

## Discussion Paper

# Post-Entry Performance of International New Ventures: The Mediating Role of Learning Orientation

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# Post-Entry Performance of International New Ventures: The Mediating Role of Learning Orientation

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## **Abstract**

This paper investigates the role of learning orientation in the post-entry performance of international new ventures (INVs) by examining the relationships of niche strategy, network resources, and learning orientation with the multi-dimensional post-entry performance of INVs. Based on the INV internationalisation literature, we develop and validate a conceptual model using a sample of 147 INVs from two relatively small and open economies from New Zealand and Australia. The results show that learning orientation of INVs positively mediates the relationship between niche orientation and network resources and INVs' post-entry performance. Our study indicates that learning orientation may be an important capability through which INVs' focused international business strategies and resources (e.g., niche orientation and network resources) may influence their multi-dimensional post-entry performance in terms of operational, financial and overall effectiveness measures. We draw key implications for research on INVs' post-entry behaviour by explicating the role played by the firms' learning capabilities, and how these capabilities may interact with their strategies and resources in enhancing the post-entry performance of INVs.

## **Keywords**

international new venture, learning orientation, niche orientation, network resources, post-entry performance

## **JEL Classifications**

M16 – International Business Administration

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## Introduction

The emergence of early and rapidly internationalising firms has become an increasingly relevant feature in the IB landscape, primarily since the early 1990s (Knight and Cavusgil, 1996; Jones et al. 2011). These entrepreneurial companies are often small and medium-sized, and are typically characterised by their innovative nature and global mindset, thus viewing the world rather than the domestic market as their marketplace. There has been a growing interest in better understanding the internationalisation behaviour of international new ventures (INVs), which provides important insights into the characteristics and rapid rise of such firms (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996; Jones et al., 2011; Baum et al., 2011; Cavusgil and Knight, 2015; Zander et al., 2015). These studies have greatly enhanced our knowledge of INVs and their development, often leading to their becoming key global players. Despite the numerous contributions of existing studies, there is relatively limited research which has focused on the post-entry trajectory of INVs so far (e.g., Mudambi and Zahra, 2007; Jones et al., 2011; Morgan-Thomas and Jones, 2009; Sui and Baum, 2014; Gerschewski et al., 2015; Khan and Lew, 2018).

Anecdotal evidence points to the relatively low rates of survival and short longevity of INVs after their initial internationalisation activities (e.g., Kuivalainen et al., 2012; Mudambi and Zahra, 2007; Sui and Baum, 2014). For instance, Mudambi and Zahra (2007: 342) note that INVs may have failure rates of 41% compared to 26% for those firms which adopted a more sequential entry mode. Similarly, Kuivalainen et al. (2012) reported that 68% in their sample were born global firms, but most of them were not successful in international markets.

Studies also note that capabilities and network relationships as a key resource can play an important role in shaping these firms' internationalisation behaviours (Coviello, 2006; Jones et al., 2011). However, relatively few studies have focused on gaining a better understanding of the key resources, business strategies and capabilities that may explain the post-entry performance of INVs, albeit with inconclusive findings (e.g., Jones et al., 2011; Kuivalainen et al., 2007; Gerschewski et al., 2015; Fernhaber and Li, 2013). The existing literature often highlights the vital role of INVs' network relationships in their rapid rise; however, the mechanisms through which network relationships improve these firms' post-entry performance and development is generally not well known (Fernhaber and Li, 2013). In this context, Coviello (2015) called for further research into the role of knowledge, learning, and capabilities, noting that "one might leverage extant IE [International Entrepreneurship] (and other) research to more clearly disentangle and then understand the relationships between knowledge, learning, capabilities, strategy and performance in INVs" (p. 22). Through network relationships, firms may often gain valuable

knowledge and improve performance. As a result, network relationships can serve as key resources for firms to tap into developing a sustainable competitive advantage (e.g., Gulati, 1999; Inkpen and Tsang, 2005; Lew et al., 2013).

In this study, we attempt to respond to Coviello's (2015) call for future research into INVs. Our point of departure is the underappreciation of the key mechanisms and capabilities that may be central to INVs' differential post-entry performance, and through which network relationships can potentially enhance their post-entry performance (Fernhaber and Li, 2013). We generally lack an in-depth understanding about 1) how INVs utilise different resources through network relationships, business strategies, and capabilities, 2) how and to what extent they altogether lead to their post-entry performance over time. There have been a few studies which have highlighted the role of niche orientation and network relationships in the internationalisation and performance of INVs; however, the mechanisms and processes through which these may affect the post-entry performance of INVs are generally not well-known (Knight and Liesch, 2015).

This paper contributes to the extant literature on INVs in several ways. First, our research brings the key role of learning into the domain of INVs' post-entry performance. In doing so, we examine the effects of the inter-relationships between a focused business strategy (i.e., niche orientation), resource (i.e., network resources) and capability (i.e. learning orientation) that may be central to explaining the multi-dimensional post-entry performance of INVs. Second, our paper introduces the notion of learning orientation as a mediator in explicating factors that may drive the post-entry performance of INVs. Third, our empirical results suggest that learning orientation may be an important 'capability' through which INVs' network resources and niche strategy may affect their multi-dimensional post-entry performance in terms of operational, financial and overall effectiveness measures.

## Theory and Hypothesis Development

### Learning in the INVs' internationalisation process

In terms of the conceptual underpinnings of INVs, IB scholars have adopted various theories and concepts to investigate the phenomenon of INVs, including the resource-based (Knight and Cavusgil, 2004; Young et al., 2003) and knowledge-based view of the firm (Gassmann and Keupp, 2007), network perspective on internationalisation (Chetty and Campbell-Hunt, 2004), and transaction cost perspective (Hennart, 2014).

In this paper, we mainly adopt an organisational learning theory perspective (e.g., Senge, 1990; Fiol and Lyles, 1985), since the role of learning has been widely acknowledged in the internationalisation process of firms (Johanson and Vahlne, 1990; 2009; Oviatt and McDougall, 1994). The behavioural theory of the firm (Cyert and March, 1963) notes that a firm's market-related knowledge increases gradually over time due to the high costs of knowledge acquisition and the bounded rationality of the firm. The internationalisation process theory also bases its assumptions on the behavioural theory of the firm, and suggests that internationalisation is an incremental process of learning through which internationalising firms accumulate knowledge over a period of time to avoid risks in foreign markets (Johanson and Vahlne, 1990; 2009). Such learning is vital in determining not only the speed of internationalisation, but also the direction and the subsequent performance of the firm in foreign markets (Zahra et al., 2000; Mudambi and Zahra, 2007).

As defined by Levitt and March (1988, p. 320), organisational learning enables organisations to encode "inferences from history into routines that guide behaviour". Since the internationalisation process generally poses challenges for the firm, due to its unfamiliarity with the institutional environment of host markets, experiential learning in the internationalisation process is often important to overcome the liabilities of foreignness (Eden and Miller, 2004; Zaheer, 1995; Zaheer and Mosakowski, 1997). Scholarship notes that learning may also provide important knowledge related to marketing, new product development and R&D, thus facilitating internationalisation activities (Zahra et al., 2000; Yli-Renko et al., 2002). Due to its key role, prior research suggests that learning facilitates the development and evolution of capabilities in INVs (Zahra, 2005).

The learning orientation of internationalising firms such as INVs has been acknowledged to be critical for their internationalisation and subsequent capability development and evolution (Dimitratos and Plakoyiannaki, 2003; Baum et al., 2011; Zahra, 2005). As such, knowledge is considered as the key ingredient for the creation and development of INVs (Schwens and Kabst, 2011). Those INVs which take a continuous learning and knowledge development approach may well be in a superior position to exploit the opportunities available in international markets and, thus, are better able to deal with uncertainty and overcome the liabilities of newness and foreignness as these firms often suffer due to resource scarcity (Sapienza et al., 2006). Therefore, we can infer that it may be easier for INVs with a learning orientation to survive in the competitive international market compared with those lacking such a capability, as suggested by organisational learning theory. Such a learning orientation may positively influence the survival rates of firms in the uncharted territories which are prevalent in international markets, as INVs

continuously develop their knowledge bases by interacting with network partners (Weerawardena et al., 2007; Bruneel et al., 2010; Zander et al., 2015). Our central argument is that those INVs that have a strong learning orientation may be in a better position to take advantage of the additional opportunities available in international markets and may, thus, further enhance their firm performance.

Organisations often develop their strategies and capabilities on the basis of learning, and it is in this context that the role of organisational learning may be important in the development of new capabilities. Through the learning process, organisations encode experiential knowledge into their behavioural routines (Levitt and March, 1998). However, few studies have examined how INVs' learning orientation may interact with a key set of resources and strategies such as network resources and niche strategy, to further improve their internationalisation process and performance (Clercq et al., 2005; Coviello, 2015; Jones et al., 2011; Knight, 2015; Knight and Liesch, 2015; Zahra, 2005; Sapienza et al., 2005; Sui and Baum, 2014). The key aim of this paper is to investigate such relationships in the context of INVs' post-entry behaviour. This aim is in line with the suggestion by Coviello (2015) highlighting the need to disentangle the effects of learning, capabilities, strategy and performance of INVs.

## Niche orientation

The literature offers some consensus on the viewpoint that INVs tend to undertake niche strategies based on specialised products/services that are provided to narrowly defined customer groups (Kuivalainen et al., 2007; Aspelund et al., 2007; Knight and Cavusgil, 1996, 2004; Rennie, 1993). INVs tend to market a specialised product to niche markets, whereas traditionally internationalising firms generally offer a diversified product range to a broad market segment (Chetty and Campbell-Hunt, 2004). It has been suggested that INVs typically follow a differentiation and/or focus strategy, rather than a cost leadership one (McDougall et al., 2003; Knight and Cavusgil, 2005). This may be attributed to the difficulties that INVs experience, with respect to achieving economies of scale in production and/or marketing, which may result in their inability to compete on the basis of cost or volume against larger firms (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996). It has been noted that quality and value created through innovative technology and product design are the key competitive advantages for firms (Sisodia, 1992), including born globals (Rennie, 1993). Therefore, INVs tend to compete more on the basis of a unique, quality product/service, rather than cost leadership (Knight and Cavusgil, 2004). However, some scholars argue that INVs may compete in both commodity and niche market segments (e.g. Fletcher, 2004; Bell et al., 2004; Crick and Jones, 2000).

Recent research suggests that those INVs which have adopted a niche strategy were more likely to survive in international markets compared to the ones which have a broad focus (e.g. Khan & Lew, 2018). Autio (2017:22) suggests that “... in the context of internationalization, a niche strategy should be more beneficial than a flexibility strategy [...] a niche strategy enables the new venture to focus its capability development efforts and achieve a good level of effectiveness more quickly than if the new venture attempted to develop a broad range of capabilities”. However, the exact mechanisms through which niche strategy may influence the post-entry performance of INVs is generally not sufficiently known (Knight and Cavusgil, 2004; Cavusgil and Knight, 2015; Knight and Liesch, 2015).

Knight and Cavusgil (2004) incorporated market orientation<sup>1</sup> into their study of US born global firms and found that born globals’ business strategies tend to be a function of their international marketing orientations. In turn, the firms’ business strategies were generally drivers of the companies’ international performance (Knight and Cavusgil, 2004). Blesa et al. (2008) found that niche orientation mediates the relationship between early international commitment and international positional advantages in terms of superior marketplace position (e.g., Day, 1994). Positional advantages are based on deploying rare and hard to imitate resources and capabilities which may help to improve company performance as per the resource-based view of the firm (Barney, 1991, 2001; Wernerfelt, 1984). In a similar vein, Matsuno et al. (2002) found a mediating effect of niche orientation on the relationship between entrepreneurial orientation and performance. However, Frishammar and Andersson (2009) found little support for a relationship between niche orientation and international performance, and suggested that niche orientation may assume a different meaning in small, international firms. Therefore, they called for the adaptation of the standard operationalisations of niche orientation to the specific context of international SMEs. We build on this call by Frishammar and Andersson (2009), and adapt Liesch et al. (2007)’s measures to operationalise niche orientation in the context of INVs.

In a qualitative study of Finnish software firms, Ruokonen and Saarenketo (2009) concluded that a high niche orientation combined with learning orientation may be a strong indicator of whether the companies are able to achieve a sustained competitive advantage and superior international performance. However, with regard to the association between niche orientation and firm performance in the literature, relatively little research has attempted to examine the mechanisms through which niche orientation influences post-entry performance of INVs (Fernhaber and Li,

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<sup>1</sup> Knight and Cavusgil (2004) view market orientation primarily as a managerial mindset and the creation of value via key marketing elements for foreign customers. In this paper, we are more interested in niche orientation of INVs, and how these firms compete in the global market.

2013; Coviello, 2015; Reuber et al., 2017). Scholarship suggests that niche orientation in the INV context is not fully explored (e.g., Hennart, 2014; Knight and Liesch, 2015). There seems to be insufficient understanding how niche orientations interact with other capabilities, such as learning orientation in enhancing INVs' post-entry performance as there is a lack of studies on this topic (Jones et al., 2011; Cavusgil and Knight, 2015). Thus, a more subtle process may play a role when it comes to the potential impact of niche orientation on post-entry performance of INVs. Niche orientation may influence the INVs' performance through specific capabilities, such as learning orientation as INVs often experiment with new ways of doing operations in international markets (e.g. Autio et al., 2011; Sapienza et al., 2005).

## Network resources

The role of networks in the rapid rise of INVs is a recurring theme in the literature. Previous studies have emphasised the importance of networks for INVs (e.g., Chetty and Campbell-Hunt, 2004; Gerschewski et al., 2016). A salient feature of INVs pertains to their usage of networks, which may result in hybrid governance structures, e.g., strategic alliances; this is presumed to be related to the firms' insufficient resources to support more standard internationalisation approaches (Oviatt and McDougall, 1994; McDougall et al., 1994; Hennart, 2014). Rialp et al. (2005) concluded that born globals generally make strong use of personal and business networks, in order to compete internationally. Networks may provide valuable resources in the form of key knowledge and other resources that INVs can tap into in order to compete in international markets (Gulati, 1999; Fernhaber and Li, 2013).

In comparison, 'traditional' internationalising SMEs tend to rely more on conventional distribution channels, such as agents/distributors (Bell et al., 2003). Similarly, Chetty and Campbell-Hunt (2004) found that born globals differ from 'traditional' internationalising firms in terms of the extent and pace of their network development with their business partners; i.e., INVs often use and develop a more extensive network to facilitate their rapid expansion in international markets, compared to 'traditional' firms.

When expanding abroad, firms may have to unlearn their established domestic routines and learn new routines and knowledge about international markets, which may conflict with their existing operations and the managements' mind-sets. As such, these young INVs may need to quickly learn about foreign market knowledge from their managers' extensive personal network contacts. For example, Andersson and Wictor (2003) noted that personal networks represent a key factor in the implementation of their internationalisation strategy and provide the main network for born globals, due to their young age and lack of stability in routines, systems and processes. Rialp et al.

(2005) found that born globals tend to make more use of personal networks than traditional exporters. Crick and Spence (2005) also emphasised the importance of existing networks, often resulting from the management's previous international experience, as resources that enabled firms to enter overseas markets successfully. Similarly, Zou and Ghauri (2010) found, in a case study of three Chinese high-tech new ventures, that the personal contacts of the senior management were a main source of network knowledge for the firms. These studies show that the personal contacts of INV managers helped them to expand in international markets.

The INV literature has attempted to differentiate between different types of networks. Mort and Weerawardena (2006) identified fundamental networks which allowed the exploitation of initial opportunities in international markets, whilst secondary networks were important in the growth process of the firm. They noted that the strategic role of the founder/manager was critical in identifying and establishing both fundamental and secondary networks. This lends support to the importance of the management's personal networks, and can be linked to the entrepreneurial perspective on internationalisation, which highlights the role of the individual in the internationalisation process (e.g., Andersson, 2000). Sharma and Blomstermo (2003) examined the strength of network ties (i.e., a combination of amount of time, emotional intensity, intimacy, reciprocity of services) and differentiated between weak and strong ties. They argued that weak ties are advantageous for born globals as they provide more heterogeneous knowledge and are less costly to maintain than strong ties. Using the case study of the born global company, Helax, Sharma and Blomstermo (2003) also highlighted the importance of the extensive personal ties of the chair of the company for the success of the firm's internationalisation endeavours. Freeman et al. (2006) argued that strong relationships with large foreign partners helped to overcome the constraints to rapid internationalisation, such as lack of economies of scale, and insufficient financial and knowledge resources.

In sum, networks of INVs can serve as important 'resources' in the form of capital and knowledge for the development of their capabilities for internationalisation. Thus, with these network resources, INVs may be able to overcome liabilities of outsidership (Johanson and Vahlne, 2009), thereby gaining access to useful international market knowledge embedded in their international networks. The impact of the network resources on performance can be direct or through other capabilities, such as learning orientation (Levitt and March, 1988). Yet, to date, many studies have generally focused on network resources as an independent variable and detached it from learning orientation. As the impact of network resources on performance may differ across firms and industrial settings, learning orientation of INVs can be one of the key capabilities through which we can better understand the impact of network resources on performance. This argument is

consistent with the suggestions made by Knight (2015), indicating the need to pay greater attention to the impact of learning orientation on the international performance of INVs.

## Mediating role of learning orientation and INV post-entry performance

As noted earlier, learning orientation has its foundation in organisational learning theory, which views the firm as a learning organisation (e.g. Argote and Miron-Spektor, 2011; Senge, 1990; Fiol and Lyles, 1985). Organisational learning has been defined as the 'process of improving actions through better knowledge and understanding' (Fiol and Lyles, 1985, p. 803), and tends to be related to better business performance (Senge, 1990). Khan and Lew's (2018) recent case study shows that INV's niche orientation and learning capability may provide a foundation for gaining a competitive advantage. More specifically, learning orientation refers to a mechanism that facilitates adaptive learning in the firm (Baker and Sinkula, 1999). Sinkula et al. (1997) noted that learning orientation "influences the degree to which an organization is satisfied with its theory in use and, hence, the degree to which proactive learning occurs" (p. 309). Firms with higher levels of learning orientation tend to encourage their employees to 'think outside the box' (Baker and Sinkula, 1999). Three organisational values have been conceptualised pertaining to the learning orientation of a firm (Sinkula et al., 1997; Senge, 1990): (1) commitment to learning, (2) open-mindedness, and (3) shared vision. Commitment to learning reflects the degree to which firms value learning and promote a learning culture. Open-mindedness is linked to the concept of 'unlearning', which includes the challenging of old routines, assumptions and beliefs. Baker and Sinkula (1999) noted that unlearning is at the heart of organisational change, and open-mindedness is a prerequisite for the success of unlearning. Shared vision relates to the managerial direction of the learning process, in terms of helping employees to work towards a common goal (Sinkula et al., 1997). Learning orientation has been conceptualised as an organisational capability in several studies (e.g. Hult et al., 2003; Collis, 1991; Uhlenbruck et al., 2003).

Firms with a high learning orientation are often in a better position to exploit the knowledge coming from their network, and they use that knowledge to develop capabilities for specialised products for customers, develop a competitive advantage and outperform their rivals (e.g., Calantone et al., 2002; Wang, 2008). Learning orientation is associated with higher-order learning (e.g. Baker and Sinkula, 1999). As a result, INVs' learning orientation may facilitate niche strategies of products and service development and downstream market segments. Extant research has highlighted the key role of learning in the development of capabilities which, in turn, may explain international growth of the firm (e.g., Kogut and Zander, 1992; Zahra et al., 2000).

Despite the key role of learning orientation, with some exceptions (see e.g. Jantunen et al., 2008), there have been relatively few studies that have examined the role of learning orientation and performance implications in the INV context (Knight and Cavusgil, 2004; Coviello, 2015; Knight, 2015). The notion of 'learning advantages of newness' (Autio et al., 2000) also indicates that successful INVs are often more flexible and quickly learn competencies required for growth in international markets (Sapienza et al., 2006). INVs with a high level of learning orientation may be better placed compared to their competitors to utilise the knowledge from different network resources and execute niche strategy, thereby achieving superior performance. Thus, we posit that INVs' post-entry performance may depend on their developing a high level of learning orientation, in order to continuously upgrade their capabilities and take advantage of other resources, such as network attachment and niche orientation (Sapienza et al., 2006; Coviello, 2015; Knight and Liesch, 2015). Those INVs that adopt an active learning orientation and niche orientation in their cross-border operations may be in a better position to develop their competitive advantage (e.g. Autio, 2017). Based on the above discussion, we advance the following two hypotheses.

*H1: An INV's learning orientation positively mediates the relationship between its niche orientation and post-entry performance.*

*H2: An INV's learning orientation positively mediates the relationship between its network resources and post-entry performance.*

## Methods

### Sampling frame and data collection

The focus of the current research is to investigate the characteristics and mechanisms of INVs which shape their post-entry performance. The sampling frame of this study is based on 1,000 New Zealand and 1,000 Australian firms which were established between 1999 and 2009. We gathered the company details primarily from the Dun & Bradstreet database and supplementary internet-based desk research. The data collection was conducted through a web-based survey from April to July 2010. Using the above sampling frame, we developed a list of email addresses of

2,000 representative companies and sent each sample company an email invitation which contained a link to the web-based survey. After the first round of the email survey, we conducted two additional rounds by sending follow-up reminder emails to non-responding companies. In sum, we collected 310 usable responses, accounting for a 15.5% response rate. We identified 147 INVs from the sample based on our definitions of INVs in terms of the time to internationalisation (i.e., start to internationalise within the first three years after establishment) and extent of internationalisation (i.e., at least 25% of international sales three years after the firm's establishment) (e.g., Knight and Cavusgil, 2004; Gerschewski et al., 2015).<sup>2</sup>

The survey respondents were overwhelmingly the companies' owners and/or CEOs (79%), followed by company sales managers (21%), e.g. export managers and other senior management positions. Our sample of 147 INVs consists of 102 New Zealand and 45 Australian INVs, as shown in Table 1. The proportion of the sample size may be attributed to the fact that the surveys were administered and sent from New Zealand, and not from Australia. Therefore, a potential survey "country of origin" effect may explain the distribution of the sample firms.

After the data collection, we examined the non-response bias of the sample data. We categorised the data into early and late response groups, followed by conducting non-parametric Mann-Whitney U test to compare medians of dependent variables between these two groups. We did not find any significant differences between the two groups ( $p > 0.05$ ), suggesting that non-response bias is not a serious concern in this study.

<< Table 1 >>

## Common method bias

We collected data from single respondents, thus common method bias may potentially reside in the model (Podsakoff and Organ, 1986). We employed ex-ante and ex-post approaches to resolve the problem of common method bias for this study. Firstly, we emphasised the confidentiality and anonymity of the questionnaire response when we collected the data by clearly stating this on the first page of the survey. In addition, we randomised questions throughout our questionnaire, thus making it difficult for the respondents to make any assumptions regarding the conceptual model employed in this study. These approaches also help to reduce social desirability bias (Schmitt, 1994). For ex-post solutions, we conducted Harman's one-factor analysis by using exploratory factor analysis with SPSS. The results show that the largest single factor that was extracted

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<sup>2</sup> It should be noted that the original born global conceptualisation by Knight (1997) did not include the commonly used FSTS (Foreign Sales/Total Sales) ratio of 25%. However, many subsequent studies (e.g. Andersson and Wictor, 2003; Gerschewski et al., 2015) have adopted the cut-off ratio of 25% FSTS.

explained only 21.4% of the total variance. In terms of the interconstruct correlation, the highest correlation between niche orientation and network resource was 0.364 (Bagozzi et al., 1991). In addition, the high levels of internal consistency of our study constructs in the model support the assumption that the constructs are reliable in terms of their composite reliability (CR) and Cronbach's alpha scores. Based on the above, we can conclude that common method bias is likely not impacting on our research findings in this study.

## Measures

We adapted the existing measures from the literature to operationalise the study constructs. We mainly used multi-item scales based on 7-point Likert scales from 1 (strongly disagree/not important at all) to 7 (strongly agree/extremely important). We operationalised niche orientation as the degree of an INV's product/service specialisation for overseas markets, the targeting of unexplored international market segments, the level of uniqueness of the INVs' product/service in the firm's international marketing endeavours, the extent of how much the INVs' product/service represents a new and innovative way of meeting a demand, and the level of the INVs' product/service to serve an unmet market need (Khan and Lew, 2018). The items for niche orientation were mainly adapted from Liesch et al. (2007) and Moen (2002).

Second, network resource was operationalised as to what extent the business networks of management contribute to INVs' internationalisation. We operationalised network resource by adapting Andersson and Wictor's (2003) two items regarding the depth and breadth of previous personal networks. In the conceptual model, learning orientation as a capability is hypothesised to facilitate the post-entry performance in the INVs' internationalisation process. Thus, we operationalise the learning orientation construct as the extent of an INV's continuous learning and knowledge development efforts in the internationalisation process. We adapted a four-item scale from Sinkula et al. (1997) to measure learning orientation.

We measured INVs' post-entry performance which consists of three first-ordered constructs, *i.e.*, operational, financial and overall effectiveness performance (Venkatraman and Ramanujam, 1986; Bonner et al. 2005; Hult et al. 2008). With regard to the INVs' post-entry performance, we adopted a formative-reflective second-order hierarchical component model (HCM) (Becker et al. 2012; Chin 2010) in that the performance construct is a blend of the above three first-order performance constructs<sup>3</sup> (see e.g., Venkatraman and Ramanujam, 1986; Jarvis et al. 2003;

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<sup>3</sup> Regarding the advanced issue in formative-reflective HCM, Hair et al. (2018, p. 46) state, '*the objective of this HCM type is extracting the common part of several formatively measured low-order constructs (LOCs) that have been established to represent the same theoretical content ... the high-order construct represents the common part of the LOCs (i.e., overall firm performance)*'.

Diamantopoulos and Sigauw, 2006; Petter et al., 2007). First, operational performance was measured using seven formative indicators, including international market share, reputation, new product/service, presence of strategic locations, time to market for new product/service, gaining a foothold at an international level, and number of successful new products/services. Financial performance was measured with four formative indicators, including international sales, sales growth and profitability as well as return on investment from IB. Lastly, overall effectiveness was measured using formative indicators including two perceived IB success and overall IB performance (see Table 3). To capture the post-entry performance of INVs, we asked the respondents how satisfied they were with their *'company's main IB activities for the first five years after their company's initial internationalisation relative to their prior expectations'*.<sup>4</sup> When we tested the structural model, we included two control variables to control for firm size, measured as a number of employees, and firm age, as larger and older firms may have more international experiences and resources to achieve better international performance (see Figure 1).

<< Figure 1 >>

## Results

### Reliability and validity

We assessed reliability using Cronbach's alpha and composite reliability. As shown in Table 3, the values of Cronbach's alpha of most of the constructs were above 0.8 except for network resource (alpha=0.662). For an exploratory study, Nunnally (1978) suggests a threshold of 0.6, and the values of the composite reliability (CR) of all constructs were higher than 0.8. Therefore, we can conclude that internal consistency reliability exists in the measurement model. We checked indicator reliability using the absolute standardised outer loadings on all items in the model, and they indicate a high level of indicator reliability in the measurement model (see Table 2).

We examined convergent validity using average variance extracted (AVE) (Fornell and Larcker, 1981). The values of all constructs were over 0.5 (see Table 2). Discriminant validity was assessed by comparing the AVE of each construct with the highest value of the squared correlation among the study constructs (Hair et al., 2018). The diagonal values in Table 2 are the scores of the square

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<sup>4</sup> It should be noted that we asked in the survey that respondents should evaluate their firms' international performance up to the time of the study (i.e. 2010), in case their firms had been doing international business for less than five years.

root of the AVE, which are not lower than the highest correlation among the study constructs, suggesting that discriminant validity is evident for the model.

<< Table 2 and Table 3 >>

## PLS structural equation modelling

We assessed the structural model using partial least square structural equation modelling (PLS-SEM) for the following reasons. As discussed in the theory section, limited research has examined the association between the internationalisation and post-entry performance of INVs (e.g. Trudgen and Freeman, 2014). Therefore, a variance-based PLS-SEM method is suitable for testing an exploratory theory (Henseler et al., 2016). This research investigates the relatively underexplored INVs' post-entry performance by using PLS-SEM. In addition, it is appropriate for testing a relatively small sample in our study ( $n=147$ ), as PLS analytics do not strictly assume a normal sample distribution (Lew and Sinkovics, 2013), and the bootstrap method in PLS allows the small sample to test the confidence intervals for each path coefficient of the model (Carrión et al., 2016). Next, our study constructs contain many indicators and the model consists of complex relationships, including a latent construct and a formative-reflective second-order performance construct (Becker et al. 2012), thus PLS-SEM can be a suitable analytical solution for this study.

## Hypothesis test

The results of the PLS-SEM analysis show that there is a mediating effect of learning orientation on the relationship between niche orientation and post-entry performance. When we removed learning orientation from the model, the relationship between niche orientation and post-entry performance was positively significant ( $b=0.224$ ,  $p<0.01$ ). However, when learning orientation was included in the model, the path from niche orientation and post-entry performance became insignificant ( $b=-0.035$ ), as shown in Figure 1. At the same time, the path from niche orientation to learning orientation ( $b=0.336$ ,  $p<0.01$ ) and that from learning orientation to post-entry performance ( $b=0.212$ ,  $p<0.1$ ) were positively significant. *H1* is strongly supported based on evidence for full mediation (Baron and Kenny, 1986).

Following the above approach, we assessed the mediating effect of learning orientation on the relationship between network resource and post-entry performance. There was an insignificant direct relationship between network resource and post-entry performance at the 0.05 level ( $b=0.045$ ). When we put learning orientation as a mediator, the association between network

resource became insignificant ( $b=0.054$ ) while the path from network resource to learning orientation ( $b=0.192$ ,  $p<0.01$ ) and the relationship between learning orientation and post-entry performance ( $b=0.212$ ,  $p<0.05$ ) were significant. Based on this, H2 is supported, as the mediated effect (a) the path from network resource to learning orientation and (b) the path from learning orientation to post-entry performance) exists, but there is (c) no direct effect, *i.e.*, indirect-only mediation (Zhao et al., 2010). In other words, network resource tends to strongly facilitate the INVs' learning orientation which, in turn, strongly affects their post-entry performance, while no direct significant association between network resource and post-entry performance was found in our model.

We assess the predictive power of the model with the  $R^2$  value of two endogenous constructs (*i.e.*, learning orientation and post-entry performance). Their  $R^2$  values were 0.17 and 0.08 respectively (Falk and Miller, 1981), suggesting the predictive power of the model. As shown in Figure 1, the  $R^2$  value of multi-dimensional post-entry performance is 0.08 in the full model. We compared the  $R^2$  value of the model, including all of the constructs with that of the learning orientation excluded model. When it was excluded in the model, the  $R^2$  value of the post-entry performance was 0.054. In addition, we examined the predictive relevance of the endogenous constructs in terms of the  $Q^2$  values of the cross-validated redundancy and cross-validated communality (Fornell and Cha, 1994). The results showed that the  $Q^2$  values of the two endogenous latent constructs (*i.e.*, learning orientation and post-entry performance) were over 0, suggesting the existence of predictive relevance.

After testing the hypotheses, we conducted post-hoc analyses on the empirical model as unforeseen latent heterogeneity may reside in the model, and we checked the robustness of the initial results (Meyer et al., 2017). We made two sub-samples in terms of industry (*i.e.*, service and manufacturing) and nationality (*i.e.*, New Zealand and Australia). The results of our sub-group analyses revealed no significant differences between the two sub-groups, which supports the validity of the empirical model and also the two hypotheses. We carefully interpreted the results of the post-hoc analyses as indicating that the two countries have developed similar institutions based on their common British administrative heritage. In addition, regardless of the type of industry, learning seems to be critically important for INVs in their internationalisation process.

## Discussion and Conclusion

The main purpose of this article was to examine the post-entry performance of INVs under the notion that empirical studies associated with the topic are still in its relative infancy (e.g, Coviello,

2015; Gerschewski et al., 2015; Knight and Cavusgil, 2015; Mudambi and Zahra, 2007). Studies have noted that network, innovation and capabilities may be the key underlying factors, which may explain the post-entry performance of INVs (e.g. Knight and Cavusgil, 2004; 2015; Mudambi and Zahra, 2007). Despite the contributions of these studies, scholars have called for future research to better understand the resources, strategies, and capabilities that may enhance the post-entry performance of INVs (e.g. Autio, 2017; Jones et al., 2011; Cavusgil and Knight, 2015; Coviello, 2015; Knight, 2015; Gerschewski et al., 2015).

In this paper, we narrow our focus on examining the influence of network as a resource, niche orientation as focused strategy and learning orientation as a key capability, which are often considered central to understanding the post-entry performance of INVs (e.g., Cavusgil and Knight, 2015; Coviello, 2015; Knight, 2015). Based on the extant literature, we develop a conceptual model and put forward two hypotheses, which shed important light on the antecedents of INVs' post-entry performance.

In H1, we estimated the mediating effect of learning orientation on the relationship between the niche orientation and post-entry performance of INVs. We find support for the assumption that niche strategy is important in explaining the post-entry performance of INVs, and that this impact may be explained by their learning orientation. In H2, we proposed that network resource is one of the important resources in enhancing the post-entry performance of INVs; however, the mechanisms and underlying capabilities through which network resource can influence the post-entry performance of INVs is generally not well developed. In this context, we theorise that the mediating effect of learning orientation is one of the capabilities through which the network resource may influence the post-entry performance of INVs, and find an indirect-only mediating effect (Zhao et al., 2010), indicating the importance of learning orientation in the post-internationalisation process of INVs. This finding is important as it provides key insights about the subtle underlying process (e.g., learning orientation) through which resources and business strategies may impact the post-entry performance of INVs. The concept of learning orientation has been addressed in some empirical studies. It has been generally found to be positively related to organisational performance, in terms of new product success, change in relative market share, and overall performance (Baker and Sinkula, 1999), and innovativeness (Hult et al., 2004). In addition, some authors found a mediating effect of learning orientation on the relationship between entrepreneurial orientation and firm performance (e.g., sales growth, earnings per share) (Wang, 2008), while others suggested a positive relationship between learning and market orientation (Mavondo et al., 2005). Zahra et al. (2000) found support for a positive relationship between international expansion and the breadth, depth and speed of technological learning.

Baker and Sinkula (1999) concluded that the combination of a strong market and learning orientation is associated with a long-term competitive advantage. However, these studies have generally not examined such a relationship in the context of the post-entry performance of INVs.

Based on the findings of this study, we suggest that the mediating role of learning orientation between niche orientation and network resource in explicating the post-entry performance of INVs is a core finding of this article. Those INVs that have a higher learning orientation will likely be in a better position to enhance their post-entry performance compared to those with a low learning orientation. In doing so, we shed light on the subtle relationship through which INVs' resources, strategies and capabilities may explain their differential post-entry performance. In addition, our post-hoc analyses further demonstrate that learning orientation may matter in both the manufacturing and services sector contexts; therefore, these insights provide a more granular view of the post-entry performance of INVs by establishing a mediating link between the learning orientation as a key capability, network resources and business strategies of INVs.

## Theoretical implications

In this study, we contribute to the emerging literature on explaining the post-entry behaviour of INVs by suggesting that learning orientation is one of the key capabilities through which their network resources and strategies may interact with each other and influence the post-entry performance of these firms. In doing so, the paper offers several implications for research into INVs, as well as for the network, organisational learning and strategy streams of literature.

First, we refine the existing literature which has generally focused on capabilities, innovation and network relationships (e.g., Knight and Cavusgil, 2004; Weerawardena et al., 2007; Mudambi and Zahra, 2007), by integrating the INVs' learning orientation as a key 'capability' through which their niche orientation and network resource may impact on their firms' post-entry performance. Thus, we enhance our understanding of the underlying mechanisms through which the INVs' focused strategy (e.g., targeting niche customers in international markets) and networks as key resources may enhance or hinder their post-entry performance through the mediating effect of the firms' learning orientations (e.g., Coviello, 2015; Knight, 2015).

Second, we build on the relatively scarce literature on the post-entry performance of INVs by attempting to understand the capabilities and underlying resources and strategies, which may explain the post-entry performance of these rapidly internationalising firms (e.g., Cavusgil and Knight, 2015; Mudambi and Zahra, 2007; Sui and Baum, 2014). Therefore, our study broadly contributes to the literature on the determinants of the post-entry performance of INVs, by

simultaneously considering the roles of the firms' resources, business strategies and capabilities on their performance, which has received less attention in the literature so far (e.g., Autio, 2017; Coviello, 2015; Knight, 2015; Knight and Liesch, 2015; Gerschewski et al., 2015).

Third, the findings of this study have implications for organisational learning theory by unravelling the role of the learning orientation of firms in their internationalisation strategies and post-entry performance. Learning orientation is often considered a key capability, as through this INVs can use the learning and apply valuable knowledge across international markets, thus enhancing the firms' post-entry performance (Argote and Miron-Spektor, 2011; Fiol and Lyles, 1985). In this study, learning orientation serves as a mediator between the relationships between the niche orientation (full mediation) and network resources (indirectly-only mediation) of INVs, which has a positive impact on post-entry performance. As such, our findings provide deeper insights into the existing literature on organisational learning and internationalisation (e.g., Sapienza et al., 2006, Weerawardena et al., 2007; Bruneel et al., 2010; Zander et al., 2015), in terms of why and how these mediating relationships exist. These findings provide key insights into the strategy and network literature by demonstrating the manner in which network resources and niche strategy may be crucial for the internationalisation and expansion of INVs - these factors may need to be integrated with the learning orientation of the INVs, in order to improve the firms' respective post-entry performance.

## Managerial implications

First, the findings of this study suggest that organisational level capabilities, network resources and strategies are the key drivers in enhancing the international performance of companies. Thus, INV managers are well advised to carefully evaluate the underlying learning capabilities, network resources and business strategies how their firm compete, thus enhancing its firm performance in international markets, while improving the chances of survival of the firm simultaneously.

Second, it is generally very important for managers to be aware that INVs may be able to learn specific international market information by targeting niche markets and enlarging the firms' internal knowledge reservoir through network resources. This indicates that network resources may bring about the expansion of net-widening effects in personal connections, and, subsequently, may function as a vehicle to learn external information from active contacts and communications within the company's network. Knowledge acquisition through the use of both focused niche strategy and network resources may logically lead to the improvement of firm performance, and it may be a growing prerequisite for INVs to develop unique competitive advantages in the global business environment. In this vein, managers need to understand that

niche strategy and network resources *per se* may not enable their firms to improve its post-entry performance if they fail to develop appropriate learning capabilities. The implications of this are that managers should be mindful of the learning process, routines and mechanisms adopted for improving the firm performance. As a result, managers may apply diverse knowledge across multiple international markets, thus improving their company performance.

## Limitations and future research

First, we focus on some of the key organisational level orientations and capabilities in attempting to better understand the post-entry performance of INVs. Future studies could build on these findings and identify additional orientations and capabilities, such as the effects of the exploratory and exploitative innovation capabilities and speed of learning of INVs on the firms' post-entry performance, by taking a sample of INVs from both developed and emerging markets.

Second, in this paper we focus on the mediating role of learning orientation as a key part of organisational capability of INVs. However, there could be other potential capability-related mediators (e.g., organisational structure and leadership), which may be associated with the INVs' post-entry performance (e.g., Zhao et al., 2010). Future studies may integrate such variables in the model to examine how they may interact with capabilities to explain the post-entry performance of INVs in a comparative context (e.g. INVs vs. non-INVs). Moreover, as the data is cross-sectional in nature, there is the possibility of reverse causality between some of the key variables. We acknowledge this issue as one of the research limitations.

Third, in terms of the survey measures, we operationalised 'network resources' by drawing primarily on Andersson and Wictor (2003). Future studies may adopt alternative, more fine-grained, measures of network resources to further capture the post-entry performance of INVs. In addition, our survey respondents were asked to comment on what is occurring in the minds of managers (e.g., learning orientation). Although it is difficult to measure an organisational-level construct, our psychometric approach can be complemented with multi-level and paced surveys (Bliese et al., 2007). In terms of firm performance, the industry context and life cycle of the firm may provide additional insights into the post-entry performance of INVs. As a result, future studies could pay greater attention to the industry life cycle, and how this may influence the post-entry performance of INVs, using both primary and secondary sources performance data.

Fourth, we collected data from single key knowledgeable informants, which is associated with advantages and disadvantages (e.g., Kumar et al., 1993). Key informants (e.g., key decision makers in firms) can provide valuable information about the events and strategies adopted by the INVs,

but the key informants may also provide biased and/or unreliable information. Thus, we recommend future studies collecting data from multiple respondents on the independent and dependent variables, and may possibly rely on mixed methods, in order to mitigate such potential disadvantages.

In addition, this study is mainly exploratory with PLS research methods, which do not assume a strictly normal distribution on the sample, even though we have used a bootstrapping technique for testing the model. Related to this, there may be additional mediating variables that may explain the post-entry performance of INVs (Zhao et al., 2010). It seems to be a promising research avenue to further explore complementary constructs, such as technological capabilities, and the breadth and depth of learning, to enhance our understanding of the post-entry performance of INVs.

Finally, we acknowledge that each performance measure (i.e., objective vs. subjective assessment) has its own advantages and disadvantages. We suggest future studies capturing both objective and subjective performance measures at different timeframes, in order to develop a holistic view of the post-entry performance of INVs.

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**Table 1 Sample characteristics**

Number of Firms	147 firms (102 New Zealand, 45 Australia)
Annual Sales in 2009 (NZ/A\$)	Mean: 1-5 million
Number of Employees	Mean: 23.4; SD <sup>1</sup> : 43.95
Firm Age (in years)	Mean: 9.62; SD <sup>1</sup> : 6.70
Firms' International Experience (in years)	Mean: 7.43; SD <sup>1</sup> : 2.89
FSTS <sup>2</sup> (Foreign Sales/Total Sales in 2009) (in %)	Mean: 72.01; SD <sup>1</sup> : 28.40
FSTS <sup>2</sup> Three Years after Company Establishment (in %)	Mean: 71.60; SD <sup>1</sup> : 25.01
Time from Company Establishment to Initial Internationalisation (in years)	Mean: 0.74; SD <sup>1</sup> : 1.00
Foreign Market Entry Mode	Exporting (69.5%), Wholly-owned sales subsidiary (8.2%), Strategic alliance (6.6%), Joint venture (4.1%), Licensing (3.1%), Wholly-owned manufacturing subsidiary (0.6%), Franchising (0.6%), Other (7.2%)
Initial International Markets (NB: the total percentage is above 100% as some sample firms entered several international markets simultaneously)	USA (53.7%), Australia/New Zealand (49.0), UK (37.4%), Japan (19.0%), Singapore (16.3%), China (15.0%), Germany (12.2%), South Korea (8.8%), Thailand (7.5%), Indonesia (6.8%), Malaysia (6.1%), India (5.4%), Netherlands (5.4%), Taiwan (4.8%), Canada (4.1%), Hong Kong (4.1%), South Africa (3.4%)
Industry Sector	Manufacturing (27.2%), Services (38.8%), Others (e.g. Agriculture) (34.0%)

<sup>1</sup> SD: Standard deviation

<sup>2</sup> FSTS: Foreign sales/total sales.

**Table 2 Correlations and discriminant validity of the measurement model**

	1	2	3	4
1. Niche orientation	<b>0.727</b>			
2. Network resources	0.143	<b>0.847</b>		
3. Learning orientation	0.364	0.240	<b>0.803</b>	
4. Post-entry performance	0.038	0.112	0.206	-

The values in italics are the square root of the average variance extracted and the off-diagonal values are the correlations between the study constructs

**Table 3 Measurement model**

Construct	Mean	SD	Outer loadings
<b>Niche orientation (Alpha=0.852, CR=0.886, AVE=0.529)</b>			
(strongly disagree=1, strongly agree=7)			
NO1 We emphasize the uniqueness of our product/service in our international marketing	6.281	0.837	0.637
NO2 We are targeting specialized needs in international markets that competitors find hard to meet	5.952	1.178	0.743
NO3 Our product/service represents a new and innovative way of meeting a demand	5.782	1.230	0.776
NO4 Our most important product/service is highly specialized for international markets	5.336	1.590	0.777
NO5 Our product/service is unique with respect to technology	4.925	1.688	0.738
NO6 Our international strategy is to serve an unmet market needs	5.163	1.684	0.726
NO7 We found a niche in the market and are focused on exploiting it in international markets	5.803	1.327	0.685
<b>Network resources (Alpha=0.662, CR=0.833, AVE=0.719)</b>			
(strongly disagree=1, strongly agree=7)			
NR1 Personal contacts of our management provided our company with important networks for internationalization	5.844	0.837	0.961
NR2 Our company had a lot of pre-existing personal networks for internationalization	4.619	1.178	0.716
<b>Learning orientation (Alpha=0.816, CR=0.879, AVE=0.645)</b>			
(strongly disagree=1, strongly agree=7)			
LO1 Our managers basically agree with our company's ability to learn is the key to our competitive advantage	5.667	1.207	0.724
LO2 The basic values of our company include learning as key to improvement	5.918	1.017	0.813
LO3 The sense around here is that employee learning is an investment, not an expense	5.789	1.099	0.804
LO4 Learning in our organization is seen as a key commodity necessary to guarantee the survival of our company.	5.871	0.988	0.866
<b>Post-entry performance - second-order construct</b>			
OP Operational performance	-	-	0.944
FP Financial performance	-	-	0.937
OE Overall effectiveness	-	-	0.942

Construct	Mean	SD	Outer loadings
<b>Operational performance</b>			
Relative to prior expectations, how satisfied were you with your company's main international business for the first five year's initial international business activity? (not satisfied at all=1, extremely satisfied=7)			
OP1 Market share in international markets	4.603	1.472	-
OP2 International reputation of the firm	5.468	1.225	-
OP3 New product/service introduction in international markets	5.039	1.250	-
OP4 Presence in strategically located countries worldwide	4.759	1.439	-
OP5 Time to market for new product/services internationally	4.747	1.472	-
OP6 Gaining a foothold in international markets	5.063	1.526	-
OP7 Number of successful new products/services in international markets	4.831	1.327	-
<b>Financial performance</b>			
Relative to prior expectations, how satisfied were you with your company's main international business for the first five year's initial international business activity? (not satisfied at all=1, extremely satisfied=7)			
FP1 International sales volume	5.304	1.540	-
FP2 International sales growth	5.231	1.577	-
FP3 International profitability	5.165	1.536	-
FP4 Return on investment from international business	4.978	1.547	-
<b>Overall effectiveness</b>			
How would you rate the success of your company's main international business for the first five years after your company's initial international business activity? (not successful at all=1, extremely successful=7)			
OE1 International business success	5.316	1.251	-
OE2 International business success compared to main competitors	5.076	1.427	-
Relative to prior expectations, how satisfied were you with your company's main international business for the first five year's initial international business activity? (not satisfied at all=1, extremely satisfied=7)			
OE3 Overall international business performance	5.128	1.449	-

**Figure 1** The results of the hypothesis test

