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SMEs entry mode choice and international performance

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ABSTRACT:

Kansainvälistyvien pienten ja keskisuurten yritysten liiketoimintamallien valintaa ja niiden suorituskykyä on tutkittu vähemmän kuin suuremmissa jo kansainvälistyneissä yrityksissä. Omistukseen perustumattomat ja omistukseen perustuvat liiketoimintamallit on tutkielmassa eroteltu toisistaan resurssisidonnaisuuden, riskitason ja kontrollitason asteen perusteella. Teoreettiset viitekehykset ovat kehittyneet useksi eri teorioiksi ja näkökulmiksi, joista erityisesti Uppsalan malli, resurssilähtöinen näkökulma ja transaktiokustannusteoria ovat saaneet eniten huomiota. Jatkotutkimusta voitaisiin tehdä tarkastelemalla useamman mallin samanaikaista käyttöä astuttaessa uusille markkinoille, käyttämällä suurempia otoksia tai vertailemalla eri maantieteellisiä alueita.

KEYWORDS: SMEs, performance, sensitivity, uncertainty, entry mode, ownership, market entry, non-equity, equity, choice

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1 Introduction

The choice of entry mode is the first thing when internationalizing. SMEs looking to internationalize must decide on an entry mode to manage foreign activities (Ipsmiller et al, 2021; Laufs & Schwens, 2014). SMEs are not just concerned with where to enter but how (Nisar et al, 2012). The usual challenges of SMEs are found to be *liability of smallness* (lack of resources), *sensitivity to external influences*, *ownership structure* and *management characteristics* (Laufs & Schwens, 2014; Nisar et al, 2018). Also, Fajarika and others (2024, p. 15) lay out *liability of foreignness* as difficult because trust takes a long time to build which deepens SMEs' problem. The most important business growth factors in domestic markets have been suggested as *SMEs partnership*, *human capital resources*, and *entrepreneur personalities* in developed countries too. Maggi and others (2022) found there is a research gap there on entry mode choice and success factors across equity modes, as well as previous research being focused on one mode's characteristics at a time.

The larger firms, especially MNCs are more visible which makes it easier for researchers to bias towards them. The literature has focused mainly on MNC internationalization, and it cannot necessarily be translated to SMEs (Laufs & Schwen, 2014, pp. 1109). Brouthers and Nakos (2004, p. 229) stated "SMEs are not just smaller versions of large companies." Although the SME research is mainly focused on exporting because of their often lack of resources for other modes, SMEs investing in foreign markets with other modes has been exponentially increasing lately. How the entry is carried out has a significant impact on survival, performance and growth afterwards. Entry mode research is also focused on exporting mostly because of SMEs' *liability of smallness* to engage in more costly and higher commitment modes which leads to a somewhat larger sample of exporting SMEs to focus on. However, SMEs investing in foreign markets with other modes has been exponentially increasing lately. Regardless, how the entry is carried out

has a significant impact on survival, performance and growth thereafter (Sestu et al, 2023, p. 490).

Still, exporting is one of the most important and popular modes of internationalizing, especially for SMEs (Li et al, 2017, p. 1; Ipsmiller et al, 2021, p. 1109). Exporting in all its forms is 30,6 % of world GDP according to the World Trade Statistics (2024).

1.1 Background of the study

According to the European Union (2024), SMEs make up 99 % of the firms in the European Union and two out of every three jobs in the private sector which makes them a key driver of the economy. They add value by 51,8 % and employment by 67 % in the developed world on average. According to the Office of the United States Trade Representative (2025) small businesses make up 98 % of all US exporters.

Entry mode decisions are therefore very important in internationalization, and they largely determine the level of resource commitment, level of risk, performance and level of control (Maggi et al, 2022; Laufs & Schwens, 2014). Ong and others (2022, p. 2) state SMEs have a critical role in the evolution of industries as innovators, specialist niche suppliers and as a different type of firm than established ones. Furthermore, Fajarika and others (2024), assert that they contribute to “supply chain integration” and international trade, mostly by export, as actors in larger firms’ production processes. The business model used for internationalizing can be different to the domestic one (Child, J. et al, 2017, p. 1), but choosing the wrong business mode when entering can be costly and time consuming to change afterwards and it can negatively affect performance (Laufs & Schwens, 2014, 1109). Saeed and others (2024, p. 1) state SMEs have increased their dependence on foreign resources and diversified their operations across borders.

1.2 The objectives of the thesis

The aim of this thesis is to study how entry mode choices are made and affect internationalization performance. Laufs and Schwens (2014) reviewed foreign market entry modes of SMEs and stated that the mode determines resource commitment, level of risk and level of control over its internationalization operations. Child and others (2017, p. 1) continue "...at least entrepreneur characteristics, firm attributes and contextual factors affect international performance." Another article stressed that the CEO is particularly important in SMEs (Amankwah-Amoah et al, 2022, p. 1). Some studies have taken interest in family firms as opposed to non-family firms (Sestu et al, 2017; Ti et al, 2022). Hence the thesis will revolve around how these factors might relate to each other in the SME context and ultimately affect international performance. The problem is investigated from the perspective of the following questions:

How are entry mode choices made and affect SME performance?

What SME characteristics are most relevant when choosing an entry mode?

1.3 Defining key terms

Small and medium sized enterprises (SMEs) can mean the EU definition (2024) of between exactly 250 and 50 people employed, turnover being between 10 and 50 million euros and the balance sheet total being between 10 and 43 million euros. Different countries and studies do use other cutoffs such as 500 for employees. Although there are different definitions, the relevant distinction for this thesis is that the SMEs are not multinational corporations that are well established with large networks and market share around the globe. None of the sources use multinational corporations (MNCs) in their sample.

There are many viewpoints to what an *entry mode* means. Schellenberg and others (2018, p. 2-3) compiled some of these definitions. Johanson and Wiedersheim-Paul in 1975 defined the *entry mode* as “the development of operations in individual countries.” Alternatively, originally proposed by Root in 1977 it can be defined as “institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country.” Sharma and Erramilli defined it as “a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only marketing operations (i.e. via export modes) or both production and marketing operations there by itself or in a partnership with others (contractual modes, joint venture, wholly owned operations)”, in the compilation (Schellenberg et al, 2018, p. 2-3). Generally, the process of getting the business resources, products and services running in a new country and into the awareness of new customers for the first time.

1.4 Structure of the thesis

The thesis consists of an introduction, theoretical framework and one main chapter and conclusions. The introduction gives a clear outline of the objectives of the thesis, background, definitions and structure. Some basic concepts that will be a theme are introduced as well.

The theoretical frameworks explain the most used theories in internationalization and their general principles after which there is one main chapter that consists of internationalization of SMEs with the findings of SMEs characteristics, how entry mode choices are made, and performance, in-depth. Lastly, the conclusions contain the message the thesis conveys and its limitations.

2 Theoretical frameworks of internationalization

Internationalization is complex enough that according to Qi and others (2020, p. 52) there is no consensus among researchers on which theory should be employed in every situation. Theories are interlinked but research often “treats theories as independent silos.” The literature on internationalization has proposed three main theories according to Kunday and Şengüler (2015, p. 977): *Traditional theory*, *Network Theory* and *Born Global*, which involve the entrepreneur choosing entry modes depending on their personal goals, attitude and how risky internationalization is perceived to be. On the other hand, Schellenberg and others state (2018, p. 11) that entry mode choices could be explained by *Transaction cost approach*, *Institutional theory*, *Eclectic Paradigm*, *Resource Based View* and *Uppsala Model*, which is a form of *Traditional theory*. It is clear there are many theories and even more emerging ones that explain, among other things, the entry mode choice.

2.1.1 Traditional theory/Uppsala Model (TT/UM)

According to a review of SME international involvement by Martineau and others (2016, pp. 466-467) the theory that internationalization happens incrementally in stages is one of the dominant ones. The managers’ beliefs and perceptions are both influenced by the progress. Kunday and others (2015, pp. 975-977) state the traditional theory focuses the most on security of the business because it is based on gradual internationalizing, starting out activities in the domestic market and then as the market share and profit grow, begin activities by including indirect exporting, and lastly onto independent internationalization by directly exporting its own products to a geographically nearby market first. Traditionally it was probably chosen because internationalization was seen as a costly and time-consuming activity in the past.

One form of this gradual market entry according is the Uppsala model contributed to by Johanson and Wiedersheim from 1975 and Johansson and Vahlne from 1977 respectively. Internationalization is aimed to go from no exporting activities through the same steps except end up with a wholly owned subsidiary in the foreign market instead of just directly exporting (Kunday & Şengüler, 2015, p. 975). Johanson and Vahlne (2009, p. 1412) introduced this stages approach to address the liability of foreignness that arises from the psychic distance with foreign countries. The higher the psychic distance the harder it is to build new business relationships (Johanson & Vahlne, 2009, pp. 1412-1414).

The other traditional example of Kunday and Şengüler (2015, p. 975) is the Innovation-related Model of Bilkey and Tesar originally from 1977. It usually starts with the firm being approached with an unsolicited order. This requires some changes to business activities by innovating more suddenly to fill some order. If similar orders happen in an accelerated way, more market share is gradually gained in the foreign market and the firm can end up being an experienced exporter.

2.1.2 Network theory (NT)

Kunday and Şengüler cite (2015, p. 976) the network theory by Johansson and Mattson from 1988 which focuses on the networks of the individual entrepreneur with foreign firms. It is based on the idea that internationalization is a natural byproduct of increasingly creating new foreign relationships with customers, competitors and suppliers in their network. Johanson and Vahlne stated (2009, p. 1414) that the firm acquires knowledge through these network exchanges. Knowledge is created through confrontations as part of business activities between producer and user knowledge. Martineau and others (2016, p. 464) stated networks affect foreign market involvement decisions by “reducing information asymmetries, access to opportunities and resources, advice and experiential learning and reducing opportunistic behavior.”

2.1.3 Knowledge-based view (KBV)

Stoian and others (2024a) stated knowledge-based view as being an influential view and it has helped to define entry modes such as joint ventures, wholly owned subsidiaries and acquisitions. However, it is not quite at the level of the other theories. Stoian (2024b, pp. 2490-2491) stated knowledge has long been recognized as having an influence on organisational outcomes. Organisations have different types of knowledge that can be created internally and acquired externally. The knowledge is held by the individuals and the organisation. Knowledge is developed by individuals who are key for knowledge creation by their interactions with other individuals in their historical and temporal contexts. History is important in this view because it has contributed to current habits of thinking in geographical areas and times.

2.1.4 Born Global (BG)

Born Global is the concept for any firm that attempts to internationalize from the ground up when it is founded instead of doing it gradually. The entrepreneur's role and skillset are markedly different in this approach. The Born Global approach tries to adapt a global vision and risk-taking ability to find and serve global niche markets with new innovative products and services. (Kunday & Şengüler, 2015, p. 976). It is like the market development attitude of Saebi and others (2016, p. 571) where the business seeks and exploits new market opportunities more than defending their current position from threats which is often a driver of change.

2.1.5 Transaction cost theory (TCT)

Regarding entry modes, the transaction cost theory is used to explain the choice of entry mode often because it is most used in entry mode research (Schellenberg, 2018, p. 608; Laufs & Schwen, 2014, p. 1112) The literature has used it in the more specific research of export channel choices too (Ipsmiller, 2021, p. 2).

The unit of analysis in this approach is transactions and instead of production costs, the costs are transaction costs which is the focus of analysis (Schellenberg et al, 2018, p. 12). The theory explains entry mode choice through four dimensions of transactions. *Asset specificity, environmental uncertainty, behavioural uncertainty, and transaction frequency* (Schellenberg et al, 2018, p. 608). Ipsmiller and others stated (2021, p. 2) that the influence of the dimensions on these costs determines the export channel choice as well. From what Schellenberg and others gathered (2018, p. 12) the two assumptions in TCA are that the decision-makers are limited in their cognitive abilities and knowledge at any given time when making choices and it poses a risk for opportunistic behavior.

Some of the transaction costs are caused by issues of *asset specificity*. Some physical assets and human resources are easier to repurpose with new partners or tasks. Low specificity assets are already codified and widely used. With high-specificity assets in use, a partner can behave in self-interested ways because the firm has no ability to exit the business relationship, or it is more costly and leaves valuable knowledge and skills to a now new competitor. This could mean the partner not heeding the contracts and even lying and stealing too. Therefore, the firm would need higher control which increases costs also (Schellenberg, 2018, p. 608).

2.1.6 Resource-based view (RBV)

Martineau and others (2016, p. 464-465) posit that firms are a set of tangible and intangible assets. Market entry and international performance is a function of how well they can use their unique resource types together (human capital and relational capital with clients and governments). Size is a predictor of financial and managerial resources and an excess of those is essential for international market entry because they would not be available to maintain domestic operations and foreign operations at the same time. Difficult-to-copy and costly resources and organizational learning that allows for developing new resources and gaining and defending advantageous positions are an important part

of sustainable competitive advantage and good performance (Schellenberg, 2018, p. 616).

However, realising what the pertinent resources are or how to develop new relevant ones is very difficult for small firms because of their environment and uniqueness. The resource-based view has taken into the consideration the importance of the decision-makers. In addition to resources, managerial learning is a significant variable and an opportunity because as intellectual capital increases, the decision-makers can develop strategies or allocate resources better. It also increases international involvement. This variable is more pronounced in smaller firms because their strategy is more driven by managerial characteristics (Schellenberg, 2018, p. 616).

2.1.7 Institutional theory (IT)

Schellenberg and others (2018, p. 609) on Institutional theory explain entry mode choice with the concept of *isomorphism*. Firms are heavily governed by how their industry's activity is established in the foreign market. These factors can be split into three groups. Regulative institutional forces mean laws and rules, normative forces mean values and norms and cognitive institutional forces mean the type of ideas in the culture that give meaning to things. These constrain them to a particular set of actions that force them to become like all other firms by imitation of foreign market firms. It is an attempt to legitimise themselves in the new market. The pressure to be constrained in this way has been found to influence entry mode choice significantly.

2.1.8 Eclectic paradigm/ OLI

This theory has been used because of the ownership and location advantages identified in influencing entry mode choice (Schellenberg, 2018). It is, according to Schellenberg and others (2018, p. 612) the second most applied theory in entry mode choice literature.

Although it is less used in the study of SMEs, it is a broader multi-theory that includes factors from transaction cost theory, institutional theory and resource-based view in it. The decisions are assumed to be made rationally, and international performance is based on ownership, location and internalisation (OLI) advantages. Ownership advantages could mean better costs, control and benefits of inter-firm relationships that are brought by increasing intangible assets and product innovations. Location-based advantages are institutional and productive factors in the host market which can make production cheaper, or refined, and when it is more beneficial to combine home products with intermediate products. It includes cultural and infrastructure similarities relative to someplace else. Internalisation advantages refer to the decreased transaction and control costs caused by internal activities (Schellenberg, 2018, p. 612), when they handled by the firm internally and not by partner or intermediary.

2.2 Influencing characteristics of SMEs

Laufs and Schwens (2014, pp. 1109-1110) posit three characteristics of SMEs that affect mode choices. The *level of commitment*, *risk management* and *level of control* over operations. Furthermore, a lack of financial resources can limit the SME from committing with higher commitment equity modes such as acquisitions. Moreover, sensitivity to external influences makes any endeavours riskier and calls for an effective way to manage that. SMEs have a different ownership structure too. Many are family-owned where the owner is the manager. They are more long-term oriented which affects their orientation to the choice of entry mode. Saeed and others (2024, p. 90-91) stated CEOs are in a greater role than in large firms. SMEs often rely on the CEO's social networks to get the firm across borders because of limited resources and skills. Finally, Laufs and Schwens (2014, p. 1111) continue that the business objectives likely align with personal objectives so that there is less willingness to share control, and they opt out of shared-control modes such as joint ventures, alliances, partnerships. The decision is more likely to reflect their personal values, needs, beliefs and philosophies. However, they concluded

that family firms are not worth it to study as its own factor because they are still too differentiated (Sestu, 2023, p. 504).

Laufs and others (2016) examined other CEO characteristics as well. The age, tenure and experience level of CEOs from German SMEs were combined with the firms' geographic experience and host country's political risk. No significant direct effects with CEO's international experience nor firm's geographic experience on the choice of foreign entry mode.

They (Laufs et al, 2016) continued CEO age alone has no effect without considering contextual factors. Tenure length alone has no direct effect on entry mode choice either but exerts a strong influence when considering geographic experience and host-country political risk because they are involved in his/her managerial discretion. Experience is not significantly related to entry mode choice. Age only had a relationship with the firm's geographic experience in older CEOs which may be explained by younger ones attempting to prove themselves and show independence. Younger CEOs are more likely to choose equity modes when host-country political risk is low because age is related to conservatism and negatively related to risk-taking, reduced ability or willingness to learn new things and higher commitment to the current way that things are done.

High political risk and low firm's geographic experience causes older CEOs to be more likely to choose non-equity modes. If the firm's geographic experience is high at the same time, older CEOs tend to increasingly choose equity modes over non-equity modes but not younger CEOs which suggests that older CEOs pay more attention to context than younger ones who keep to a more similar pattern. Overall, even if political risk is high the longer tenure CEOs tend to choose equity modes (Laufs et al, 2016).

High geographic experience increases the likelihood that a longer tenure CEO will choose an equity mode. Whereas the longer tenure constrains the CEO's freedom to choose entry modes high firm's geographic experience enhances it (Laufs et al, 2016).

Shorter tenured CEOs tend to make more novel decisions instead, so they differ less when firm's geographic experience is low. Longer tenure CEOs tend to choose more non-equity modes when geographic experience is low which makes the difference like age's relationship on the entry mode choice (Laufs et al, 2016).

3 Entry modes

Categorised as non-equity and equity modes, Laufs and Schwens (2014, p. 1) divide non-equity mode into direct and indirect export modes and different contractual arrangements e.g. licensing. Some of the options SMEs deciding on an equity mode have, are joint ventures, wholly owned greenfield subsidiaries and acquisitions (Laufs & Schwen, 2014, p. 1). Cross-border e-commerce is also suggested to be a new kind of entry mode (Qi et al, 2020). The choice may be motivated by different factors because they involve different levels of control, commitment and ownership (Nisar, 2012, p. 1). Pastelakos and others (2023) studied innovativeness and internationalization support's role in export intensity and diversity in Greek SMEs after economic hardship. It is suggested that innovativeness is "crucial for their export success" by way of market differentiation (Pastelakos et al, 2023, p. 33).

Lin and Ho (2019, p. 33-36) analysed variables and found that firm size and international experience were strongly and positively correlated with higher resource-commitment modes in Taiwanese SMEs. Size has been identified in other empirical studies as being connected to higher foreign direct investment i.e equity modes, and internationally experienced managers can manage foreign activities better. Asset intensity, network relationships and even export intensity were also strongly positively related to higher commitment modes (Lin & Ho, 2019, p. 36). In addition, state product characteristics and advertising intensity were found to have a strong effect. If the relevant assets are not very specific and therefore easier to move from the home market to foreign markets the resources may be employed with a higher commitment mode to sell products internationally.

Bruneel and De Cock (2016, p. 152) found some consensus from some TCE studies that when environmental uncertainty is high, non-equity modes are preferred by SMEs. Second, equity modes tend to be preferred when asset specificity is high. Furthermore,

some studies established a connection that higher environmental uncertainty only strengthens equity mode choice when asset specificity is high. Other OLI studies have emphasized ownership and location advantages increasing the choice of equity modes. RBV studies have found a preference towards equity modes to protect assets. In addition, Sestu and others (2023, p. 489-494) assert SMEs favour cooperative entry modes compared to large firms. Their foreign market knowledge, international experience, human resources and managerial skills are vital for growth so those can lead SMEs to look for shared equity modes to acquire them. It is even more pronounced when psychic distance is higher. Next to exports and FDIs, a study by Hernández and Nieto (2012) found collaborative modes are more likely to be adopted as cultural-cognitive distance and/or normative distance increases which shows institutions regulate equity mode choice significantly enough.

Another study by Stoian and others (2024a, pp. 2496-2497). found that the first mode choice in a new market is chosen according to the manager and the most important employees' prior knowledge and experience and the most important employees. Most managers confirmed choosing equity modes based on knowledge gained from researching their options and from international partners, industry peers and even competitors.

The downsides to entry mode research are it does struggle with what measures of performance to use across studies (Nisar et al, 2018).

3.1 Non-equity modes

3.1.1 Product adaptation capability

One issue in international performance is adaptation or standardization of the product. Hollender and others (2017, p. 253-254) state strong capability to adapt products in non-

equity modes enables better performance even when there is a lack of knowledge or external challenges because it leads to better customer loyalty. The importance of adaptation is greater, the more different the foreign market needs and tastes are. Non-equity modes allow e.g. renegotiating contractual agreements, switching business partners or exiting the market altogether. They also do not require a physical presence in the foreign market which lowers investment cost. However, continuously gaining knowledge about the market is not feasible which makes them more sensitive to external changes.

3.1.2 Social capital

Social capital is brought up by Menzies and others (2020, p. 628-631) as important to the SME because the liability of smallness makes it harder to acquire network resources to support market entry. SMEs may suffer from a lack of social capital, and it has been shown before those different facets of social capital affect entry mode choice and its intensity. Their results concluded that even weak structural and relational social capital affected entry mode choice by acquiring knowledge from one's relationships (Menzies et al, 2020, p. 644).

3.1.3 Control mechanisms

Brouthers and Nakos (2004, p. 242) asserted SMEs with less developed control mechanisms in foreign operations tend to choose non-equity modes when environmental uncertainty is high to offset the risks and responsibility to foreign firms whereas those with greater control tend to choose equity modes because it allows for better control against opportunism and unwanted dissemination of knowledge.

Between the two mode categories, Hollender and others state (2017, p. 253-254) equity modes have a higher potential for gain. Direct dealings with customers mean higher

commitment to the market and more knowledge. There is also no such risk of opportunism compared to a non-equity mode with a business partner.

3.1.4 Size and host country economic structure

Ferreira and others (2013, p. 287- 288) found evidence for the Uppsala stage model of market entry. The only significant factors were firm size and the host country's economic structure, which affected the choice between export and contractual agreements. However, proximity between markets, government policies, and the competitive structure of the host market had the least influence which could be explained by lack of resources, flexibility with other cultures, or their reluctance, to value government policies. Only exporting and different contractual entry modes were investigated but it was concluded that SMEs prefer exporting, which is according to the broader literature. A study by El-Gohary (2013, p. 126-127) concluded that internal firm factors and host market factors such as size, owner skills and local market trends, local government influence, and local competitive pressures significantly increases choosing a form of exporting. The target market's equivalents to local market factors did not have any significant impact.

3.1.5 Exporting demand uncertainty

Laufs & Schwen (2014, p. 1-2) outline that exporting is the most popular for SMEs because they have limited resources for higher commitment modes with higher potential gains. Tinitis and Fey (2022, p. 287) stated exporting could be the lowest risk mode because it is least committing and has lower uncertainty and fixed costs. Lack of resources has been identified as the largest barrier for exporting. Ipsmiller and others (2021, p. 1-3) continued there are many ways to export and deciding on an exporting channel is a further choice they need to make. For an SME choosing to export, demand uncertainty will be of biggest concern because the sales function would be international, but there would be no products or services present in the foreign market ready. There are numerous factors to explain export performance but mostly the literature on SMEs is focused

on firm size, years of experience internationally, company status in the market and managers' characteristics (Zaiem & Zghidi, 2011, p. 293-294).

Austrian SME firms from a sample of 180 were studied by Ipsmiller and others (2021, p. 1). Previously, research export channel decisions have been studied only from the perspective of how they affect transaction cost efficiency to which they suggested that the level of investment commitment and level of control were the main points of interest.

However, there is a "real option" of investing in real physical and human assets that would help create better value in times of high uncertainty by making flexible investments and thus minimizing the downside risks (Ipsmiller et al, 2021, p. 1). The higher the demand uncertainty, the more there is a tendency to choose simple options like direct exporting from the home country rather than a shared option of indirect exporting with a domestic or foreign intermediary or a complex option with multiple channels at the same time (Ipsmiller et al, 2021, p. 3).

3.1.6 Innovativeness and internationalization support

Pastelakos and others (2023, p. 38-40) showed that research and development activities imply higher export performance because of the strong positive correlation between R&D and export intensity (foreign share of total turnover) and export diversity (number of countries). However, the relationship between innovation and export performance is "partial and weak" at best. Export intensity is not significantly correlated with innovation, but export diversity is. Also, Pastelakos and others (2023, p. 38-40) decoupled innovation into product and process innovation, of which only process innovation was significantly correlated. The results from the surveys asking how often the SMEs had received internationalization support services showed that internationalization support has a positive and significant correlation with export performance.

Stoian and others (2017, p. 141-142) found a significant increase in performance from managers that used and believed their networks are of use for all but only exporting firms, where there was no significant correlation. This is explained by an innovative approach leading to better choices in the internationalization strategy. The SMEs gain more market knowledge over time. It is suggested, though, exporters' intermediaries improve and their efficiency transfers over to the SMEs before them in the supply chain too.

Along with actively using networks, Stoian and others (2017, p. 139-140) found they have been found to increase international performance by increasing innovative behavior. It had no significant effect for only exporting firms. Knowledge accumulation, however, increases innovative behavior which is further found to increase performance. It is useful for the only exporting firms and others alike.

3.1.7 Exporting with international experience and product adaptation

A resource-based view study of SMEs showed that international experience and product adaptation mitigate the liability of smallness of SMEs (Hollender et al, 2017). Hollender and others (2017, p. 258) showed international experience and product adaptation capability assist SMEs in finding more efficient entry modes by mitigating this liability and overcoming non-equity modes' disadvantages. In fact, the entry mode choice's effect on international performance is influenced by the product adaptation capability. In total however, there is no significant connection between entry mode choice and international performance because they depend on the context in resource-based view contexts. The higher resource commitment is in proportion with the higher gains in equity modes as is the lower resource commitment with the lower gains in non-equity modes. Otherwise, everyone would choose the best entry mode.

Zaiem and Zghidi (2011, p. 292) argue that the relationship between product adaptation strategy and SME export performance is complex, with implementation and sales decisions closely tied to costs and perceived risks. In their study (2011, p. 302), they

examined factors such as firm size (number of employees), export experience (in years), the number of target countries, and the type of exported product—categorized as either consumer or industrial goods—to assess the degree of product adaptation. They noted (2011, pp. 293, 302) that while standardization is generally less costly than adaptation, adaptation becomes necessary when local and foreign customer needs differ.

Hollender et al. (2017, p. 254) found that SMEs with both product adaptation capabilities and international experience are better equipped to handle external challenges. In contrast, firms using equity modes benefit less from the flexibility of product adaptation, as they already have a physical presence in the host market.

Zaiem and Zghidi (2011, p. 302) also found no significant link between firm size and the use of product adaptation strategies. Their analysis showed that consumer products are more likely to be adapted for foreign markets than industrial products. Furthermore, they found that increased export experience, in terms of the number of target countries, reduced the need for product adaptation—but the number of years of international experience had no such effect.

Another study concluded that the bigger the firm, the more export experience and the higher the education level of the manager and the better the export performance (Kuppusamy, 2019). The smaller the SMEs, the more pronounced it would suggest the liability of smallness to be because the firm will have less of many, not just financial, resources which is why Kuppusamy and others (2019, p. 52) argue that based on the results bigger firms have more resources including human and physical too. They are better able to acquire missing knowledge, needed experience and skills. More experience translates to more easily overcoming challenges and opportunities are easier to identify. Meanwhile more funds ensure critical activities are conducted. Altogether these lead to a better performing firm.

Love and others (2016, p. 816-817) found that higher international experience is linked to having a higher proportion of total sales coming from exports and exporting to more

both across countries and regions. Grafted knowledge also correlated with how many countries and regions a firm has activity in and how much it is out of total revenue.

3.1.8 Cross-border e-commerce instead of exports

Bruneel and De Cock (2016, p. 139-152) reviewed entry mode research and found that cross-border e-commerce (CBEC) is the more likely choice for SMEs than large firms, but it has been included little in studies. Instead of traditional exporting, Qi and others (2020) took a transaction-based analysis at CBEC in China as an entry mode because of the increasing use of technology. Because of the well-developed e-commerce environment in China and lower import fees than with general goods the choice of CBEC is explained by lower costs, and because the CBEC platforms have already established themselves as a particularly easier way to build trust between consumers and foreign firms in the Chinese market. The environment in China is transaction-friendly for e-commerce because of technology providers and marketplace platforms. However, there was only one case study, and the information came from an intermediary instead of the foreign exporters because of the language barrier with Japanese exporters. It poses the risk of the information not being fully objective (Qi and others, 2020, p. 58).

3.2 Equity modes

3.2.1 International experience, knowledge and perceived benefits

Between the two groups, Hollender and others (2017, p. 253-254) state equity modes have a higher potential for gain. Direct dealings with customers mean higher commitment to the market and more knowledge. There is also no such risk of opportunism compared to a non-equity mode with a business partner. To study factors in entry mode decisions, Game & Apfelthaler (2016) examined some that affect attitudes in Canadian

SMEs and, consequently, choice of non-equity and equity modes. The modes were divided to the direct and indirect exporting group, and joint ventures and wholly owned subsidiaries group. More specifically, Game & Apfelthaler (2016, p. 231) examined if any of the factors have any significant impact on the choice of one of the equity modes over a non-equity mode.

Out of the nine factors Game & Apfelthaler (2016, p. 239-240) found that when any of the following: international experience, international commitment, knowledge of culture and perceived benefits are high, the likelihood of choosing one of the equity modes is higher. Surprisingly, a one unit increase in market knowledge resulted in 55 % less likelihood to choose an equity mode.

Between the two groups, Hollender and others (2017, p. 253-254) state equity modes have a higher potential for gain. Direct dealings with customers mean higher commitment to the market and more knowledge. There is also no such risk of opportunism compared to a non-equity mode with a business partner. One network approach to solving the problem of not having a partner or knowledge according to Lopes and Dias (2014, p. 2) is the domestic market network can be of use. Partnering with large enterprises (LEs) can aid SMEs to overcome the liability of outsidership, and instead, boost insidership. This would be against the stage internationalization process and in favor of a rapid one. However, to stay more independent long-term, it would not be feasible because it suggests dependence on a large enterprise from the start which is not great to all managers. Maekelburger and others (2012, pp. 459-461) stated firms prefer to choose equity modes to protect highly specific assets from opportunism. Limited resources often prevent equity modes even if SMEs are very efficient and rational in doing so. SMEs managers often lack the experience to navigate social, legal and political factors of the host country. It is often made worse because of the lack of financial resources to hire or train skilled individuals. Furthermore, they are subject to country risks-changes in political, technological decisions and the market.

Amankwah-Amoah (2022) and others examined foreign market knowledge, international performance and entry mode choice but in emerging markets. The acquisition of knowledge for SMEs is important for international pursuits. It is suggested that out of 205 SMEs in Ghana higher foreign market knowledge increases the odds of an equity mode. Second, it is further likely the more extra, unused resources the SME has available. Third, the findings established the effect of foreign market knowledge on performance depends on whether an equity mode is chosen. Equity modes are suggested to allow for increased advantage (Amankwah-Amoah et al, 2022, pp. 10-11).

3.2.2 Lack of knowledge, financial constraints and safeguarding effects

Maekelburger and others (2012) refer to host country networks as having business partners, competitors and customers. It was hypothesized that lack of international experience may make it more likely to be taken advantage of by business partners because the firm has less developed ways to get relevant information and make investments based on it (Maekelburger, 2012, p. 461-462). However, they assert after enough experience in the host country, behaving like the best firms in the host country can reduce risk of opportunism and the SME being challenged for its practises—*isomorphism* working towards increased performance by SMEs habituating to the environment. This reduces internal uncertainty and decreases the need for internalisation to control specific assets. They showed higher international experience weakens asset specificity's effect on equity-mode choice, suggesting higher experience increases likelihood of equity mode choice (Maekelburger et al, p. 468).

Additionally, there is a significant positive relationship between equity entry mode choice and low asset specificity when there is a high level of host country networks (Maekelburger et al, 2012, p. 468). Maekelburger and others (2012, p. 469) showed imitation increases the likelihood of choosing equity modes when asset specificity is low which was significant at low levels but not so much at medium to high levels of asset specificity.

Host countries with less developed property protection rights cause external uncertainty because it increases the risk of opportunism. They are important for protecting specific assets from being copied and allows for less internalisation (Maekelburger, 2012, p. 462). It is shown that more highly developed property protection rights do not have a significant effect on choosing equity modes when asset specificity is very low (Maekelburger et al, 2012, p. 469). Discrimination can be an issue if the cultural distance is too high. Suppliers, governments and consumers can avoid the internationalising SME for this reason, and it increases risk of failure and adverse behavior (Maekelburger, 2012, p. 463). Maekelburger and others (2012, p. 463) stated specifically that contracting can be difficult and more expensive. They suggested a direct effect (2012, p. 469) of cultural proximity on choosing equity entry modes. The lower the asset specificity, the more important cultural similarity becomes. The correlation was positive and significant at very low asset specificity but non-significant from medium to high levels.

3.2.3 Joint ventures

Lin and others (2019, p. 33-36) analysed variables within Taiwanese SMEs and found that firm size and international experience were strongly and positively correlated with higher resource-commitment modes. Size has been identified in other empirical studies as being connected to higher foreign direct investment i.e equity modes of entry, and internationally experienced managers can manage foreign activities better. Advertising intensity, network relationships and even export intensity were also found to be strongly positively related to higher commitment (Lin et al, 2019, p. 36), which could suggest that the form of exporting advances to a more direct form or, they (2019, p. 36) continue that a production subsidiary is set up. Sestu and others (2023, p. 503-504) also showed size is a relevant factor in entry mode choice and SMEs tend to rely more on cooperative entry modes compared to large firms. Foreign knowledge, experience, human resources and management are vital for growth so it can lead to SMEs looking for shared equity modes. It could be explained as a need for the lowest possible cost for knowledge about the new market. When an equity mode is chosen, it is likely a joint venture rather than

a wholly owned subsidiary, and the choice is strongly influenced by size and level of resources of the investing SME whereas family ownership has null effect (Sestu et al, 2023, p. 489).

It seems that because of the high uncertainty, information asymmetry and limited ability the choice of a cooperative equity mode could be explained by the need for the lowest possible cost of information about the foreign market because of the SMEs limited resources to make decisions with (Sestu, 2023, p. 503). Giudice and others (2016, p. 663-664) found that information asymmetry does not affect choice of a shared equity mode much, and high informal institutional distance increases the probability of non-equity modes because of the uncertainty brought by very different corporate cultures. Partner firm size, resources and well performed trends in the host country in recent history lead to a preference for shared equity modes. Perception of how powerful the venture partner is lead to more preference for shared equity modes because of the productiveness it implies. Laufs and Schwens (2014, p. 1109-1111) continue SMEs cannot always choose a high-commitment mode because of limited resources but sometimes those with international experience can choose e.g. acquisitions. External influences like technological, political, market and institutional changes add to uncertainty. Yet, Nisar and others (2018, p. 22-26) divided entry modes into joint ventures, wholly owned greenfield and cross-border mergers & acquisitions, and found that ownership type, trust and similar strategic goals related to the overall performance of joint ventures. Next, more internationally experienced SMEs were not more successful from reduced transaction costs and location-specific advantages of joint ventures. Rather, it was negatively correlated with performance. Sector of operation was positively and significantly related to performance except for joint ventures which tended to have the government as a partner and exhibited poorer performance the more involved with the government they were. It is likely explained by different goals than private firms and disagreements, politics and bureaucracy slowing down activities. Size influenced performance for all three modes which they attributed to SMEs flexibility and lesser organisational inertia.

3.2.4 Wholly owned subsidiaries

A study found some success with German firms' greenfield investments into Malaysia. Ti and others (2022) interviewed key personnel from 16 German SMEs. What motivated their equity entry mode choice were mainly factors that support TCT because of the firms' high asset specificity and desire to defend advantageous competitive positions by protecting and using their specialized proprietary knowledge (Ti et al, 2022, p. 1669).

Ti and others (2022, p. 1665-1666) list full control over firm processes, operations and assets was cited as the reason by personnel in 12 out of the 16 firms. Shared ownership would impose too many decisions by foreign or non-family stakeholders and be psychologically destabilising for someone who has always been the leader (Ti et al, 2022, pp. 1665-1666). In addition, Maggi and others (2022, p. 47) reviewed family firms' entry mode choice research and concluded that FDIs are more likely because of the distress of adaptation-although joint ventures are most successful when both leaders are from family-owned firms. Another reason is the already mentioned knowledge safeguard of trade secrets and patented information against opportunism-proudly so. The perceived danger of intellectual property theft or copycatting while manufacturing something no one else does were cited even though the 8 were involved in non-IP critical products and services (Ti et al, 2022, pp. 1666-1667). Ti and others (2022, p. 1667-1669) continue a third motivating reason is a long-term vision of financial and professional stability and durability of products with a greenfield investment. Some of the SMEs are many decades old that sell products with a decades-long life and service span which makes greenfield suitable. Fourth, 7 of the 16 firms cited that they could not find partners that meet their required standards for an acquisition or a merger because of the underdeveloped value chain environment. 3 of those 7 cited being too specialized to have a pool of matching partners to choose from. Lastly, using a trusted equity mode was part of a formulaic proven strategy to expand internationally. It avoids the deficiencies with takeover projects, and the equipment and facilities are already familiar which leads to less operational tensions for management.

4 Conclusions

The objective of this literature review was to study SME entry mode choices, the most important factors for mode choices and how they affect performance. As to how entry choices are made. The findings are consistent with exporting being the most popular form of entry for SMEs. Exporting is most represented in part because of the liability of smallness which brings a lack of resources, knowledge and more uncertainty for higher commitment modes. Different measures of international experience and knowledge seem to be one of the themes in navigating the liabilities of smallness and foreignness as well as the resource commitment, risks and control of operations. In addition, bigger size is a predictor of better outcomes and so is age of people in the firm and the firm itself. Innovativeness also leads to increased performance and knowledge indirectly increases performance by increasing the innovativeness. Though, modes involve different levels of commitment, control and risks and the results of the thesis are somewhat mixed.

Internationally experienced CEOs of SMEs could choose higher commitment equity modes they do not appear to be connected (Laufs et al, 2016), when Lin and Ho (2019) found that it is strongly positively correlated with higher commitment choice modes. SMEs tend to prefer joint ventures when choosing equity modes. Equity modes are also more likely when there is high cultural proximity when asset specificity is high. International experience is found to weaken asset specificity's effect on equity mode choice leading to more equity mode choice. Networks have been found to both affect and not affect entry mode choice. Joint ventures are preferred when an equity mode is chosen because of the factors brought by liability of smallness. Size is identified to be the biggest moderator of equity mode choice and equity mode choice through joint venture is suggested to be an attempt to acquire vital knowledge, experience and human resources for lower risks in high-commitment activity.

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