Does Internationalization Theory Apply in Contingencies? How Italian and Slovenian SMEs React to Pressures in Their Home Markets

Abstract

The paper examines the drivers of SMEs internationalization in times of crisis when firms need to expand their presence in foreign markets. In a crisis situation, firms must respond quickly to determine the mechanism in which to internationalize. A structured online questionnaire was given to a randomly selected group of 3000 Small and Medium Enterprises (SMEs) operating in Italy and Slovenia. The findings of the study show that export performance is positively influenced by incremental innovation and risk preference and that both radical and incremental innovation are positively influenced by risk preference and strategic intent. The study further demonstrates that there is a connection between innovation and export performance even though during times of financial and economic constraints funding research and development is difficult - which poses the dilemma for firms whether they should embark on a rapid response to pressures in their home market, or whether they should take a more methodical staged approach. From a theoretical approach, it raises the question whether the classical internationalization theories can be applied to contingency situations. From an applied perspective, the paper suggests that CEOs of SMEs need to carefully evaluate the skills, competencies and management know-how when engaging in internationalization efforts.

Key words - Entrepreneurship; SME; internationalization strategies and theories; entering foreign markets; innovation; radical and incremental innovation; risk preference; export performance; strategic intent;

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Introduction

With the recent global financial crisis causing internal demand to struggle, export may be considered the best way to fight the predicament. The primary resources available to SMEs when internationalizing would be innovation and entrepreneurial characteristics such as risk preference and strategic intent. Previous empirical evidences appear to be conflicting on this subject. For example, Westhead, Binks, Ucbasaran and Wright (2002) studying businesses located in Great Britain could not fully explain variations they found in several performance variables between an original survey and its follow up (Wright, Westhead and Ucbasaran, 2007). Their research did not reveal whether these businesses regarded exporting as a path to firm growth or if they just sporadically exploited opportunities that showed up. These opportunity-driven firms, it is concluded, do not wish to engage in the risk of a long-term foreign commitment and do follow an incremental internationalization path (Bell, Crick and Young, 2004). But would these conclusions hold when the growth path of a firm is disrupted through market crises, and would this change risk propensity?

A greater understanding of SMEs' risk preference and strategic intent and how these variables impact SMEs' export performance is useful for practitioners, policy makers and academics, alike. On the one side, a better comprehension of the phenomenon with new practical insights will increase the theoretical debate on export performance and internationalization. On the other side, new findings might be useful for policy makers to better understand how to support internationalization process of SMEs during a period of financial and economic crisis.

The objective of this study is to determine which attitudes are adopted and which motivation is given by SMEs that wish to internationalize in the context of constraints they face in their internal markets.By studying the drivers of SMEs internationalization during times of crisis our paper intends to investigate what fosters the decision of SME managers to confront the challenges of entering into a foreign market. We also propose to assess whether the classical internationalization strategy theories explain the patterns of internationalization observed in cross-border business between Italy and Slovenia. Both countries were heavily affected by the financial and economic crisis.

Our analysis is based on exploring the variables of innovating incrementally, and innovating radically on how they contribute to export performance, as well as the factors that influence an SME's

intention to grow and to take risks in a cross border environment. In pursuit of this, we created a questionnaire for SMEs in Italy and Slovenia. We commence with a literature review, from which we derive our research questions. Special emphasis was placed on the antecedents of export performance and on the question whether traditional internationalization theories can still explain the patterns of internationalization of SMEs in times of crises.

Literature Review and Research Questions

Increasingly extensive research has been conducted on the export performance of SMEs both by scholars and policy makers (European Commission, 2007; Moini and Moini, 1995; Wolff and Pett, 2000). It is widely recognized that the drivers of export performance have intensified globalization and that the decline in trade barriers and parallel advances in telecommunications, informatics and lower transportation costs, have opened the doors to international market opportunities for SMEs. Another phenomenon stems from the fact that SMEs are acknowledged as vital to the country's development and well-being (Reynolds, 1997). Therefore, any movement of their goods, services, resources or business interests in general across borders is likely to be of interest to government policy-makers.

The internationalization of SMEs has been studied from various perspectives over the last decade (Ruzzier, Antončič and Konečnik, 2006, Ruzzier, Hisrich and Antoncic 2006, Masum and Fernandez 2008, Daszkiewicz and Wach 2012). In general, the main focus of this research on small-firm internationalization has been on issues relating to exports and the development of export sales (Leonidou and Katsikeas, 1996). However, in recent years a growing number of studies have been carried out using one or more theoretical frameworks, which look extensively at the process and antecedents of the internationalization of SMEs.

Export performance within a contingency approach

Two primary stage models have been developed: the Uppsala Internationalization Model (U-model) and the Innovation-related Model (I-model) for expounding on the process of internationalization,

In the U-Model (Johanson and Vahlne, 1975, 1992), the concept of foreign market commitment is composed of two factors: the amount of resources committed and the degree of commitment. The former can be operationalized as the size of the investments needed, e.g. in terms of marketing, organization and human resources, while the latter refers to the difficulty of identifying an alternative use for the resources and transferring them to that alternative use. This approach proposes four stages: 1) No regular export activity; 2) Export

via independent representatives; 3) Establishing an overseas sales subsidiary; and 4) Establishing overseas production/ manufacturing units (Andersen, 1993).

In the I-Model (Cavusgil, 1980), internationalization is seen as a firm innovation strategy in which the different stages are linked to different exporting trends and dynamics. Five stages of international commitment are proposed: 1) Pre-involvement; 2) Reactive/Opportunistic; 3) Experimental; 4)Active; 5) Committed involvement. Even though these two approaches are different in their theoretical bases, from an empirical point of view both approaches reach similar conclusions with each proposing a development path to explain export performance (Iacobucci and Spigarelli, 2013.

However, both the 'U' and the 'I' models have been recently questioned. The developing model is time dependent and assumes a predetermined path of development which makes it unsuitable for firms with extensive international experience and firms in high-technology, knowledge intensive or service sectors (Bell, 1995; Ibeh et al., 2004). In addition, SMEs in these sectors usually leapfrog the predetermined stages because they either focus on global market niches or on decreases in transportation and communication costs (McDougall and Oviatt 1996; Belso-Martines 2006).

The slow recovery and lingering impact of the global financial and economic crisis has forced local firms (especially SMEs operating in countries where the crisis has strongly reduced internal demand) to develop an accelerated path to internationalization through increasing their exports. Subsequently, these firms are forced to compensate for the internal market reduction with an external source of sales in order to survive. Interestingly, we found limited research on that phenomenon which may be characterized as a "contingency approach" to overcome adversities in the home market. It is our belief that a contingency approach to internationalization should be developed to cover the situation of firms that operate in markets that were impacted by financial and economic crises.

In our review of the literature, we found only a few similar approaches towards new models of internationalization. One of these approaches is the theoretical integrative conceptual model of international entrepreneurship proposed by Ruzzier, Hisrich and Antoncic (2006). This approach is based on four internationalization properties (mode, market, product, and time), internationalization performance, and key antecedents and consequences of the internationalization process; however, the contingency situations were not examined.

From there, we come to the antecedents of internationalization. In this, innovation has been recognized as a crucial element to enhance export performance (Basile, 2001; Cassiman

and Golovko, 2011; O'Cass and Weerawardena, 2009). However, the intensity and direction of this influence appears to be context-specific. While Yi et al. (2013) found that the innovation supports export performance, Deng et al. (2014) found a negative correlation between innovation and survival of exporters. These results confirm the need to develop a contingency approach that could be useful, especially for understanding firm evolution during a period of financial and economic crisis.

Reduced money availability and increased uncertainty almost certainly affect innovation plans of SMEs. At the same time, higher competitive pressure due to the reduction of internal markets boost export propensity. Thus, understanding the impact of variables that affect SMEs' export performance in a period of crisis would be useful both to policymakers and entrepreneurs in order to stimulate SMEs' export performance through direct actions or programs that support international business. Hence, our study focuses on manufacturing SMEs that operate in areas that have been strongly affected by the global economic crisis where there has been a significant reduction of internal markets and new opportunities from internationalization processes.

Antecedents of export performance (I): The role of innovation

The Resource Based View (RBV) of the firm has been recently been widely utilized within the exporting literature (see, e.g., Dhanaraj and Beamish, 2003). The RBV literature places emphasis on the firm's ability to accumulate and combine resources to acquire and foster competitive advantage (Danneels, 2002; Verona, 1999). Previous studies found that firm's ability to enter foreign markets is positively associated with tangible and intangible knowledge based resources (Morgan et al., 2004). Within this context, innovation capability provides a unique competitive advantage because it helps the firm to improve its products and processes in order successfully to operate in global markets (Yi et al., 2013, p. 394).

Nguyen et al. (2008) in previous studies, have indicated that innovative firms are more likely to export. Additionally, the authors report evidence that connect R&D expenses to export performance of Danish manufacturing firms. Harris and Li (2009) focused on the relation between R&D and export for the UK. According to their findings, R&D activities play an important role for firms to overcome barriers to internationalization. Basile (2001) found that the likelihood of exports for innovating firms is higher than for non-innovating firms. Similar results are reported by Pla-Barber and Alegre (2007) for the French biotechnology industry. However, the literature has not reached a unanimous consensus on these results. In fact, contradictory results are reported by Wakelin (1998), where he found

that UK innovators are less likely to become exporters than non-innovators of the same size. Lefebvre et al. (1998) also reported that the association between innovation and exports is insignificant. In addition, Anon Higon and Driffield (2011) did not find robust evidence that process innovation increases the probability to export beyond product innovation. Results are even more contradictory in Deng et al. (2014) who found a negative correlation between innovation and survival of exporters. Interestingly, while there is ample empirical evidence of the linkage between a country's export performance and its innovation activities at a macro level, less attention has been paid within the micro level in general and within SMEs in particular (Love et al., 2009; Nguyen et al., 2008).

A very limited number of studies have analyzed the impact of the different kinds of innovation on export performance with most of them using a wide definition of innovation (e.g. O'Cass and Weerawardena, 2009). Nguyen et al (2008) investigated how firms' export behavior depends on innovation activities distinguishing between product innovation and process innovation. However, less attention has been paid on the difference between radical and incremental innovations. Depending on the degree of novelty from the firm's point of view, literature differentiates *incremental innovations* (II) and *radical innovation* (RI).

Incremental innovations normally refer to improvements made to the company's existing products, while radical innovation refers to improvements to the product that are totally new to the company (Minguela-Rata et al., 2014). Generally, radical innovations present more market risk and uncertainty and are harder to come by even though they have a much larger effect on firms' performance potentially. During the recent economic crisis, the difficulties in obtaining financing have affected investment opportunities, especially for SMEs. In order to better understand how different kinds of innovation affect export performance during financial crisis we draw our first three research questions:

RQ1: *How does RI affect export performance in SMEs during the financial crisis?*
RQ2: *How does II affect export performance in SMEs during the financial crisis?*
RQ3: *Is there any relationship between RI and II during the financial crisis?*

<u>Antecedents of export performance (II): The role of strategic intention and risk Preference</u>

Innovation and export are the results of firms' knowledge resources (Nonaka and Takeuchi, 1995). These resources create the necessary potential for supporting innovation on one side and create the basis to stimulate export performance on the other side, but they must be followed by some form of strategic decision-making that reflects the desirability of

pursuing current opportunities (Grant, 1996). Therefore, a risk-taking attitude and strategic intent orientation to the firm's growth are both central elements to support innovation, as well as internationalization of SMEs. Interestingly, to the best of our knowledge, a cognitive perspective analyzing the role of these variables has rarely been used in studies on SMEs' export performance.

Hamel and Prahalad (1989) defined *strategic intent* (SI) as what motivates firms to create and to sustain a consistent ambition to overcome resource constraints for implementing a desired strategy: "Whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates an extreme misfit between resources and ambitions" (Hamel and Prahalad, 1989, p. 67). According to these studies, SMEs entrepreneurs' are usually inextricably linked to the decision-making process within the organization (Henry, 2013, p. 85) and thus, the deliberate choice of seeking out new opportunities could be problematic. It was found that fear of losing control, together with lack of knowledge about external environment, among others, are deemed to be external barriers to internationalization (Hutchinson, Fleck, Lloyd-Reason, 2009). Other studies have revealed that in SMEs SI is more focused on maintaining independence rather than gathering new growth opportunities (Cassar, 2007; Choi and Shepherd, 2004; Douglas, 2013; Døving and Gooderham, 2008; Dutta and Thornhill, 2008). This divergent approach could affect export performance since firms which value long-term survival and independence will measure performance through firm longevity, while firms with a market-domination objective will be more preoccupied with growth measures (St-Pierre and Audet, 2011). Moving from this premise, we draw our next three research question.

RQ4: *How does SI affect export performance in SMEs during the financial crisis?*
RQ5: *How does SI affect Radical Innovation in SMEs during the financial crisis?*
RQ6: *How does SI affect Incremental Innovation in SMEs during the financial crisis?*

According to Acedo and Galan (2011), entrepreneurs have a greater tolerance of uncertainty. From this line of research, the literature has developed the concept of *risk preference* (RP), which consists of a general tendency or the general desire to pursue or avoid risks (Barbosa et al., 2007, p. 89). According to this approach people will show different risk-propensities: individuals with higher preference for risk will exhibit a higher level of entrepreneurial intention. Considering that internationalization as riskier than national activities because firms are forced to deal with unknown context, it could easily be imagined that RP affects export performance. However, there is another effect. According to Choen et.

al. (2014, p. 298), economic cycle, especially during a period of recession, affects SMEs' investments due to resource constraints and the higher uncertainty of returns. Therefore, firms' RP could affect innovation investments which subsequently affects SMEs' export performance (Cohen et al., 2014, p. 297). Moving from this premise we draw our sixth, seventh and eighth research question:

> ***RQ7:*** *How does RP affect export performance in SMEs during the financial crisis?*
> ***RQ8:*** *How does RP affect Radical Innovation in SMEs during the financial crisis?*
> ***RQ9:*** *How does RP affect Incremental innovation in SMEs during the financial crisis?*
> ***Note****: An overview of the research questions is given in Table I*[*].

Research questions and hypothesis development

One of the desired outcomes of our research is to identify a connection between strategic intent, risk perception, innovation (both radical and incremental) and export performance. To analyze the relationships with these variables we draw a series of hypotheses for each research question developed in the previous sections. More precisely, for each research question two hypotheses are developed: H_0 (null hypothesis), that generally assumes the existence of no influence between variables analyzed and H_A an opposing hypothesis of the null hypothesis. Table I summarizes each hypothesis developed.

Insert Table I here

Our research questions and hypotheses are depicted in Figure 1.

Insert Figure1 here

Research Context

In Italy, many SMEs are found within Industrial Districts. Industrial districts (ID) have been a fundamental part of Italy's economic communities for SMEs since the 1970s. These districts and other forms of territorial clusters form the backbone for SME-entrepreneurship, family business, and close collaboration within and between industries. This collaboration positions Italy as a leading exporter and innovator. The worldwide financial crisis of 2007, while straining the Italian economy, has necessitated Italy's SMEs to become even more innovative and creative in exporters. These circumstances have motivated our aforementioned hypotheses.

[*] All tables except Table I will be shown within the setting of the analysis' results. See section 5.

In order to test our hypotheses, we approached SMEs operating in Italy and Slovenia. There is another aspect: Italian SMEs are regarded by policy makers to be outside of the constraints of the overall economy. Observing how these SMEs withstand increasing foreign and domestic competition, and what drivers they employ to expand internationalization will bring new insights into the competitiveness of Italy's industry. These firms recognize internationalization to be not only a necessary step but essential for the firm's future survival and growth. It is their managers who have to decide which resources they must develop and which specific attempts they must make to improve performance in foreign markets. For our sample population of SMEs, we examined three performance drivers: Innovation, strategic intent and risk-preference.

Methodology

Our hypotheses were formulated on the basis of a structured questionnaire that was submitted to Small and Medium Enterprises (SMEs) operating in Italy and Slovenia. In order to obtain a list of SMEs in these countries, the authors contacted the local Italian and Slovenian Chambers of Commerce. This study was carried out within a larger project that to measured "the strategic impact" of SMEs' activities within the Mediterranean area.

The original list of SMEs provided by the local Chambers of Commerce was randomly selected, and a total of 3,000 companies were obtained. Following the initial selection of the companies, an "e-mail" invite was developed asking the companies to participate in our study and to complete the study survey questionnaire. Two reminder e-mails were sent to the companies encouraging them to complete the questionnaire. A total of 350 questionnaires or 9.57% of the total sample were returned to the research team. Of the 350 returned surveys, only 319 questionnaires (9.40%) were adequately completed and deemed usable for the study. The SMEs in our sample have minimum revenue of € 0.5 million with a maximum of € 48 million.

<u>Survey instrument and data collection:</u>

*Innovation orientation (*Radical Innovation versus Incremental Innovation*)*

To measure *innovation attitude* we developed a list of 12 questions. We followed a self-assessment approached based on a scale of 1 to 5, where respondents were asked to assess their opinion in the following areas: a) market innovation; b) product innovation; c) operational process innovation; d) customer management processes; e) product development processes; and f) social management processes. Following this, we used exploratory and

confirmatory factor analysis to identify latent variables within the responses given. From this, analysis, we were able to identify two main approaches to innovation: a) radical innovation approach and b) incremental innovation approach. Table II provides the complete list of questions developed and an explanation of the main results obtained.

Risk Preference

With regard to *risk preference,* we developed a list of 3 questions and asked respondents to evaluate these items on a 5 point Likert-scale. Questions were developed that had respondents comparing high risk projects with high possible returns to low risk-low return projects. We then asked respondents to evaluate market exploration approaches where respondents were comparing taking wide-ranging action, rather than gradually and incremental action. The final question focused on comparing brave actions rather than a wait-and-see posture. Table III provides a list of these questions.

Strategic Intent

In order to assess *strategic intent,* we developed a set of 5 questions. Similar to the question format used in innovation orientation, we followed a self-assessment approach based on a 1 to 5 scale from least important to most important, where respondents were asked to evaluate the importance of firm growth over firm autonomy. The concept of growth against autonomy was drawn from Douglas' (2013) recognition of a twofold approach to entrepreneurship, which may be either independence-oriented or growth-oriented. In regard to control variables, we assumed that growth is accompanied by a proactive approach: (Bagchi-Sen and Kuechler, 2000) have shown that proactive, functionally diversified, and/or internationally oriented firms outperform the reactive, functionally concentrated, and local market oriented firms. We used the following to check and assess the respondents' rating of firm growth: To ascertain if growth is supported by proactive approaches, we added questions on the importance of product performance, about the novelty of the products, and about maintaining the material and the immaterial quality of their products (these questions are meant to check the validity of the question on growth). Table IV shows a complete list of the asked questions related to SI.

Export performance

Several criteria are suggested in the literature and in practice to measure *export performance*Gemunden (1991) noted that there are over 700 explanatory variables that have been advanced in the literature as determinants of export performance. Most researchers have restricted their analysis to a a parsimonious model. The most commonly used indicators are sales profitability

in comparison with domestic sales profitability (Nakos et al, 1998), regional scope of foreign sales (Reuber and Fisher, 1997) and return on sales (Elango, 2000, Shrader, 2001). It has also been suggested that, beyond objective financial measures of export performance, subjective measures of performance and profitability should also be used (Spanos and Lioukas, 2001). While managers' responses in survey research may be problematic due to the subjectivity of their perceptions, they often present the only alternative because frequently financial data for SMEs are unavailable or unreliable (Dess and Robinson, 1984). Thus, perceptual measures, as used in this study in practice, may provide more meaningful comparisons than "objective" data and "absolute" measures (Spanos and Lioukas, 2001). Consequently, in order to measure export performance we asked respondents to compare their results to those of their competitors on a scale 1 to 5. Specifically, we asked respondents to evaluate on a scale 1-5 revenues, net operating profits and net profits derived from export comparing their results with the ones of their competitors.

Data Analysis

Measurement model

We used the structural equation modeling approach (SEM) to test our hypotheses,. The use of structural equations allows us to test factor structure, adjustment for measurement error, examination of relationships among predictor variables, and the simultaneous estimation of all parameters in the model (Andersen and Nielsen, 2009; Westland, 2012). According to Dalilla (2000, p. 439) SEM's "strengths include simultaneous assessment of various types of relations among variable and the ability to rigorously examine and compare similarities among and differences between two or more groups of study participants." Furthermore, SEM has been widely used as a research method in previous studies to analyze export performance (see Carneiro et al., 2011; Papadopoulos and Martín Martín, 2010; Robb et al., 2008; Shamsuddoha et al., 2009).

Measurement validation

Our research uses a two-step measurement process. First, we developed some preliminary measures in order to decide which estimation model to use. According to Straub (1989, p. 150) "researchers who utilize confirmatory research findings first need to demonstrate that developed instruments are measuring what they are supposed to be measuring." Following this suggestion we tested content validity, construct validity and reliability (Straub, 1989, p. 150). Where content validity refers to the ability of an instrument to draw representative questions from a universal pool, we pilot tested our questionnaire (Zikmund, 2003). Our questionnaire was initially given to a group of colleagues with expertise in survey design who served as a type of expert panel. Based on their feedback

several of the questions on the survey instrument were modified and changed. A second pilot testing was performed with a group of 10 entrepreneurs. As a result of this second analysis additional wording modifications were made in order to ensure that the original text was clearly interpreted in the target language.

Since, construct validity test contributes to convergent and discriminant validity, if constructs are valid in this sense, one can expect relatively high correlations between measures of constructs that are expected to differ (Straub (1989, p. 150). In our study, construct validity was assessed through exploratory and confirmatory factor analysis. Convergent validity was tested by examination of the factor loading of each construct (item) and measuring factor loading t-value. Cronbach's Alpha was used to reinforce the construct validity of the selected measures, parameter estimation and model validation tests were conducted, . and several indices were used to assess the fit of the measurement model (Diamantopoulos and Singuaw, 2000; Medsker et al., 1994). In our analysis, we focused on goodness of fit index (GFI), adjusted GFI (AGFI) (whose values from .85 to .90 are considered acceptable (Medsker et al., 1994)), and non-normed fit index (NNFI), whose values should be close to 1 for a good fit of the model (Diamantopoulos and Singuaw, 2000). We also examined the root mean square error of approximation (RMSEA), which should be below .08 for an acceptable fit (Diamantopoulos and Singuaw, 2000). We focused on these measures as they have been widely used in previous studies (Hsu and Sabherwal, 2012; Sharabati et al., 2010; Shih et al., 2010). We developed our measurement process using the statistical software "R" to develop descriptive statistics, exploratory factor analysis and Cronbach's alpha analysis, where confirmatory factor analysis and SEM analysis were developed using "LISREL 8.80."

Results

Preliminary measures

Our model used a maximum likelihood estimation method. We tested observed variables to verify skewedness or kurtosis. Coefficients of skewedness for the observed variables ranged from -0.40 to 0.90, and the coefficients of kurtosis ranged from -0.9 to 1.5. The results confirm the validity of the maximum likelihood approach since skewedness indices should be less than 3 and kurtosis less than 8 (Kline, 2005).

For analyzing Innovation Attitude, we used exploratory factor analysis. The factor extrapolation process generates two factors with an Eigenvalue greater than 1. The two factors explain more than 55% of the overall variance of the twelve items used to measure Innovation Attitude. We found that the two groups where consistent with incremental

innovation approach and radical innovation approach. We made a reliability test using Cronbach's Alpha in order to verify consistency of these latent constructs obtaining values above 0.80. We also developed a confirmatory factor analysis obtaining that all factor loadings are significant for Incremental and Radical Innovation Group with a minimum t-value of 13.77 and a minimum r-squared of 0.36. All fit measures indicated a good fit. Table II provides the complete list of questions developed and explains the main results obtained.

Insert Table II here

On Risk Taking, we applied an exploratory factor analysis obtaining one factor with eigenvalue higher than 1. To provide consistency to our analysis we measured Cronbach's Alpha first obtaining values above 0.77. We used confirmatory factor analysis to verify our results. Table III provides the complete list of questions developed and explains the main results obtained.

Insert Table III here

In order to measure Strategic Intent we carried out an exploratory factor analysis first, obtaining one factor with eigenvalue higher than 1. In order to provide consistency to our data we developed a Cronbach's Alpha measure obtaining values above 0.77. We also carried out a confirmatory factor analysis obtaining for each factor loadings p-value less than 0.01. Table IV provides the complete list of questions developed and explains the main results obtained.

Insert Table IV here

In order to measure Export Performance, we developed the same process used previously. Exploratory factor analysis was used obtaining only one factor with an eigenvalue higher than 1. We developed then a consistency test obtaining a Cronbach's Alpha of 0.881. Table V provides the complete list of questions developed and explains the main results obtained.

Insert Table V here

Parameter estimation, validation and discussion

Table VI shows the parameter estimation and validation results for the SEM.

Insert Table VI here

According to our findings, while we did not find evidence to support our RQ1, we collected evidence to support our RQ2: Export Performance is directly and positively influenced by Incremental Innovation with a coefficient of 0.35, t-value of 3.86, reaching a statistical significance. Based on our results, we were able to reject Hypothesis H_0 developed

for RQ2 recognizing a direct and positive effect of Incremental Innovation on Export Performance. Our results also confirmed a direct and positive effect of Radical Innovation on Incremental Innovation, thus allowing us to reject hypothesis 0 developed for RQ3. Radical Innovation positively influences Incremental Innovation with a coefficient of 0.53 and a t-value of 7.11 and a and p-value less than 0.01, reaching thus a statistical significance. Our findings further led us to shed new light on the connection of innovation and export performance. While Anon-Higon and Driffield (2011) found a questionable connection between process innovation and product innovation, our study has given us insight on the quality of innovation.

Interestingly, from our analysis, we were not able to confirm what was found by Minguela-Rata et al., 2014 in their study "Cooperation with suppliers, firm size and product innovation"): Radical Innovation does not offer a higher potential competitive advantage than Incremental Innovation. It is our hypothesis that due to the financial and economic constraints of SMEs, especially those in our sample population in Italy and Slovenia that were severely impacted by the economic downturn, are much more prudent and the effectiveness of radical innovation might be reduced. This caution and prudence by SMEs is confirmed in other research (Cohen et al., 2014).

However, notwithstanding these limitations and objections, our results clearly show that radical innovation can be the first step of an innovation path which in the end might lead to an incremental innovation process. In our estimations, these results offer a new understanding on the quality and quantity of the connection between innovation and export performance, offering the basis to introduce a contingency approach. We also did not find a statistically significant relationship between Strategic Intent and Export Performance. The calculated coefficient is almost 0 and the t-value only 0.16. Even though, this gives no evidence to support RQ4, we did find evidence to support both RQ5 and 6, as the coefficient that connects Strategic Intent with Radical Innovation with a value of 0.21 and with a t-value of 3.14 which provides a statistical significance of a p-value less than 0.01. The coefficient that connects Strategic intent to Incremental innovation was 0.23 with a t-value of 3.73 which also was statistical significance. These results confirm prior studies (Acedo and Galan, 2011) that state the need to include psychological variables that might condition owner-managers' decision-making responses to understand firms' behavior.

In our analysis of RQ7, we found a direct influence of Export Performance by risk preference with a coefficient of 0.14 and t-value of 2.02, showing a statistically significant relationship even though the p-value is only less than 0.05. Risk preference has a direct and

positive connection also with Radical Innovation with a coefficient of 0.33 and a p-value of 4.82. This finding supports our RQ8, and thus rejects our connected hypothesis H_0. We did not find evidence to connect Risk Preference with incremental innovation and thus we are not able to confirm our hypothesis H_A developed for our RQ9. Interestingly, these results provide a better understanding of export performance: Exporting forces entrepreneurs to move to less known markets, and this requires a higher level of risk attitude. Parallel to this, radical innovation requires higher investment compared to incremental innovation and usually presents higher levels of risk. This justifies the connection between risk preference and these variables.

Figure 2 offers a graphical representation of our results. The theoretical model is depicted, and the coefficients and R-squares are highlighted. Significant relationships are depicted with a continuous arrow, while non-significant relationships are depicted with a dashed arrow.

Insert Figure 2 here

A final test was carried out to assess the validity of the model by measuring goodness-of-fit: The higher the model fit, the higher the usability of the model. Among the absolute fit indicators, the goodness-of-fit index (GFI) value of the model is 0.87. Root Mean Square Error of Approximation (RMSA) is 0.069, all within an acceptable range. Analyzing incremental fit indicators, the adjusted goodness of fit index (AGFI) was 0.84, normed fit index (NFI) value was 0.93 and incremental fit index (IFI) was 0.96. All the incremental measure reach the standards suggested by the literature and above described. The bottom of Table VI summarizes the parameter statistics and goodness-of-fit indexes.

Conclusion

The objective of this study was to assess how SMEs undertake or expand internationalization in the context of the recent global financial crisis which has caused internal demand to struggle and from where export is considered the best way to fight the crisis. We approached SMEs operating in Italy and Slovenia, areas where the global financial crisis created a huge impact. The project was carried out within a larger project that intended to measure the strategic impact of SMEs' activities within the Mediterranean area. From a total of 319 questionnaires, the study primary aim was to determine how innovation impact export performance. The statistical results verify our one of our primary resource questions: incremental innovation offers a higher potential competitive advantage than radical

innovation. We asked whether risk preference and strategic intent are entrepreneurial variables that affect the export decision-making process in SMEs. Surprisingly, our analysis found that even though both strategic intent and risk preference positively affect innovation, strategic intent is not a determinant of export performance, while preference for risk-taking does have a positive impact on export performance. Cumulatively the results of our analysis are consistent with previous studies, where contingency approach is used to explain internationalization.

Our results lead us to view internationalization theories from a different viewpoint. It is the authors' contention that while internationalization theories of the Uppsala-type have been developed and found adequately represented in times of economic stability and incremental growth, they should be complemented by a contingency approach which may better explain how businesses behave in times of crises and forced globalization. From there, we think that the results of our study could be useful on a theoretical perspective contributing to the ongoing debate on the topic.

The practical implications of our results provides managers of SMEs insight into several different factors important to decision making in internationalization. First, managers would have to determine which innovation process, radical or incremental, to follow when internationalizing? Second, when managers form their internationalization strategy, they must be flexible and willing to accept risk to respond to opportunities that arise, rather than being resistant to spontaneous changes in their strategy. In addition, the results of the study could also be used by policy makers in order to better develop policy to support SMEs' internationalization (e.g. developing specific forms of grants to support incremental and continuous innovation). However, our study is limited due to the use of a sample derived from only two countries which limits the findings to cultural or country specific determinants. Theoretically, the literature showed that firms when internationalizing, implemented a "staged-approach" as shown in the Uppsala Model. However, our findings indicate that firms have to leapfrog not only to remain competitive but to gain a competitive advantage. This more driven approach is due to multiple factors ranging from the interconnectedness of our world economy in time of crisis and the rapid pace in which technology and innovation occurs in our global market.

It is recommended that future studies should use a longitudinal approach (based on data of more than one year) rather than a cross section study might add to the validity of our findings.

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Table I - Research questions and hypotheses

Research questions	Research Hypothesis	
RQ1. *How does RI affect export performance in SMEs during financial crisis?*	H_0	There is no influence of RI on Export performance
	H_A	There is a direct influence of RI on Export performance
RQ2. *How does II affect export performance in SMEs during financial crisis?*	H_0	There is no influence of II on Export performance
	H_A	There is a direct influence of II on Export performance
RQ3 *Is there any relationship between RI and II??*	H_0	There is no relationship between RI and II
	H_A	There is a direct relationship between RI and II
RQ4 *How does SI affect export performance in SMEs during financial crisis?*	H_0	There is no influence of SI on Export Performance
	H_A	There is a direct influence of SI on Export Performance
RQ5 *How does SI affect Radical Innovation in SMEs during financial crisis?*	H_0	There is no influence of SI on RI
	H_A	There is a direct influence of SI on RI
RQ6 *How does SI affect Incremental Innovation in SMEs during financial crisis?*	H_0	There is no influence of SI on II
	H_A	There is a direct influence of SI On II
RQ7 *How does RP affect export performance in SMEs during financial crisis?*	H_0	There is no influence of RP on Export Performance
	H_A	There is a direct influence of of RP on Export Performance
RQ8 *How does RP affect Radical Innovation in SMEs during financial crisis?*	H_0	There is no influence of RP on RI
	H_A	There is a direct influence of RP on RI
RQ9 *How does RP affect Incremental Innovation in SMEs during financial crisis?*	H_0	There is no influence of RP on II
	H_A	There is a direct influence of RP on II

Figure 1 - Research model

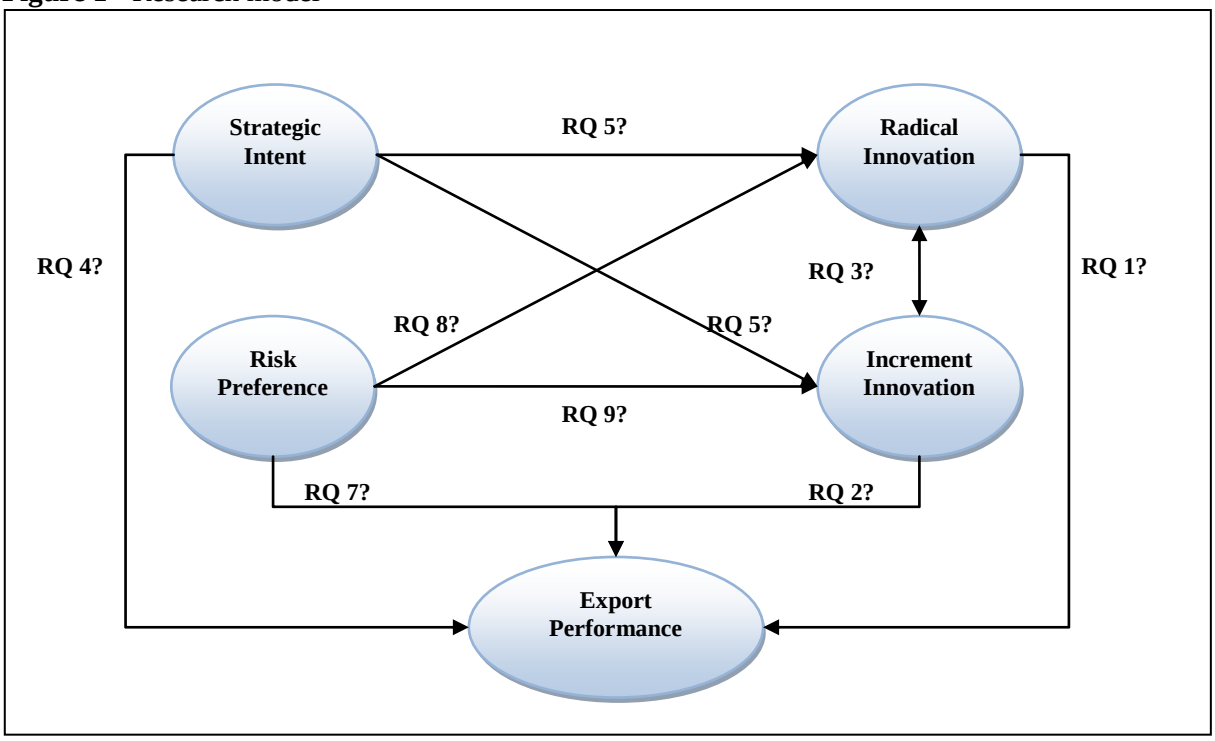

Table II – Innovation attitude

Questions: Please indicate the extent to which the following sentences describe your organization's innovation (1 not at all to 5 at all)

Description	Average	SD	Min	Max	Factor Loading	Factor Loading	Alpha
Incremental Innovation							**0.85**
Innovation in terms of market penetrating existing market segments	2.858	0.980	1	5	0	0.739	
Innovation in terms of product increasing products that already exists	2.876	1.017	1	5	0.163	0.750	
Innovation in terms of operational processes increasing processes that already exists	2.953	0.956	1	5	0.280	0.708	
Innovation in terms of customer management processes increasing processes that already exists	2.919	0.993	1	5	0.336	0.695	
Innovation in terms of product development processes increasing processes that already exists	3.179	1.152	1	5	0.421	0.542	
Innovation in terms of social management processes increasing processes that already exists	2.808	1.063	1	5	0.245	0.55	
Radical Innovation							**0.89**
Innovation in terms of market penetratig new markets	3.705	1.2	1	5	0.658	0.186	
Innovation in terms of product launching new products	3.578	1.237	1	5	0.665	0.214	
Innovation in terms of operational processes launching new processes	3.702	1.138	1	5	0.770	0.237	
Innovation in terms of customer management processes launching new processes	3.730	1.136	1	5	0.795	0.229	
Innovation in terms of product development management processes launching new processes	3.739	1.171	1	5	0.747	0.242	
Innovation in terms of social management management processes launching new processes	3.572	1.159	1	5	0.695	0.294	

Number of observation: 319
p-value is 0.0000
p< .0001

Table III – Risk Preference

Questions: Please indicate the extent to which the following sentences describe your organization's innovation (1 not at all to 5 at all)

Description	Average	SD	Min	Max	Factor Loadings	Cronbach's Alpha
Risk Preference items. In general, the top managers of my firm : ….						**0.77**
Have a strong proclivity for hight risk with chances of high returns projects rather than low risk with normal rate returns projects	2.832	1.049	1	5	0.601	
Believe that owing the nature of the environment is best to be bold adopting a wide ranging acts rather than explore it gradually via cautions (incremental behavior)	3.179	1.08	1	5	0.946	
Typically adopts brave actions to take opportunities even if risky rathern than being cautions, adopting a wait and see posture	3.241	1.067	1	5	0.663	

Number of observation: 319
p-value is 0.0000
p< .0001

Table IV – Strategic Intent

Questions: Please indicate the extent to which the following sentences describe your organization's innovation (1 not at all to 5 at all)

Description	Average	SD	Min	Max	Factor Loadings	Cronbach's Alpha
Strategic Intent						**0.77**
Importance of Novelty of products	0.705	1.127	1	5	0.615	
Importance of firm growth	2.653	1.143	1	5	0.783	
Importance of Product performance	2.947	1.177	1	5	0.783	
Material quality of our products (raw materials, …)	2.421	1.016	1	5	0.568	
Immaterial quality of our products (image, …)	2.495	0.953	1	5	0.445	

Number of observation: 319
p-value is 0.0000
p< .0001

Table V – Performance

Questions: Please indicate the extent to which the following sentences describe your organization's innovation (1 not at all to 5 at all)

Description	Average	SD	Min	Max	Factor Loadings	Cronbach's Alpha
Export Performance						**0.881**
Revenues from export are superior to the one of my competetitor	2.858	0.829	1	5	0.725	
Net Operating Income from export sales are superior to the one of my competetitor	2.887	0.861	1	5	0.941	
Net Income from export sales are superior to the one of my competetitor	2.937	0.887	1	5	0.873	

Number of observation: 319
p-value is 0.0000
p< .0.001

Table VI – Model parameters

Research question and model specification		Measures			Hypotheses test
		Coefficient	t-value	p-value	
RQ1	RadicaI innovation → Export Performance	-0.11	-1.32		-
RQ2	Incremental Innovation → Export Performance	0.35	3.86	***	H_0 Rejected
RQ2	Radical innovation → Incremental Innovation	0.53	7.11	***	H_0 Rejected
RQ4	Strategic Intent → Export Performance	0.012	0.16		-
RQ5	Strategic Intent → Radica Innovation	0.21	3.14	***	H_0 Rejected
RQ6	Strategic Intent → Incremental Innovation	0.23	3.73	***	H_0 Rejected
RQ7	Risk Preference→ Export Performance	0.14	2.02	**	H_0 Rejected
RQ8	Risk Preference → Radical Innovation	0.33	4.82	***	H_0 Rejected
RQ9	Risk Preference → Incremental Innovation	0.049	0.78		-
	Goodness of fit indices	$\chi 2$ = 552, d.f. = 220, CFI = 0.96, NNFI = .95, RMSEA = .069			
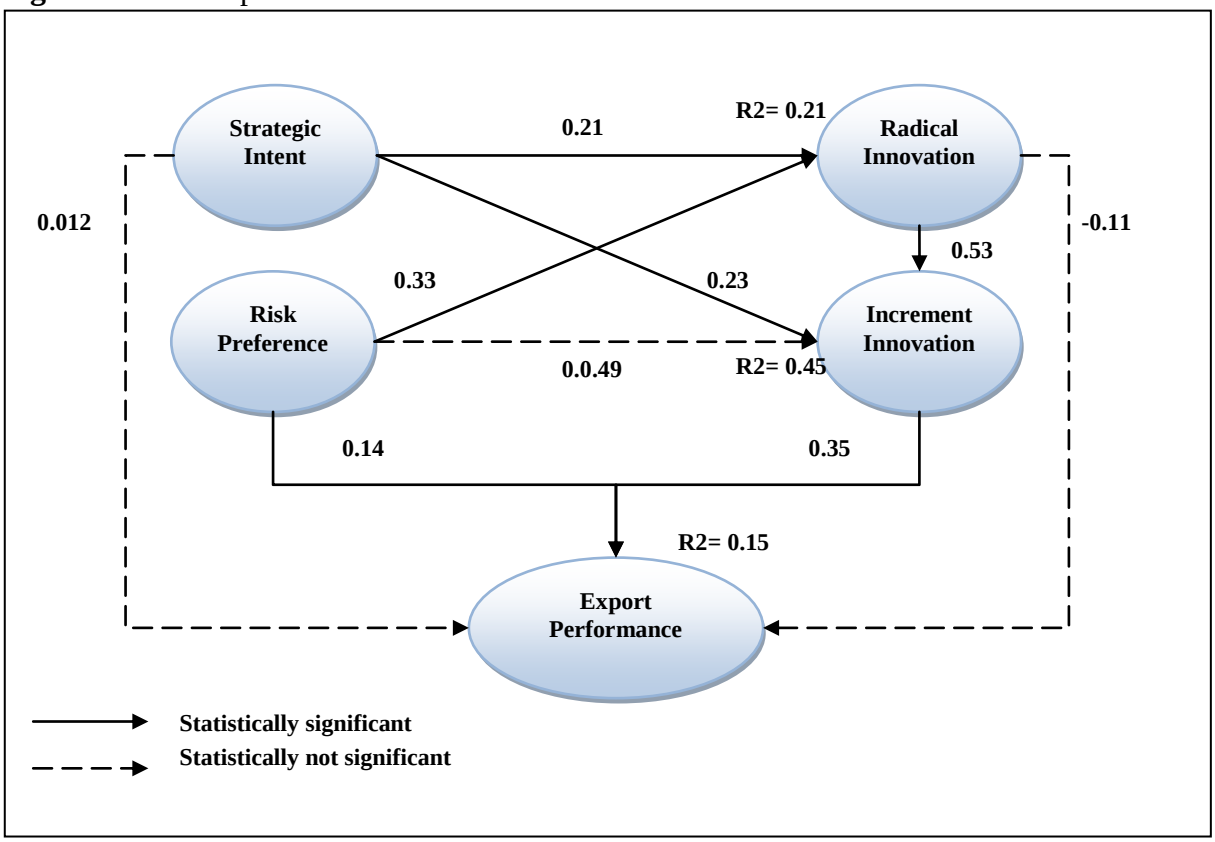
Figure 2 – Model parameters