can be invaluable to create proper organizational conditions for accumulating foreign market knowledge. One reason for that is strategic intent helps organizations to focus their efforts to gain new knowledge, helps to identify opportunities, including opportunities to learn. Thus:

- H2:** Strategic intent is positively associated with the accumulation of foreign market knowledge.

Strategic Intent and Age at Internationalization as Moderators

In the field of international business, Johanson and Vahlne (2009) suggest that intentions determine the focus of managerial attention, efforts, the way of interpreting information, as well as decisions and resulting actions. Following this reasoning, I argue that firms that have clearly formulated strategic intent will increase their ability to learn “by actively seeking knowledge about international markets, potential customers, competitors” (Zhou, 2007, p. 284). In other words, the ability to learn about foreign markets and accumulate knowledge increases when owners and managers provide and effectively communicate the strategic intent (the sense of direction, destiny, and discovery); so that organizational efforts are focused on spotting and exploiting new opportunities, an important source of knowledge. Therefore, it is expected that the relationship between FMK and performance will be stronger in case of firms with clearly formulated strategic intent than in case of firms with ambiguous strategic intent. Therefore:

- H3a:** The relationship between foreign market knowledge and international performance is moderated by the strategic intent, so that in case of firms with clearly formulated strategic intent, the positive relationship between FMK and performance will be stronger.

Age at internationalization (in other words, time-to-internationalization) is another moderator of the relationship between FMK and performance, which is employed in this study. Age at internationalization refers to the phenomenon of early internationalization, which questions the logic of gradual internationalization process (Johanson & Vahlne, 1977). One of arguments explaining the phenomenon of early internationalization refers to the learning advantages of newness (LAN). According to Zhou and Wu (2014, p. 134), learning advantages of newness characterizes new ventures that “tend to possess fewer deeply embedded routines (from domestic operations), face fewer inertial constraints (past-dependent cognitive biases), and thus are in a forward-looking position to explore new opportunities in international markets.” However, young and small firms also suffer from the lack of managerial, human and financial resources, and they may not have enough time and experience to develop organizational routines supporting learning. When they try to develop their business simultaneously in domestic and foreign markets, such resource shortages may become even more evident. In the context of SMEs originating from post-transition economies. Cieřlik and Kaciak (2009, p. 381) observe that “The shift from a communist to a market economy opens new opportunities for firms to expand internationally but also poses serious risks because of these firms’ lack of international experience and relevant skills.” Therefore, in contrast to the ‘learning advantages of newness’ argument, this article postulates that absorptive capacity (i.e. the ability to recognize the importance of new knowledge, absorb and use) (Cohen & Levinthal, 1990) of small firms originating from post-transition economies increase with time so that in case of firms that are older at the time of internationalization, the relationship between FMK and performance will be stronger.

- H3b:** The relationship between foreign market knowledge and international performance is moderated by the firm age at internationalization, so that in case of firms that were older at the time of internationalization will benefit more from accumulation of foreign market knowledge.

Figure 1 presents all hypothesized relationships.



Figure 1. Conceptual model

Source: own elaboration.

MATERIAL AND METHODS

Sample and Data Collection

The sample was drawn from the population of Polish firms operating in the furniture manufacturing sector, which were actively involved in international operations in 2013. Furniture manufacturing is among the most competitive manufacturing sectors in Poland – it generates app. 2% of Polish GDP, and has a significant surplus in foreign trade (Polish Furniture Magazine, 2012). The sector is important to Poland's exports (accounting for approximately 5-6% of Polish exports, which is one of the highest shares in exports). Approximately 90% of furniture produced in Poland is exported (Polish Furniture Magazine, 2012). Moreover, Poland is among largest worldwide exporters of furniture (in 2011 following China, Germany, and Italy), which makes furniture manufacturing one of globally visible manufacturing sectors in Poland. Polish exports of furniture is constantly growing over the last decades, and according to Eurostat data the value of Polish furniture exports in 2014 equalled to 8.037 billion EUR, which grew in comparison to 2013 by 13.2% (in 2013 the value of Polish furniture exports was equal to 7.1 billion EUR) (OIGPM, 2015). Thus, the sector was chosen due to its importance to the Polish economy and its global visibility.

The findings presented in this paper are based on a larger project that examined internationalization strategies of Polish firms operating in the furniture manufacturing sector. A total of 1100 firms with international sales were identified (with the cooperation of Eniro Polska, which owns the largest and, supposedly, the most up-to-date database of Polish firms) and contacted by telephone in February/March 2014. The interviewer asked for permission to conduct a telephone interview with managers, owners or chief executive officers directly responsible for key decisions concerning the firm's internationalization. Regarding internationalization issues in the context of SMEs, they are the most knowledgeable informants (Nummela, Saarenketo & Puumalainen, 2004). After rejecting non-existing firms and firms with 100% foreign ownership, and after receiving permission to conduct a telephone interview, the final sample consisted of 121 firms of different size. For the purpose of this study the large firms, and surveys that were in-

complete, were dropped from the sample. Thus, the final sample comprises 89 micro, small and medium sized firms that each employed between 1-250 employees.

The questionnaire was pretested on several firms in order to provide reliability of the results. Then, interviewers from the research agency were trained in the questions. The questionnaire was targeted to chief executive officers (CEOs), owners, and managers directly responsible for making key internationalization decisions because they are the most knowledgeable informants regarding internationalization issues in SMEs (Nummela *et al.*, 2004). As the survey was conducted over a phone with a single informant, and predictor and criterion measures were obtained from the same source, common method variance (CMV) may be a concern (Podsakoff, MacKenzie, Lee & Podsakoff, 2003; Chang, Witteloostuijn & Eden, 2010). To ensure the reliability of the study, several procedural remedies were used ex-ante (e.g., the questionnaire was pretested to eliminate any ambiguity, vagueness, or unfamiliarity), response anonymity and confidentiality were guaranteed, and single-common-method-factor approach was taken ex-post to detect CMV. Harman's single-factor test revealed that CMV should not be a problem in the present study as loading all items into exploratory factor analysis revealed neither the single factor nor the general factor¹ that would account for a majority of covariance between the measures (Podsakoff *et al.*, 2003).

Dependent Variables

Foreign market knowledge. The items applies as measures of foreign market knowledge covered: foreign regulations and law, foreign competitors, foreign customers, foreign distribution channels, and foreign business opportunities. This approach is in line with prior research (Musteen *et al.*, 2014) and covers the dimensions of foreign institutional and business knowledge (Eriksson *et al.*, 1997; Autio *et al.*, 2000; Hadley & Wilson, 2003). Specifically, the respondents were asked to evaluate the top managers' knowledge using 5-point scale (1=very low level of knowledge; 5=very high level of knowledge) concerning a firm's major overseas markets, in terms of: (i) the foreign law and industry regulations; (ii) the policies and actions of foreign competitors; (iii) the expectations of foreign customers; (iv) the effectiveness of foreign distribution channels; (v) business opportunities in foreign markets such as opportunities for partnering, and/or for potential new customers. The factor analysis indicated that the items' loadings were between 0.746 and 0.846. The construct has a satisfactory Cronbach's alpha of 0.852 (Nunnally & Berstein, 1994), as well as the composite/construct reliability (CR=0.895), and average variance extracted (AVE=0.632) (Fornell & Larcker, 1981).

International performance. Musteen and Datta (2011, p. 98) argue that "firms in transition economies are generally very reluctant to provide earnings information. Indeed,[...] requests for earnings data is viewed very suspiciously by SME managers". Therefore, perceptual/subjective measures are often used in performance operationalization (Zahra, Neubaum & Huse, 1997; Nummela *et al.*, 2004; Musteen & Datta, 2011; Musteen *et al.*, 2014). Although such measurement may be vulnerable to personal bias, there is a research evidence confirming that subjective and objective measures are high-

¹ The unrotated principal component factor analysis revealed the presence of four distinct factors with eigenvalue greater than 1.0 (thus no single factor emerged). The four factors together accounted for 59.8% of the total variance; and the first factor did not account for a majority of the variance (23.10%).

ly correlated (Dollinger & Golden, 1992; Wall *et al.*, 2004), and thus can be used when objective measures are not available (Musteen *et al.*, 2014). In this study, international performance was measured on a 5-point scale by two items. First respondents were asked to indicate their satisfaction with the firm's international performance (1 = very dissatisfied, 5 = very satisfied), and second, to evaluate the firm's success in foreign markets in comparison to its main competitors (1 = much worse, 5 = much better than main competitors). The construct has a rather unsatisfactory Cronbach's alpha of 0.579 (Nunnally & Berstein, 1994), but the composite/construct reliability (CR = 0.826), and average variance extracted (AVE = 0.704) met the recommended thresholds (CR > 0.6 and AVE > 0.5), which supports the construct internal consistency (Fornell & Larcker, 1981).

Independent Variables

Strategic intent. The construct of strategic intent was operationalized in the past different ways. For instance, Casillas *et al.* (2015) operationalized strategic intent as an export intention, while Mariadoss, Johnson and Martin (2014, p. 2396) as overall strategic aggressiveness, a multi-item measure focused on aggression, ambition, winning, and market leadership. This paper, however, builds on the original work of Hamel and Prahalad (1989; 1994). The construct was thus operationalized using three items: a sense of direction, destiny, and discovery. Respondents were asked to indicate the extent to which they agreed with each of the following statements (5-point scale, 1 = strongly disagree, 5 = strongly agree): (i) the overall aim of our company clearly indicates the direction in which we are going, (ii) the overall aim of our company is well known to and shared by employees, (iii) in comparison with our main competitors, the overall aim of our company is far more ambitious. The factor analysis revealed that the items' loadings were between 0.680 and 0.814. The construct has a satisfactory Cronbach's alpha of 0.613 (Nunnally & Berstein, 1994), as well as the composite/construct reliability (CR = 0.797), and average variance extracted (AVE = 0.569) (Fornell & Larcker, 1981).

Time to internationalization. In line with prior operationalization (Cieřlik & Kaciak, 2009; Musteen *et al.*, 2014; Wach, 2015), time to internationalization, (or firm age at internationalization) was measured by the number of years that passed from the firm's founding until the first foreign market sales.

Control Variables

The study employs several control variables based on prior research. First, firm international experience was captured by the number of years a firm has carried out sales in foreign markets. In line with a conventional theorizing it is argued that a longer time may lead to foreign market knowledge accumulation (Musteen & Datta, 2011) and enhance international performance. The second control variable refers to network ties. As evidenced by prior research, ties with foreign partners may foster both, development of foreign market knowledge and firm international performance (Fink & Kraus, 2007). The significance of foreign customers (suppliers) in a firm network was computed as ratio of foreign customers (suppliers) in a total number of a firm's customers (suppliers), including both foreign and domestic customers (suppliers). Third, ownership was treated as a dichotomous variable indicating whether the firm is domestic (coded as '0'), or has a minority or majority share of foreign capital (coded as '1'). Firms with 100% foreign ownership were not included in the study. As argued by Zahra, Ireland and Hitt (2000),

ownership may exert influence on a firm international operations and resources that are available for them. According to prior research, firms with foreign ownership (full or partial) are more internationalized, and have a higher level of sales and exports per employee than firms with only domestic/Polish capital (Cieřlik, 2010; Kolasa, Rubaszek & Taglioni, 2010). Additionally, firm size was controlled with the log of total number of employees.

Correlations for all variables are shown in Table 1. In order to detect potential issues with multicollinearity, the variance inflation factors (VIF) were calculated for all the variables in key models (Table 1). The VIFs for all the variables in both models were below 1.61, which is substantially lower than the recommended cut-off, indicating that multicollinearity should not be a problem (Neter, Kutner, Nachtsheim & Wasserman, 1996). An assessment of the normality of the random component was performed with Shapiro-Wilk and Kolmogorov-Smirnov's tests (probabilities > 0.05).

Table 1. Correlations of the key variables (n = 89)

Variables	1	2	3	4	5	6	7	8	VIF ^a	VIF ^b
1. International performance	1									
2. Foreign market knowledge	0.58**	1								1.607
3. Strategic intent	0.41**	0.60**	1						1.073	1.417
4. Age at internationalization	0.01	0.02	0.01	1					1.063	1.064
5. Firm size	0.32**	0.37**	0.15	0.07	1				1.174	1.301
6. Firm international experience	0.13	0.15	0.12	0.12	0.24*	1			1.208	1.209
7. Ownership	0.39**	0.17	0.13	-0.20	0.16	-0.12	1		1.162	1.164
8. Foreign partners (suppliers)	0.04	-0.00	-0.04	-0.02	0.06	0.04	0.03	1	1.071	1.076
9. Foreign partners (customers)	0.38**	0.19	0.10	-0.16	0.09	0.11	0.23*	0.25*	1.166	1.204

Note: Correlation is significant: ** at the 0.01 level (2-tailed); * at the 0.05 level (2-tailed).

^a Refers to Model 1 in Table 2; ^b refers to Model 2 in Table 2.

Source: own study.

RESULTS AND FINDINGS

Research hypotheses were tested with the hierarchical linear regression models. In order to examine the significance of strategic intent for the accumulation of foreign market knowledge we run two regressions (Table 2).

The baseline model (Model 0) includes only control variables, and the full model (Model 1) includes the independent variable. A comparison of baseline and full model indicates whether the explanatory power increased. The regression results show that both models are significant, and the full model (Model 1) has significantly greater explanatory power (change in R-squared = 0.199, F-change = 19.850, $p < 0.001$). According to the results, strategic intent ($p < 0.001$) contributes to the accumulation of foreign market knowledge, thus H1 was supported.

Regression results for hypotheses examining the significance of foreign market knowledge for international performance (H2), and the moderating effects of strategic intent (H3a) and age at internationalization (H3b) are presented in Table 2, Model 0', Model 2, and Model 3. The baseline model (Model 0') includes only control variables and moderators, the main effects model (Model 2) includes additionally independent varia-

ble (FMK), and full models (Model 3) includes interaction effects (FMK x strategic intent, FMK x age at internationalization). All models are statistically significant. As evidenced in Model 2, foreign market knowledge ($p < 0.01$) is significantly associated with international performance, thus, H2 is supported. In comparison with Model 0', Model 2 has significantly greater explanatory power (change in R-squared = 0.093, F-change = 10.960, $p < 0.001$).

Table 2. Linear regression results

Independent \ Dependent	Foreign Market Knowledge		International Performance		
	Model 0	Model 1	Model 0'	Model 2	Model 3
Foreign market knowledge [FMK]	n/a	n/a		0.387** (3.311)	0.410*** (4.057)
Strategic intent	n/a	0.462*** (4.455)	0.227* (2.212)	0.049 (0.444)	0.091 (0.976)
Age at internationalization	0.001 (0.009)	-0.021 (-0.204)	0.064 (0.624)	0.072 (0.758)	0.022 (0.265)
FMK x Intent	n/a	n/a	n/a	n/a	0.195* (2.393)
FMK x Age at int.	n/a	n/a	n/a	n/a	0.333*** (3.909)
Firm international experience	0.052 (0.422)	-0.028 (-0.253)	0.017 (0.160)	0.028 (0.278)	-0.017 (-0.195)
Firm size	0.299* (2.419)	0.281* (2.594)	0.180+ (1.670)	0.071 (0.673)	0.100 (1.121)
Ownership	0.103 (0.848)	0.035 (0.321)	0.325** (3.039)	0.312** (3.137)	0.314*** (3.722)
Foreign partners (suppliers)	-0.079 (-0.667)	-0.054 (-0.524)	-0.040 (-0.388)	-0.019 (-0.197)	-0.008 (-0.103)
Foreign partners (customers)	0.191 (1.558)	0.154 (1.425)	0.297** (2.766)	0.237* (2.343)	0.192** (3.105)
<i>Model summary</i>					
R2	0.179	0.378	0.389	0.482	0.644
Adjusted R2	0.100	0.308	0.320	0.414	0.584
F	2.284*	5.379***	5.644***	7.101***	10.671***
Change in R2		0.199		0.093	0.162
F-change		19.850***		10.960**	13.401***

Note: † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Source: own study.

In order to examine the hypotheses 3a and 3b assuming the moderation effects, the interaction terms (FMK x strategic intent, FMK x age at internationalization) were computed by multiplying the centred values of corresponding components (i.e. values of foreign market knowledge, strategic intent, and age at internationalization were standardized). Model 3 includes interaction effects and has significantly greater explanatory power than Model 2. Increase in explanatory power, captured by the change in R-squared (Model 3: change in R-squared = 0.162, F-change = 13.401, $p < 0.001$), confirms that both moderation effects exist (Cohen & Cohen, 1983).

To understand the interactive effects, two graphs were plotted (Figure 2 and Figure 3). They present the effect of foreign market knowledge on international performance, indicating that firm performance in foreign markets market increases with the stock of foreign market knowledge, and this relationship is accentuated when: (a) a firm started its international operation early (i.e. within three years since its inception; Figure 2); (b) a firm has a clearly formulated strategic intent (Figure 3). Implications of these findings are discussed in the next section.

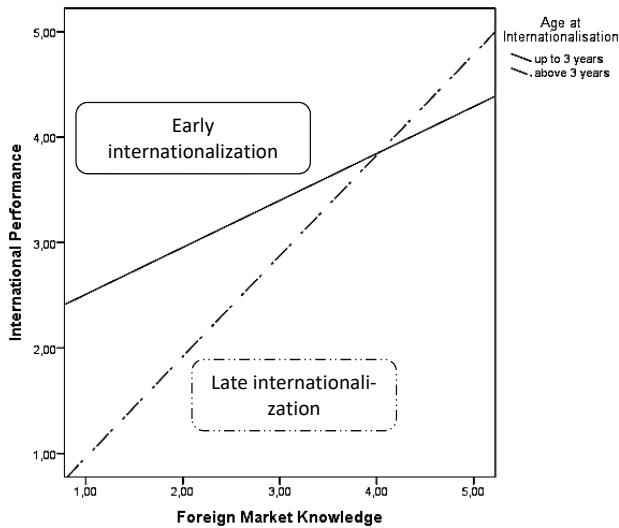


Figure 2. Moderation effect of age at internationalization
Source: own elaboration.

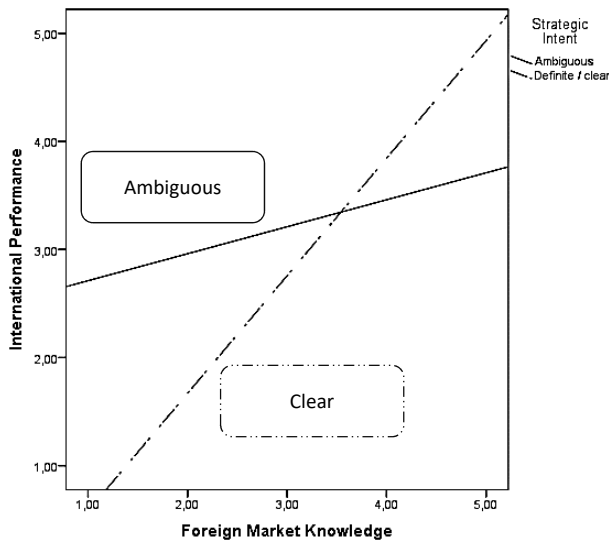


Figure 3. Moderation effect of strategic intent
Source: own elaboration.

DISCUSSION AND CONCLUSIONS

The current study sheds novel light on the foreign market knowledge and its relevance for a firm international performance by focusing on two aspects. First, the study findings suggest that differences in SMEs' ability to accumulate FMK can be explained by the strategic intent (Hamel & Prahalad, 1989), which is a new variable in this stream of research. The strategic intent (characterized by the sense of direction, destiny, and discovery) enables firms' ability to accumulate new knowledge. Therefore, the inclusion of strategic intent perspective, which in a broad sense was postulated by Johanson and Vahlne (2009) is justified, as well as bringing into discussion the original meaning of strategic intent as proposed by Hamel and Prahalad (1994). This way the study answers the call to enrich existing research "on what enhances the acquisition of foreign market knowledge in SMEs" (Mustee & Datta, 2011, p. 93).

Second, the study provides additional explanations to better understand when foreign market knowledge is particularly beneficial for firm international performance. As evidenced by the research results, the stock of accumulated knowledge is positively associated with the firm international performance (which is measured subjectively, by managers' satisfaction with their firms' international performance). This finding is generally in line with prior theoretical and empirical studies, indicating positive, direct or indirect, relationship between processes of learning and knowledge accumulation, and performance in foreign markets (Johanson & Vahlne, 1977; Eriksson *et al.*, 2000; Mogos Descotes & Walliser, 2013; Musteen *et al.*, 2014). However, more theoretically interesting contribution of this paper points to the conditions that affect this relationship. Indeed, the relationship is accentuated by both moderators i.e. strategic intent and time-to-internationalization.

In case of companies that have clearly formulated strategic intent, assimilation of new FMK results in greater performance gains than in case of firm with ambiguous or unclear strategic intent. It is postulated that strategic intent promotes/enhances the accumulation of FMK through focusing organizational efforts on spotting new opportunities in the marketplace which leads to the acquisition of new knowledge resulting from pursuing such opportunities. Strategic intent activates and directs the process of acquiring knowledge about foreign markets, increase efforts to acquire new knowledge and openness to multiple sources. Therefore, it can be argued that it sharpens attention to the identification and utilization of market opportunities. These findings resonate well with the postulated significance of managerial intentions for the resulting actions (Johanson & Vahlne, 2009) – in other words, the paper provides empirical evidence that strategic intent not only has a positive impact on FMK, but it also moderates the FMK-performance relationship.

Considering the effect of age at internationalization (i.e. time-to-internationalization), the study results reveal that in case of firms that were older than three years at the time of internationalization, the FMK-performance relationship was stronger. A time frame of three years was adapted in this study, as it is most often used in rapid internationalization literature (Knight, Bell & McNaughton, 2001; Aspelund & Moen, 2005). This finding supports the notion that small firms that decided to enter foreign markets after operating for at least four years in the domestic market, most likely

had the chance to develop their absorptive capacity (i.e. the ability to recognize the importance of new knowledge, absorb and use) (Cohen & Levinthal, 1990), so that they could expect later to achieve more pronounced performance gains resulting from the acquisition of FMK. As suggested in the literature, absorptive capacity increases along with the existing stock of knowledge (Cohen & Levinthal, 1990). In the light of the study results, it could be hypothesised that domestic knowledge and learning abilities (developed in the first years when firms focused solely on the domestic market) occurred later beneficial for the use of foreign market knowledge.

From the managerial point of view, the paper offers two implications. First, it provides evidence that SMEs that are able to develop and accumulate the stock of foreign market knowledge, may expect to achieve better international performance. Therefore, investing organizational efforts, time and resources to develop international learning routines is reasonable from 'business' perspective and most likely should be perceived by SMEs' owners and managers as 'an investment', not unnecessary a cost. Second, the paper offers at least partial explanation to the question 'what helps SMEs to accumulate this knowledge'. Here, the role of strategic intent should not be overlooked. Those SMEs, whose owners and managers are willing and able to define and communicate the strategic intent (that provides organizationally shared sense in terms of direction, destiny and discovery), are better prepared and predisposed to accumulate foreign market knowledge.

Although the empirical findings discussed in this paper broaden our understanding of conditions moderating the relationship between FMK and performance, and bring into discussion strategic intent perspective, the current study obviously suffers from several limitations. First, the sample comprised of firms operating within only one highly internationalized sector. Therefore, it should be recognized that the presented results are context-specific and their application to other industry contexts may be limited. In particular, it may concern the moderating effect of age at internationalization. In other contexts, for instance high-tech industries, results could be different, supporting rather learning advantage of newness' arguments. Second, the operationalization of the key construct, strategic intent, was not applied in prior research. The operationalization is based, however, on the description presented in original works of Hamel and Prahalad (1989), and its reliability scale is satisfactory. Thus, future studies should include more diversified, cross-industrial samples to validate the presented findings and proposed measurement of strategic intent. Finally, a promising research stream could examine through in-depth study design how exactly strategic intent is related to the absorptive capacity (i.e. the ability to recognize, absorb, and use the new knowledge (Zahra & George, 2002) in the context of "early and late internationalizers".

REFERENCES

- Andersen, O. (1993). On the internationalization process of firms: A critical analysis. *Journal of International Business Studies*, 24(2), 209-231.
- Aspelund, A., & Moen, O. (2005). Small international firms: Typology, performance and implications. *Management International Review*, 45, 37-57.
- Autio, E., Sapienza, H.J., & Almeida, J.G. (2000). Effects of age at entry, knowledge intensity, and imitability on international growth. *Academy of Management Journal*, 43(5), 909-924.

- Casillas, J.C., Barbero, J., & Sapienza, H.J. (2015). Knowledge acquisition, learning, and the initial pace of internationalization. *International Business Review*, 24(1), 102-114.
- Chang, S.-J., Witteloostuijn, A., & Eden, L. (2010). From the Editors: Common method variance in international business research. *Journal of International Business Studies*, 41, 178-184.
- Cieślak, J. (2010). *Internacjonalizacja polskich przedsiębiorstw. Aktualne tendencje – implikacje dla polityki gospodarczej*. Warszawa: Akademia Leona Koźmińskiego. Centrum Przedsiębiorczości.
- Cieślak, J., & Kaciak, E. (2009). The speed of internationalization of entrepreneurial start-ups in a transition environment. *Journal of Developmental Entrepreneurship*, 14(4), 375-392.
- Cohen, J., & Cohen, P. (1983). *Applied multiple regression/correlation analysis for the behavioural sciences* (2nd ed.). Hillsdale, NJ: Lawrence Erlbaum Associates.
- Cohen, W., & Levinthal, D.A. (1990). Absorptive capacity: a new perspective on learning and innovation. *Administrative Science Quarterly*, 35(1), 128-152.
- Dollinger, M.J., & Golden, P.A. (1992). Interorganizational and collective strategies in small firms: environmental effects and performance. *Journal of Management*, 18(4), 695-715.
- Elango, B., & Pattnaik, C. (2007). Building capabilities for international operations through networks: a study of Indian firms. *Journal of International Business Studies*, 38(4), 541-555.
- Ellis, P.D. (2011). Social ties and international entrepreneurship: Opportunities and constraints affecting firm internationalization. *Journal of International Business Studies*, 42(1), 99-127.
- Eriksson, K., Johanson, J., Majkgard, A., & Sharma, D.D. (1997). Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies*, 28(2), 337-360.
- Eriksson, K., Johanson, J., Majkgard, A., & Sharma, D.D. (2000). Effects of variation on knowledge acquisition in the internationalization process. *International Studies of Management and Organization*, 30(1), 26-44.
- Fink, M., & Kraus, S. (2007). Mutual trust as a key to internationalization of SMEs. *Management Research News*, 30(9), 674-688.
- Fornell, C., & Larcker, D.F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39-50.
- Forsgren, M. (2002). The concept of learning in the Uppsala internationalization process model: a critical review. *International Business Review*, 11(3), 257-277.
- Hadley, R.D., & Wilson, H.I.M. (2003). The network model of internationalization and experiential knowledge. *International Business Review*, 12(6), 697-717.
- Hamel, G., & Prahalad, C.K. (1989). Strategic intent. *Harvard Business Review*, 67(3), 63-78.
- Hamel, G., & Prahalad, C.K. (1993). Strategy as a stretch and leverage. *Harvard Business Review*, 71(2), 75-84.
- Hamel, G., & Prahalad, C.K. (1994). *Competing for the future*. Harvard Business School Press.
- Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm – a model of knowledge development and increasing foreign market commitment. *Journal of International Business Studies*, 8(1), 23-32.
- Johanson, J., & Vahlne, J.E. (2003). Business relationship learning and commitment in the internationalization process. *Journal of International Entrepreneurship*, 1(1), 83-101.
- Johanson, J., & Vahlne, J. (2009). The Uppsala model revisited: from liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40(9), 1411-1431.
- Knight, J., Bell, J., & McNaughton, R. (2001). The 'born global' phenomenon: A re-birth of an old concept? In *Researching New Frontiers 2*. 4th McGill Conference on International Entrepreneurship, Glasgow.
- Kolasa, M., Rubaszek, M., & Tagliani, D. (2010). Firms in the great global recession: The role of foreign ownership and financial dependence. *Emerging Markets Review*, 11(4), 341-357.
- Liesch, P.W., & Knight, G.A. (1999) Information internalization and hurdle rates in small and medium enterprise internationalization. *Journal of International Business Studies*, 31, 383-394.
- Liesch, P., Welch, L., & Buckley, P. (2011). Risk and uncertainty in internationalisation and international entrepreneurship studies. *Management International Review*, 51(6), 851-873.

- Luo, Y., & Tung, R.L. (2007). International expansion of emerging market enterprises: a springboard perspective. *Journal of International Business Studies*, 38(4), 481-498.
- Mariadoss, B.J., Johnson, J.L., & Martin, K.D. (2014). Strategic intent and performance: The role of resource allocation decisions. *Journal of Business Research*, 67(11), 2393-2402.
- Mogos Descotes, R., & Walliser, B. (2013). Foreign market-related knowledge absorption and the international financial performance of SMEs. *Management International*, 17(4), 179-193.
- Musteen, M., & Datta, D. (2011). Learning about foreign markets: A study of Czech SMEs. *Journal of International Entrepreneurship*, 9(2), 91-109.
- Musteen, M., Datta, D.K., & Butts, M.M. (2014). Networks and Foreign Market Knowledge Facilitate SME Internationalization? Evidence From the Czech Republic. *Entrepreneurship: Theory and Practice*, 38(4), 749-774.
- Neter, J., Kutner, M.H., Nachtsheim, C.J., & Wasserman, W. (1996). *Applied Linear Regression Models*. Illinois: Irwin Press.
- Nummela, N., Saarenketo, S., & Puumalainen, K. (2004). A global mindset: a prerequisite for successful internationalization? *Canadian Journal of Administrative Sciences*, 21(1), 51-64.
- Nunnally, J.C., & Bernstein, I.H. (1994). *Psychometric Theory*. New York: McGraw-Hill.
- OIGPM (2015). *Eksport mebli jedynym kierunkiem rozwoju w 2015 (aktualności)*. Retrieved on 10 January, 2016 from <http://www.oigpm.org.pl/212/eksport-mebli-jedynym-kierunkiem-rozwoju-w-2015-r>.
- Podsakoff, P.M., MacKenzie, S.B., Lee, J.Y., & Podsakoff, N.P. (2003). Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879-903.
- Polish Furniture Magazine (2012). Retrieved on 11 January, 2016 from http://www.mg.gov.pl/files/upload/13691/Polish_Furniture_Magazine_nr12012.pdf
- Wach, K. (2015). Incremental versus Rapid Internationalisation of Firms: Results of Exploratory Investigation from Poland. *Entrepreneurial Business and Economics Review*, 3(4), 37-48.
- Wall, T.D., Michie, J., Patterson, M., Wood, S.J., Sheehan, M., Clegg, C.W. et al. (2004). On the validity of subjective measures of company performance. *Personnel Psychology*, 57(1), 95-118.
- Zahra, S.A., & George, G. (2002). Absorptive capacity: A review, reconceptualization and extension. *Academy of Management Review*, 27(2), 185-203.
- Zahra, S.A., Neubaum, D.O., & Huse, M. (1997). The effect of the environment on export performance among telecommunications new venture. *Entrepreneurship: Theory & Practice*, 22(1), 25-46.
- Zahra, S.A., Ireland, R.D., & Hitt, M.A. (2000). International Expansion by New Venture Firms: International Diversity, Mode of Market Entry, Technological Learning, and Performance. *The Academy of Management Journal*, 43(5), 925-950.
- Zhou, L. (2007). The effects of entrepreneurial proclivity and foreign market knowledge on early internationalization. *Journal of World Business*, 42(3), 281-293.
- Zhou, L., & Wu, A. (2014). Earliness of internationalization and performance outcomes: Exploring the moderating effects of venture age and international commitment. *Journal of World Business*, 49(1), 132-142.

Author

Mariola Ciszewska-Mlinarič

Assistant Professor of Strategic Management and International Business Strategy at Kozminski University, Visiting Professor at ESCCA (France) and MCI Innsbruck (Austria), and Academic Coordinator of “Strategic Management” specialization of Master Program in Management at Kozminski University. Her research focuses on internationalization strategy of emerging market firms, internationalization process and decision-making, and relational capabilities.

Correspondence to: Dr. Mariola Ciszewska-Mlinarič; Kozminski University, Department of Strategy; ul. Jagiellonska 57/59, 03-301 Warsaw, Poland; e-mail: mariolac@kozminski.edu.pl

Acknowledgements and Financial Disclosure

The author would like to thank the anonymous referees for their useful comments, which allowed to increase the value of this article.

Copyright and License



This article is published under the terms of the Creative Commons Attribution – NonCommercial – NoDerivs (CC BY-NC-ND 3.0) License
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

Published by the Centre for Strategic and International Entrepreneurship – Krakow, Poland