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A knowledge-based perspective on SME foreign market entry mode choices and changes

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Abstract

Purpose Despite the importance of foreign market entry mode (FMEM) decisions for the internationalisation of small and medium-sized enterprises (SMEs), there is insufficient understanding of the knowledge types and sources necessary for such decisions. This study addresses this issue by investigating the knowledge configurations that underpin FMEM initial choices and subsequent changes in SMEs.

Design/methodology/approach This study adopted an interpretive approach and analysed empirical data from 37 in-depth interviews with decision-makers in internationalised SMEs from the United Kingdom.

Findings The findings reveal that different knowledge configurations drive FMEM decisions in SMEs. Based on the analysis conducted for this study, initial FMEM choices draw on prior experiential knowledge combined with knowledge from desk research and knowledge acquired from peers, competitors and international partners. However, unlike many previous contributions, this research shows that foreign market experiential knowledge does not influence mode changes. Within-mode changes rely mainly on mode-specific knowledge and on knowledge about exploiting the benefits of the internet and digital platform ecosystems. Conversely, between-mode changes draw on diverse knowledge that is frequently created in interaction with international stakeholders or acquired externally.

Originality/value This study contributes to the SME internationalisation literature by highlighting the knowledge configurations that inform not only initial choices but also between- and within-mode changes. Moreover, it reveals the importance of distinct types of digital technology-based knowledge for facilitating mode changes. It also adds to the knowledge-based perspective by underscoring that dynamic and heterogenous knowledge configurations, often created in interaction with international stakeholders, promote firm internationalisation.

1. Introduction

Internationalisation is a key strategy for business expansion and future business perspectives. It provides firms with access to the international market, thus granting them independence from the domestic market and its economic downturns. Foreign market entry mode (FMEM) decisions, involving either initial choices or subsequent changes, are key for firm internationalisation. Such decisions affect organisational outcomes in the short as well as in the long term since they often entail irreversible resource commitments. The relevance of FMEM decisions is acknowledged by a plethora of empirical research as well as comprehensive conceptual and review studies (e.g. Brouthers *et al.*, 2022; Putzhammer *et al.*, 2020; Zhang *et al.*, 2023). However, despite their importance, current understanding of FMEMs is insufficient. Specifically, while most studies have investigated initial entry mode choices, much less is known about subsequent changes (Putzhammer *et al.*, 2020; Swoboda *et al.*, 2011). In other words, entrepreneurs/managers often implement changes in their initial FMEM choices in specific foreign markets (Schwens *et al.*, 2018). Such decisions may involve between-mode changes, such as “forward (i.e. towards FDI) and backward (i.e. towards minimal involvement) movements between the three generic forms of market servicing: exporting, licensing and FDI (e.g. exporting to licensing)” and within-mode changes, that is, “shifts within any one of the three generic forms of market servicing (e.g. in export form, from agent to distributor)” (Clark *et al.*, 1997, p. 608). Nonetheless, despite their relevance for firm internationalisation, to date, such changes have received only limited research attention. Thus, recent studies have called for investigating not only entry decisions but also subsequent changes (O’Higgins *et al.*, 2022; Schwens *et al.*, 2018).

From a theoretical perspective, while agreement exists among scholars regarding the critical role of knowledge-based theoretical underpinnings for FMEM decisions (e.g. O’Higgins *et al.*, 2022; Stoian *et al.*, 2018), there is no unanimous consensus concerning the knowledge types and sources (collectively denominated knowledge configurations hereafter) required for internationalisation outcomes (Monaghan and Tippmann, 2018; Oehme and Bort, 2015; Schwens *et al.*, 2018). For instance, there is a lack of common ground regarding the role of experiential knowledge as well as other factors that drive FMEM choices (Mejri *et al.*, 2018; Pehrsson, 2020; Schwens *et al.*, 2018). Hence, further research is needed to explore the knowledge configurations that guide FMEM decisions.

FMEM choices and changes gain particular importance in small and medium-sized enterprises (SMEs) for two main reasons. First, SMEs suffer from resource limitations. Therefore, SME entrepreneurs/managers must take informed decisions regarding FMEMs since, typically, SMEs cannot engage in mode combinations. Furthermore, while SMEs have been increasingly reported to be able to engage in equity FMEMs (Oehme and Bort, 2015; Schwens *et al.*, 2018; Stoian *et al.*, 2018), resource constraints may mean they can do so in only one or just a few foreign markets. Second, SMEs are especially sensitive to the external environment (Cheng and Yu, 2008) and are more vulnerable to liabilities of foreignness

compared to their larger counterparts (Lu and Beamish, 2001). Thus, it is important for SME decision-makers to select FMEMs that allow them to mitigate the challenges encountered in overseas markets (Laufs and Schwens, 2014) as well as any potential risks in their international activity arising from economic/political changes on the home market.

Therefore, our aim in this study is to investigate the knowledge configurations SMEs need for FMEM initial choices and subsequent changes, considering both between- and within-mode changes. To this end, we draw on insights from the knowledge-based perspective, namely that knowledge is key for firm outcomes and, in particular, for firm internationalisation (Grant, 1996; Grant and Phene, 2022). In line with Spender (1996) and Tsoukas (1996), we consider that knowledge is shaped by individuals' cognition and experiences resulting from an ongoing interaction with other actors and is embedded in history and culture. Conceptualising knowledge in this way is essential for exploring the types of knowledge that are created or acquired in specific temporal and cultural contexts and for clarifying how such knowledge configurations influence organisational decisions. Moreover, in alignment with a recent call for research (Brouthers *et al.*, 2022), we take into account not only traditional approaches to FMEMs but also newer, increasingly important approaches promoted by digital technology-based knowledge.

The research questions we address in this study are: *What knowledge configurations underpin FMEM decisions in SMEs? And how do such knowledge configurations affect initial mode choices and subsequent changes in SMEs?* To answer these questions, we conducted an interpretative study with 37 managers of internationalised SMEs in the United Kingdom (UK). This methodological choice was suitable here given that qualitative research allows for a contextualised, in-depth exploration of real-life phenomena (Welch *et al.*, 2011). We chose an interpretive approach since it underscores the role of the individuals and their interactions with other actors, which are embedded in a specific context (Prasad and Prasad, 2002; Sandberg, 2005). The UK context was selected for the empirical analysis given that it represents a particularly fertile setting for investigating SME FMEM choices and changes. This is because, during the past few years, UK SMEs have witnessed unprecedented environmental uncertainties related to Brexit, the decision of the UK to leave the European Union. Such uncertainties render decisions related to FMEMs and the knowledge configurations that underpin them even more significant.

Our study makes three contributions. First, we add to the research on SME internationalisation by further illuminating FMEMs in this setting. Specifically, we do so by investigating not only entry mode initial choices but also subsequent changes, thus responding to recent calls for research (O'Higgins *et al.*, 2022; Schwens *et al.*, 2018). Importantly, and unlike previous research, we consider both between- and within-mode changes (Putzhammer *et al.*, 2020). We reveal that FMEM initial decisions and between- and within-mode changes are driven by different knowledge configurations.

Second, we underscore the importance of digital technology-based knowledge for supporting mode change. Such knowledge influences both between- and within-mode changes. We disclose the different types of digital technology-based knowledge needed for between- and within-mode changes and reveal the configurations of offline- and online-related knowledge necessary for initial mode choices and subsequent mode changes. Our findings highlight the relevance of digital technology-based knowledge since various forms of such knowledge facilitate both categories of changes we investigated. Hence, we align with recently proposed future research directions (Brouthers *et al.*, 2022).

Third, we contribute to the knowledge-based perspective (Grant, 1996; Grant and Phene, 2022; Spender, 1996). We achieve this by showing how different knowledge configurations (both internally and externally sourced and commonly created in interaction with international stakeholders) influence key decisions for international strategies, namely, those related to FMEM choices and changes. Thus, we underscore the heterogeneous and dynamic nature of the knowledge required for key organisational decisions. In particular, in alignment with Brouthers *et al.* (2022), we go beyond the notion of knowledge being limited to the boundaries of the firm and emphasise the importance of recombining and co-creating new knowledge with key international partners and consultants.

The rest of the study is structured as follows. The next section presents the theoretical underpinnings and the literature review conducted for this study. Then, section 3 explains the research methodology adopted. Following that, the findings derived from the analysis of the empirical data are provided in section 4 and discussed in section 5. The final section presents the contribution of the study, relevant implications for practitioners, potential limitations and future research directions.

2. Theoretical background and literature review

FMEM decisions are key for international activity. Numerous empirical studies as well as comprehensive literature reviews (and meta-analyses) (e.g. Laufs and Schwens, 2014; Putzhammer *et al.*, 2020; Zhang *et al.*, 2023) attest to the importance of FMEMs for firm internationalisation. However, many aspects of the FMEM literature are under-researched or present conflicting findings. Specifically: (1) most of the entry mode literature focuses on initial choices, while mode changes are comparatively underexplored (Putzhammer *et al.*, 2020; Swoboda *et al.*, 2011) and (2) while mode change can entail both between-mode and within-mode changes (Clark *et al.*, 1997; Putzhammer *et al.*, 2020), studies rarely focus on both these potential changes.

Knowledge has long been recognised to influence organisational outcomes. The knowledge-based view, frequently also denominated the knowledge-based perspective, theory or approach, highlights the importance of firm knowledge for organisational outcomes (Grant, 1996). Organisations comprise different types of knowledge, encapsulated by the

individual and the organisation and embedded in the context (Spender, 1994, 1996). Such knowledge types can be created internally as well as acquired externally (Grigoriou and Rothaermel, 2017). Individuals, who are essential for knowledge creation (Felin and Hesterly, 2007), have different experiences resulting from interaction with other individuals, and such interaction is embedded in geographic and time frames. History, Tsoukas (1996, p. 18) argued, influences how actors understand the world: “At any point in time, our habits of thinking have been historically formed through our participation into historically constituted practices”. Thus, individuals’ understanding of specific situations varies and is likely to change over time.

Knowledge is key for firm internationalisation (Grant and Phene, 2022). Kogut and Zander (1993) justified the very existence of the multinational enterprise based on firm knowledge. Specifically, they claimed that knowledge transfer and re-combination take place more efficiently within the multinational enterprises than between the multinational and a third party. Three decades afterwards, Grant and Phene (2022, p. 4) remarked that knowledge is particularly relevant for a firm’s global strategy and argued that the advantages of a multinational enterprise over domestic firms are related to their higher prospects for “accessing, integrating, and deploying knowledge”. Numerous empirical studies have been published attesting to the importance of knowledge for firm international strategy (e.g. Mejri *et al.*, 2018; Morris *et al.*, 2015; O’Higgins *et al.*, 2022; Stoian *et al.*, 2018).

However, while many studies recognise the role of knowledge for FME decisions (e.g. O’Higgins *et al.*, 2022; Pehrsson, 2020; Schwens *et al.*, 2018; Swoboda *et al.*, 2015), little consensus exists regarding the types and sources of knowledge. Specifically, experiential knowledge has been considered essential for mode choices and changes for many years, and seminal contributions acknowledge its importance. The process model of internationalisation (Johanson and Vahlne, 1977; 2009) identified the accumulation of experiential knowledge by the firm as key for international expansion and for the increase in commitment in international activity. Namely, experiential knowledge enables firms to increase their commitment in their international operations from no regular export activities to exporting via agents, followed by the establishment of sales subsidiaries, and finally, the setting up of production subsidiaries. Kogut and Zander (1993) argued that, at any given time, managers draw on existing stocks of tacit knowledge when deciding whether to pursue exporting, licensing or direct investment in foreign markets. They further explained that such knowledge is often experiential and that firms commonly accumulate tacit experiential knowledge, which serves to inform subsequent choices. Verbeke (2003) suggested that a firm’s existing knowledge is combined with foreign location factors to influence foreign market entry.

Nonetheless, findings in the SME literature are rather fragmented, and no agreement exists regarding the role of experiential knowledge for SME internationalisation. For instance, Hånell *et al.* (2021) reported that experiential knowledge promoted early and speedy resource commitment to international markets across newly started Swedish SMEs,

whereas Pinho (2007) identified the international experience of SMEs to be a key driver for engaging in equity modes. Moreover, Hollender *et al.* (2017), in a study of German SMEs, reported a joint moderating effect of international experiential knowledge and product adaptation on the relationship between FMEM and foreign venture performance. They also underscored the importance of international experiential knowledge for product adaptation. Maekelburger *et al.* (2012) found that SMEs with high levels of international experiential knowledge were more inclined to select equity FMEM if asset specificity was low. Furthermore, Oehme and Bort (2015) noted that mode experience affected subsequent mode choices since firms chose entry modes that have been used previously, while Schwens *et al.* (2018) found that SMEs involved in exporting and wholly owned subsidiaries engaged in non-location-bound experiential learning, which could be replicated in new foreign markets.

In contrast, other studies have questioned the role of experiential knowledge altogether, as they have not identified experiential knowledge as relevant for key internationalisation decisions. Specifically, Monaghan and Tippmann (2018), in a study of SMEs in the software industry, found that other knowledge-development activities, such as the identification of skillsets and relationships, could serve as a substitute for time-consuming experiential learning. They called for future research to investigate to what extent and under what circumstances firms require experiential knowledge for their international activity. Similarly, Mejri *et al.* (2018) observed that most of the firms studied did not appear to use the knowledge gained while engaging in a specific entry mode in a foreign market, when internationalising in a different market. They argued that the development of international knowledge could be counterproductive when SMEs target one or a few markets and use a specific entry mode only once.

Moreover, while knowledge has been traditionally conceptualised to be held by the firm (Johanson and Vahlne, 1977; Kogut and Zander, 1993), increasingly, studies underscore the importance of considering external knowledge sources. Vissak *et al.* (2020) underlined several external sources of knowledge considered relevant for internationalisation by firm managers, including friends and relatives with international experience, international partners, industry associations and the internet. Stoian *et al.* (2018) revealed the role of external consultants for supporting the mode-related decisions of micromultinational firms. Similarly, Brouthers *et al.* (2022) underscored the importance of external partners as a key knowledge source for FMEM decisions and called for future research to go beyond the conceptualisation of knowledge as held by the firm.

While, to date, research has painted a mixed picture in terms of the relevance of different knowledge configurations for FMEM decisions, recent contributions (Grant and Phene, 2022; Mejri *et al.*, 2018; Oehme and Bort, 2015) have called for studies to further investigate the different knowledge configurations required for firm internationalisation.

Overall, to advance the understanding of FMEMs in the SME context, it is necessary to jointly consider initial mode choices as well as between- and within-mode changes. While different knowledge configurations can play an essential part in decisions related to FMEMs, the existing literature is fragmented, and gaps in understanding remain. Thus, this study embraces a knowledge-based perspective in order to unveil the knowledge configurations that underpin mode-related initial decisions and subsequent between- and within-mode changes.

3. Method

3.1 Methodological approach and research design

This study aims to enhance understanding of the knowledge configurations that underpin FMEM choices and subsequent changes in SMEs. Given that this entails revealing managerial perceived realities, a qualitative, interpretive method was selected to answer the research questions addressed here. The main assumptions behind interpretive approaches are that reality is socially constructed in ongoing interactions among individuals and that our interpretations are coloured by situational characteristics, such as historical, cultural and linguistic (Prasad and Prasad, 2002; Sandberg, 2005). In SMEs, top managers, who are frequently the founders and/or owners of the business, are commonly the sole decision-makers for strategic decisions. As a result, key decisions, such as those related to FMEM, are generally taken by these managers according to their understanding of the situation. For consistency purposes, the term “manager” is used hereafter. By embracing an interpretive approach, it was possible to examine managerial understanding regarding the knowledge configurations necessary for FMEM initial choices and changes. This methodological choice allowed us to further investigate managerial understanding and cognition in relation to firm internationalisation (Niittymies and Pajunen, 2020) and to consider the role of context, which is critical for SME internationalisation research (Ammeer *et al.*, 2021; Child *et al.*, 2022; Crick and Crick, 2022). Cognizant that interpretive studies and scholars may not find propositions the most fruitful output of their research (Gehman *et al.*, 2018), here, in alignment with Gioia *et al.* (2013, p. 11), we argue that “propositions are not paradigm-bound”. Hence, in this study, in an effort to help other scholars to understand and benefit from our research (Magnani and Gioia, 2023), we generate a set of propositions derived from our findings.

3.2 Sample and data collection

In line with the interpretive tradition this study relied mainly on in-depth interviews with top managers, as they represent knowledgeable respondents for the research questions addressed here. Purposeful sampling was used to select the research participants (Patton, 2014). Several criteria were considered for sample inclusion. The target respondents were top managers of internationalised SMEs from the UK. The SME definition provided by the European Commission (2003),

which is also adopted in the UK, was used to identify relevant firms. The UK setting was chosen since it represents a particularly fertile ground to conduct this research. Similar to SMEs from other countries, UK SMEs have resource limitations and suffer from size-related power deficits. However, UK SMEs have recently experienced unprecedented turbulence in their environment due to uncertainties related to Brexit. Such increased uncertainty renders decisions related to FMEMs and the knowledge configurations that inform them even more important. Since decisions regarding FMEMs are taken in SMEs across the board (Schwens *et al.*, 2018; Stoian *et al.*, 2018), diversity was favoured, and SMEs of different sizes and industries were considered. The percentage of international activity intensity of the firms included in this study was at least 25 percent.

Data collection was conducted from April to November 2019. The FAME (Financial Analysis Made Easy) database, which contains information on UK and Irish firms, was consulted to identify potential respondents for this research. In accordance with established practice, a semi-structured interview protocol was followed for the interviews (Gioia *et al.*, 2013). The protocol commenced with generic questions related to the individual managers and their international experience. The interview continued with a series of open-ended questions that allowed the managers to provide detailed answers regarding their understanding of the relevant knowledge configurations necessary for FMEM decisions. Participants were asked to elaborate on their understanding of the nature and provenance of such knowledge. Moreover, the interviewees were invited to explain how such knowledge assisted in guiding specific FMEM decisions as well as whether and how knowledge types and sources varied between initial choices and subsequent changes. Managers were encouraged to reflect on their answers and to provide contextualised real-life examples. Data collection continued until saturation was attained, that is, new data repeated what had already been expressed by previously collected data (Saunders *et al.*, 2018). The final sample comprised 37 top managers in charge of internationalised SMEs. The interviews lasted between 40 and 90 minutes. They were recorded and transcribed verbatim, yielding over 550 pages of data. Detailed notes were also taken during the interviews. To ensure confidentiality, the names of the respondents were coded R1 to R37, and the SMEs were coded SME 1 to SME 37. The profile of the SMEs is presented in Table 1.

Insert Table 1 here

This study followed the quality criteria procedures appropriate for interpretive research. Transferability through thick description was pursued by grounding the analysis in the context as well as in the cognition and actions of managers (Welch and Piekkari, 2017). To enhance credibility, the voices of participants were brought to the forefront. Critical reflection was employed throughout the data collection and analysis by considering how the field interactions and personal theoretical perceptions might shape the findings (Alvesson *et al.*, 2008; Welch and Piekkari, 2017). The interview data were triangulated with additional data sources, such as information from company websites and archival data (Denzin and

Lincoln, 2011; Gioia *et al.*, 2013). These additional sources were consulted throughout the collection and analysis of data. This enriched our understanding of the managers interviewed.

3.3 Data analysis

This study followed established guidelines for data analysis within the interpretive tradition (Gioia *et al.*, 2013). The data analysis process entailed a series of iterations between theory and empirical evidence. NVivo 12 was used to navigate between different sources of information and to facilitate the coding process. Data coding was conducted in several steps. In alignment with Gioia *et al.* (2013), step 1 commenced by reading several times through all the materials collected for this research. Throughout this iterative process, the emergence of first-order codes from the empirical dataset was carefully considered. 14 first-order codes were identified related to the knowledge configurations that informed decisions regarding FMEMs. Four codes corresponded to entry mode initial choices, while the remaining 10 first-order codes concerned changes in FMEMs.

Step 2 involved rereading through the empirical data to condense the first-order codes. This entailed moving between the data and the existing theory and literature to allow theoretical insights to emerge. First-order codes were further carefully considered and, by using a constant comparison technique (Bowen, 2008; Clark *et al.*, 2010), were merged into six theoretical themes.

In step 3, the empirical data were revisited. The aim this time was to reveal how the managers delineated the specific knowledge configurations needed for choosing and making changes related to FMEMs. This resulted in distilling three overarching aggregate dimensions: *initial knowledge configuration*, *within-mode change knowledge configuration* and *between-mode change knowledge configuration*. These overarching dimensions were cross-checked several times until the dimensions remained stable and their labelling improved. The coding structure is presented in Figure 1.

Insert Figure 1 here

4. Findings

Based on the data analysis, this study revealed the knowledge configurations needed to choose and change FMEMs. The findings corresponding to each of these mode-related decisions are presented in the following sections.

4.1 FMEM initial choice

Initial FMEM choices commonly drew on the previous experience of the managers and key employees (Haddoud *et al.*, 2021; Vissak *et al.*, 2020). Most interviewees highlighted the importance of *prior foreign market* and *industry experiential knowledge*:

‘When I was a teenager, I worked for my father’s company during the summer. ... That business had products manufactured in the Far East, in Hong Kong and in China back in the 1980s.’ (R5)

‘We had a lot of experience in the sector. ... We had a lot of experience with the technical side of doing things and what the operating environment was going to be like in the marketplace.’ (R23)

Consensus existed across most interviewees that personal international and industry experience were important for guiding FMEM initial choices.

Managers emphasised that they complemented prior knowledge with *knowledge from desk research*, considered instrumental for identifying viable routes to specific foreign markets:

‘Through an internet search ... we’ll try and find a company operating in that market that has complementary products where our offer will enhance their business.’ (R7)

The interviewees also underscored the importance of knowledge created outside the firm, such as *knowledge acquired from industry peers/competitors*, for selecting FMEMs:

‘This is an industry-specific organisation where you can share knowledge, experience. So, if one member of this organisation is selling in a particular country, you can talk to them and say: “Who do you use? How did you get to that country?” You can piggyback their experience. You might like their distributor, or you might not, but you’re saving yourself a lot of time and money by at least narrowing down somebody who has quite a high probability of being somebody that you might want to work with.’ (R25)

Conversely, the interviews disclosed that managers who initially chose equity modes perceived that they benefited from the *knowledge acquired from international partners*, which complemented their prior experiential knowledge. To engage in higher commitment FMEMs, they delved into their partners’ location-bound experiential knowledge. Such international partners included business partners as well as family members. Thus, managers could overcome the potential liabilities of foreignness (Johanson and Vahlne, 2009):

‘I had a couple of Nigerian students who worked with me and they wanted to go back to Nigeria so I funded them and we set up a small company.’ (R4)

‘We set this company in about 1980, and our first client was obviously from the UK in London and also, to a certain extent from Ireland. I worked with Ireland since my wife’s Irish. And we grew from that. Initially, clients asked us for work first of all in Ireland, so we set up an Irish company.’ (R12)

In sum, FMEM initial choices were firmly rooted in managerial previous-location and industry-bound experience and complemented by recent knowledge from desk research and other, frequently external knowledge sources. This included knowledge acquired from industry peers/competitors and, in some cases, international partners.

According to managerial understanding, we propose:

Proposition 1 *FMEM initial choices are promoted by (a) prior foreign market and industry experiential knowledge, knowledge from desk research and knowledge acquired from industry peers/competitors, when managers select a non-equity mode and (b) prior foreign market and industry experiential knowledge as well as knowledge acquired from international partners, when managers select equity modes.*

4.2 FMEM changes

Drawing on the interview data as well as archival data, this study uncovered that the SME managers engaged in both between- and within-mode changes (Putzhammer *et al.*, 2020). Specifically, 20 of the managers interviewed reported at least one between-mode change. This involved switching from non-equity to equity FMEMs and vice versa. In addition, 14 managers reported between-mode changes. These were mostly related to switching from indirect to direct exporting or vice versa in some of the foreign markets served. A few SMEs did not engage in any mode changes. However, they were retained in the final sample since they provided relevant findings regarding their reasoning for not engaging in changes.

4.2.1 Within-mode changes

The within-mode changes identified by this study related to changes in export form (Clark *et al.*, 1997; Putzhammer *et al.*, 2020) and some constraints to such changes. Namely, *mode-specific knowledge* allowed managers to capitalise on their experience with certain modes (typically direct exporting) in one foreign market and to use the same mode in other markets (Schwens *et al.*, 2018). Thus, they switched from indirect to direct exporting in various markets, as illustrated below:

‘We decided that we would approach those companies to find out if we could sell them our products directly. After having done that within the Spanish market, we decided that we would use the same sort of approach for other countries as well.’ (R35)

Knowledge of exploiting the benefits of the internet and digital platform ecosystems facilitated this change in export form since it allowed SME managers to combine the use of a traditional approach to the market with an internet-based approach (Brouthers *et al.*, 2022; Li *et al.*, 2023). Hence, they avoided using intermediaries and, instead, exported directly to overseas markets, as shown by the following extract:

‘If we go to a country like Brazil or Mexico, for instance, then we would be taking the traditional route, which would be the trade, like a pool shop or a pool builder. But we would also be considering the internet. ... Not only the sales to the trade, but to the end customer.’ (R18)

Conversely, interviewees highlighted the role of *industry-specific knowledge* for switching (back) from direct to indirect exporting and, in some cases, acting as a barrier to within-mode change altogether:

[About international distributors] ‘We prefer to work through a partner for two reasons: one is that they can proactively promote our products, and two, they will be able to provide at least front-line technical support.’ (R7)

Some of the managers also perceived that their *lack of foreign market knowledge* could persuade them to switch back to indirect exporting in order to allow intermediaries to help them navigate psychically distant foreign markets:

‘We would always prefer to go direct rather than through a distributor. In countries where we’ve got distributors, we’ve moved from going direct to a distributor. ... We’ve done that because there are barriers in that country that make it easier to have one point of contact.’ (R13)

Overall, non-location-bound, mode-specific knowledge allowed managers to capitalise on their positive experience and thus switch from indirect to direct exporting in multiple markets. Digital technology-based knowledge played a pivotal role in facilitating this change. Within-mode changes were also driven by industry knowledge, which informed managers that a certain export form was appropriate for their sector as well as a lack of foreign market knowledge, which, in some cases, acted as a barrier to successfully engaging directly in psychically distant foreign markets. Thus, at times, managers chose to switch (back) to an indirect export approach.

Drawing on our findings, we advance the following proposition:

Proposition 2 *FMEM within-mode changes are promoted by (a) mode-specific knowledge and knowledge of exploiting the benefits of the internet and digital ecosystems, when switching from indirect to direct exporting and (b) industry-specific knowledge and a perceived lack of foreign market knowledge, when switching (back) from direct to indirect exporting.*

4.2.2 Between-mode changes

According to managerial interpretation a mix of different types of knowledge, frequently developed in interaction with international stakeholders and knowledge acquired from external sources, promoted between-mode changes. Increasing mode commitment was motivated by *knowledge created in interaction with international customers* and *knowledge and understanding of cost factors and the competitive positioning of the company*. Such essential knowledge types often jointly triggered managerial decisions to increase mode commitment. However, *knowledge acquired from the external environment regarding macroeconomic and political changes* also stimulated managers to switch to higher commitment FMEMs, hence ensuring uninterrupted, easy access to foreign customers and avoiding time and financial resource losses. These essential knowledge types evolved over time. They were frequently supported by *knowledge of setting up virtual offices* and *knowledge from external consultants*, which facilitated the implementation of such mode changes.

Managers built on prior industry-specific knowledge gained by themselves and key employees before joining the SME and enhanced it with *knowledge created in interaction with international customers* recently:

‘We’ve actually got a team of people here that have all been in the industry. I ran a factory for 20 years, so I know what’s manufacturable and what isn’t. Another guy who joined us about eight years ago, he actually worked as a buyer, so he’s worked for typical customers of ours. ... So, he’s used to what the market wants. Then we have the two sales guys, and they travel around to see our customers, and they talk to them about trends and innovations and what people are looking for.’ (R24)

Having access to such knowledge, gained through close interaction with international customers, was considered critical for firm internationalisation. This motivated managers to increase commitment in FMEMs:

‘The drive to manufacture overseas has always been about being close to customers firstly, and then getting costs down to be able to compete.’ (R27)

As shown above, managers developed *knowledge and understanding of cost factors and the competitive positioning of the company*. Such knowledge typically informed their decision to switch to higher commitment FMEMs:

‘We started to sell in India ... but the import duties are huge. We felt that manufacturing to Western standards in India would give us a competitive advantage in the market.’ (R15)

Similar to the within-mode changes, commitment increase in FMEMs was facilitated by digital technology advancements (Brouthers *et al.*, 2022). Indeed, a few managers highlighted the importance of complementing traditional offline approaches with *knowledge of setting up virtual offices*:

‘We’ve started a sales office in Florida, one of those virtual offices with a phone number and an email.’ (R21)

Some of the interviewees perceived that by establishing virtual offices, they could enhance their interaction and possible co-creation with international customers.

Managers also revealed they complemented their knowledge with *knowledge from external consultants* (Stoian *et al.*, 2018). Such knowledge was instrumental in making sense of foreign legislation and specific time frames for opening subsidiaries overseas:

‘We’ve had advice; we believe that we can have a company up and running in six months. ... We’ll start our own company there.’ (R24)

Knowledge acquired from the external environment regarding macroeconomic and political changes informed decisions both to increase and to decrease commitment in FMEM. The interviewees stated that they kept abreast of the potential changes in the environment at home and in host countries. Thus, they were in a good position to decide whether to increase, decrease or maintain commitment in a specific country. In this sense, knowledge of changes in the political landscape and their effect on the firm’s international activity could persuade managers to open subsidiaries in certain export markets:

‘We are standing by the Brexit situation at the moment, but once it’s resolved, we’ll be able to make a rational decision on whether we should be having an office, a sales office or potentially a technical office in Germany or the Netherlands.’ (R7)

This type of knowledge also drive managers to decrease their FMEM commitment:

‘We used to have our own office in America ... but the Americans have been having a policy of buying American. ... So instead of our own office, we’ve got a couple of guys that we’ve worked with, who know our products, who are our reps in America.’ (R2)

Such knowledge, acquired from the environment, was generally combined with *knowledge of alternative modes perceived as more economical in specific foreign markets/time frames* in order to take a decision to decrease entry mode commitment:

‘We’re now like a typical export company, but we had to first become American, an American company first, to get to this position. ... In our heyday, when we were established properly in the US, running a company there, and I was present there, we employed about 10 people in the US and 15 people in the UK. ... So, what we’ve done in the last five years, we’ve sort of downsized, taking advantage of the technology. ... That’s saved us a lot of overheads.’ (R34)

By combining these diverse types of knowledge, managers could take strategic decisions concerning maintaining or divesting business operations in certain foreign markets:

‘There are three operational offices where we have people working: in London; Houston, which now is bigger than the London office - we have quite a few people over there, and that will grow since it’s easy to operate over there; ... and in Dublin, we have an office. That one has been running down ... but now obviously with Brexit and leaving Europe, we might find it best to resurrect the Irish office.’ (R12)

Overall, the managers interviewed perceived between-mode changes to be influenced by diverse knowledge types, typically created in interaction with international stakeholders and acquired from external sources to the firm. In this way, managers kept abreast of recent changes in the macroeconomic and political environment as well as with the preferences of international customers. This allowed them to switch to higher or lower commitment FMEMs in a timely fashion.

Thus, we propose:

Proposition 3 *FMEM between-mode changes are promoted by (a) knowledge created in interaction with international customers, knowledge and understanding of cost factors and the competitive positioning of the company, knowledge of setting up virtual offices, knowledge acquired from external consultants and knowledge from the environment about macroeconomic/political changes, when the change involves FMEM commitment increase and (b) knowledge of alternative modes perceived as more economical in specific foreign markets/time frames and knowledge from the environment about macroeconomic/political changes, when the change involves FMEM commitment decrease.*

5. Discussion

Drawing on our findings, heterogeneous types and different knowledge sources are key for mode decisions. Most of the managers interviewed perceived that FMEM initial choice drew on their *prior foreign market knowledge and industry knowledge*. Such tacit knowledge, which British managers typically have, was generally sourced from prior international

work experience and travelling and enabled managers to engage in non-equity entry modes. Hence, this study corroborates prior research (Dow *et al.*, 2020; Pehrsson, 2020) by revealing the importance of foreign market experiential knowledge for initial mode choices. However, equally important were *knowledge from desk research* (Safari and Chetty, 2019) and *knowledge acquired from industry peers/competitors* (Oehme and Bort, 2015). They allowed managers to complement and update their understanding and thus save time and financial resources that would otherwise be required for accumulating further experiential knowledge. In those cases where managers chose to enter foreign markets with equity modes, they tapped into specialised *knowledge acquired from international partners*. Hence, they avoided engaging in time-consuming experiential knowledge accumulation and fast tracked their internationalisation (Monaghan and Tippmann, 2018).

FMEM changes appear to be driven by different knowledge configurations. Within-mode changes, which in this study were generally related to switching between indirect and direct exporting, were motivated by *mode-specific knowledge*. A certain habituation behaviour (Swoboda *et al.*, 2015; Schwens *et al.*, 2018) was embraced by SME managers since they tended to capitalise on their success with a specific mode in a certain foreign market (i.e. direct exporting). Consequently, they engaged in the same FMEM in other countries. Digital technology-based *knowledge* (Brouthers *et al.*, 2022) *related to exploiting the benefits of the internet and digital platform ecosystems* which UK SMEs have increasingly embraced, helped them to dispense with intermediaries and export directly to foreign customers. Thus, SMEs saved time, increased financial benefits and gained direct access to foreign customers. The interviewees also underscored the effects of the barriers encountered in certain foreign markets due to the *lack of foreign market knowledge* (Lu and Beamish, 2001). These effects, together with *industry-specific knowledge*, motivated them at times to switch (back) to indirect exporting.

Between-mode changes took place by both increasing and decreasing mode commitment. Interestingly, the managers emphasised on two interconnected yet different types of knowledge for driving an increase in FMEM commitment. On the one hand, they highlighted the importance of sharing and creating *knowledge in interaction with international customers* (Siachou *et al.*, 2022), while, on the other hand, they referred to *knowledge and understanding of cost factors and the competitive positioning of the company*. These essential knowledge types were frequently supported by *knowledge acquired from external consultants* (Stoian *et al.*, 2018). Such knowledge helped SME managers to clarify the feasibility and practicalities related to setting up offices overseas or entering international joint venture agreements. Furthermore, our analysis revealed that managers often counted on their digital technology-based knowledge (*knowledge of setting up virtual offices*) and integrated it with traditional approaches to support commitment increase (Brouthers *et al.*, 2022). The interviewees also emphasised the relevance of acquiring updated knowledge related to changes in the home market (e.g. Brexit) or host markets (e.g. economic and political conditions) as a vehicle to mitigate perceived increased environmental uncertainty (Aharoni *et al.*, 2011). They ensured this through *knowledge acquired from the external environment regarding*

macroeconomic and political changes. Therefore, managers could detect whether to switch to a higher or lower commitment mode in specific countries. Given the inherent resource limitations typical of SMEs, this decision is key since resources must be deployed to the most valuable foreign markets for the firm. We underscore here the uncertainty related to the post-Brexit environment coupled in some cases with the perceived possibility of trade wars taking place at the global level. Due to this, some of the managers noted being caught in a transitional state, which limited their capacity for scenario planning. As a result, a few managers expressed certain concerns about future international activities. On the contrary, others devoted energy and resources to strengthening existing relationships with existing European partners or developing new international partnerships worldwide. In this sense, our findings align with recent research in the UK context (Waehning *et al.*, 2023) by reinforcing the resilience and dynamic stance towards external changes shown by UK SME managers. Conversely, commitment decrease was generally motivated by *knowledge of alternative modes perceived as more economical for the firm in specific markets/time frames*. Furthermore, it was often incentivised by *knowledge acquired from the environment about macroeconomic and political changes* not conducive to a local presence. Interestingly, in some cases, these combined knowledge types led to a deliberate strategy to decrease FMEM commitment in certain foreign markets. Yet, in other cases, the decision to decrease commitment appeared as a spontaneous and less desirable route to servicing some markets. Such a decision was prompted by knowledge from the environment regarding changes in policies and consumer behaviour on key foreign markets.

Overall, this study underlines the dynamic nature of knowledge, since different types and sources of knowledge are required for key internationalisation decisions (Grant and Phene, 2022; Spender 1996; Tsoukas, 1996). Particularly interesting is the decreasing importance of the role of foreign market experiential knowledge over time. Different from the assumptions of the process model of internationalisation (Johanson and Vahlne, 1977; 2009), our findings show that, in the SME context, the importance of experiential knowledge decreased over time. While important for initial choices, between-mode changes were made mainly based on knowledge recently acquired from (or created in interaction with) external sources (international customers, consultants and the environment) in conjunction with managerial understanding of relevant cost factors and the competitive positioning of the company. It can be argued that today's turbulent international macroeconomic context, characterised by unprecedented political and economic changes and rapid technological advancements, has significantly diminished the role of foreign market experiential knowledge. This is because such knowledge has been accumulated in market conditions that are no longer relevant. Consequently, the international success of SMEs depends on managerial ability to take speedy case-by-case decisions based on the acquisition (and integration) of updated, contextual knowledge related to changes in the macroeconomic and political environment and the preferences of international customers. Notably, such ability can be supported and enhanced by digital technology-based knowledge. This

knowledge is important for both categories of FMEM changes since it makes it possible to competently combine offline and online approaches to serving foreign markets (Brouthers *et al.*, 2022).

Figure 2 presents the main findings regarding knowledge configurations for initial choices and changes in FMEMs.

Insert Figure 2 here

6. Conclusions

This study revealed the knowledge configurations needed by SME managers to take FMEM initial decisions and subsequent between- and within-mode changes.

We make three contributions. First, we contribute to the SME internationalisation literature by further illuminating FMEM in the SME context. Specifically, we do so by investigating not only initial foreign market choices but also subsequent mode changes. Thus, we respond to recent calls for research (O'Higgins *et al.*, 2022; Schwens *et al.*, 2018) and we extend current understanding by revealing the different knowledge configurations needed by SMEs for initial mode choices and for between- and within-mode changes (Putzhammer *et al.*, 2020).

Second, we highlight the role of digital technology-based knowledge for mode change in the SME context. We identified the different types of digital technology-based knowledge needed for between- and within-mode changes. These are the knowledge of exploiting the benefits of the internet and digital platform ecosystems for within-mode changes and the knowledge of setting up virtual offices for between-mode changes. In addition, we reveal the configurations of the offline and online related knowledge required for such decisions. In doing so, this study addresses the call for future research directions recently proposed by Brouthers *et al.* (2022).

Third, we contribute to the knowledge-based perspective (Grant, 1996; Grant and Phene, 2022). We reveal that the knowledge necessary for key strategic decisions entails different configurations of internally and externally sourced knowledge. Hence, we underline the heterogeneous and dynamic nature of the knowledge required for firm internationalisation. In other words, this study highlights that knowledge requirements and therefore knowledge configurations, change across time and space and that knowledge is constantly recombined and renewed in interaction with key international stakeholders. Thus, in response to Brouthers *et al.*'s (2022) call for research, we underscore that the knowledge necessary for core strategic decisions is, in part, created beyond firm boundaries or in close interaction between firm members and external firm actors. This study also unveils an individual-level perspective on the knowledge configurations (Felin and Hesterly, 2007) necessary for firms to navigate the international environment. Hence, it fills a void in the knowledge-based literature where, despite its importance, the individual perspective has been relatively ignored (Grant and Phene, 2022; Morris *et al.*, 2015).

This study provides relevant implications for practitioners. Drawing on our findings, the knowledge acquired from different stakeholders relevant for international activity is important for informing FMEM decisions. Awareness of the most appropriate external sources of knowledge for specific FMEM decisions can save managers time and resources and facilitate such decisions. Managers are also encouraged to keep up to date with recent changes in the macroeconomic and political environment. They should also remain aware of the preferences of international customers in foreign markets that are of particular value for their SME. Mode-specific experiential knowledge is relevant for decisions regarding exporting. Therefore, managers could capitalise on their experience by considering whether they would benefit from using exporting knowledge gained in certain markets to enter other markets via the same mode. Managers could also consider investing in training courses for themselves and their key employees to enhance their understanding of how to skilfully use digital technologies for firm internationalisation. Moreover, the lack of foreign market knowledge that drives managers to revert to indirect exporting could be mitigated by hiring employees from the particular foreign markets of interest or, potentially, by conducting frequent business visits to those countries. Finally, managers may find it fruitful to provide their employees and partners with an environment that is conducive to knowledge communication and sharing. This will ensure that all knowledge types and sources are carefully considered and appropriately used for taking main internationalisation decisions.

This study is not without its limitations. First, in this research, it was decided to include a diverse sample of SMEs in terms of size and industry sector, since internationalised SMEs across the board take decisions about FMEMs. Future research could conduct comparative studies across different industries by comparing high-tech and traditional manufacturing sectors, to reveal if any significant differences exist between the knowledge configurations that are characteristic of their FMEM decisions. Also, it would be interesting to investigate firms that have at the core of their business model digital technologies (e.g. 3D printing and augmented reality) to understand the FMEM decisions they engage in and the knowledge configurations that underpin decision-making in such firms. Second, this study focused on the UK context, characterised in recent years by unprecedented changes related to Brexit. Similar studies could be conducted in other contexts to reveal whether the key findings identified here are relevant in other settings. Such studies could investigate whether the role of foreign market experiential knowledge is more pronounced for decisions related to mode changes in less uncertain environments. Alternatively, they could explore whether different combinations of knowledge are required for mode choices not investigated in this study. Third, while this study supports the notion that SMEs use virtual presence as a potential FMEM, more research is needed to illuminate the different types of virtual presence and to identify when and in what markets they are preferred to traditional approaches. Fourth, this study is cross-sectional. Hence, future research could adopt a longitudinal approach to further enhance understanding of the dynamics of the knowledge creation and integration processes that underpin entry mode decisions.

To conclude, while this study has allowed us to further illuminate FMEM initial choices and subsequent changes from an individual perspective, future research into these key decisions for business management is well warranted.

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Table 1. Profile of the SMEs

SME	Main business activity	Size (employees)	Number of markets entered	FMEM change
SME 1	Manufacture of metal products	Small	21-50	Within-mode change
SME 2	Manufacture of electronic products	Small	21-50	Between-mode change
SME 3	Specialised construction activities	Medium	21-50	Between-mode change
SME 4	Software engineering	Small	21-50	Between-mode change
SME 5	Manufacture of electronic products	Small	11-20	Within-mode change
SME 6	Manufacture of metal products	Small	21-50	Within-mode change
SME 7	Manufacture of products for engineering education	Medium	>50	No change
SME 8	Printing and reproduction of recorded media	Medium	11-20	Within-mode change
SME 9	Manufacture of furniture	Small	21-50	No change
SME 10	Manufacture of chemicals and chemical products	Small	11-20	Within-mode change
SME 11	Manufacture of metal products	Small	6-10	Between-mode change
SME 12	Employment activities	Small	21-50	Between-mode change
SME 13	Repair and installation of machinery and equipment	Small	>50	Within-mode change
SME 14	Creative arts and entertaining activities	Small	21-50	Between-mode change
SME 15	Manufacture of chemicals and chemical products	Small	11-20	Between-mode change
SME 16	Manufacture of beverages	Medium	21-50	Within-mode change
SME 17	Publishing activities	Small	21-50	No change
SME 18	Manufacture of plastic products	Small	21-50	Within-mode change
SME 19	Specialized construction activities	Small	>50	Between-mode change
SME 20	Manufacture of wood and ceramic products	Small	>50	Within-mode change
SME 21	Manufacture of plastic products	Small	21-50	Between-mode change
SME 22	Manufacture of music instruments	Medium	21-50	Within-mode change
SME 23	Manufacturer of electrical equipment	Small	11-20	Between-mode change
SME 24	Manufacture of plastic products	Small	21-50	Between-mode change
SME 25	Manufacture of electrical products	Small	21-50	Within-mode change
SME 26	Scientific instruments and apparatus	Small	>50	Between-mode change
SME 27	Manufacture of electrical products	Medium	21-50	Between-mode change
SME 28	Manufacture of plastic products	Small	21-50	Between-mode change
SME 29	Manufacture of metal products	Small	11-20	Between-mode change
SME 30	Manufacture of food products	Medium	21-50	Between-mode change
SME 31	Manufacture of chemicals and chemical products	Small	21-50	Between-mode change
SME 32	Outdoor activities and related services	Micro	11-20	Within-mode change
SME 33	Manufacture of chemicals and chemical products	Small	>50	Within-mode change
SME 34	Pipelining supplier, manufacture and installer	Micro	6-10	Between-mode change
SME 35	Manufacture of plastic products	Medium	>50	Within-mode change
SME 36	Manufacture of aircraft interiors	Medium	>50	Between-mode change
SME 37	Manufacture of chemicals and chemical products	Small	21-50	Between-mode change

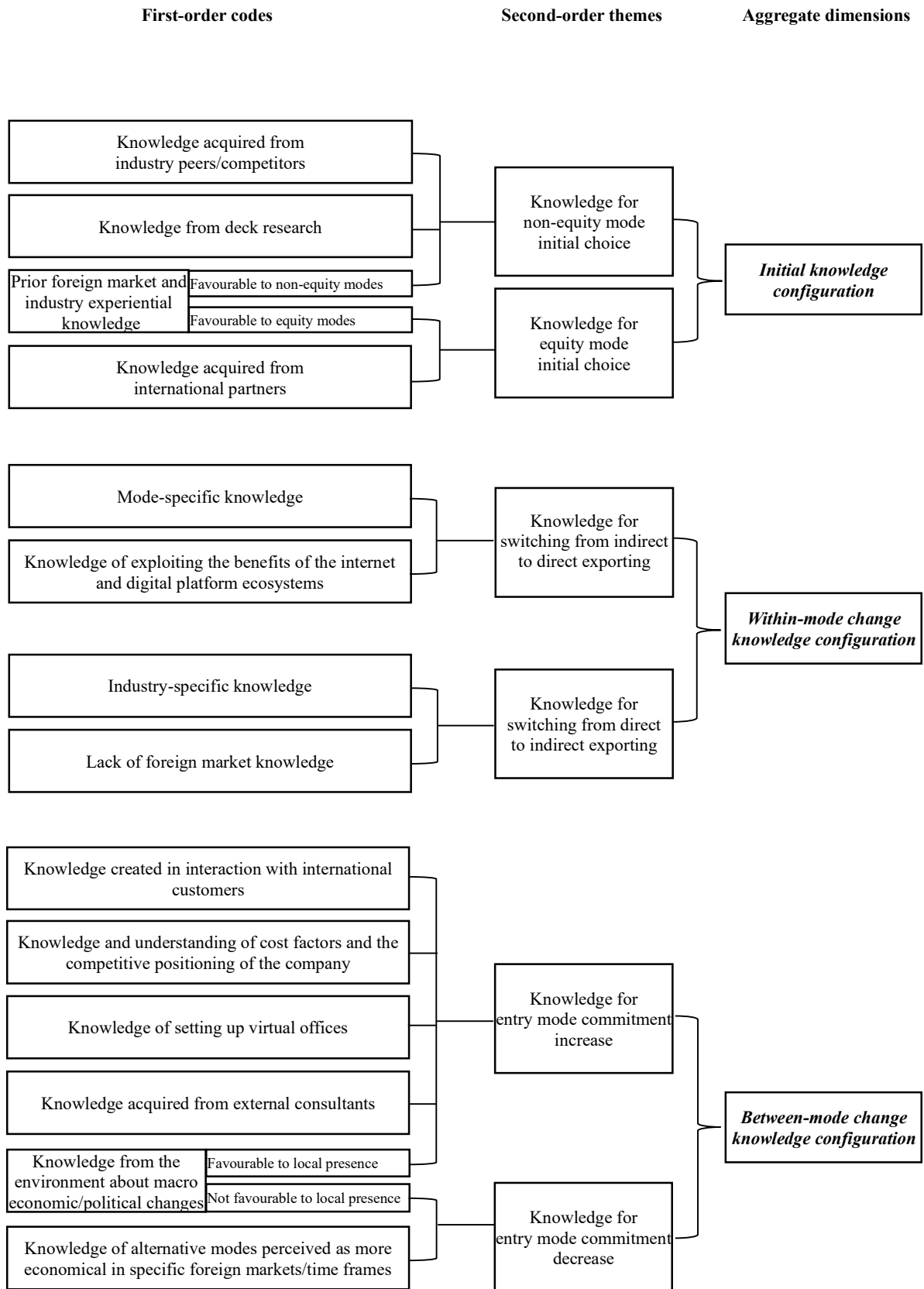


Figure 1 Coding structure

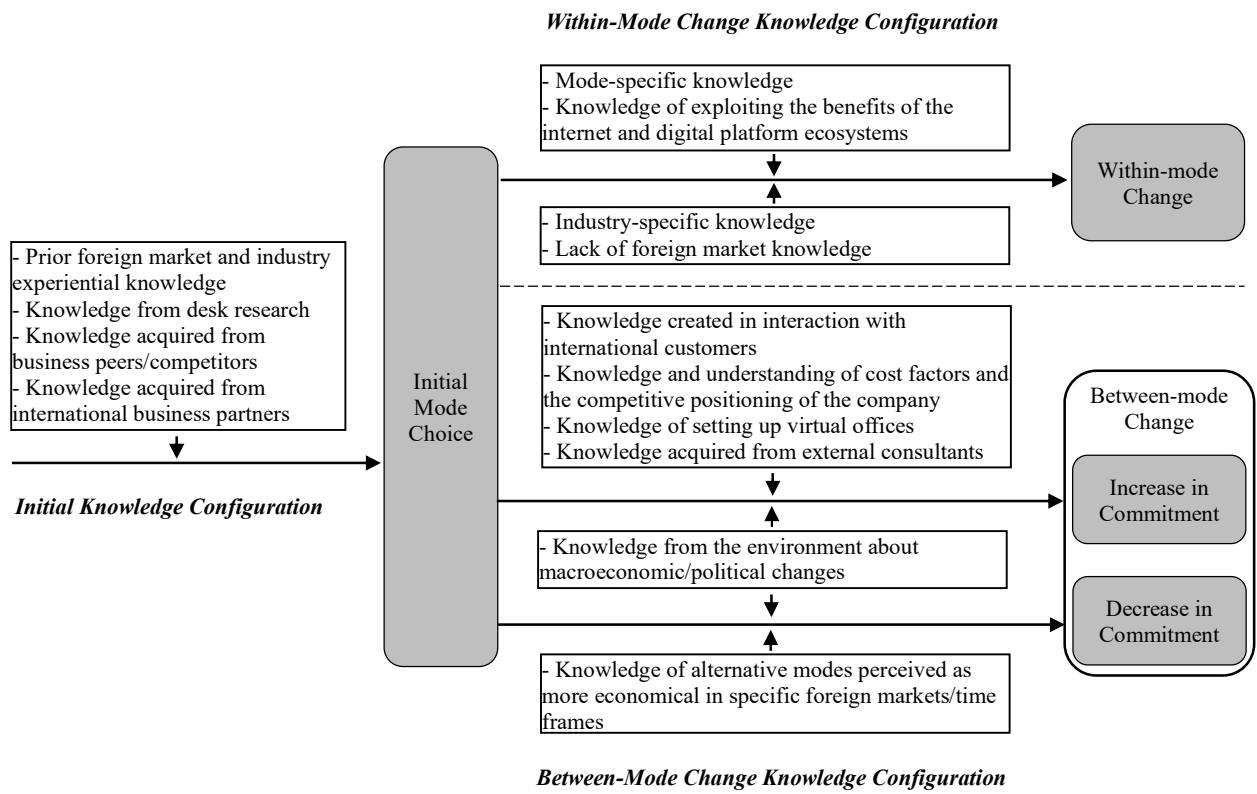


Figure 2. Knowledge configurations for foreign market entry mode decisions