



The Information Paradox in Internationalization: Can ignorance ever be bliss? Evidence from emerging market SME managers

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ARTICLE INFO

Keywords:

Managerial perception
Internationalization barriers
Market knowledge
Perceived customer bias
Information paradox
Emerging market
SME

ABSTRACT

This research investigates the effect of knowledge on the perception of internationalization barriers and the intention to internationalize among emerging market small/medium enterprise (SME) managers. Drawing from social cognitive theories in entrepreneurship, the study tests a paradoxical effect of knowledge on a sample of 150 managers. The model predicts that the characteristics specific to emerging market SMEs will reverse the traditionally positive relationship of knowledge on internationalization intention commonly found in the literature. Consistent with the hypothesis, the results indicate that knowledge relates negatively to internationalization intention. Additionally, the effect of perceived barriers on intention to internationalize becomes positive when perceived international market knowledge is higher. By clarifying the role of knowledge in the emerging market SME context, the study adds novel understanding to the key concept of internationalization knowledge.

1. Introduction

“When ignorance is bliss, ‘tis folly to be wise.” - Thomas Gray (1742)

The prevalent view in internationalization research is that increased knowledge and understanding of a foreign market will act as a motivational factor to internationalize into it (Fletcher, Harris, & Richey, 2013; Johanson & Vahlne, 2009). International market knowledge reduces uncertainty about the competition, customers, costs, and channels associated with internationalization (Erramilli, 1991), thus increasing a manager’s confidence that they will be able to succeed in that market. However, this wisdom has traditionally applied primarily to large multinational enterprises (MNEs) (Hashai & Almor, 2004). Recent findings regarding successfully internationalizing born-global SMEs have found an organizational culture that is more proactive, risk-taking, and innovative (Cavusgil & Knight, 2015; Karami, Ojala, & Saarenketo, 2020). These trends indicate that successful born-global firms are demoting the importance of incremental knowledge and utilizing their naivety to take risks on the global platform, resulting in several highly successful emerging market small/medium enterprise (ESME) born-global firms in recent years (Keupp & Gassmann, 2009; Cavusgil & Knight, 2015).

Specifically, Oviatt and McDougall (1994) have challenged the view of incremental knowledge gathering in the internationalization process by proposing that even small firms from less developed economies can internationalize successfully by leveraging technology and business alliances to bypass the necessity for laborious information gathering (Freeman, Edwards, & Schroder, 2006). Since its inception, this view has gained traction through a wealth of evidence highlighting the success of small, emerging market firms in rapid internationalization ventures due to their innovativeness and flexibility (e.g., Andersson, Evers, & Kuivalainen, 2014; Cavusgil & Knight, 2015). Particularly in light of macro level changes, such as advancements in production and communication technology and the proliferation of the internet (Jean & Kim, 2020). But what is the effect of incremental knowledge when accessed by these “nontraditional” firms? Research suggests that international market knowledge reduces uncertainty and increases confidence in large, developed market firms (Morgan, Zou, Vorhies, & Katsikeas, 2003). In ESMEs, however, will such knowledge act instead as a reminder of the staggering odds they face and all the obstacles they must overcome?

For firms that do not typically have access to the knowledge and resources needed to overcome internationalization obstacles, the *perception* of the situation rather than the *reality* of the situation becomes of greater importance (Acedo & Florin, 2006; Kiss, Williams, &

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<https://doi.org/10.1016/j.jbusres.2021.03.043>

Received 14 October 2020; Received in revised form 19 March 2021; Accepted 21 March 2021

Available online 19 April 2021

0148-2963/© 2021 The Authors.

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Houghton, 2013). In fact, subjective evaluation has been shown to affect managerial decision-making through the perception of barriers (Krueger & Dickson, 1994), disadvantages (Stirin, Ganzach, Pazy, & Eden, 2012; Schmutzler, Andonova, & Diaz-Serrano, 2019), knowledge (Mishra, Shiv, & Nayakankuppam, 2008), and bias (Amal, Awuah, Raboch, & Andersson, 2013; Jin et al., 2015). By shifting the focus from objective to subjective perception, we aim to more closely reflect the reality of a decision-making process, especially in the ESME context. Consequently, we propose a paradoxical direct and moderating effect of international market knowledge in the context of disadvantaged firms utilizing the “blissful ignorance” argument (Fox & Tversky, 1995; Mishra et al., 2008).

To address this important proposition, the study investigates, first, the effect of perceived internationalization barriers, perceived customer bias, and perceived market knowledge on internationalization intentions and, second, the moderating effect of this perceived market knowledge on the aforementioned relationships. We carry this out in the context of ESMEs because they are arguably the most disadvantaged firms in the market and are, therefore, shown to be more entrepreneurial and more likely to engage in greater risk-taking behavior (Dess, Lumpkin, & Covin, 1997; De Clercq, Sapienza, & Crijns, 2005). The perceived ESME disadvantage is expected to, first, decrease the likelihood that ESMEs will have high levels of international market knowledge and, second, increase the likelihood that they will internationalize despite that.

We contribute to the literature by extending the understanding of internationalization knowledge to incorporate different firm types and sizes as well as levels of market development. Specifically, our results extend research on the role of knowledge in the born-global stream (c.f. Oviatt & McDougall, 1994; Oviatt & McDougall, 2005; Zhou, 2007), proposing that incremental international market knowledge is not only sometimes unnecessary in motivating internationalization but may even deter it in some cases. In doing so, we develop current research in the born-global area that conceptualizes knowledge in the form of “entrepreneurial knowledge,” a knowledge-based mechanism that does not rely on the accumulation of experience (Oviatt & McDougall, 2005; Zander, McDougall-Covin, & Rose, 2015). In other words, research thus far has focused on how rapidly internationalizing firms leverage knowledge to identify and explore opportunities but has neglected to address the role of traditional incremental knowledge in these firms. In addressing this gap, we aim to explain the apparent reluctance among ESME managers to internationalize (Lloyd-Reason & Mughan, 2002). This is especially pertinent in the wake of the coronavirus pandemic, which has greatly reduced the internationalization opportunities for ESMEs (OECD, 2020).

The remainder of the study will first proceed with a review of the pertinent literature that will subsequently serve to generate the study hypotheses and conceptual model. The survey and analytical approaches are then described, followed by the study results. The article concludes with a discussion of the findings from a theoretical and managerial perspective as well as potential future research avenues.

2. Literature review and hypotheses

2.1. Perceived internationalization barriers

Internationalization barrier research represents a key tradition in the internationalization literature. It can be split into two main streams: internal and external. The internal category consists of three groups: 1) firm demographics, 2) export venture characteristics, and 3) managerial characteristics, whereas the external category consists of 1) environmental and operational factors and 2) the international trading environment (Kahiya, 2018).

Much of the extant literature has focused on external, objective factors, such as tariff barriers, distribution decisions, or competitive

intensity (Kahiya, 2018; Leonidou, 1995). However, the *perception* of these factors, rather than the reality, is often shown to determine a manager’s decision to internationalize (Acedo & Florin, 2006; Kiss et al., 2013). This key distinction is made on the premise that decision-making processes are not simply rational calculations of costs and benefits but rather a culmination of an individual’s past experiences, knowledge, emotion and, ultimately, their perception of the situation.

Subjective perception is shown to be distorted by several factors (Bandura, 1977), including the perception of disadvantage; that is, an individual’s sense of not possessing the ability or resources to succeed at a given task may subsequently affect one’s motivation and effectiveness at that particular undertaking. For instance, Stirin et al. (2012) found that keeping actual advantageous and disadvantageous positions constant, perceiving an advantage increased the probability of winning in a competition. Supporting evidence is also found in the entrepreneurship literature, where the positive effect of managerial self-efficacy and entrepreneurship intention is well-established (e.g., Douglas, 2013; Zhao, Seibert, & Hills, 2005; Schmutzler et al., 2019). For example, Zhao et al. (2005) found that the effects of formal learning, experience, and risk propensity on entrepreneurial intentions were each fully mediated by entrepreneurial self-efficacy, highlighting that it is the conviction that one will be successful which directly influences the motivation to perform a task and the subsequent degree of success (Bandura, 1977; Hmieleski & Corbett, 2008; Wang & Netemeyer, 2002).

In the international market, competition is fierce. Efficiency, knowledge, and home country favor are all beneficial in succeeding in foreign market ventures (Piercy, Kaleka, & Katsikeas, 1998). In this regard, the comparative position of ESMEs in the competition to internationalize is doubly disadvantageous. Firm size is shown to improve internationalizing efficiency through greater production capacity, managerial and financial resources, as well as economies of scale (Katsikeas & Morgan, 1994). In addition, firms from developed economies often have the added advantage of stronger country-of-origin branding, technological capabilities, innovative capabilities, institutional stability, and network relationships (Amal et al., 2013; Ciravegna, Lopez, & Kundu, 2014).

Given that ESMEs are recognized as being at a disadvantage in the global market (Ciravegna et al., 2014), it may therefore be assumed that they also perceive this disadvantage. In line with previous argumentation, this perception of internationalization barriers acts as a motivational deterrence and will, thus, reduce internationalization intentions (Krueger & Dickson, 1993, 1994):

H1: Perceived internationalization barriers relate negatively to internationalization intention.

A key perceived disadvantage, particularly among emerging market firms (Jiménez & San Martín, 2010; Jin et al., 2015), is the bias that customers hold against foreign firms. Foreign customer bias can be defined as a consumer’s preference toward home products and discrimination against foreign products. This phenomenon derives from consumer ethnocentrism, domestic country bias, or economic nationalism (Sharma, Shimp, & Shin, 1994). The presence of this bias is supported in various empirical investigations (e.g., Akram, Merunka, & Akram, 2011; Boso, Oghazi, & Hultman, 2017; Chrysochoidis, Krystallis, & Perreas, 2007; Sharma, Shimp, & Shin, 1994) and is thus likely to be a consequent source of concern for managers in the internationalization decision-making process (Balabanis & Diamantopoulos, 2004).

Although traditionally associated with emerging market firms and country of origin reputation (Jiménez & San Martín, 2010; Jin et al., 2015), customer bias is also prevalent in smaller firms that perceive more bias than their larger, more developed counterparts (Amal et al., 2013; Ciravegna et al., 2014). We, therefore, hypothesize that:

H2: Perceived foreign customer bias relates negatively to internationalization intention.

2.2. The role of perceived knowledge in incremental internationalization

Traditional internationalization models, such as the Uppsala model (Johanson & Vahlne, 1977), propose that internationalization is an incremental process driven by increasing knowledge and commitment. Firms begin with relatively little knowledge; they are uncertain about foreign markets, how customers will react to their offerings, and the complexities of business activities in new environments. Commitment at this stage is low. However, as firms experience foreign markets, they gain more knowledge, which reduces uncertainty and leads to greater commitment. Johanson and Vahlne (1977) argue that this is a gradual process that involves continuously increasing investment and resources.

Supporters of the incremental internationalization process base their arguments on the premise that increased knowledge reduces uncertainty (Erramilli, 1991; Johanson & Vahlne, 1977, 2009). An internationalization venture in a new country represents a risk to a firm. To operate in a new business environment, firms require information about costs, demand, competition and the institutional environment if they are to succeed (Fletcher et al., 2013). Different countries exist and function in idiosyncratic environments, and an understanding of these differences is essential (Chetty, Eriksson, & Lindbergh, 2006). If an individual perceives that they have knowledge and understanding of a market, they feel more confident that they can begin a new venture and possess the necessary information to overcome market-specific obstacles (Madsen, 1989). Such knowledge is shown to be an essential source of internationalization motivation (Johanson & Vahlne, 2009), competitive advantage (Piercy et al., 1998; Prashantham & Young, 2011; Roth, Jayachandran, Dakhli, & Colton, 2009), and superior performance (Boso, Oghazi, Cadogan, & Story, 2016; Musteen, Datta, & Butts, 2014; Zahra, Ireland, & Hitt, 2000).

2.3. The role of perceived knowledge in born-global firms

Notwithstanding the success of the incremental view of internationalization throughout the years, it has primarily represented the behavior of large MNEs who possess the resources and capabilities to internationalize gradually and cautiously (Oviatt & McDougall, 1994). On the other hand, a number of studies have found contradictory evidence of the rapid internationalization of small firms from, or not long after, their inception (e.g., Ganitsky, 1989; Knight & Cavusgil, 1996; Oviatt & McDougall, 1994). From this empirical evidence, a new strand of research on so-called “born globals” or “international new ventures” has emerged (Oviatt & McDougall, 1994; Knight & Cavusgil, 1996).

It is suggested that the ability of born-global firms to internationalize at a surprisingly fast rate, flouting the incremental stage model of earlier studies, is due to these firms’ unique characteristics, including reliance on joint ventures, technology, and network relationships (Cavusgil & Knight, 2015). Unlike larger firms, born-globals are thought to leverage their technological expertise and close network relationships to circumvent the issue of experiential international market knowledge (Knight & Cavusgil, 2004; Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008). Moreover, the proposed entrepreneurial orientation of these firms reduces the restrictive role of knowledge in the internationalization process (Karami, 2020). In the incremental model, a lack of knowledge is argued to deter internationalization because of uncertainty (Piercy et al., 1998). However, entrepreneurial born-globals show a greater propensity for risk-taking behavior, increasing their likelihood of operating in uncertain markets (Dess et al., 1997). In this way, knowledge, in the traditional sense, plays a less influential role.

2.4. The effect of perceived knowledge in ESMEs

ESMEs would traditionally be viewed as disadvantaged in global markets. Yet, many unlikely firms have found a way to leverage different capabilities to successfully internationalize, despite their lack of international market knowledge or experience. Generally, smaller firms do

not possess the same international market knowledge as larger firms (Fletcher et al., 2013). Similarly, firms in emerging markets possess less knowledge than their developed market counterparts (Yilmaz, Bengtson, & Hadjikhani, 2015).

However, ESMEs are more likely to possess inherently greater entrepreneurial orientations than traditional firms (Cavusgil & Knight, 2015). As explained, a key aspect of entrepreneurial activities is engaging in risk-taking (Dess et al., 1997). One explanation of risk-taking behavior is that it reflects the entrepreneur’s ignorance of the possible hurdles, risks, and uncertainty, which provides perceptual protection against the unforgiving reality of internationalization ventures (Liesch, Welch, & Buckley, 2014). Consequently, following this explanation, rather than increasing the intention to internationalize, greater knowledge may be a deterrent (Saravathy, 2001; Vissak, Francioni, & Freeman, 2020).

Theoretically, this logic can be understood through the “blissful ignorance effect” (BIE) (Mishra et al., 2008). The BIE proposes that, although individuals generally tend to be averse to vagueness in decision-making (e.g., Camerer & Weber, 1992; Fox & Tversky, 1995), information and knowledge vagueness may, by nature, impose fewer constraints on a decision maker’s directional goals. Consequently, a lack of information can be reconfigured as a justifiable reason that supports the desired objective more strongly than if information were abundant (Mishra et al., 2008). In the internationalization context, ignorance or unawareness of the risks associated with an internationalization venture may shield against the harsh realities of the process, thus allowing for bolder action (Saravathy, 2001).

A similar concept that supports the presence of the BIE in the internationalization domain is the “shock effect” (Liesch & Knight, 1999; Petersen, Pedersen, & Lyles, 2008; Vissak et al., 2020). The shock effect proposes that, as managers move through an internationalization venture and gain experience, they become more aware of all that they do not know, reducing their confidence in the venture. The awareness of all that one does not know is the “shock effect”, which then leads to increased uncertainty as more knowledge and experience are gained. In the internationalization context, ESMEs are shown to be particularly unlikely to possess the traditional resources, knowledge, and experience needed for internationalization. Instead, following the born-global logic, they utilize their unique characteristics, entrepreneurial orientation, and “ignorance” to engage in somewhat risky internationalization ventures. Given this logic, we propose that in the context of ESMEs, the burdening effect of perceived knowledge is more appropriate than the bolstering effect of perceived knowledge:

H3: Perceived international market knowledge relates negatively to internationalization intention.

Given the proposition that the level of perceived market knowledge decreases the intention to internationalize by ESMEs, we extend this rationale to propose that perceived market knowledge will also strengthen the negative effect of perceived internationalization barriers and perceived foreign customer bias on internationalization intentions. To reiterate, perception is defined as “a process in which the perceiver constructs reality by performing cognitive operations on cues derived from the environment” (Kiesler & Sproull, 1982, p. 552). As per the definition, perception relies on the extraction of cues from the environment. To perceive these stimuli, one must first be aware of them (Merikle, 1992). The effect of perceived barriers and perceived foreign customer bias, therefore, depends on a manager’s awareness of the barriers in the first place. One’s actions cannot be affected by matters of which one is unaware (Ajzen & Fishbein, 2000). This can be understood, theoretically, through bounded rationality, which views an individual’s decision-making as a product of the imperfect information available at the moment of decision (Conlisk, 1996). Individuals are unable to access all information about a situation before making a decision and only the information available is capable of affecting their decision-making. As argued in H3, greater knowledge of a foreign market necessitates a greater understanding of the barriers that must overcome. Therefore, we

logically propose that the more international market knowledge an EMSE manager gains, the greater the perception of the barriers that emerge, resulting in a stronger negative intention to internationalize:

H4: The negative effects of (a) perceived internationalization barriers and (b) perceived foreign customer bias on internationalization intention are stronger in cases where perceived international market knowledge is high.

Fig. 1 summarizes the above argumentation in the form of this study’s conceptual model.

3. Method

3.1. Study setting

To test the hypotheses, data were collected from a sample of Thai SME managers. Thailand constitutes a suitable context since the Thai government has for decades assigned considerable resources to the development of its private SME sector. Many government programs focus on areas such as skills training, investment advice, marketing support, loans, and international business linkages. SMEs in Thailand are also increasingly seen as creators of new jobs and currently constitute a key engine for national economic growth (Swierczek & Ha, 2003). Given this national focus and interest in SME growth, the Thai setting is particularly suitable for the study of perceived barriers to SME internationalization.

In the first instance, nine in-depth interviews were conducted with those in charge of business development at Thailand-based SMEs to inform the conceptual model and complement the literature in developing the constructs. The fieldwork revealed that, in Thai SMEs, it is often the individual managers who make the internationalization decisions and it is also their individual responsibility if things do not go as planned. Because of the individual managerial responsibility, it would be impossible to find multiple respondents within the same SME who are equally knowledgeable about all aspects under study, and thus, locating the appropriate informants for the survey is key. The pre-study interviews further suggested that our proposed model offers a plausible account of what drives Thai SME internationalization intention while also informing the inclusion of internationalization status as an additional control variable. This inclusion of internationalization status was based on the notion that firms that are already internationally active will

possess experiential knowledge that domestic firms lack.

3.2. Measures

Following precedence in the literature, we operationalized perceived internationalization barriers with three items capturing managers’ perceptions of tariff and non-tariff barriers (Arteaga-Ortiz & Fernández-Ortiz, 2010; Leonidou, 2004). The two sets of measures for perceived foreign customer bias and international market knowledge were then developed based on Arteaga-Ortiz and Fernández-Ortiz (2010) and Cicic, Patterson, and Shoham (1999). Finally, internationalization intention was captured with three items adapted from Jaffe and Pasternak (1994).

The control variables firm size and experience were operationalized as single items in the form of natural logarithms of the number of employees and years in operation, respectively (e.g., Hultman, Katsikeas, & Robson, 2011), whereas industry type (service vs. manufacturing) and current internationalization status (the firm has domestic vs. international operations) were measured as dichotomous variables (e.g., Assadinia, Boso, Hultman, & Robson, 2019). The covariates were included to control for industry and firm heterogeneity effects and because firms with existing international experience may have the experiential knowledge required to deploy the needed right resources for international success (Assadinia et al., 2019). The questionnaire was initially developed in English, translated into Thai, and then translated back into English using established back-translation procedures. Table 1 shows the constructs and items used in this study.

3.3. Data collection

The survey was conducted on a sample of Thai SME managers drawn from a database of 662 Bangkok-based Thai entrepreneurs (www.meetup.com/Bangkok-Entrepreneurs) in a wide range of industries. The aim of using a multi-industry sample was to ensure a sample size large enough to enable rigorous data analysis procedures while also enhancing the generalizability of the findings (Katsikeas, Skarmeeas, & Bello, 2009). The potential informants were first contacted by phone to ensure that they met the study eligibility criteria; to prenotify the execution, purpose, and significance of the research; and to identify an appropriate key informant. This procedure eliminated 232 managers

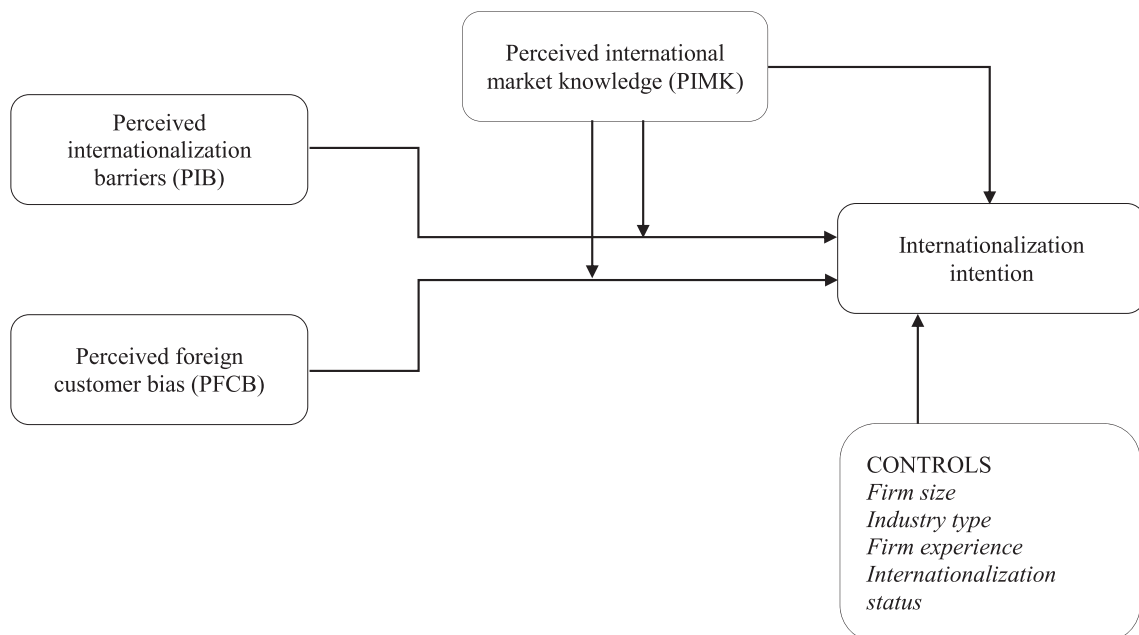


Fig. 1. Conceptual model.

Table 1
Study constructs and measurement loadings.

Factors and Items	Standardized loadings (t-values ^a)
<i>Perceived internationalization barriers (PIB) (anchored by strongly disagree/strongly agree)</i>	
Tariff barriers are high	0.68 (8.74)
Non-tariff barriers are high	0.60 (7.57)
There is a lack of trade agreements between Thailand and our targeted foreign markets	0.83 (11.39)
<i>Perceived foreign customer bias (PFCB) (anchored by strongly disagree/strongly agree)</i>	
There is customer bias against Thai products and services in our targeted foreign markets	0.74 (9.99)
The foreign target markets' national identification influence consumers' preference of Thai products and services negatively	0.70 (9.19)
Foreign customers prefer local products/services over Thai products/services	0.89 (12.57)
<i>Perceived international market knowledge (PIMK) (anchored by strongly disagree/strongly agree)</i>	
Our firm has sufficient knowledge of how to locate and analyze foreign markets	0.78 (11.25)
Our firm has the competence to identify foreign market opportunities	0.91 (14.02)
Our firm has a lack of knowledge about foreign potential markets (R)	0.66 (8.77)
<i>Internationalization intention (anchored by strongly disagree/strongly agree)</i>	
Our firm actively seeks for opportunities to further expand business into international markets	0.90 (14.20)
Our firm plans to expand internationally within a foreseeable future.	0.96 (15.66)
Our firm likes to gain benefits from international expansion	0.82 (12.22)
<i>Firm size</i>	
Number of employees (log)	0.96 (15.95)
<i>Firm experience</i>	
Number of years firm has been operating (log)	0.90 (14.28)
<i>Industry type (dichotomous variable)</i>	
Service/manufacturing	0.78 (10.55)
<i>Internationalization status (dichotomous variable)</i>	
Firm is domestic/firm currently has international operations	0.71 (8.88)

Fit Indices: $\chi^2_{(80 \text{ d.f.})} = 143.62$; NFI = 0.98; NNFI = 0.97; CFI = 0.98; RMSEA = 0.05.

^a All factor loadings are significant at the 0.01 level.

from the list. The most common reasons for exclusion were that the firms were part of an MNE rather than an SME, had an official policy to not participate in surveys, considered the topic irrelevant for their purposes, or had incorrect contact details. A web link to the online survey was thereafter sent to the 430 identified key informants via email. We offered respondents a summary of the results to encourage participation. Two waves of reminder/thank you emails (Dillman, 2011) yielded 150 completed responses for an effective response rate of 35 percent.

Single key informant managers were used for each firm. Sousa, Martínez-López, and Coelho (2008) explain that generating data from multiple informants may result in obtaining information from respondents who are not best suited to respond to international matters, thus decreasing the accuracy of the information provided. The pre-study interviews also support the reliance on a single key informant in the Thai SME context.

3.4. Bias assessment

Following Armstrong and Overton (1977), we examined whether there were significant differences in a number of variables across early and late respondents. As differences in the means of firm size, firm

experience, perception of internationalization barriers, and internationalization intention were insignificant, nonresponse bias does not appear to be an issue in the current dataset.

Subsequently, we performed two tests to assess any potential common method bias (CMB) problem (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). We first performed the test to estimate a confirmatory factor analysis (CFA) model in which all items were modeled as indicators of a single bias factor. The unsatisfactory result (chi-square (χ^2)/d.f. = 3439.84/108; Normed Fit Index (NFI) = 0.75; Non-Normed Fit Index (NNFI) = 0.72; Comparative Fit Index (CFI) = 0.75; and Root Mean Square Error of Approximation (RMSEA) = 0.35) indicates that common method bias does not pose a serious problem. The second approach was the more stringent marker variable test (Lindell & Whitney, 2001), in which we first identified the second smallest correlation among the study's manifest variables (i.e., 0.02) since this has been claimed to be a reasonable proxy for CMB (Malhotra, Kim, & Patil, 2006). We then used the average correlation for this proxy with the other model variables to compute the CMB-adjusted correlations between all variables of the study using Lindell and Whitney (2001) equations. The results indicated small differences between the original and the CMB-adjusted correlations ($\Delta r \leq 0.03$) and that the pattern of significant and nonsignificant zero-order correlations with internationalization intentions remained the same after adjustment, providing further evidence for the absence of CMB.

4. Results

A two-stage analytical approach was used for model testing whereby the measurement model and hypotheses were tested consecutively (Anderson & Gerbing, 1988). We first performed a CFA to test for the reliability and validity of all study constructs using the elliptical reweighted least squares (ERLS) procedure. This method is less constrained by normality assumptions and thus yields unbiased parameter estimates for both multivariate normal and nonnormal data (Sharma, Durvasula, & Dillon, 1989). Specifically, each item in the model was restricted to load on its preassigned factor, while the latent factors were set to correlate freely (Gerbing & Anderson, 1988). The single-item constructs were assumed to have an error of 0.10 for purposes of model estimation (Anderson & Gerbing, 1988). Using Bagozzi and Youjae's (2012) model fit assessment criteria, we obtained overall good fitness indices: $\chi^2_{(80 \text{ d.f.})} = 143.62/80$; NFI = 0.98; NNFI = 0.97; CFI = 0.98; RMSEA = 0.05. In addition, the factor loadings for each indicator on its respective construct were significant at the 1% level, and because no evidence of cross-loadings was observed, we argue that the constructs demonstrate unidimensionality (Table 1).

The composite reliability (CR) of each construct was larger than 0.70, exceeding the minimum 0.60 recommendation (Bagozzi & Yi, 1988). We also observed evidence of discriminant validity for each construct, as the lowest average variance extracted (AVE) was 0.50, which was larger than the highest shared variance between any pair of constructs as evidenced by the reported square roots of the AVEs. In accordance with Anderson and Gerbing (1988) recommendation, we also collapsed each possible pair of constructs into a single factor, and in comparing their fit indices, we found that the two-factor models provided a superior fit to the data relative to the single-factor models. Table 2 shows that construct reliability and AVE values for each construct are satisfactory, further demonstrating that the measures satisfy key requirements for construct reliability and convergent and discriminant validity (Fornell & Larcker, 1981).

To ensure stringent and robust results, the approach for testing the hypotheses relied on a dual approach consisting of both structural equation modelling (SEM) and a series of ordinary least squares (OLS) regressions, with the expectation that analogous results would enhance the confidence in the results. Following established procedures (Ping, 1995), a multiplicative approach to structural equation modeling was adopted whereby an estimation of the structural model was undertaken

Table 2
Correlations and measurement statistics.

	1	2	3	4	5	6	7	8
1. PIB	1							
2. PFCB	-0.41	1						
3. PIMK	-0.62	0.36	1					
4. Internationalization intention	0.49	-0.37	-0.65	1				
5. Firm size	-0.11	0.10	0.16	0.03	1			
6. Firm experience	0.08	-0.13	-0.19	0.09	0.35	1		
7. Type of industry ^a	-0.02	-0.01	-0.05	0.02	0.06	0.27	1	
8. Internationalization status ^a	0.07	0.08	0.07	-0.10	0.27	0.26	0.44	1
M	3.24	3.32	3.35	3.20	3.01	2.37	0.51	0.28
SD	0.93	0.92	1.03	1.14	1.06	0.74	0.50	0.45
α	0.75	0.82	0.84	0.92	-	-	-	-
Composite Reliability	0.70	0.75	0.76	0.85	-	-	-	-
AVE	0.50	0.50	0.52	0.65	-	-	-	-
√AVE	0.71	0.71	0.72	0.81	-	-	-	-

Correlations > +/- 0.18 are significant at the 0.05 level

^a Dichotomous variable

using the ERLS method. We mean-centered the constructs that were used for multiplicative interactive analysis to minimize multicollinearity problems prior to calculating the loading and error variances of the interaction terms using Ping (1995) equations. The results imply a reasonably close-fitting structural model ($\chi^2/d.f. = 251.34/188$; NFI = 0.98; NNFI = 0.98; CFI = 0.98; RMSEA = 0.08). Table 3 shows the standardized parameter estimates and the directional significance levels for the investigated structural paths.

The complementary OLS regression analyses were carried out hierarchically in three steps. We first estimated Model 1 by incorporating only the control variables: firm size, firm experience, the industry dummy, and the internationalization dummy. Model 2 included the main effects of internationalization barriers, foreign customer bias, and international market knowledge, whereas the final model saw the addition of the two interaction effects. We compared the models by computing r-square difference tests, which confirmed that the direct and interaction effects added explanatory power to the original model ($p < .05$). As the estimates in the SEM and OLS models, as shown in Table 3, display highly similar patterns of significant and nonsignificant results, we can discuss the findings with a heightened degree of confidence.

Hypothesis 1 argues that perceived internationalization barriers relate negatively to internationalization intention. Our combined analyses find that increases in perceived internationalization barriers are not directly associated with increased intentions towards internationalization; thus, H1 is not supported ($p > .1$). In H2, we predict that perceived foreign customer bias has a negative relation with internationalization intention; the data unanimously support this hypothesis (p

$< .05$). We further propose in H3 that perceived international market knowledge relates negatively to internationalization intention. This hypothesis is, again, supported, as the results show a strong negative relationship between the dependent and independent variables ($p < .01$). Finally, the data also fail to find support for the proposed moderating effect of international market knowledge since it does not appear to heighten the negative effect of perceived foreign customer bias on internationalization intentions, as evidenced by the insignificant interaction term in relation to H4b ($p > .1$). In contrast, international market knowledge, surprisingly, seems to positively influence the effect of perceived export barriers on internationalization intention, as the interaction term is significantly positive, in rebuttal of H4a ($p < .05$). To shed further light on the moderation results, we plotted the relationship between the two focal independent variables and internationalization intention under conditions of high and low international market knowledge. Fig. 2a clearly shows that the relationship between perceived internationalization barriers and internationalization intention becomes positive in cases where there is greater international market knowledge and negative when the conditions are reversed. Fig. 2b further effectively displays how the relationship between foreign customer bias and internationalization intention remains virtually unchanged under conditions of both high and low levels of international market knowledge.

4.1. Additional analysis

To control for the potential nonlinear effect of knowledge on

Table 3
Study results.

	SEM model		OLS Model 1		OLS Model 2		OLS Model 3		Result
	β	t	β	t	β	t	β	t	
Control paths									
Firm size	0.24	2.20*	0.03	0.36	0.21	3.07**	0.18	2.70**	
Firm experience	0.14	1.02	0.10	1.08	-0.11	-1.59	-0.11	-1.62	
Type of industry	0.13	1.04	0.06	0.61	0.06	0.81	0.06	0.85	
Internationalization status	-0.23	-1.78	-0.16	-1.66	-0.11	-1.56	-0.08	-1.16	
Direct effects									
H1: PIB	0.02	0.19			0.12	1.52	-0.01	-0.08	×
H2: PFCB	-0.20	-2.00*			-0.14	-2.06*	-0.13	-1.96*	✓
H3: PIMK	-0.53	-6.81**			-0.57	-7.01**	-0.48	-5.43**	✓
Moderating effects									
H4a: PIB × PIMK	0.42	5.90**					0.27	2.26*	×
H4b: PFCB × PIMK	-0.03	-0.36					0.01	0.13	×
F	-	-	0.96	-	19.34**	-	16.47**	-	-
r ²	0.54	-	0.03	-	0.49	-	0.51	-	-
Adjusted r ²	-	-	0.00	-	0.46	-	0.48	-	-
Δ r ²	-	-	-	-	0.46**	-	0.03*	-	-

*=p < .05; **= p < .01 (two-tailed tests).

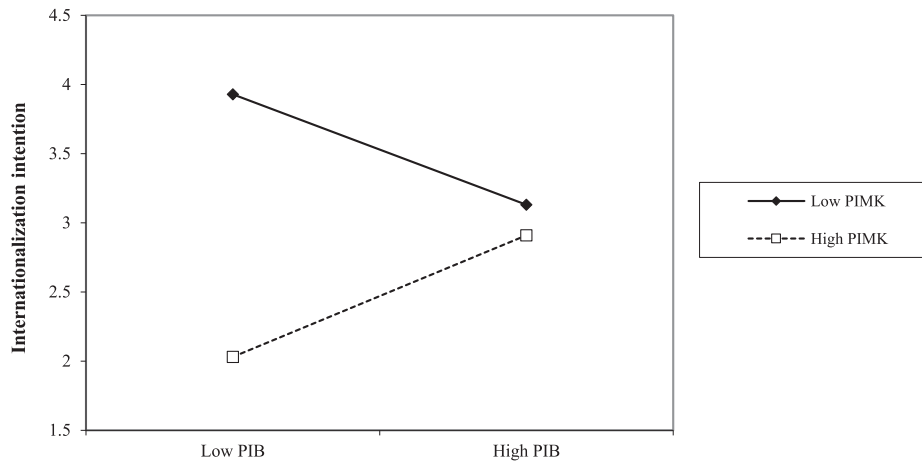


Fig. 2a. Interaction between perceived internationalization barriers (PIB) and perceived international market knowledge (PIMK).

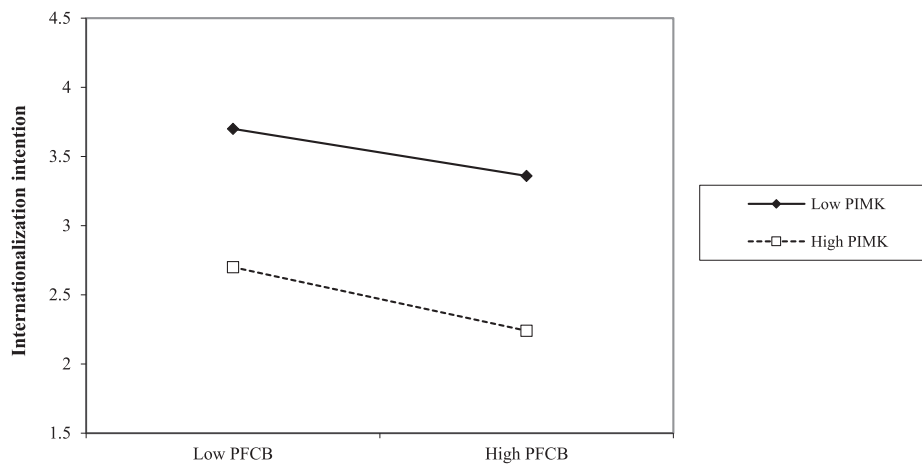


Fig. 2b. Interaction between negative perceived customer bias (PFCB) and international market knowledge (PIMK).

internationalization intention (cf. Lu & Beamish, 2001), an additional OLS model was tested that included the mean-centered squared term for perceived international market knowledge as a further independent variable. Since the results revealed an insignificant relationship for the focal link ($\beta^2_{\text{perceived international market knowledge}} = 0.11, p = .32$) and no improvement to the adjusted r^2 , with the remaining relationships staying virtually unchanged in relation to the original analysis (Table 3, OLS Model 3), we confirm the absence of a nonlinear effect in the data.

Although our dual analysis approach points toward stable and robust findings and nonresponse bias did not appear to be an issue, some concerns may still be raised because of the limited sample size of 150 informants. We, therefore, ran a *post hoc* power analysis based on the variance explained for the OLS model 3 ($r^2 = 0.51$). The power analysis revealed that the study sample is appropriate for the tested model (power > 0.999; α err prob = 0.01; $df = 139$; critical $F = 2.45$; non-centrally parameter $\lambda = 76.50$) and that a sample of approximately 91 would have been sufficient given the already large effect size achieved in this study.

5. Discussion

The focus of this paper was the role of knowledge in the ESME context. We proposed an alternative argument to the traditional positive effect of knowledge, stating that knowledge in this context would actually hinder internationalization intentions under the predication of the BIE (Liesch et al., 2014). Our results find partial support for this

argument, although the relationships between perceived knowledge, perceived barriers, and internationalization intention appear more complex than initially proposed. Thus, we partially support our proposition of an information paradox in ESME internationalization. Specifically, we found that internationalization knowledge does indeed have a direct negative effect on internationalization intentions. However, our moderation results show that, although managers are generally less likely to internationalize when they have greater perceived market knowledge, they are actually more likely to internationalize when they perceive high internationalization barriers. Conversely, managers with little perceived foreign market knowledge are less likely to internationalize when they perceive high internationalization barriers.

This is highly interesting, as it appears to relate to the more conventional arguments about knowledge as a source of competitive advantage (Piercy et al., 1998). That is, in cases where internationalization barriers are higher, knowledge of the issues and how to assuage these barriers represent an advantage over other, less knowledgeable firms (Albaum & Tse, 2001). Therefore, it seems that although knowledge generally impedes internationalization in ESMEs, it can still be utilized as a source of competitive advantage under the right circumstances. This effect is akin to the Dunning-Krueger curve found in general psychology, which states that the effect of knowledge on confidence follows a U-shape (Dunning, 2011). Specifically, those unfamiliar with a task show an overconfident “unconscious incompetence” at the beginning of the learning phase, followed by an abrupt collapse of confidence in the realization of all that one does not know, followed finally by an

incremental increase in confidence as knowledge and experience grow to the extent that they are conducive to overcoming barriers and inconsistencies in understanding (Sanchez & Dunning, 2018). In relation to the internationalization literature, this finding implies that a blended theoretical foundation utilizing both traditional (e.g., Morgan et al., 2003; Piercy et al., 1998) and contemporary arguments (e.g., Knight, 2000; Oviatt & McDougall, 1994) would be preferential in the study of ESMEs. Specifically, a small amount of knowledge may activate the BIE, consistent with contemporary findings on born globals (Knight, 2000; Liesch et al., 2014); however, higher levels of knowledge paired with the right type of experience or international competence may provide competitive advantages in both identifying and overcoming internationalization barriers consistent with traditional models (Morgan et al., 2003; Piercy et al., 1998).

Moreover, while the moderation results support the role of international market knowledge in overcoming the limitations posed by internationalization barriers, they do not affect the negative effect of perceived foreign customer bias in the current context. In other words, the perceived foreign customer bias effect is so highly resilient that ESME managers feel dissuaded from internationalizing, regardless of their perceived level of knowledge about the international markets. This result is noteworthy, especially considering how recent research on customer ethnocentrism and country of origin effects has shown somewhat mixed and conditional effects (e.g., Chryssochoidis et al., 2007; Riefleer & Diamantopoulos, 2007), indirectly questioning the negative effect of a “weaker” country of origin on customer decision-making. Yet, despite the questioned effects from a customer perspective, managers still seem to view foreign customer bias as a strong deterrent for internationalization, even in cases where the managers’ perceived international market knowledge is high.

In sum, this study’s results contribute to the existing literature by showing that perceived international market knowledge is not only less important in ESME internationalization decision-making (Oviatt & McDougall, 1994; Knight, 2000) but also has a negative effect. We explain this through a novel use of the BIE in the area of internationalization (Liesch et al., 2014). Additionally, we explore two boundary conditions to this relationship. First, we find a reverse interaction effect of perceived internationalization barriers on the relationship between perceived international market knowledge and internationalization intention; when perceived barriers are high, greater levels of knowledge motivate internationalization rather than deterring it—reversing the main effect. Second, we show that perceived foreign customer bias is resistant to the BIE, with perceived foreign customer bias consistently showing a negative impact on internationalization intention regardless of internationalization knowledge. In doing so, we add greater complexity to our paradoxical findings, explaining why ESMEs may be more cautious about internationalizing in some conditions (Lloyd-Reason & Mughan, 2002), and in others, why they are more audacious (Knight, 2000). Given that “the quality of managerial decision-making is the single most determining factor for success of marketing management” (Wierenga, 2011, p. 89), future researchers are encouraged to further explore the underlying mechanisms of these complex relationships by, for instance, introducing additional boundary conditions or theorizing and investigating potential further nonlinear relationships.

5.1. Managerial implications

Based on the results of the study, managers are recommended to view the role of knowledge with caution, especially that of ESMEs (i.e., typically disadvantaged firms). Specifically, given that educating ESME managers about how to identify foreign market opportunities and locate and analyze markets is actually shown to deter internationalization in this context, the content of professional and government-sponsored foreign market educational programs needs to be carefully designed to encourage further internationalization.

Moreover, given the consistent negative effect on

internationalization intentions posed by perceived foreign customer bias, it may also make sense to educate SME decision-makers in emerging economies about the negative country-of-origin effects and that they are not always as detrimental to foreign market performance as might be initially expected (e.g., Usunier, 2006). Additionally, as emphasized throughout this study, the current focus has been SME managers’ *perceived* foreign customer bias, implying that some added managerial training and insights about the existence—or absence—of *actual* customer bias against the country in question may resolve the issue altogether—provided that the objective bias is not as detrimental as initially anticipated. Some basic foreign market research about target market customer sentiments would be helpful in this regard. An additional recommendation based on these findings would be to develop managerial insights on how to strategically counter potentially negative country of origin biases from emerging markets (e.g., Chu, Chang, Chen, & Wang, 2010).

5.2. Limitations and future research avenues

Several limitations of the present work should be noted. First, the study was conducted in a single emerging market country setting, suggesting that the conclusions may not be generalizable across all emerging market countries or regions. Regional trading blocks, variations in local internationalization infrastructure and support, and different types of national government incentive systems for internationalization may also impact the nature of the results. Future research should therefore aim to expand the scope of the investigation across multiple emerging market settings for better generalizability.

Second, although the study explicitly aimed to capture managerial perceptions of the focal constructs rather than objective measures, an interesting future research avenue would be to capture objective and customer-based indicators. Such an approach would enable the intriguing inclusion of potential knowledge gaps and managerial misconceptions of issues such as foreign customer bias. A comparison of internationalization outcomes between international managers that are more, as opposed to less, calibrated with actual customers in terms of foreign customer bias might yield some interesting and theoretically important results.

Third, although we controlled for the potentially confounding effects of relative firm size, industry type, relative firm experience, and whether the ESMEs were already internationally active, there are likely more factors contributing to the variance in internationalization intentions. Future researchers are therefore encouraged to include additional variables, such as past (good or bad) experiences with international ventures, managerial risk propensity, managerial self-efficacy, or type of entry mode, to name a few. Such an approach would potentially reveal even richer insights into this intriguing phenomenon.

Fourth, we have illustrated that perceived foreign customer bias is a steadfast barrier for internationalization in the ESME context regardless of international market knowledge. We also know from previous research that a key capability of ESMEs is their ability to leverage technology and the internet (Cavusgil & Knight, 2015). Many smaller firms are currently using social media to open a gateway into the international stage, allowing two-way dialogue in which a brand can learn about a consumer and vice versa (Jean & Kim, 2020). Therefore, we propose that utilizing social media to simultaneously familiarize your target market with your brand whilst also learning about your customer will aid both the perception and reality of bias in the foreign market while also potentially contributing to a more favorable country image (cf. Liu et al., 2020; Saridakis, Baltas, Oghazi, & Hultman, 2016). Currently, there is little research on the role of social media and internationalization. But given that this is a key capability of ESME firms, which may also mitigate the barrier of foreign customer bias, we expect this would be a fruitful and potentially consequential line of inquiry.

Finally, although we controlled for the presence of CMB and ruled it out as having a significant effect on the results of the study. However,

the study, by nature, is cross-sectional, which implies that no true causal inferences can be made. Moreover, the dependent variable reflects the intention to internationalize rather than actual internationalization. By taking a longitudinal approach and measuring whether international SME managers actually have engaged in further internationalization activities at a later point in time, many of the concerns that come with CMB and cross-sectional study designs could be resolved. Future researchers are therefore highly recommended to pursue such designs.

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

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