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The implications of international entrepreneurial orientation, politicization and hostility upon SME international performance

Abstract

This article investigates the relationship between international entrepreneurial orientation (IEO) and international performance taking into account the moderating effects of politicization in internationalization decisions and international hostility. Using data from 208 Greek international SMEs, we found that IEO is positively related to international performance. We also found that neither politicization nor international hostility separately have any moderating effects on this relationship. However, the findings support the view that the combination of high levels of politicization and international hostility critically diminishes the effects of IEO on international performance. These findings enrich the international entrepreneurship field that has been relatively devoid of investigations examining decision-specific aspects of the firm.

Keywords: international entrepreneurial orientation, politicization, international performance, international SMEs

Introduction

Entrepreneurial orientation (EO) persists as a popular construct in the literature (Wales, 2016; Zahra, Wright and Abdelgawad, 2014). It characterizes the opportunity seeking behavior of the firm distinguished by innovativeness, proactiveness, and risk-taking (Dada and Fogg, 2016; De Clercq et al., 2015; Reijonen, et al., 2015). There is consensus that EO is positively related to firm performance and that this relationship is contingent upon a number of factors (Gupta and Batra, 2015; Lechner and Gudmundsson, 2014).

Within the international entrepreneurship (IE) literature, a few scholars have extended the EO construct to the international marketplace and have examined the effects of international entrepreneurial orientation (IEO) on international performance (Covin and Miller, 2014). The limited available empirical evidence suggests that IEO is positively related to international performance (e.g., Knight, 2001). Still, the critical boundary conditions and their potential interrelationships making this relationship stronger or weaker have not yet been identified because previous studies in the IE literature have mostly emphasized simple bivariate contingency relationships (Child and Hsieh, 2014).

This study investigates the moderating effects of two important factors upon the IEO-international performance relationship. The first is politicization in internationalization decisions. The idea behind politicization is that individuals or groups within firms have dissimilar interests and pursue various ways to exercise power in order to affect international decision making processes (Elbanna, et al., 2015; Wilson et al., 2010). Politicization refers to the coalition building, coopting and actions of individuals or groups according to their own needs rather than those of the firm (Eisenhardt and Bourgeois, 1988; Elbanna, 2016). This involves manipulation,

misuse of information and creation of conditions that fit with their chosen strategies for their own benefit, hindering decisions on the effective allocation of resources (Wilson, 2003). On the basis of existing empirical work (Dean and Sharfman, 1996; Elbanna and Child, 2007a; Shepherd, 2014; Shepherd and Rudd, 2014), we posit that politicization refers to “intentional acts of influence to enhance or protect the self-interest of individuals or groups” (Allen, et al. 1979: 77). Politicization has received scant theoretical and empirical attention in the IE literature, although it critically affects the performance of the international firm. This occurs because collective decision-making at different layers of the firm affect the perceived cost of internationalization and subsequent activities abroad (Eriksson, et al., 1997). A similar plea for studying decision making process dimensions as important contextual factors has been made in the entrepreneurship literature (Covin, et al., 2006). Hence, we argue that politicization is a major contextual variable upon the relationship between IEO and international performance.

Nevertheless, politicization does not occur in a vacuum but in an environmental context that the internationalized firm cannot typically influence. This argument draws from the environmental determinism perspective suggesting that organizational processes and outcomes are influenced by the characteristics of the external environment (Hannan and Freeman, 1977). Of particular importance is the role of international hostility (i.e., lack of environmental resources internationally required for growth) that could deprive internationalized firms of valuable resources for growth. This environmental variable has been widely studied in the literature (Wales, et al., 2013) and so constitutes the second factor whose moderating influence will be investigated within this study.

The specific research questions upon which we provide empirical insight are first: Does politicization when making internationalization decisions diminish the effect on the IEO-international performance relationship? Second, does international hostility enhance the effects of IEO on international performance? And third, what degree of politicization would better interact with international hostility in order to increase the effects of IEO on international performance? In addition to their contribution to research, exploring such questions will inform managers of international SMEs on the possible fine-grained conditions for enhancing performance abroad.

We make three contributions; first, following recent calls (Child and Hsieh, 2014), we theorize, test and find configuration relationships in the international entrepreneurship literature that have not hitherto demonstrated hence, refining performance implications in this area. Second, we contribute to the IEO-international performance association by investigating the moderating effects of a new construct (i.e., politicization) which draws from the internal environment of the international SME. The bulk of prior work has largely emphasized externally focused factors as sources of moderation, paying little attention to the moderating role of the internal environment (Wales et al., 2013). Thus, our study extends an emerging stream of literature emphasizing the factors of the internal environment (e.g., Engelen, Gupta, Strenger and Brettel, 2015). Third, we bring data from the south eastern European context (Greece) where further research is required according to recent reviews of the literature (Rialp, et al., 2005; Wales et al., 2013). Our focus is on international SMEs. Such firms, compared to large multinational enterprises (MNEs), are resource constrained (Dada and Fogg, 2016) and face several challenges when internationalizing their activities due to their small size and lack of experience

(Brouthers, et al., 2009). However, such firms contribute substantially to the GDP and the export activities of several economies across the globe (Charoensukmongkol, 2016). Hence, it is crucial to identify the antecedents of their performance.

Theory and hypotheses

EO has attracted a significant share of interest during the past four decades (Dada and Fogg, 2016; Wales, 2016; Wales et al., 2013). EO characterizes the opportunity seeking behavior of the firm forming a critical resource for firm competitiveness (Alvarez and Busenitz, 2001). Miller (1983) viewed EO as a composite construct consisting of three interrelated dimensions. The first is innovativeness and refers to the ability of the firm to introduce new products and services or modify existing ones in order to meet the demands of current or future markets (Zahra and Covin, 1995). The second is proactiveness and refers to the tendency of the firm to introduce new products and services ahead of competition and act in anticipation of future demand (Wang and Altinay, 2010). Finally, the third dimension refers to risk-taking that is the propensity of the firm to commit resources to projects with unknown outcomes (Wiklund and Shepherd, 2005).

The EO construct has been investigated in international markets which is known as IEO. Freeman and Cavusgil (2007: 3) suggest it “refers to the behavior elements of a global orientation and captures top management’s propensity for risk taking, innovativeness and proactiveness”; this definition adopts the Covin and Slevin’s (1989) three element (risk taking, innovativeness, proactiveness) conceptualization of EO and applies it to international activities. The majority of contemporary literature on IEO has followed this practice and we reflect this approach (see Covin and Miller, 2014 for an overview). In so doing, we view international

activities as the context whereby IEO takes place rather than delienate the internationalization-specific ramifications of the IEO construct (see Covin and Miller, 2014 for a critique).

Given that the emphasis in this study is on the examination of the boudanry conditions of the relationship between IEO and international performance of SMEs, a baseline hypothesis referring to the main effects of IEO is briefly developed. Our baseline hypothesis follows from the evidence of the majority of published research on this topic. We expect that international SMEs exhbiting high levels of IEO will have enhanced international performance for three reasons. First, international SMEs adopting innovative ideas can improve their performance in the international marketplace by being ahead of the competition, introducing new products and developing key capabilities (Zahra and Garvis, 2000). Second, proactive and risk-taking international SMEs firms are likely to be in an advantageous position to pursue promising opportunities and enjoy the advantages of being first movers in the international market. These advantages include the ability to charge high prices, control distribution channels, exert bargaining power due to know-how and exploit niche markets. Research evidence suggests that a first entrant in the international marketplace can build a competitive advantage (Kimura, 1989). Third, proactive firms are also in a privileged position to respond quickly to the changing international conditions. Several studies have offered empirical evidence to support these arguments (Balabanis and Katsikea, 2003; Knight, 2001; Sundqvist, Kylaheiko and Kuivalainen; 2012; Zahra and Garvis, 2000). This is further generally confirmed in the conceptual work of Covin and Miller (2014). On the basis of the above discussion, we argue that:

H1: For international SMEs, the greater the IEO, the higher will be the international performance.

Contingency Hypotheses

The moderating role of politicization

We argue that the existence of politicization over international decision making will act as a negative moderator on the relationship between IEO and international performance. The reason being that politicization restricts the flow of accurate information amongst the members of the top management team (Eisenhardt and Bourgeois, 1988; Elbanna, 2016; Pettigrew, 1973), leading to incomplete understanding of the external environment (Dean and Sharfman, 1996) and delaying decision making (Elbanna, 2006). Thus, even if the international SME has high levels of IEO, its decision to enter a new market abroad will be based on incomplete or distorted information diminishing the advantages of IEO. Eriksson et al. (1997) suggest that if the firm enters foreign markets on the basis of overestimated market opportunities or underestimated cultural barriers, it will experience negative returns. However, low political activity will not diminish the effects of IEO because international SMEs will base their internationalization decisions on true and accurate existing information. Similarly, when an international SME engaging in IEO faces hazards stemming from its decision to enter a new international market, managers are prompted to take action to protect and satisfy their self-interests rather than the firm's goals. This behaviour will provoke a distortion of managerial knowledge concerning international markets (Autio, et al., 2000). In such cases, politicization is expected to reduce the positive effects of IEO on international performance. International SMEs with high IEO are likely to avoid involvement in politicization as this could reduce

the energization and motivation of organizational members (Hornsby, et al., 2002). In addition, the existence of politicization causes significant delays in the decision making processes (Elbanna, 2006). As a consequence, several opportunities could be missed, undermining the relationship between IEO and international performance for international SMEs. The above arguments lead us to the following hypothesis:

H2a: For international SMEs, the greater the politicization, the weaker will be the relationship between IEO and international performance.

The moderating role of international hostility

As Covin and Slevin (1989: 75) put it, “hostile environments are characterized by intense competition, harsh, overwhelming business climates and the relative lack of exploitable opportunities”. Large and small firms alike find it hard to survive in such a context (Baum and Wally, 2003). In addition, examining the effects of international hostility is in line with several previous studies in the IE area (Balabanis and Katsikea, 2003; Robertson and Chetty, 2000; Zahra and Garvis, 2000).

For international SMEs, we expect international hostility to have a positive moderating effect on the relationship between IEO and international performance. This is because international hostile environments generate constant threats and unfavourable conditions to international SMEs, offer highly competitive conditions, and are characterized by a paucity of readily exploitable opportunities (Dess and Beard, 1984; Slevin and Covin, 1997; Zahra and Covin, 1995). Thus, the failure rate of international SMEs in such an environment tends to be high (Balabanis and Katsikea, 2003). To survive in such settings, international SMEs need to adopt processes that are oriented to being ahead of the competition, exploiting every possible new opportunity abroad and taking more risks. Hence, international SMEs

with high levels of IEO are flexible and well-equipped to deal with the hostile environments of international markets (Hitt, et al., 1997; Zahra and Garvis, 2000). In contrast, in munificent foreign environments, where market opportunities and harmonious relationships between firms abound, the exhibition of IEO is unjustified or even detrimental for international SMEs since these actions are likely to include unwarranted risk (Covin and Slevin, 1989). This discussion suggests the following hypothesis:

H2b: For international SMEs, the greater the international hostility, the stronger will be the relationship between IEO and international performance.

Configuration Hypothesis

It has been argued that those firms capable of aligning their strategy making processes with both the internal and the external environments perform better than those that only manage either the internal or the external environment (Wiklund and Shepherd, 2005). This ‘configuration perspective’ has generated a growing interest (Miller, 2011; Wales, 2016); however, configuration relationships have not been theorized and empirically verified in the IE literature (Child and Hsieh, 2014) hence the three-way interaction among the IEO, politicization and international performance in this study. We support the idea that in international SMEs the combination of high levels of politicization and high levels of international hostility will diminish the effects of IEO on international performance. This occurs in international hostile environments as there is less room for error, rendering organizational survival more difficult. The literature suggests that in hostile environments the relationship between politicization and the quality of a decision is more likely to be negative (Elbanna and Child, 2007a). In addition, as discussed above, in international hostile environments IEO leads to

increased performance due to the fact that it assists an international SME to exploit the lack of opportunities by adopting aggressive risk-taking behavior. As such, in international SMEs the coexistence of high levels of politicization and high levels of international hostility will limit the positive effects of IEO on international performance.

Conversely, when politicization is low and international hostility is high, the effects of IEO on international performance will be strong. Low levels of politicization in the context of international SMEs lead to good understanding of the environment and internationalization decisions that will be based on accurate information. The high level of hostility, synonymous with lack of opportunities, calls for processes that are risky, proactive or take advantage of any potential opportunity. So, IEO will lead to strong performance in hostile environments with low levels of politicization.

Furthermore, in an environment with high politicization and low international hostility, the effects of IEO will be associated with reduced levels of international performance. More specifically, distorted information or incomplete understanding stemming from politicization in conjunction with benign environments make the risks associated with IEO appear unjustified for international SMEs, and are expected to diminish the positive effects of IEO on international performance.

To summarise, a configurational approach suggests that in international SMEs the effects of IEO on international performance will be weaker when high levels of politicization and high levels of international hostility coexist. Consequently:

H.3: For international SMEs with high levels of politicization, the relationship between IEO and international performance will be weaker for firms operating

in international environments with high levels of hostility than it is for other configurations.

Research methods

Sample and data collection methods

We conducted in 2008 a postal survey of Greek international SMEs. Over the past two decades due to intense competition and the lack of readily exploitable opportunities several Greek SMEs have internationalised their activities. This fact combined with the suggestion from a recent literature review (Wales et al., 2013) to use data from under researched contexts, renders Greece an ideal location for exploring our research questions.

Three criteria were used to create our sampling frame. First, participating firms should have employed at least 10 and no more than 250 employees in order to ensure that the company falls in the SME category (Lewis, Megicks and Jones, 2016; Garavan, et al., 2015; Onkelix, et al., 2015). Second, participating firms should be indigenously owned rather than subsidiaries of foreign firms (De Clercq, et al., 2014). Third, participating firms should have international sales achieved through exporting, joint venture or wholly owned subsidiary modes (De Clercq et al., 2014). To ensure a representative sample, both manufacturing and services firms were studied (Miller, 2008). The *ICAP* database, a widely used source of information on Greek firms, was employed as the sampling frame (Kyrgidou and Spyropoulou, 2013). Applying the above mentioned criteria, we randomly selected a sample of 1,000 international SMEs; 55 were excluded as their contact details were not included in the *ICAP* database. This resulted in a random sample of 945 firms.

We followed the “key informant method”, so we telephoned the CEOs of each firm as the most suitable persons for providing information on strategic issues and asked for their confidential participation in our research (Jantunen, et al., 2005; Wales, et al., 2015). The telephone contact was rendered necessary in order to verify the postal address of the companies, inform them of our research, and provide confidentiality assurances and a summary of the main findings if participated in our research (Kaleka, 2012). The questionnaire was initially prepared in English and then translated in Greek. To ensure proper levels of construct validity and avoid problems resulting from the translation, an independent bilingual researcher back translated the Greek version of the questionnaire in English and this was compared to the original English questionnaire (Charoensukmongkol, 2016; Lengler, et al., 2015). We found no substantial differences between the two English questionnaires. Moreover, two bilingual academics compared the two questionnaires and confirmed our validity of the translation. The final Greek version of the questionnaire was pretested by academics and managers to check its clarity and intelligibility (Dada and Fogg, 2016).

A second wave of questionnaires followed three weeks later with follow-up phone calls between the two mailings. The effective response rate was 22% corresponding to 208 firms. We examined whether the early (first wave of questionnaires) and late respondents (second wave of questionnaires) differed with respect to all the independent and control variables. T-tests were insignificant ($p>0.1$), indicating the absence of non-respondent bias (Dada and Watson, 2013; Mostafa, et al., 2006).

Examination of informant and common method biases

We followed several tactics in order to ensure that our results are not driven by informant and common method bias. To elaborate, the opinions presented are likely to be subject to the respondent's individual bias. Therefore, a CEO may connect the hypothesized relationships between the variables and answer in a "socially desirable manner", thereby deliberately overestimating the international performance of the SME (Podsakoff, et al., 2003). We argue that this is unlikely to have as when we contacted the firms we stated the general purpose of the project and did not label the study as an examination of the relationship between IEO, politicization, international hostility and international performance. Moreover, it is unlikely that the respondents linked the variables under investigation because performance, politicization and IEO were presented on different pages of a lengthy questionnaire (Miller, 2008). As such, the literature suggests that complex statistical relationships such as two and three-way interactions are hard for managers to predict when completing questionnaires (Boso, et al., 2012; Garg, et al., 2003).

We also followed several procedures to address common method and other types of informant biases (Chang, et al., 2010; Podsakoff et al., 2003). Accordingly, we gathered objective data for performance for a subsample (approximately 26%) of the firms participating in our research. The correlation coefficient of 0.47 between the objective and subjective measures of performance is an indicator of strong convergent validity. We then measured our four control variables (industry type, firm size, firm age and international experience) from archival sources (*ICAP* database). Industry type, firm size and firm age were also measured through the questionnaire administered to the companies. The correlations between these three control variables from the *ICAP* database and the questionnaire were between 0.90-0.95, suggesting evidence of very strong convergent validity. Several items were reversed in an effort

to reduce the possibility of response patterns (Walter, et al., 2012). To reduce individual bias we followed the procedures of Elbanna and Child (2007a), which suggested that we asked a second executive to fill in the same questionnaire for 10% of participants. We then made the comparisons between the responses from the two managers. Subsequent tests showed no statistically significant differences. These results indicate that the responses are not influenced by the views of the manager participating in our research. We also motivated the CEOs to provide accurate responses by reassuring them that their responses would be strictly confidential and offering a summary of the main results of the study. It was made explicit that no firm would be named in any publications that would follow from the analysis of the collected data (Martín-Tapia et al., 2010; Miller, Cardinal and Glick, 1997). Respondents were asked to report information on the most important internationalization projects that took place in the recent past (i.e., last three years) in order to minimize any memory and distortion problems (Miller et al., 1997). “Importance” was defined in terms of involving substantial commitment of resources likely to have a long term impact on the organization (Dean and Sharfman, 1996; Hickson, Wilson, Cray, Mallory, Butler, 1986). Finally, the results of Harman’s test indicated that no single factor emerged in the unrotated solution, providing an additional reason to support the argument that common method bias is not a problem (cf. Elbanna, et al., , 2013; Messersmith and Wales 2013; Van Doorn, et al., 2015).

Measures

We used established and previously tested scales to measure the constructs. Appendix 1 includes the scales used to measure the main variables of the study.

Dependent Variable: International Performance (alpha=0.89). Prior research has measured performance with objective or subjective metrics. Both approaches have advantages and disadvantages (Richard, et al., 2009). In this research, we used a five-item scale and asked managers to assess the performance of their firm in the international marketplace compared with that of their direct competitors referring to sales level, return on investment, profitability, market share and overall satisfaction with international performance relative to the objectives set. This practice follows previous studies that reported adequate reliability estimates for very similar scales of performance (Balabanis and Katsikea, 2003; Charoensukmongkol, 2016; Dess, et al., 1997; Priem, et al., 1995; Zahra and Garvis, 2000).

The decision to rely on subjective measures of performance over objective rested on two reasons. First, subjective assessments capture both financial and non-financial aspects of performance (Richard et al., 2009). Second, regarding international performance, collecting objective financial data is even more difficult than that for domestic performance since few companies are required to publicly report their international outcomes separately from overall performance (Zahra and Garvis, 2000: 479). Moreover, the literature suggests that subjective measures of performance are correlated adequately with objective ones (Richard et al., 2009).

To additionally validate the subjective performance measures, we followed the practice of previous studies (Dess et al., 1997; Gupta and Batra, 2015; Van Doorn, Jansen, et al., 2013) and collected data for a subset of the overall sample of the study (firms representing around 26% of study participants). The significant correlation pattern of 0.47, which is within the range of 0.4 to 0.6 reported in the literature (Richard et al., 2009), attested to the close association between objective and

subjective performance measures. This further ensures credibility for the dependent variable under examination.

Independent variables: International Entrepreneurial Orientation-IEO (alpha=0.85). This is a nine-item scale taken from Covin and Slevin (1989) measuring R&D leadership, new product lines, product change, competitive actions, new techniques, competitive posture, risk taking proclivity, environmental boldness, decision making styles applied to international markets. Kreiser, Marino and Weaver (2002: 88) based on a sample of 1067 firms from six countries argued that the Covin and Slevin (1989) scale “can be effectively employed when conducting research on the topic of international entrepreneurship” and as such, researchers have used it in order to measure IEO (see Covin and Miller, 2014 for a review of studies using this scale to measure IEO). The Cronbach’s alpha value is similar to that of other studies using this or similar scales for measuring IEO (Balabanis and Katsikea, 2003; Dimitratos, et al., 2004; Knight, 2001).

Politicization in internationalization decisions (alpha=0.77). This scale is taken from the work of Papadakis, et al., (1998). It measures the extent of three items in decision-making about “key internationalization decisions”. These are the coalition formation among subsets of managers, the external resistance encountered in the process and the interruption experienced in the process. This measure or its variants have been widely used with similar reliability estimates (Dean and Sharfman, 1996; Elbanna and Child, 2007b; Papadakis, 2006; Shepherd, 2014).

International hostility (alpha=0.62). This scale measures the degree of hostility in the international markets based on three items, notably the “riskiness” of the foreign marketplace, sparseness of opportunities in the foreign environment and lack of

control of the foreign environment by the firm (drawn from Khandwalla, 1977). This scale has been used previously to measure hostility or international hostility with similar reliability estimates (Elbanna and Child, 2007b; Ji and Dimitratos, 2013).

Control Variables. Based on previous studies, we controlled for the effects of four variables. First, we controlled for industry type by distinguishing between services and manufacturing firms (De Clercq et al., 2015; Dess et al., 1997). Second, we controlled for the effects of firm size by using the (logarithm of the) number of full-time employees (García-Villaverde, et al., 2013; Wales et al., 2015). A firm's size affects its international growth and performance (Dimitratos et al., 2004). Third, we controlled for the effects of firm age as it influences internationalization processes and outcomes (Zahra and Garvis, 2000). Firm's age is captured by the (logarithm of the) number of years in operation (Liu, et al., 2011). Fourth, we controlled for the effects of international experience measured through the (logarithm of the) number of years that the firm has been active internationally since this affects the processes and outcomes of internationalization (Petrou and Thanos, 2014).

Statistical methods. We used hierarchical moderated regression analysis to test our hypotheses following the same procedures as in Stam and Elfring (2008) and Wiklund and Shepherd (2005). In step one, we entered the four control variables so as to partial out their effects from the hypothesized relationships of the study. In step two, we entered the main effects of IEO, politicization and international hostility. In step three we entered all possible two-way interactions (contingency tests). Finally, in step four we entered the three-way interaction. To avoid multicollinearity, we mean centered our independent variables before calculating interactions (Aiken and West, 1991).

Results

Table 1 reports the means, standard deviations and correlations for all the variables assessed in this study. We used the variance inflation (VIF) test to directly assess multicollinearity. The largest value was below two, far below the critical value of 10. This further implies that no serious multicollinearity problems are present (Hair, Anderson, Tatham and Black, 1998).

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Table 2 reports the results from the hierarchical moderated regression analysis. The four control variables (i.e. industry type, firm size, firm age and international experience) explain 8% of the variation in international performance. The addition of IEO, politicization and international hostility (Model 2) accounts for an additional 11% of the variation in international performance. IEO is positively related to international performance ($p < 0.001$). This suggests that the baseline hypothesis (Hypothesis 1) is confirmed. In addition, international hostility is negatively related to international performance ($p < 0.001$). This is in line with research evidence that supports the view that hostile environments lead to reduced export or firm performance (Balabanis and Katsikea, 2003; Baum and Wally, 2003). Next, in Model 3 we tested for the moderating effects of politicization and international hostility on the relationship between IEO and international performance. Hypothesis 2a predicted a negative moderating effect of politicization on the relationship between IEO and performance in the foreign marketplace. The results indicate that this two-way interaction is non-significant ($p > 0.05$), and hence, Hypothesis 2a is not supported. Hypothesis 2b predicted a positive moderating effect of international hostility on the relationship between IEO and international performance, yet the results suggest that

this two-way interaction is non-significant ($p > 0.05$). Thus, hypothesis 2b did not receive empirical support. Hypothesis 3 suggested that the coexistence of high levels of politicization and high levels of international hostility would negatively moderate the positive relationship between IEO and international performance. To test hypothesis 3, we added in Model 4, the three way interaction (IEO x politicization x international hostility). The nature of the three way interaction term is consistent with our prediction and significant ($p < 0.01$), which confirms hypothesis 3.

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To gain further insight into the nature of the three way interaction, we followed Van Doorn et al. (2013) and Wiklund and Shepherd (2005) and created four plots for all possible combinations of high and low values of international hostility and politicization. According to Figure 1, three of the four plots are sloping upward, revealing that IEO has a positive effect on international performance in most of the combinations of high and low levels of international hostility and politicization. This offers further support to the baseline hypothesis (hypothesis 1) and verifies prior studies conducted in the IE field (e.g., Balabanis and Katsikea, 2003; Dimitratos et al., 2004; Knight, 2001). In addition, at low levels of politicization and high levels of international hostility, the relationship between IEO and international performance increases at a faster rate than at high levels of politicization and low levels of international hostility and low levels of politicization and low levels of international hostility. Conversely, at high levels of politicization and high levels of international hostility, the relationship between IEO and international performance decreases at a very slow rate lending credence to hypothesis 3.

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In addition to the results reported here we ran two additional regression models as robustness checks. The high correlation between firm age and international experience ($r=0.59, p<0.001$) suggests that these two constructs could overlap. We ran the regression models with experience only and with age only. The findings for the main effects of IEO, two way interactions of IEO with politicization and international hostility and the three way interaction remained exactly the same.

Discussion and conclusions

The purpose of this study was to examine the relationship between IEO and international performance, taking into account moderating relationships. The findings suggest that IEO increases international performance and that politicization and international hostility together have a strong configuration effect upon this relationship. The empirical setting of this article is international SMEs which are considered “a key driver for international trade in many economies” (Charoensukmongkol, 2016:106). The decision to focus exclusively on Greek SMEs is also consistent with recent calls for more heterogeneity in sample selection and context-based studies in order to produce valuable insights (Miller, 2011; Wales, 2016).

There are important implications for theory drawn from these findings. The positive relationship between IEO and international performance suggests that the continuous pursuit of new opportunities ahead of the competition, the adoption of innovative ideas and the willingness to act on risky decisions in the international marketplace are major components inducing international SMEs to enhanced

performance abroad. This finding from a south eastern European context reflects similar findings for studies undertaken in the US (Knight 2001), the UK (Balabanis and Katsikea, 2003) and Finland (Sundqvist et al., 2012). We argue that this is a notable contribution because it suggests that the effect of IEO on international performance are “culture free” and in this way, we broadened the geographical country base of origin of entrepreneurship-related studies (Wales et al., 2013). On a related note, the finding of a positive relationship between IEO and international performance for international SMEs is important for one additional reason. By their nature, as stressed in the introduction, SMEs are resource constrained and have significant size limitations (Charoensukmongkol, 2016; Dada and Fogg, 2016). Because they lack resources, they need to deploy their capabilities internally in order to survive in contemporary markets. SMEs have simple and flexible structures and fast decision making processes compared to large MNEs (Charoensukmongkol, 2016). For this reason, it is easier for them to develop IEO and gain maximum benefits (Gupta and Batra, 2015). Our findings suggest that international SMEs need to direct their attention towards the constant development of their IEO.

To answer our first research question, we tested whether politicization when making internationalization decisions diminishes the effect on the IEO-international performance relationship. The results suggested a negative yet insignificant moderating relationship in that increasing levels of politicization do not limit the positive effects of IEO on international performance. As such, IEO is positively related to international performance irrespective of the level of political behavior exhibited in internationalization decisions. To answer our second research question, we tested the moderating effects of international hostility on the IEO-international performance relationship. As in the case of politicization we found an absence of a

contingency effect. This suggests that adopting IEO is equally beneficial in hostile and munificent foreign environments. This result runs counter to the findings of previous entrepreneurship studies from the US, which focused on overall firm performance (see Covin and Slevin, 1989; Zahra and Covin, 1995). The different results between studies are attributed to the different data collection methods, samples or measures (e.g., hostility versus international hostility, overall firm performance versus firm performance, etc.) for capturing the variables. However, our results for international hostility are consistent with evidence from the Spanish context (Moreno and Casillas, 2008) and from activities of non-profit organizations (Pearce, Fritz and Davis, 2010). A possible explanation for this is linked to the unique aspects of the Mediterranean context, and especially Greece, that scores exceptionally high in the uncertainty avoidance dimension of Hofstede's national cultural framework. Greek managers perceive the international environment too hostile in which they have very little power to change and thus, disregard it when making internationalization decisions. Similar arguments have been set forth in the strategic decision making literature (e.g., Elbanna and Child, 2007a; Papadakis et al., 1998). Future cross-cultural, comparative studies could confirm or not our speculations here.

Perhaps one of the most interesting findings of this study, related to our third research question, is the confirmation of the complex relationship referring to the moderating effects of the coexistence of high levels of politicization and international hostility on the IEO-international performance relationship. This finding provides a deeper understanding in the SME context regarding the combined effect of critical boundary conditions on the relationship between IEO and international performance. In other words, our results argue in favour of the configuration alignment perspective that supports the view that it is the fit among IEO, internal and external environment,

which influences performance mostly rather than the simpler alignment between strategy making processes and the external environment. The importance of this finding is that, although IEO generally enhances performance abroad, this relationship is considerably strengthened when fine-tuned contextual associations are examined. This argument advances the findings in the IE field: it appears that enhanced performance levels are achieved when IEO does not operate in a vacuum but in a configurational context whereby a suitable match between organizational and environmental factors occurs. It is the fine-tuning of IEO with situational factors rather than the presence of IEO *per se* that is of most critical significance to performance. The significance of the configuration alignment in the IE literature has been left relatively unexplored in recent literature (Child and Hsieh, 2014; Jones, et al., 2011; Keupp and Gassmann, 2009). In this light, future studies have to examine what configurations among IEO and other internal and external variables enhance international performance. These configuration results suggest that the resource based view in an IE context is effectively combined in sophisticated associations with the behavioral theory of the firm, the latter being captured by politicization of decision-making.

In addition, our findings have two important implications for managers. First, managers can enhance the performance of their international SMEs by exhibiting IEO. International performance is driven by the actions that managers take in relation to adopting IEO. Recent meta-analytical evidence suggests that the EO-performance relationship is stronger in national cultures characterised by low uncertainty avoidance (Saeed, et al., 2014). Our study provides strong evidence that even in high uncertainty avoidance cultures, the pursuit of IEO pays dividends. As such, although the implementation of IEO comes at a cost, our study indicates that firms should

continue investing resources to develop and nurture it. Second, managers of international SMEs should take into consideration that the effect of politicization in an international hostile environment is likely to considerably diminish the performance of those firms. In effect, particular efforts and caution should be devoted in reducing politicization when making internationalization decisions in hostile international contexts.

Limitations and directions for future research

The findings should be evaluated with the study's limitations borne in mind. The first limitation is that its cross-sectional design raises doubts over whether there is a causal relationship between IEO and international performance (i.e., the reverse causality issue). Following Engelen et al. (2015), we ran two additional analyses to assess the direction of causality between IEO and international performance. First, we put international performance as the independent variable and IEO as the dependent variable and tested the interactions of international performance with international hostility and politicization on IEO. None of these two reverse interactions were statistically significant suggesting that reverse causality is not an issue in this study. Second, we tested whether the two moderating variables are antecedents of IEO after controlling for the effects of industry, firm size, firm age and international experience. The results suggested that none of the two moderating variables were predictors of IEO providing further assurance to argue that reverse causality is not an issue in this study. Also, although several tactics were followed as detailed in the research methods section, there is still a possibility that the results are influenced by the existence of common method bias since a single informant was primarily used as in several other studies (Balabanis and Katsikea, 2003; Dimitratos et al., 2004; Gupta and Batra, 2015; Wang and Altinay, 2010; Zhou, 2007). Finally, we controlled for

the effects of industry by distinguishing between manufacturing vs. services firms and not by introducing dummy variables to account specifically for each industry represented in the sample.

Other suggestions worth mentioning for future research stem from the study; so, future research efforts could broaden the geographic focus of their studies by collecting data from other cultural groups such as the Arab countries or Latin American countries where little research exists on IEO, and conducting cross-cultural comparisons. In addition, future studies could broaden the type of sampled firms and include multinationals and/or new ventures. It would be particularly interesting to investigate if the results of our study are transferrable to such types of firms.

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Table 1. Descriptive statistics and correlation coefficients

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Industry	0.11	0.31	1							
2. Firm Size (log)	1.59	0.38	-0.16*	1						
3. Firm Age (log)	1.39	0.24	-0.23**	0.19**	1					
4. International Experience (log)	1.21	0.22	-0.26***	0.21**	0.59***	1				
5. IEO	2.61	0.75	0.09	0.18*	-0.04	-0.01	1			
6. Politicization	2.08	0.92	-0.08	0.03	0.01	-0.01	0.10	1		
7. International hostility	3.09	0.76	-0.05	-0.02	0.07	0.14 ⁺	0.02	0.06	1	
8. International Performance	3.11	0.84	0.07	0.25**	-0.05	0.00	0.28***	-0.06	-0.23**	1

N = 208.

⁺ $p < 0.10$

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Table 2. Regressing international performance onto IEO, politicization and international hostility

	Model 1	Model 2	Model 3	Model 4
Constant	3.11*** (0.06)	3.11*** (0.05)	3.12*** (0.05)	3.13*** (0.05)
Industry	0.25 (0.19)	0.14 (0.18)	0.11 (0.18)	0.11 (0.18)
Firm Size	0.60*** (0.15)	0.47** (0.15)	0.43** (0.15)	0.39** (0.15)
Firm Age	-0.36 (0.30)	-0.32 (0.28)	-0.33 (0.29)	-0.27 (0.28)
International Experience	0.13 (0.33)	0.23 (0.32)	0.25 (0.32)	0.20 (0.32)
IEO		0.28*** (0.07)	0.29*** (0.07)	0.33*** (0.07)
Politicization		-0.07 (0.06)	-0.09 (0.06)	-0.11 ⁺ (0.06)
International hostility		-0.26*** (0.07)	-0.26*** (0.07)	-0.21** (0.07)
Politicization x International hostility			-0.06 (0.07)	-0.06 (0.07)
IEO x Politicization			-0.11 (0.08)	-0.16* (0.08)
IEO x International hostility			-0.00 (0.10)	-0.00 (0.09)
IEO x Politicization x International hostility				-0.27** (0.09)
R ²	0.08	0.19	0.20	0.23
Adjusted R ²	0.06	0.16	0.16	0.19
ΔR ²		0.11	0.01	0.03
F	4.30**	6.59***	4.88***	5.31***
ΔF		8.97***	0.89	7.90**

N = 208. Unstandardized beta coefficients are reported with standard errors shown in parentheses.

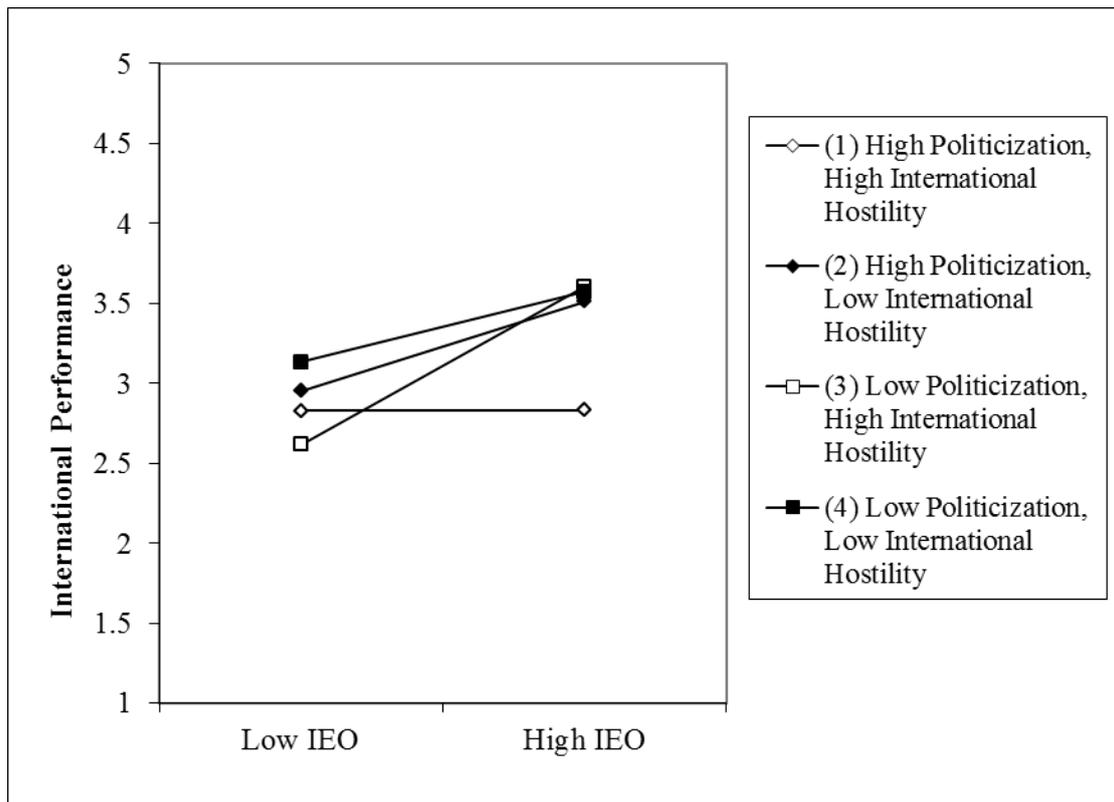
⁺ $p < 0.10$

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Figure 1. IEO x politicization x international hostility



Appendix 1. Scales used to measure the key variables of the study

International Performance

Please rate your firm's performance in the international marketplace compared with that of your direct competitors (1 = much inferior; 5 = much superior) with respect to the following:

1. Sales level
2. Return on Investment
3. Profitability
4. Market Share
5. Overall satisfaction with international performance relative to the objectives set

International Entrepreneurial Orientation

In general, the top managers of my firm in the international marketplace favour...

- | | | | | | | |
|--|---|---|---|---|---|--|
| 1. A strong emphasis on the <i>marketing</i> of <i>tried and true</i> products or services | 1 | 2 | 3 | 4 | 5 | A strong emphasis on <i>R&D</i> , <i>technological leadership</i> and <i>innovations</i> |
|--|---|---|---|---|---|--|

How many new lines of products or services has your firm marketed in the international marketplace in the past 5 years?

- | | | | | | | |
|--|---|---|---|---|---|---|
| 2. No new lines of products or services | 1 | 2 | 3 | 4 | 5 | Very many new lines of products or services |
| 3. Changes in product or service lines have been mostly of a <i>minor</i> nature | 1 | 2 | 3 | 4 | 5 | Changes in product or service lines have usually been quite <i>dramatic</i> |

In dealing with its competitors in the international marketplace, my firm ...

- | | | | | | | |
|---|---|---|---|---|---|---|
| 4. Typically <i>responds</i> to actions which competitors initiate | 1 | 2 | 3 | 4 | 5 | Typically <i>initiates</i> actions which competitors then respond to |
| 5. Is <i>very seldom</i> the first business to introduce new products/services, administrative techniques, operating technologies, etc. | 1 | 2 | 3 | 4 | 5 | Is <i>very often</i> the first business to introduce new products/services, administrative techniques, operating technologies, etc. |
| 6. Typically seeks to avoid competitive clashes, preferring a ' <i>live-and-let-live</i> ' posture | 1 | 2 | 3 | 4 | 5 | Typically adopts a very competitive, ' <i>undo-the-competitors</i> ' posture |

In general, the top managers of my firm in the international marketplace have...

- | | | | | | | |
|---|---|---|---|---|---|---|
| 7. A strong proclivity for <i>low risk</i> projects (with normal and certain rates of return) | 1 | 2 | 3 | 4 | 5 | A strong proclivity for <i>high risk</i> projects (with chances of very high returns) |
|---|---|---|---|---|---|---|

In general, the top managers of my firm believe that in the international marketplace..

- | | | | | | | |
|--|---|---|---|---|---|--|
| 8. Owing to the nature of the environment, it is <i>best to explore it gradually via timid</i> , incremental behaviour | 1 | 2 | 3 | 4 | 5 | Owing to the nature of environment, <i>bold</i> , wide-ranging acts are necessary to achieve the firm's objectives |
|--|---|---|---|---|---|--|

When confronted in the international marketplace with decision-making situations involving uncertainty, my firm typically adopts a ...

- | | | | | | | |
|---|---|---|---|---|---|---|
| 9. <i>Cautious</i> , 'wait and see' posture in order to minimize the probability of making costly decisions | 1 | 2 | 3 | 4 | 5 | <i>Bold</i> , aggressive posture in order to maximize the probability of exploiting potential opportunities |
|---|---|---|---|---|---|---|

Politicization

When your firm undertakes decisions to engage in 'key internationalization projects', there is/are (1=absolutely untrue; 5=absolutely true):

1. Extensive coalition formation among subsets of managers
2. High degree of resistance in this decision-making process
3. Many interruptions in this decision-making process

International Hostility

The environment in the international marketplace within which your firm functions is ...

- | | | | | | | |
|--|----------|----------|----------|----------|----------|--|
| 1. <i>Very safe</i> , little threat to the survival and well being of my firm | 1 | 2 | 3 | 4 | 5 | <i>Very risky</i> , one false step can mean my firm's undoing |
| 2. <i>Rich in investment and marketing opportunities</i> | 1 | 2 | 3 | 4 | 5 | Very stressful, exacting, <i>hostile</i> , very hard to keep afloat |
| 3. An environment that my firm <i>can control and manipulate</i> to its own advantage, such as a dominant firm faces in an industry with little competition and few hindrances | 1 | 2 | 3 | 4 | 5 | A dominating environment in which my firm's initiatives <i>count for little</i> against the tremendous political, technological and competitive forces |