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# How do business-level strategies affect multiple market servicing modes in the foreign country?

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## Abstract

**Purpose** – There is considerable literature on the firm's market servicing mode (MSM) when it enters the foreign country. However, scant research has been conducted to examine how business-level strategies (BLSs) affect internationalised firms to choose a multiple rather than single post-entry MSM. The purpose of this paper is to test the effect of three BLSs on firms' selection of multiple MSMs.

**Design/methodology/approach** – Survey responses of 165 internationalised Greek small- and medium-sized enterprises (SMEs) were collected capturing the types of BLSs they used during 2008-2010 and their number of MSMs in a particular foreign country in 2011. The data were analysed using logistic regression.

**Findings** – The findings suggest that firms that implement collaborative and differentiation strategies are more likely to use multiple rather than single MSMs. Firms that implement penetration pricing strategies are more likely to use single MSMs, although this effect is marginally significant. Overall, the validity of the strategic choice model regarding the choice of multiple MSMs is confirmed.

**Originality/value** – Despite its importance, the effect of BLSs influencing MSMs has not seemingly been investigated, especially in the context of internationalised SMEs as opposed to large multinational enterprises; and, for post-entry as opposed to initial modes. The findings underline the BLS significance on internationalised SME adoption of multiple vs single MSMs in the host country.

**Keywords** SME, Business-level strategy, Market servicing mode, Strategic choice model

**Paper type** Research paper

## 1. Introduction

There are many studies that deal with foreign market entry selection (e.g. Brouthers and Hennart, 2007; Buckley and Casson, 1976; Dunning, 1988). However, the market servicing modes (MSMs) in a foreign market that follow the initial entry modes are rather under-researched. As the first-time entry mode choice of firms may not be a “perfect landing”, it is rather unknown what factors affect subsequent MSMs in the host country. In line with Young *et al.* (1989), we define the MSM as the firm-level arrangement through which enterprises service a single foreign market with their value-adding activities. Post-entry MSMs are important because they are likely to have a considerable effect on the long-term evolution and performance of the firm in the foreign market. Efficient servicing mode selections may minimise the overall cost of internationalisation (Buckley and Hashai, 2005). Effectively post-entry MSMs can be a major aspect that characterises the enterprise's internationalisation pattern following its initial entry into a particular foreign market (Jones and Coviello, 2005; Young *et al.*, 2003).

This study investigates the firm's choice of multiple vs single MSMs in the host country. While a single MSM may be used in some host markets, multiple ones are more appropriate in others. Many firms assume a combination of modes (Welch *et al.*, 2008), and hence, the phenomenon of multiple MSMs is not uncommon in practice. Benito and Welch (1994) illustrate how a firm adopts a broad package of resources concerning modes at its entry point, which leads to an altered package of servicing modes at a later point of time. A real-life example is the Greek clothing firm Nota that currently uses both exports and a joint venture to service the Hungarian market; in contrast to its initial sole exporting mode (Nota Greece, 2014). Another example would be Starbucks that converted in Thailand its original franchising mode with the local firm Coffee Partners into a subsidiary as it subsequently acquired that Thai firm (Ordóñez, 2000).

The significance of multiple MSMs is fourfold. First, implementing multiple MSMs may imply that the firm pursues a variety of locally responsive strategies in order to achieve a wide coverage of the market, especially when this market is relatively large and different from existing international ones (cf. Rugman and Verbeke, 2004). Second, if firms with multiple MSMs are distinguished by high levels of motivation and commitment to internationalise, they are likely to succeed abroad (cf. Dimitratos *et al.*, 2012). Third, such firms often simultaneously have dual strategic focuses; and, can have different internationalisation profiles than those with a single one (Madhok, 1998; Petersen and Welch, 2002). Fourth, following their first entry, firms may attempt to add more servicing modes as a “trial-and-error” learning process in order to find the best fit in the foreign market (Prashantham and Floyd, 2012).

Despite its significance, the choice between multiple and single MSMs has seldom been investigated, especially for small- and medium-sized enterprises (SMEs) (Canabal and White, 2008; Pedersen and Petersen, 1998). Multiple MSMs may be excluded from statistical analyses due to the way they can be framed in studies, the tendency of managers to report only their primary mode and the fact that researchers are likely to regard them as anomalies (Petersen and Welch, 2002). Associate or secondary modes to the primary one are rarely regarded as an important aspect in achieving international growth. Similarly, there is evidence that while SMEs maintain the initial entry mode, they can additionally opt in more risky and controlling MSMs later, increasing their interest and commitment (Chandra *et al.*, 2012). Therefore, examining solely the “main” servicing mode in international markets would lead to biased research conclusions, since such practice provides only a partial account of the international activities of the firm.

This study investigates the effect of business-level strategies (BLSs) (Porter, 1980, 2011) in prompting firms to choose a multiple MSM following their initial entry. The examination of BLSs is dictated by the strategic choice model that posits that strategies implemented by firms can generate rents (Child, 1972; Cyert and March, 1963). BLSs refer to the tools the firm uses to compete *vis-à-vis* its competitors in a particular business sector; and, are different from corporate strategies that refer to the direction of the organisation as a whole such as choices concerning the composition of the overall business portfolio (Hambrick, 1980). Liao (2005) argues that BLSs reflect the firm's view about where and how it has an advantage over its rivals in a product market. Managers often lack knowledge about BLSs that may affect the selection of MSMs, which can influence enterprise growth and performance in the host country. Following Porter (1980, 2011), BLSs in the current study include collaborative, differentiation and penetration pricing strategies.

Therefore, the research question in the present study is how do BLSs affect the use of multiple vs single MSMs (following their entry mode) in a single foreign country? Towards this objective, we draw evidence from activities of 165 Greek internationalised SMEs. The current uncertain economic context in Greece forms an unfavourable setting for indigenous enterprises that may view internationalisation as a viable route to their survival and growth.

Our theoretical contribution lies in illuminating the importance of the strategic choice framework for internationalised SMEs. Strategies have largely been considered in the context of multinational enterprise activities (e.g. Chi and McGiure, 1996), but are rather under-investigated in the context of SMEs and their multiple vs single MSM selections. A comprehensive understanding of how different types of BLSs affect the choice of multiple MSMs is still fragmented (cf. Efrat and Shoham, 2013). Therefore, we aim to examine the strategic choice framework in SME internationalisation so as to provide a better understanding of the strategies contributing to the post-entry mode literature stream.

The remainder of this paper is structured as follows. In the following section, we review the extant literature on MSM choices; and, advance the three hypotheses linked to the effect of BLSs. After explaining our methodology, the results of the logistic regression analysis are presented and discussed. The paper concludes with theoretical and managerial implications as well as limitations.

## **2. Literature review and research hypotheses**

### *2.1 MSM choices*

Enterprise international learning and commitment take time before firms grow and move into more risky modes such as foreign direct investment (Freeman *et al.*, 2012). MSMs may be viewed as a means of business organisation employed by firms to enter foreign countries so as to undertake value-adding activities; and, involve the degree of localisation and externalisation of such activities (Jones and Young, 2009).

Paradoxically, a complete listing of servicing modes may not exist. However, they can be categorised according to the resources committed, risk and flexibility (Agarwal and Ramaswami, 1992). Gallego *et al.* (2009) propose a continuum of five servicing modes, namely exports, licensing, joint sales office, joint venture and subsidiary, whereby exports require the least level of resource commitment as opposed to subsidiaries. Joint venture partners and wholly-owned subsidiaries appear to be more suitable than export agents and intermediaries to tackle foreign competition (Dimitratos *et al.*, 2010). The decision on using which modes to service an established foreign market is a complex and critical decision for the firm servicing a foreign market (Kumar and Subramanian, 1997). Considerable research has been undertaken on initial market entry in foreign countries (e.g. Buckley *et al.*, 1990; Levesque and Shepherd, 2004; Nielsen and Nielsen, 2011). Nonetheless, there is dearth of research on the examination on post-entry modes, particularly on multiple MSMs. In one of the few related studies, Pedersen *et al.* (2002) report how 94 out of 276 Danish firms switched from their initial entry mode to alternative ones over a five-year period. In this literature review, we predominantly draw on the existing entry mode literature when we refer to MSM choices.

### *2.2 Theoretical perspectives on MSMs*

There are mainly five theoretical frameworks that have been employed to examine MSMs. These frameworks have also been widely used to explain how firms choose their entry modes in a foreign market. Each of these frameworks may illuminate the

enterprise's choice of MSMs with varying levels of accuracy (Chiao *et al.*, 2010). First, the transaction-cost framework (Buckley and Casson, 1976; Williamson, 1985) suggests that each mode is associated with different degrees of transaction costs, and hence, the firm would seek to minimise the sum of its transaction and production costs. Williamson (1985) proposes three factors that affect mode decisions, namely asset specificity, internal and external uncertainty and frequency. Criticism at this research stream posits that the transaction cost analysis is rather deterministic and focuses predominantly on advanced modes of internationalisation (Ghoshal and Moran, 1996; Granovetter, 1985; Madhok, 2002).

Second, related to transaction-cost analysis, Dunning's (1988) eclectic paradigm highlights the importance of the advantages of ownership in shaping internationalisation decisions. This paradigm refers to the combined impact of ownership, location and internalisation (OLI) advantages on foreign mode selection. However, this model has paid little attention to the conditions under which firms can access their OLI advantages; and, how these conditions affect their initial mode of foreign entry and especially subsequent footprint in the host country (Hennart, 2009).

The following two theories effectively adopt a resource-based view perspective, which can be viewed to be a complementary explanation to transaction-cost approaches. The stage theory (Bilkey and Tesar, 1977; Johanson and Wiedersheim-Paul, 1975; Vahlne and Johanson, 2013) is the third perspective explaining MSMs and supports the notion that the firm would commit resources in the foreign market incrementally as experiential knowledge is acquired. An increase in knowledge results in reduction of uncertainty about foreign markets (Cavusgil, 1984), leading to a higher commitment in the foreign market as a lasting cycle (Andersen, 1993). Hence, as knowledge increases, the firm may initially internationalise via indirect export, and eventually establish its subsidiary in the foreign country. This incremental model would possibly suggest multiple MSMs if firms sought to preserve their initial entry mode, even if they have subsequently implemented a more advanced mode. However, the stage approach has its limitations in explaining MSMs because it attempts to explain dynamic and interactive enterprise behaviour with linear models (Anderson, 1997; Bell *et al.*, 2003; Jones, 2001).

Fourth, based on theories of resource dependency and social exchange, the network perspective (Coviello and Munro, 1997; Welch and Welch, 1996) postulates that firms are involved in alliances in both national and international markets, whereby numerous organisations participate. These organisations are suppliers, competitors, consultants, customers, firms from other sectors and government agencies. Network relationships ease the development of the firm abroad and lead to increased resource commitments (Johanson and Vahlne, 2003). This perspective has been mainly used to illuminate collaborative modes and their evolution in foreign markets. As Jansson and Sandberg (2008) argue, there are various routes that the firm can use to enter a network in a foreign country. If it is involved in multiple networks, then multiple MSMs may be desired and selected, especially in psychically distant markets (Ojala, 2009). Nonetheless, networks can also place limitations on internationalised firms (Chetty and Campbell-Hunt, 2003) in that overly stable relationships may prevent firms from going beyond their current alliances and developing other prospective relationships (Adler and Kwon, 2002). This could adversely affect the adoption of multiple MSMs in the host country.

Fifth, the institutional theory (North, 1990; Scott, 1995) supports the idea that the institutional environment of a country points to the choices that the entering firm has in that market, and the available MSMs it can select. Employing this approach, Yiu and Makino (2002) confirm the influence of regulatory, normative and cognitive

dimensions, which make up the institutional environment on mode choice. The findings of Meyer and Nguyen (2005) further show the important effect of the regulatory dimension on MSMs. Although valuable, the institutional theory only relies on uncontrollable environmental factors and would better be combined with other approaches such as the transaction-cost framework in order to provide a holistic explanation of the MSM selection (Brouthers and Hennart, 2007).

### *2.3 Strategies and MSMs*

Strategy involves the process whereby the entrepreneur decides upon a specific course of action that is to be taken by the firm in response to the competitive environment, the available resources and the design of the structure, rules and routines of the organisation (Child, 1997). Internationalisation can be viewed as a strategic process (Chetty and Campbell-Hunt, 2004). As Melin (1992, p.101) posits, “[...] internationalisation is a major dimension of the on-going strategy process of most business firms. The strategy process determines the on-going development and change in the international firm in terms of scope, business idea, action orientation, organising principles, nature of managerial work, dominating values and converging norms”.

The strategy-related literature in internationalisation refers to strategic choices that can make firms gain a competitive advantage in the overall international marketplace (Ayal and Zif, 1979; Bartlett and Ghoshal, 1989; Yip, 1989), the timing of entry abroad (e.g. strategic interaction approaches of Knickerbocker, 1973; Yu and Ito, 1988), the competitive interplay between international players (Graham, 1974, 1978), and finally, global strategic motivations to enter foreign countries (Hill *et al.*, 1990). The majority of these works, such as those involving the transnational (Bartlett and Ghoshal, 1989) and diversification strategies (Ayal and Zif, 1979), however, refer to corporate level rather than BLs. A significant majority of this literature deals with strategies of large multinational enterprises. Even in the hospitality and hotel sectors whereby multiple MSMs are relatively common (e.g. Alexander and Lockwood, 1996; Altinay, 2005; Dunning and Kundu, 1995; Johnson and Vanetti, 2005; Litteljohn *et al.*, 2007), the effect of BLs has not been explored. Hence, there is seemingly no attention to how strategic choices, especially at the business level, can affect MSMs in the host country (Pehrsson, 2008).

This is rather surprising given that BL decisions may have an important influence on the scope, path and pace of internationalisation in specific countries (Chetty and Agndal, 2007; Freeman *et al.*, 2006). As Chetty and Campbell-Hunt (2004) report, a possible explanation when it comes to SMEs is that there is oftentimes an erroneous assumption that these enterprises internationalise following the same strategy. On a related note, other scholars state that the relevance of entrepreneurial strategic choice in SMEs is rather neglected in the literature (Tang, 2011). In these firms, strategic choices may be made not on the basis of an actual situation, but rather on the manager perception of the so-called “construed reality” (Sutton, 1987; Zahra *et al.*, 2005). In the current study, we examine the effect of collaborative strategies, which are widely implemented by internationalised SMEs (e.g. Chetty and Campbell-Hunt, 2003; Tang, 2011); and, differentiation and penetration pricing strategies, which are the principal generic strategies (Mintzberg, 1988; Porter, 1980, 2011) on deciding how to service the host country.

*2.3.1 Collaborative strategy.* A collaborative strategy is adopted when a firm needs to complement and reinforce its resource and knowledge base (Kogut and Zander, 1993; Madhok, 1998). Collaborative strategies can be implemented on a direct or indirect

basis with either competitors or non-competitors (Dollinger, 1990). Pursuing collaborative strategies reduces environmental uncertainty by preventing unpredictable behaviour by other firms and stabilising the firm's exchanges with the environment (Parnell *et al.*, 2012). Information-sharing during collaboration is regularly considered to be central to the acquisition of knowledge through inter-firm ties (Ahuja, 2000). Collaboration should not be regarded simply as a cost-efficient alternative to the wholly owned subsidiary but as a way to enhance market knowledge acquisition and deployment (Hamel, 1991). In contrast, the need to protect proprietary assets and control the use of these assets in a market will discourage the firm from using a collaborative mode of operation. Such a firm is unlikely to adopt collaborative strategies (Ekeledo and Sivakumar, 2004). There may exist significant transaction costs and complexities when pursuing a cooperative strategy, and so, it is not surprising that its implementation can lead to a negative effect on export performance improvement (Matanda and Freeman, 2009).

We posit that collaborative strategies may prevent firms from choosing "one best" mode in the host country; and, are likely to lead to multiple MSMs. Collaborative strategies generate positive economic value for both parties when certain conditions are met (Chi and McGiure, 1996). Apart from their primary mode, SMEs with additional MSMs can seek to attain rents through collaborating with each other and exchanging complementary technology resources (Lew and Sinkovics, 2013). Moreover, firms can benefit from collaborations through positive spillover effects (Kafourous and Buckley, 2008), which may coexist with their primary MSM.

Therefore, it appears that when the firm pursues collaborative strategies in the foreign country, it is likely to engage in various collective arrangements, whereby resource sharing and knowledge transfer with regard to effective customer servicing take place; and thus, employ multiple rather than single MSMs. To illustrate, despite the potential higher transaction cost and additional resources required for operating with multiple MSMs, those firms that both seek to enhance existing capabilities, develop new capabilities and possess exclusive protectable assets through collaborative strategies are more likely to choose multiple MSMs. Hence:

*H1. Collaborative strategy is more likely to be implemented by firms employing a multiple rather than a single MSM.*

*2.3.2 Differentiation strategy.* A differentiation strategy focuses on unique products or services based on innovativeness in the product development, original applications of new technologies or the offering of distinctive bundles of attractive features such as convenience, image and service (Porter, 1980). Thus, a differentiation strategy emphasises niche marketing, local brands and high-quality production.

Miller (1988) distinguishes between marketing and innovative differentiation. While marketing differentiation primarily focuses on satisfying customer needs with current product lines, which may or may not require innovations, innovation differentiation focuses on developing new products (Tang and Hull, 2012). Differentiation strategy necessitates high investment in capabilities to ensure that products have certain characteristics that consumers value. To safeguard the durability of that differentiation, firms must constantly develop new skills and persistently innovate (Camisón and Villar, 2009). Differentiation strategy entails creating value that is perceived as unique and appealing to the firm's customers and serves as a competitive barrier to enable the firm to charge a premium price (Porter, 2011). This strategy neither ignores costs and pricing nor makes them a priority.

As regards internationalised firms, Forsgren (1989) suggests that the differentiation strategy can create barriers to market entry. Aulakh and Kotabe (1997) note that the firm's ability to differentiate its product offerings is likely to significantly influence its mode choice. Studies suggest that the use of differentiation strategy results in the use of high control modes and may enhance firm performance (Agarwal and Ramaswami, 1992; Zott and Amit, 2008). It may be that a differentiation strategy is likely to be connected with the single MSM adoption as in doing so the firm may have better control of its competitive advantage abroad. On the contrary, multiple MSMs can offer comparatively weaker levels of control since the firm is less likely to manage and control its source of differentiation strategy when engaged in multiple MSMs. In addition, SMEs with a differentiation strategy are likely to target specific consumer groups of different sub-regions in a single foreign market (Knight *et al.*, 2004; Stokey, 1979). A differentiation strategy seemingly discourages the adoption of multiple MSMs in order to fulfil these local consumer needs because the firm pursues to offer a consistent corporate image to its consumer groups. It is thus hypothesised that:

*H2. Differentiation strategy is less likely to be implemented by firms employing a multiple rather than a single MSM.*

*2.3.3 Penetration pricing strategy.* Firms often implement low pricing strategies in order to penetrate a market. Penetration pricing strategy focuses on achieving a lower price than competitors, which implies an advantage for the demand side of the firm (Mintzberg, 1988). The rationale behind penetration pricing strategy is that low prices will facilitate the rise of market share. Jobber and Shipley (2012) suggest that a penetration pricing strategy is associated with imposing barriers to market entry, yet it is unknown whether this strategy would be reversely successful in removing barriers. As SMEs are often incapable of achieving the lowest cost structures within an industry, a penetration pricing strategy can assist them to materialise a profit at market prices their competitors find very low. There also exists evidence that the level firms set their price at is likely to gradually increase over time from matching the firm's production cost to matching its competitors' price level (Ingenbleek and van der Lans, 2013).

In addition, since the firm can look for several outlets, collaborators or distributors for the international country of its products to assertively enter its market at low prices, it may be that penetration pricing strategy is linked to multiple MSMs. Stokey (1979) further argues that different degrees of price discrimination in various sub-regions of the host country result in the presence of multiple MSMs. Even though one may argue that operating with multiple modes could potentially increase transaction costs and thereby force prices up, penetration pricing strategy can still be achieved if sales volumes are sufficient to support multiple MSMs (McNaughton, 2002). A penetration pricing strategy is hence possibly coupled with a collaborative strategy since foreign firms have to cooperate with local firms to make penetration pricing strategy work (Hennart and Park, 1994; Melin, 1992). This is likely to further enhance the probability of the firm implementing multiple modes given the alleged positive association between collaborative strategies and multiple modes. Consequently:

*H3. Penetration pricing strategy is more likely to be implemented by firms employing a multiple rather than a single MSM.*



### **3. Methodology**

#### *3.1 Research context*

Internationalised Greek SMEs are the investigated firms in the current research. A full member of the European and Monetary Union, Greece is situated in a strategically important geographic location at the crossroads of three continents. Its full membership in the Eurozone entails advantages for its indigenous firms in terms of facilitating access to a large European market. Greece is currently experiencing a major economic crisis that seriously affects indigenous demand and growth opportunities for its local enterprises. The examination of Greek firms and their pursuit for international growth offers insights to management, and national and international policy makers, whose interest lies on how indigenous enterprise competitiveness can be enhanced in a period of a severe indigenous economic crisis (Organisation for Economic Co-operation and Development, 2011). Internationalisation is likely to offer these firms a viable route to growth that the current uncertain domestic environment is not able to provide. Moreover, evidence drawn from Greek internationalised firms is valuable to policy makers in the context of the debate of strengthening economic unification within regional groups of countries, and in particular, within the Eurozone member countries. SMEs constitute the backbone of the Greek economy (Eurofound, 2013), and so, are the investigated enterprises in the present study.

#### *3.2 Sample, data collection and measures*

The current research is based on a survey of SMEs that have exhibited outward international activities. Firms should meet four criteria in order to be included in the study. They should be independent Greek enterprises, that is not be subsidiaries of large firms; have outward international activities, that is report sales abroad for a period of at least three years; employ at least between ten and 249 employees; and, belong to the food, beverage, garments, footwear and software sectors since these sectors typically are the most internationalised sectors in Greece. Software is a type of service that can both become exported and internationalised through advanced servicing modes. These five sectors formed mutually exclusive subgroups of the population, which assisted in following a stratified sampling procedure through random sampling. *ICAP Greek Financial Directory 2010*, which is the most comprehensive database for firms in Greece, was used to draw the population of examined firms. This study focused solely on the post-entry MSMs employed by the firm in 2011. In relation to BLSs, the questions asked sought to capture the types of BLSs that each firm employed in the previous three-year period 2008-2010, allowing us to test their effect on subsequent multiple MSMs selection.

A structured questionnaire was employed to collect the data for this research and responses were solicited through personal interviews with their managers. Interviewed managers were the key informants in each firm, who were best informed on the internationalisation of their enterprises. The titles of key informants were general, internationalisation, export, marketing, sales or (seldom) production and accounting managers. A pretesting of the questionnaire by academics and managers in order to check its comprehensibility and clarity occurred prior to the launch of the study. Statistical significance and cost considerations dictated that 460 firms were qualified to be included in the sample, out of which 165 cooperated in the survey by providing all required answers. This yields an effective response rate of 36 per cent. Among those cooperative firms, 114 (69per cent) were manufacturing firms while the remaining were service (software) firms. The unit of analysis in this examination refers to the international activities of the firm in the “best-seller” foreign market, that is the

country in which the firm managed to achieve the highest level of sales among its host country destinations.

The measurement of variables is based on previously developed scales. Appendix details the questions used, Cronbach  $\alpha$  and the literature sources that we drew on for the measurement of variables. The dependent variable is a dummy variable capturing whether the firm currently uses a multiple MSM or not (0 = single, 1 = multiple). The three BLSs of collaborative, differentiation and penetration pricing strategies are the explanatory variables. They are measured with multi-item Likert-type questions.

Seven variables are employed as control variables. The first two are uncertainty of the domestic and foreign markets, which are often used to capture enterprise internationalisation and may influence the variety of servicing modes in the foreign country (Akhter and Robles, 2006). Both are measured with multi-item Likert-type questions. The third variable is industry type that is likely to affect the enterprise choice on MSMs employed in the host country (Benito and Welch, 1994). Industry type is captured with a dummy variable (0 = manufacturing, 1 = services, i.e. software).

The choice on the number of modes is also likely to be influenced by the size of the firm (Malhotra and Hinings, 2010), its resources and capabilities used in internationalisation (Chen and Hennart, 2002) and its international experience (Wheeler *et al.*, 2008). These are three other control variables used. Size is measured with the number of employees of the firm and age with the number of years abroad, whereas resources and capabilities with multi-item Likert-type questions. The last control variable is international performance since we sought to control for different foreign performance levels of examined firms. It is measured with a multi-item Likert-type question capturing perceived satisfaction in the foreign country.

### 3.3 Checks for common method variance

We have implemented a number of precautions suggested by Podsakoff *et al.* (2003) in order to minimise common method variance. First, the items used in the statistical analysis were distributed throughout a lengthy questionnaire whereby it was difficult for respondents to discern which the independent were and dependent variables (cf. Chang *et al.*, 2010). Second, scale anchors were reversed for some items to reduce and compensate for the development of response patterns. Third, in 80 per cent of the firms we collected information on the dependent variable MSM employed in 2011 from the *ICAP Greek Financial Directory 2012* and enterprise web sites in order to triangulate the questionnaire responses. The result of the Guttman split-half reliability test ( $R = 0.87$ ) shows high consistency with the data obtained from the questionnaires. Fourth, we ran the Harman's single-factor test. Its results show that no single factor of the unrotated solution explained the majority of variance since the biggest factor accounted for 18.91 per cent of the variance. Thus, common method variance does not appear to challenge the findings of this research.

## 4. Results and discussion

### 4.1 Results

A logistic regression was undertaken in order to identify the effect of BLSs on the MSM that the firm employs in the foreign country. 72 out of 165 firms (43.6 per cent) used the multiple MSM, such as any combination of exports through organisations in the servicing country, exports through agents/wholesalers/retailers, direct exports to clients, licensing, joint ventures, strategic alliances and sales or production subsidiaries. The 43.6 per cent figure compares favourably with those reported in other

studies, notably 18 per cent in the Clark and Mallory's (1997) study and 27 per cent in the Valla's (1986) study. Multiple MSMs following the initial entry mode indeed exist to a considerable extent and failure to report and explain them leads to an incomplete account concerning post-entry internationalisation of the firm.

Table I reports the descriptive statistics and Pearson correlation matrix for the variables analysed. As this table shows, no strong correlation patterns exist among the variables, with the single exception of 0.710 between experience in the foreign country, and resources and capabilities in internationalisation. The relatively low correlation values between the variables attest to a low probability of multicollinearity presence. We further argue that multicollinearity is not a concern to the findings of this study as all variance inflation factors of the variables are below 2.

Table II presents the results of the logistic regression analysis that tests the three hypotheses. Model 1 considers the effect of control variables only. This model is significant as shown by its  $\chi^2$  value of 34.087 ( $p < 0.00$ ). Model 2 incorporates the additional effect of the three BLS variables on MSM. Their addition improves the significance of Model 1. Analytically, the Cox and Snell  $R^2$  increases from 0.187 to 0.259 and the  $\chi^2$  increases from 34.087 to 49.440. Furthermore, the percentage of correctly predicted outcomes goes up from an acceptable 56.4 to 72.5 per cent. This overall prediction success rate of 72.5 per cent success is satisfactory, with 82.1 per cent of firms with single modes and 63.2 per cent of firms with multiple modes being correctly predicted. The Nagelkerle  $R^2$  value of 0.347 in Model 2 is also very satisfactory. With regard to the individual hypotheses, the BLS coefficients show that collaborative and differentiation strategies are significantly and positively associated with the adoption of a multiple MSM; meanwhile, a penetration pricing strategy is negatively associated at a 10 per cent significance level.

#### *4.2 Discussion of findings*

The evidence suggests that firms that implement collaborative strategies with competitors, suppliers, intermediaries, clients and government agencies are more likely to use multiple rather than single MSMs, supporting *H1*. It can be relatively straightforward for firms that pursue collaborative strategies to become involved in multiple MSMs so as to easily access resources or knowledge concerning the host country market, especially given the small size of investigated enterprises. It may also be that through collaborative strategies these firms manage to attain a wide coverage of the foreign market, as the network theory would have posited (Coviello and Munro, 1997; Welch and Welch, 1996).

With regard to *H2*, the findings show that differentiation strategy can also lead to employment of multiple MSMs. This evidence is at odds with our surmise in *H2* that predicted a negative association with the multiple MSM adoption. Differentiation strategy can be closely associated with multiple MSMs when firms exhibit presence in different regions or market niches of the foreign country, implying that this strategy can facilitate wide coverage in internationalisation (Baum *et al.*, 2011). It appears that different sources of differentiation that the firm is likely to possess such as a superior product image, unique technological know-how, etc. are likely to be accomplished through dissimilar, but concurrent, modes in the host country.

Moreover, the marginal significance at the 10 per cent level of the penetration pricing strategy coefficient that is negatively linked to the adoption of multiple MSMs does not support *H3*. This hypothesis stated that penetration pricing strategy was more likely to be implemented by firms following a multiple rather than a single MSM.

**Table I.**  
Descriptive statistics  
and correlation matrix

|                         | Mean  | SD    | 1         | 2       | 3       | 4        | 5        | 6        | 7       | 8      | 9      | 10       | 11 |
|-------------------------|-------|-------|-----------|---------|---------|----------|----------|----------|---------|--------|--------|----------|----|
| Multiple entry mode     | 0.44  | 0.497 | 1         |         |         |          |          |          |         |        |        |          |    |
| Domestic uncertainty    | 3.57  | 1.45  | 0.006     | 1       |         |          |          |          |         |        |        |          |    |
| Foreign uncertainty     | 4.29  | 1.24  | 0.130*    | -0.059  | 1       |          |          |          |         |        |        |          |    |
| Industry type           | 0.398 | 0.283 | 0.297**   | -0.011  | 0.088   | 1        |          |          |         |        |        |          |    |
| Log of size             | 2.91  | 0.974 | 0.171*    | -0.030  | 0.201** | -0.106   | 1        |          |         |        |        |          |    |
| Res and cap             | 1.60  | 0.364 | 0.235**   | 0.204** | -0.168* | 0.204**  | -0.276** | 1        |         |        |        |          |    |
| Log of experience       | 1.48  | 0.93  | -0.701*** | -0.027  | -0.109  | 0.220**  | -0.247** | 0.710*** | 1       |        |        |          |    |
| International perf      | 4.22  | 1.43  | 0.228**   | 0.044   | 0.069   | -0.240** | 0.118    | 0.517*** | 0.431** | 1      |        |          |    |
| Collaborative str       | 4.27  | 3.62  | 0.300**   | 0.291** | 0.064   | -0.074   | 0.033    | 0.151*   | 0.227** | 0.139  | 1      |          |    |
| Differentiation str     | 1.07  | 0.659 | 0.126     | 0.176*  | -0.152* | -0.107   | -0.043   | 0.091    | 0.102   | 0.161* | 0.176* | 1        |    |
| Penetration pricing str | 3.47  | 0.874 | 0.302**   | -0.086  | -0.029  | 0.132*   | 0.032    | 0.174*   | -0.019  | 0.185* | 0.099  | 0.465*** | 1  |

**Notes:** Pearson correlation coefficients are shown ( $n = 165$ ). \*, \*\*, \*\*\*Correlation significant at 0.10, 0.05 and 0.01 level, respectively (two-tailed)

|                         | Model 1          | Model 2          |
|-------------------------|------------------|------------------|
| Domestic uncertainty    | 0.710 (0.001)*** | 0.656 (0.001)*** |
| Foreign uncertainty     | −0.284 (0.643)   | −0.326 (0.723)   |
| Industry type           | −0.061 (0.591)   | −0.192 (0.114)   |
| Log of size             | 0.752 (0.204)    | 0.132 (0.311)    |
| Res & cap               | 0.208 (0.072)*   | 0.441 (0.717)**  |
| Log of experience       | −0.128 (0.701)   | −0.340 (0.199)   |
| International perf      | 0.272 (0.061)*   | 0.218 (0.329)    |
| Collaborative str       |                  | 3.325 (0.001)**  |
| Differentiation str     |                  | 1.045 (0.020)*** |
| Penetration pricing str |                  | −0.445 (0.088)*  |
| Nagelkerle $R^2$        | 0.250            | 0.347            |
| Cox and Snell $R^2$     | 0.187            | 0.259            |
| $\chi^2$ (9, 165)       | 34.087***        | 49.440***        |
| $p$ -value of $\chi^2$  | 0.000            | 0.000            |
| Log likelihood function | 70.362           | 65.619           |
| Predicted (%)           | 56.4             | 72.5             |

**Notes:**  $n = 165$ .  $\beta$ -coefficients are shown as the first number in each column with their corresponding  $p$ -values in the parentheses. \* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$

**Table II.**  
Logistic regression with  
foreign MSM as the  
dependent variable

It may be that the use of penetration pricing strategy entails a tight cost structure that is likely to be associated with the adoption of a single mode. Nonetheless, given the marginal significance of this result, this statement should be viewed with caution.

With respect to the control variables, three variables have an influence on the MSM in the two logistic regression models. First, the effect of uncertainty of the home country is positive and highly significant, being consistent with prior evidence that entering foreign markets may be a reactive strategy of firms in response to domestic downturns (Aspelund and Moen, 2005; Sapienza *et al.*, 2006). This means that investigated firms can be forced to enter the foreign market in order to “test the water” through increased internationalisation and undertake multiple MSMs. Given the Greek origin of the internationalised firms, this finding may entail that the current crisis in the home country renders this indigenous market highly uncertain, inducing internationalised SMEs to experience enhanced internationalisation through the employment of multiple MSMs. Second, resources and capabilities in internationalisation are positively associated with the firm’s choice of multiple MSMs. Corroborating the resource-based view, this finding suggests that idiosyncratic resources and capabilities in internationalisation facilitate the diversification of MSMs (Chen *et al.*, 2012; Liang *et al.*, 2012). Third, international performance is positively linked (at the 10 per cent level) to the employment of multiple MSMs in Model 1, providing support to the view that the post-entry multiple MSM is likely to be associated with enhanced international performance. Nevertheless, this coefficient becomes insignificant in Model 2, which indicates that international performance becomes a rather unimportant variable when examined simultaneously with the effect of BLSS on the use of MSMs in the host country.

## 5. Conclusions

This study has explored BLSS from a sample of international Greek SMEs in a three-year period and their effect on the MSM selection in the subsequent year. The evidence suggests that all three examined BLSS influence the firm’s selection

between multiple and single MSMs. The effect of BLSs on the adoption of servicing modes strengthens the validity of the strategic choice model (Child, 1972; Cyert and March, 1963) positing that, following the initial entry, the use of appropriate BLSs is associated with the adoption of an “effective package” of MSMs. BLSs and MSMs are seemingly characterised by a strong association in the SME internationalisation process.

This is the major contribution of this research for theory since the strategic choice framework successfully complements the SME post-entry internationalisation context. The strategic choice framework has been rather infrequently employed in explaining MSMs in international business and international marketing (Efrat and Shoham, 2013). This perspective suggests that BLSs, namely collaboration, differentiation and penetration pricing strategies indeed influence the servicing mode choice of internationalised firms. These findings provide insights in understanding the relationship between strategic factors and SME internationalisation. This may also encourage future research in SME internationalisation incorporating a strategic choice framework that has been examined primarily in the context of large firm multinationals. We call for a deeper understanding on the strategic behaviour of internationalised SMEs in how they deploy their limited resources strategically. Additionally, this study contributes to the scholarly forum of the post-entry research stream. While the current literature largely focuses on the initial mode of entry, we have made an effort to close a long-lasting theoretical discrepancy regarding how firms actually sustain their modes of operation in a host market.

In relation to implications for practitioners, the findings suggesting that BLSs facilitate the use of multiple MSMs are useful for managers because multiple MSMs may assist SMEs gain a sustainable competitive advantage. As Welch *et al.* (2008) argue, the design and implementation of MSMs are affected by a variety of factors, of which strategic considerations may be one possible category. Since MSMs are the major means that firms employ to outmaneuver their competitors and gain a strong foothold in the foreign market, managers should use an appropriate combination of BLSs in order to appropriately service that market. By understanding the different ways in which the three BLSs affect firms’ choice of diverse modes, SME managers could improve their activities and enhance international performance. Rather than relying on managers’ “gut feel” to decide which and how many servicing modes to be implemented in a particular foreign market, management can make a more informed decision. Should an addition of servicing mode be planned, managers may first induce appropriate BLSs in the organisation that would promote a smooth transition.

In particular, given the importance of collaborative strategy to the formation of multiple MSMs, the involvement in a large number of inter-firm arrangements would work towards the direction of multiple MSM formation. Differentiating the product based on marketing or technological know-how is also likely to lead to the employment of multiple MSMs for the firm concerned. If managers, nonetheless, wish to pursue a lean coverage of the foreign market through a single MSM, then the use of a penetration pricing strategy might be recommended.

There are some limitations in this study that may guide further research. First, our conjecture was that BLSs affect MSMs, but the cause-and-effect association of this link might be the reverse. Longitudinal research including more can illuminate this issue to provide a holistic picture on post-entry internationalisation. Second, apart from BLSs, other factors employed by the internationalised firm, such as networking, entrepreneurial culture or country institutional factors, may be further investigated in future works since they are likely to affect servicing mode choice as well. Third, different types of multiple servicing modes may be “unrelated, segmented, complementary or competing” (Petersen

and Welch, 2002, p. 158). Implementation of dissimilar types of multiple MSMs is likely to illuminate the finding pertaining to differentiation strategy in H2. Elaboration on these multiple mode types would provide a more comprehensive account of the internationalisation of the firm. Fourth, MSMs are also likely to be reversible if management believe that firm-related and environmental conditions change in the foreign country. Thus, processual research may identify possible switches between servicing modes throughout time and the effect of BLSs on these switches. Fifth, this study was based on a sample of SMEs originating from Greece. The present economic depression in Greece can induce internationalised SMEs, which currently face severe resource constraints, approach internationalisation and post-entry modes differently than firms originating from other countries. In order to gain a better understanding of this current issue, it is also useful to examine this phenomenon using samples from different countries.

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### Further reading

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### Appendix. Survey questions

#### *Collaborative strategy*

To what extent (1 = not at all, 7 = very much) does your firm participate in cooperative activities in the foreign country: 1. Joint production with competitors/non-competitors; 2. Joint R&D with competitors/non-competitors; 3. Sharing transportation costs with competitors/non-competitors; 4. Sharing information with competitors/non-competitors; 5. Joint advertising/promotion with competitors/non-competitors; 6. Pricing from industry-wide lists; 7. Producing industry-wide standard items; 8. Networking with organisation administering SME activities.

Cronbach  $\alpha = 0.767$ , Source: Dollinger (1990).

#### *Differentiation strategy*

To what extent (1 = not at all, 7 = very much) does your firm employ the following practices in the foreign country in order to achieve competitive advantage: differentiation based on the products' 1. Quality; 2. Design; 3. Technological superiority; 4. Advertising; 5. Service 6. Pricing of products at the highest possible level that is larger than the average market price of the foreign market.

Cronbach  $\alpha = 0.783$ , Source: Mintzberg (1988).

#### *Penetration pricing strategy*

To what extent (1 = not at all, 7 = very much) does your firm employ the following practices in the foreign country in order to achieve competitive advantage: 1. Pricing of products at a lower level than that of the domestic market; 2. Pricing of products at a lower level than that required to produce them; 3. Pricing of products at the lowest possible level which is smaller than the average market price in the foreign market.

Cronbach  $\alpha = 0.779$ , Source: Mintzberg (1988).

#### *Uncertainty of domestic country*

How difficult (1 = very easy, 7 = very difficult) it is to forecast the following factors in the foreseeable future in the domestic country: 1. Tax policy; 2. Inflation rate; 3. Exchange rate with

main foreign currency; 4. Legal regulations affecting the business sector; 5. Controls by the official authorities on firms; 6. Ability of the party in power to maintain control of the government; 7. Threat of social unrest and armed conflict; 8. Expected sales of the firm.

Cronbach  $\alpha$ : 0.730, Source: Miller (1993).

#### *Uncertainty of foreign country*

How difficult (1 = very easy, 7 = very difficult) it is to forecast the following factors in the foreseeable future in the foreign country: 1. Tax policy; 2. Inflation rate; 3. Exchange rate with main foreign currency; 4. Legal regulations affecting the business sector; 5. Controls by the official authorities on firms; 6. Ability of the party in power to maintain control of the government; 7. Threat of social unrest and armed conflict; 8. Expected sales of the firm.

Cronbach  $\alpha$ : 0.750, Source: Miller (1993).

#### *Firm size*

What is the total number of employees in your firm (for part-time employees please convert to full-time equivalents).

Source: Bilkey and Tesar (1977).

#### *Resources and capabilities in internationalisation*

To what extent is your firm inferior or superior (1 = significantly inferior, 7 = significantly superior) compared to its direct competitors (Greek or foreign) in the international market as far as the following factors are concerned: 1. Financial resources adequate for internationalisation; 2. Production capacity sufficient for internationalisation; 3. Proper design and planning of international activities; 4. Proper control of international activities.

Cronbach  $\alpha$ : 0.823, Source: Spanos and Lioukas (2001).

#### *International experience*

How many years has your firm been having international activities.

Source: Wheeler *et al.* (2008).

#### *International performance*

What is your overall satisfaction (1 = not at all satisfied to 7 = very satisfied) concerning the performance of the firm in the foreign country relative to the objectives set.

Source: Zou and Stan (1998).

### **About the authors**

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