administrative sciences

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Success through Trust, Control, and Learning? Contrasting the Drivers of SME Performance between Different Modes of Foreign Market Entry

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Academic Editors: Ann-Marie Nienaber and Gerhard Schewe

Received: 28 November 2016; Accepted: 2 May 2017; Published: 5 May 2017

Abstract: Globalization and international competition have driven a large number of small- and medium-sized enterprises (SMEs) to enter foreign markets. However, current knowledge on which factors determine SMEs' foreign market performance and secure their success is limited. Using empirical data on 280 German SMEs' activities in Arab markets, we contrast the performance effect of trust with those of control and learning (three of the most prominently studied success factors) across three different structural modes of market entry: non-equity entry, cooperative entry, and wholly-owned subsidiaries. Our results reveal marked differences between the three entry modes and we offer a detailed discussion of the underlying structural and cultural reasons. Consequently, this study allows for a comprehensive understanding of the determinants of SMEs' foreign market performance and provides relevant advice as to which managerial approach to emphasize for which mode of foreign market entry.

Keywords: SME; trust; control; learning; performance; market entry; Arab markets

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1. Introduction

The globalization of the business environment and the need to compete simultaneously in multiple markets has driven small- and medium-sized enterprises (SMEs) to follow in the footsteps of their larger, multi-national counterparts and even enter culturally and socioeconomically distant foreign markets [1,2]. Typically, organizations enter foreign markets via one of three modes: (1) *non-equity market entry* (e.g., direct and indirect exporting, distribution, or licensing partnerships); (2) *cooperative market entry* (e.g., joint ventures or strategic alliances); or via incorporating (3) *wholly-owned subsidiaries* [3]. The choice among these three modes of foreign market entry has been the object of extensive scholarly interest, with many studies investigating the factors that determine organizations' choice of a particular mode of foreign market entry and comparing performance levels between the different entry modes (for a review, see [4]). However, the findings of these studies remain inconclusive at best. Whereas some studies have found joint ventures to have the highest performance [5–7], others have revealed that wholly-owned subsidiaries perform best [8,9], or have found no significant effect on performance at all [10,11]. More importantly, the underlying premise of most of these studies is that choosing the appropriate entry mode is the critical determinant of foreign market success. Hence, while this research stream provides important insights into the structuring of different entry modes, it sheds little light on the appropriate management of foreign activities after entering the market. It is assumed that organizations have a choice among the different entry modes, and that they have the resources and capabilities to make the optimal choice. While this may be true for large, multi-national enterprises (MNEs), which have predominantly been the subject of previous research, SMEs suffer from significant drawbacks due to their liability of smallness [12,13].

Compared to MNEs, SMEs are usually less internationally diversified and have more limited resources [14], which means that they possess less general foreign market knowledge [15,16]. In practice, these organizations' choice of entry mode is therefore only seldom the result of thorough examination [17] and may even be mandated by the host government [1]. Hence, for SMEs the critical determinant of organizational success becomes the ex post management of their foreign activities. Moreover, because SMEs lack the resource power of MNEs, they are particularly vulnerable to costly failures in foreign markets. Hence, their success is particularly intertwined with their performance abroad and it is a major challenge for their management to ensure that foreign activities are managed effectively [18]. This becomes particularly challenging when SMEs enter markets that are culturally and socioeconomically different from their home markets [19]. Yet, previous studies have largely focused on MNEs and have mostly disregarded their entry in unfamiliar markets. Hence, in this study we analyze German SMEs entries into Arab markets in order to investigate which managerial factors determine the success of their foreign market activities in different modes of foreign market entry.

For our study, we build on existing research on the structuring of foreign market entry. Here, cooperative modes of market entry such as joint ventures and strategic alliances are the most extensively studied and the literature seems to agree that there are three important factors that determine joint venture or alliance success: trust, control, and learning [1,20,21]. Child and Faulkner's summary of the literature on inter-organizational cooperation devotes full chapters to each of these three factors [22]. Since then, an extensive body of literature has examined trust as a key management issue [23,24] and highlighted its value for SMEs invested in foreign markets [25,26]. In fact, research has repeatedly demonstrated that building trusting relationships with foreign business partners can enable SMEs to overcome the liability of smallness [27,28]. However, SMEs may not manage their foreign activities based on trust alone. Besides trust, the question of how to control foreign market activities has been subject to a large number of empirical studies [29], with authors highlighting the challenges for SMEs to establish control over their business partners in geographically and culturally distant markets [16]. Likewise, learning and knowledge management have long been the focus of extensive research, with numerous studies investigating the effect of SMEs' learning and foreign market experience on entry mode choice [30,31] and subsequent foreign market performance [32]. In this paper, we aim to take a broader research focus, and compare the value of these three intensely studied success factors across the three different modes of foreign market entry. Specifically, we develop a conceptual model contrasting the performance effect of trust with those of control and learning for SMEs across the three different modes of foreign market entry. This allows us to empirically examine the role of trust in SMEs' management of foreign market activities and determine which managerial approach optimizes SMEs' foreign market performance given a particular mode of market entry.

In order to test our hypotheses, we use empirical data on 280 German SMEs' activities in Arab markets. Our results indicate that the managerial requirements of all three entry modes differ markedly, with performance of non-equity market entry being driven primarily by learning, and performance of cooperative market entry and wholly-owned subsidiaries depending more on issues of trust and control. As a result, our study offers important contributions to existing research. First, given SMEs' liabilities of smallness [12,13], the limited consideration of a SME-specific perspective is surprising. We contribute to this gap in the academic literature by offering empirical evidence for diverging performance effects of trust, control, and learning across SMEs' different entry modes. Second, contextualizing the performance of different foreign market entry modes offers a more detailed understanding of the factors determining SMEs' foreign market success, acknowledging the boundary conditions of entry mode choice. In this regard, our study amends prior research on the relationship between foreign market entry mode choice and performance and may help reduce the inconclusive findings in this field [11,33]. Lastly, our findings enable us to derive clear recommendations for practitioners on how to effectively manage their foreign activities in order to maximize the performance, given a specific mode of market entry. In that regard, our study is directly tailored to SMEs overcoming their liabilities of smallness.

The remainder of this paper is organized as follows: In the next section, we review the literature to characterize the different market entry modes, SMEs, and Arab markets, before discussing the role of the three managerial elements trust, control, and learning in the extant research. We then develop a set of testable hypotheses that contrast the performance effects of trust, control, and learning across different modes of foreign market entry, and outline our sample and findings. Finally, we discuss the theoretical and practical implications of our findings and offer an agenda for future research.

2. Theory

2.1. SME Internationalization

In order to survive in today's globalized business environment, many SMEs have started to and continue to internationalize [2]. In this sense, to be able to rival their larger multi-national competitors, SMEs increasingly move into foreign markets that are geographically, culturally, and socio-economically distant from their home markets. Besides seeking to alleviate competitive pressures, SMEs may attempt to expand abroad to exploit the unique knowledge they possess [34], to potentially reduce costs by developing scale economies and/or leveraging resources [35], to follow customers abroad [36], and/or to acquire new products or market knowledge [37]. Regardless of the specific reasons, such attempts to internationalize require that SMEs adapt their operations (in terms of strategy, structure, and resources) to international environments [38].

Several perspectives and models have been used by scholars to describe the process of internationalization, such as the innovation model (I-model) [39] and the Uppsala model (U-model) [40,41]. Whereas the I-model regards each organizational entry into a new foreign market as an incremental innovation (similar to inventing a new product), the U-model postulates that organizations gradually increase the level of their international commitment [39]. Both models, however, agree that different modes of foreign market entry exist that represent different levels of commitment and entail different advantages and disadvantages [42].

The literature commonly distinguishes between three modes of foreign market entry, which are frequently classified into two categories: non-equity and equity entry [3]. (1) *Non-equity entry modes* include direct and indirect exporting as well as distribution or licensing partnerships with foreign organizations. As such, non-equity entry modes are less resource-intensive and provide greater flexibility. However, organizations choosing non-equity entry modes lack closeness to the foreign market [10]. For *equity entry modes*, two specific modes are further distinguished: (2) *Cooperative market entry* refers to an organization's cooperation with an independent foreign partner organization in the form of a strategic alliance or by incorporating a joint venture. Here, as opposed to non-equity market entry, demand for resource commitment is higher but is shared between the partner organizations. Hence, cooperative market entry facilitates great market closeness, but requires coordination with a partner organization [43]. Another equity entry mode and the third option of foreign market entry is via incorporating (3) *wholly-owned subsidiaries*. As the subsidiary is usually under a single parent organization's control, inter-organizational coordination is not necessary. However, resource demand is equally high and all resources need to be committed by the single parent organization [44].

Particularly for SMEs, decisions pertaining to the mode of foreign market entry or to increasing foreign market commitment are not only strategically important and difficult to reverse [45,46], but have considerable performance implications [47,48]. As Brouthers et al. [49] argue, internationalization is much riskier for SMEs than for MNEs. This is because, in comparison to their larger counterparts, SMEs face substantial resource constraints [50]. Prior research has identified at least three areas in which SMEs differ from MNEs regarding resources, capabilities, and the general management of foreign activities (for a review, see [18]). First, many SMEs suffer from a scarcity of resources [50,51], such as the financial and human resources needed to establish an effective managerial control structure in a foreign market or to send employees to foreign countries for an extended period of time [52]. Therefore, successfully managing foreign activities remains a great challenge for SMEs [16].

Secondly, SMEs are, usually, less internationally diversified than are large MNEs. Studies have shown such limited engagement in foreign markets to be associated with lower levels of general foreign market expertise [16]. Hence, SMEs are highly sensitive to external challenges, such as unpredictable developments in foreign markets' technological, political, and institutional environments [18,53]. Third, SMEs differ from other types of firms in terms of their ownership structure. Considering that many SMEs are privately held, meaning that they are managed by the entrepreneur/founder of the organization [54], it is likely that their approach to managing foreign activities differs from that of MNEs [55]. For example, studies have found SMEs' foreign engagement are subject to a long-term orientation, meaning that they are likely to build stable relationships and plan for a lasting engagement in the foreign market [56]. Moreover, research has demonstrated SMEs to be generally more risk-averse to environmental uncertainty than MNEs [49,50].

In sum, as SMEs are much more vulnerable than large MNEs to costly failures in foreign markets, for them the propensity to internationalize seems counterbalanced by the many risks involved [15,49]. Because of this, SMEs constantly seek for ways to navigate the challenges that they face [57]. For one, SMEs may heavily rely on their networks with suppliers and customers to exchange and acquire the resources and knowledge necessary to successfully manage their foreign activities [17,38]. Thus, an SME's success in a foreign market largely depends on its relationships with other actors within this market. Establishing and securing such relationships, however, may not only be time-consuming but requires that SMEs know and adhere to the cultural and socioeconomic conventions and practices of the foreign market and manage relationships accordingly [58]. Secondly, SMEs may benefit from institutional support, such as governments providing financial and informational resources to promote SME business development and foreign trade [59,60]. However, a recent study by Narooz and Child [61] compared processes of internationalization in Egypt and the United Kingdom and found that particularly developing economies frequently suffer from institutional voids. Specifically, the authors highlight how SMEs in developing economies have to deal with weak institutional contexts that are characterized by an inefficient enactment of laws and regulations, prevalent corruption and bureaucracy, and limited infrastructure. Again, for SMEs that have entered such markets, knowing about the characteristics and finding an appropriate and effective managerial approach is paramount. Hence, we next turn to discuss the characteristics of the Arab markets before highlighting the different elements of managing foreign activities in these markets.

2.2. Characteristics of Arab Markets

Not only do the special characteristics of SMEs need to be taken into account, but also the particularities of the Arab market. Arab states, especially those in the region of the Persian Gulf, are very attractive to foreign companies due to their pool of mineral resources, such as large oil and natural gas reserves [62]. In fact, Saudi Arabia and Kuwait have the largest oil reserves in the world [63]. Based on the development of the oil industry in the 1950s, countries in the Arab world modernized their basic infrastructure by the early 1980s and continue to invest heavily in their countries [63].

In order to take full advantage of the region's high growth rates, SMEs need to be aware of Arab cultural aspects, which affect how individuals and organizations behave, act, and interact [64]. As Arab culture greatly differs from the cultures of Western SMEs' home markets, so different managerial theories and practices may be needed in order to successfully manage foreign activities in Arab markets [63]. For our particular research objective, we define culture as the fundamental values, attitudes, and beliefs that are shared by the vast majority of people in a group or nation, regarding how the world works and how individuals and/or groups can and should operate in that world [65,66].

The most important driver of Arab culture is religion, or, to be more specific, Islam [67,68]. Not only has Islam remained an important source from which the cultural fabric of Arab society gains its patterns [69,70], but also research has repeatedly shown that the Qu'ran, the central religious text of Islam, provides the moral framework that guides social exchanges. Overarching principles of Islam are the achievement of "well-being" (*falah*) for all men and women, as well as the concepts of unity (*itihad*), justice (*adalah*), and trusteeship (*khilafah*) [69,71,72]. These have a significant bearing on ethical behavior in managerial and inter-organizational relations [73,74], which are, in theory, heavily based upon participation, consultation, diffusion of knowledge, creativity, and equal promotion of opportunities.

Culture has been researched in many studies, of which the GLOBE (Global Leadership and Organizational Behavior Effectiveness) research program has presented one of the most prominent and comprehensive descriptions of culture and its impact on leadership. The GLOBE study collected data on 61 nations and divided them into 10 clusters, one of which is the Arab cluster [75]. According to this long-term study, national culture and its values can be examined in nine dimensions [76]. Of these, ratings for the Arab cluster differ markedly compared to the ratings of the other clusters in the following dimensions: in-group collectivism, power distance, future orientation, and gender egalitarianism. (Other dimensions assessed in the GLOBE study were institutional collectivism, performance orientation, assertiveness, humane orientation, and uncertainty avoidance.) We next discuss the distinctive characteristics of the Arab cluster in detail.

The first distinctive dimension, *in-group collectivism* reflects the "degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families" [76]. Whereas Western cultures tend to be less collectivistic and marked by loose ties among its members, Arab countries tend to have a collectivistic culture and are hence more strongly characterized by trust and loyalty as shown by the appearance of strong/close groups [63,77]. Hence, within the Arab culture, the loyalty of individuals first and foremost belongs to their families and only secondly to other members of society [78]. Islam is a major factor promoting the importance of family. Individuals are expected to have good relationships with their relatives and help each other out when they are in need. Thus, Islam creates a highly collectivist culture [63]. Due to the collectivistic nature of Arab culture, SMEs that want to enter the Arab market might face the problem that within organizations the loyalty of employees is to individuals rather than to the organization itself [79]. As positions and responsibilities are oftentimes created out of favor to a particular person rather than out of necessity, the structure of Arab organizations is in many cases less elaborated and the coordination between tasks, jobs, and positions is poor [79].

The second characteristic dimension, *power distance*, is referred to as "the degree to which members of an organization or society expect and agree that power should be unequally shared" [76]. Arab countries also scored remarkably high on power distance. This result is not surprising acknowledging that the great level of significance given to family and other in-group members is linked to a hierarchy of relationships [63]. Absolute loyalty to the father is seen as a necessity for keeping family bonds intact. Family members are expected to obey the father without questioning [80]. Recognizing, that rules that are established in the family are often projected to other organizations in society explains this result [63]. Hence, in Arab markets decisions are made on the basis of favors to subordinates and loyalty to superiors, not necessarily on the basis of quality. Nations with a large power distance, where inequality is accepted, emphasize a dependency relationship between business partners. Cultures with lower power distance, in turn, more frequently rely on agreement between business partners to minimize inequality [77]. This characteristic can be extended to the political system in Arab countries. As the revolutions of the Arab Spring mostly failed to establish democratic structures and a balance of powers, most Arab nations still suffer from an over-centralization of power and control [81] (p. 3) [82]. For SMEs entering the Arab markets, this often results in high uncertainty due to a general unpredictability of bureaucratic decisions [83].

A dimension that is rated comparably low for Arab countries is *future orientation*, which is the "degree to which individuals in organizations or societies engage in future-oriented behaviors such as planning, investing in the future, and delaying gratification" [76]. Concordant with the rating in this dimension, Attiyah [84] identified this characteristic as one of the features of the Arab business organization, which often results in a lack of performance appraisal and the absence of job goals and career paths. He argues that this is a consequence of the strong emphasis on religious norms and values, causing Arab nations to be more traditional and oriented towards the past [67,77]. Another factor is the concept of "fate" in the religion of Islam, which is claimed to impact this dimension negatively. According to Ilmihal [85], "believing in fate is among the basic principles of faith in God."

That implies that everything that will occur in the future is already prearranged and accordant to god's will. Thus Arab societies assign a low priority to planning and shaping the future, which is related to the low scores in future orientation [63]. A practical problem that SMEs face when entering Arab markets connected to future orientation is the fact that contemporary management theories and practices are relatively new to Arab organizations. The implementation of those ideas, without acknowledging that they are exclusive to Western culture, is a common practice [64], which frequently results in operational difficulties and a lack of direction [69].

The fourth relevant dimension, *gender egalitarianism*, is the "degree to which an organization or a society minimizes gender role differences and gender discrimination" [76]. The Arab world scored poorly on this dimension in comparison to other clusters, which implies that Arab societies are characterized by sex role inequalities, which is, again, arguably related to Islam [63]. As mentioned above, Islam defines the roles of men and women, with the men being responsible for the well-being of the family [80]. Men are considered to have particular characteristics that women do not have, which make them predestined to be in governing roles [63]. Others claim the contrary, that Islam improved the position of women in the society compared to the pre-Islamic period. According to those scholars, the gender inequality that can be observed in the Arab world is a deep-rooted structure that was already existent in Arab society [86]. A reason for the latter reasoning is the fact that there are variations in the status of women in different Muslim-majority countries. In Turkey, for instance, women have been able to vote since 1930, even before many Western women [87]. Although it has moved in a more masculine direction since adapting Islam, the Turkish state is secular and women have equal rights to men [63].

2.3. Trust, Control, and Learning

For SMEs entering a foreign market, choosing the optimal mode of market entry is important as it determines the structuring of foreign activities. However, being able to successfully manage these foreign activities is paramount [14]. Studies from Child, Rodrigues, and Frynas [88] as well as Puthusserry, Child, and Rodrigues [89] have investigated the challenges of SMEs managing activities in culturally and socioeconomically distant markets. The authors empirically show that, for an SME, the management of foreign activities becomes more challenging the more the characteristics of the foreign market are perceived as being different from the SME's domestic environment (termed "psychic distance"). Given the characteristics of the Arab markets, for SMEs venturing into one of these countries psychic distance is likely high and managing foreign activities is bound to present a great challenge. SMEs have been found to develop managerial approaches to cope with psychic-distance-related problems [88]. While different coping mechanisms have been identified, these regularly involve SMEs depending on the foreign party, regulating the foreign party's conduct, and becoming accustomed to the foreign market (i.e., labeled contingent, pragmatic, and absorption modes) [89]. In this light, research has identified three success factors by which SMEs may mitigate the uncertainties and challenges of foreign market activity: trust, control, and learning [20].

The concept of trust has been investigated in a wide variety of organizational and social settings, and accordingly has been conceptualized in a number of ways (for a review, see [90,91]). Rousseau [92] (p. 395) defined trust in interpersonal relations as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another." In economic exchanges, trust has been defined as the expectation that parties will make a good faith effort to behave in accordance with any commitments, be honest in negotiations, and not take advantage of the other, even when the opportunity is available [93]. A review of the trust literature highlights two issues relevant to this study. First, two key properties characterize the psychological state of trust: "positive expectations" from which one derives a "willingness to accept vulnerability." Second, although these two properties may be present only in individuals, the concept of trust can be extended to exchanges between organizations because inter-organizational relationships are essentially managed by individuals in each organization [1,93]. Regarding SMEs' foreign market activities, trust may or may not be present in different referents, depending on the chosen mode of market entry. For non-equity entry modes such as distribution or licensing partnerships, the referent of SMEs' trust will be a foreign organization. For cooperative entry modes such as joint ventures, the referent of SMEs' trust will be the partner parent organization with whom resources were combined in order to create the 'child'. In the case of wholly-owned subsidiaries, this separate enterprise may be the referent of SME trust. Thus, for SMEs invested in foreign activities, trust always includes a set of expectations regarding a foreign party's behavior and fulfilment of its perceived obligations, regardless of the mode of foreign market entry. The literature seems to agree, that due to relative smallness, particularly their lower levels of hierarchy and bureaucracy and turnover of management personnel, SMEs may find it easier to build trusting relationships to foreign actors than large organizations [56]. As such, trust has frequently been touted a managerial factor that may help SMEs overcome their liabilities of smallness [27,28].

However, particularly in the volatile context of the Arab markets, SMEs are unlikely to base the management of their foreign activities on trust alone. Whereas trust includes expectations, SMEs rely on control to monitor the foreign party's conduct in order to form a structural assurance for achieving the expected objectives [94]. Control, to a varying degree, draws from the use of power and authority, and a range of bureaucratic, cultural, and informal mechanisms [95]. As such, controlling the foreign party's activities provides SMEs with warning signals should objectives not be met, and enables them to implement corrective actions, thus helping SMEs to achieve their foreign goals [96]. Moreover, the process of agreeing on standards for the foreign party's conduct provides the benefit of aligning objectives and coordinating activities, targets, and norms [97]. Control can comprise numerous practices, which are usually subsumed in terms of formal (or objective) and informal (or social) control [98,99]. Formal controls tend to be codified in rules, procedures, and regulations and are thus predictable and regular [20]. This type of control can take the form of financial reporting guidelines, direct monitoring of how the foreign party conducts business, and regular status reports. Informal control, in turn, utilizes values and norms to encourage desirable behavior and is thus more uncertain and ambiguous [98,100]. This latter type of control can be exerted via socialization, training, or spontaneous interactions between the SME and the foreign party [20,98].

Both trust and control have been found to aid a reduction of the perceived degree of risk inherent to the entry to and activity in a foreign market [98]. Two types of risk can be identified that SMEs must manage in their relationship with a foreign party: relational risk and performance risk. While relational risk arises from the possibility that the foreign party will not behave as expected, performance risk refers to the possibility that the predicted results will not be achieved in the foreign market [101]. When trust exists, the SME holds the belief that the foreign party will contribute to the success of the foreign activities. This means that, for the SME, trust acts as a heuristic that provides "a degree of structure and stability to one's perception of a situation" [102] (p. 110). As a result, it has been argued that trust effectively lowers the perception of both unsatisfactory behavior of the foreign party and unsatisfactory results in the foreign market. Likewise, monitoring of the foreign party's conduct helps prevent major surprises and directs the SME's attention towards key performance indicators. Thereby, control enables the SME to react quickly when the perceived degree of risk rises above a certain threshold [101].

Learning, as a third success factor of SMEs' foreign market activities, receives its importance from the dynamics of the cross-border relationship between the SME and the foreign party. Virtually all organizations' foreign activities go through a series of transformations and evolve in ways that could not have been predicted when the foreign market was entered [20,103]. Particularly when entering markets whose characteristics significantly differ from those of the domestic environment, SMEs frequently have a low understanding of the foreign structural, cultural, and economic conditions, resulting in high levels of psychic distance [88]. In this regard, research has demonstrated an effective coping mechanism to be organizational efforts of learning about the foreign market and business activities in this market [89]. The principal source from which SMEs may learn is their networks within the foreign market. In fact, numerous studies have demonstrated networks and particularly the knowledge exchanged through networks to have a positive impact on SME internationalization and foreign market success (for a review, see [104,105]). Moreover, Narooz and Child [61] found that learning from their network partners may even help SMEs to fill the institutional voids many Arab markets suffer from. In other words, when SMEs lack local knowledge, the probability of success largely depends upon the parties that make up their foreign networks and that can provide the SME with much needed access to downstream resources, such as specific market knowledge or local marketing and sales capabilities [33,106]. Prior research has examined learning from two perspectives: learning from a foreign party and learning about a foreign party [107]. Although related, both types of learning follow different motivations and carry different effects [20]. When learning from a foreign party, SMEs obtain general market knowledge that aids them in tailoring their products, processes, or services to the foreign market's needs [20,103]. Whether SMEs rely on export or licensing arrangements, form joint ventures with foreign partners, or incorporate wholly-owned subsidiaries, the organization that the SME is doing its business with in the foreign market is likely the one that is most knowledgeable about the foreign market and that can provide the SME with important information. By picking up knowledge and skills from this foreign party, SMEs learn to adapt their foreign activities to exogenous market needs [108]. Learning about a foreign party, in turn, refers to picking up information that is endogenous to working with a specific foreign organization or business partner [17]. Entering a foreign market requires learning to coordinate activities and business between the SME and the foreign party. Such learning is necessary for SMEs to successfully combine their skills with those of the foreign party [107].

In sum, trust, control, and learning are important determinants of SMEs foreign market success, in that they aid SMEs in effectively managing their foreign activities. However, the value of each factor likely depends on the specific structural setting of SMEs' foreign activities and thus their choice of market entry mode [103]. We next develop a set of testable hypotheses pertaining to the question of how the three success factors' effect on foreign market performance differs between the three modes of market entry.

3. Hypotheses

3.1. Trust and Foreign Market Performance

Managing foreign activities can be demanding, particularly when entering culturally and socioeconomically distant Arab markets. Here, SMEs' foreign market success depends on effectively and efficiently governing the collaboration with the foreign party [103]. In this regard, prior research has found forming and maintaining trust between SME and the foreign party to be crucial [109], even more so as prior research has highlighted how building trusting relationships may support SMEs in overcoming their liabilities of smallness [27,28]. As Zaheer and colleagues [110] argue, trust effectively lowers negotiation costs as it defuses possible conflicts between organizations. Moreover, trust is likely beneficial in situations of high environmental uncertainty, as is the case in the Arab markets that we investigate. Environmental uncertainty demands SMEs to be able to react quickly and adapt to external changes in the foreign market, requiring responsive decisions and close collaboration between the SME and the foreign party. Accordingly, Madhok [111] suggested that trust is so crucial for organizational success that knowing how it is established and maintained is paramount for managers. The cooperative behavior facilitated by trust between SMEs and foreign parties provides economic benefits and has repeatedly been linked to greater foreign market performance, especially in the collectivistic Arab culture [112,113]. However, the effectiveness of trust likely depends on the structuring of an SME's foreign market activities and therefore its chosen entry mode.

For cooperative market entries such as joint ventures, trust between the partner organizations has been described as an important factor [114]. Trust enhances the SME's and its foreign partner's satisfaction and commitment to the joint venture [115], lowering the relational risk of opportunistic behavior by the foreign party [114]. As Yan and Gray [116,117] note, a high-quality working relationship between partners directly affects the probability that the SME will achieve its foreign market goals, thus lowering performance risk as well. For SMEs that enter Arab markets via wholly-owned subsidiaries, trust between their headquarters and the foreign subsidiary is of importance as well. As trust has been found to increase information sharing [118], allows for smoother task-synchronization [119], and eases the implementation of necessary changes [120], it likely enhances the adaptive capacity of SMEs' foreign activities. As such, trust ultimately provides the basis for an SME achieving the desired foreign market results and thus influences the perception of performance risk [118]. Similarly, trust in the good faith and capabilities of the foreign subsidiary's management relates to there being less perceived relational risk and provides the basis for long-term success.

For SMEs choosing non-equity entry modes to enter Arab markets, however, interaction with the foreign party is limited. In the case of exporting, the SME sells its products to a foreign party that then takes over the business risk. For licensing partnerships, the SME typically licenses its brand name and may also provide marketing support, technical advice, and training to the foreign party [121]. In both cases, the day-to-day involvement of the SME in the foreign market activities is rather low and changing partners in the foreign market is relatively easy. In sum, this means that both the risk of the foreign party not behaving as expected and the risk that the predicted results are not achieved are comparably low [101]. This is not to say that trust is entirely negligible in such settings. However, trust should play a lesser role for SMEs choosing non-equity entry modes than for those entering a foreign market via direct equity investment. Concluding, we hypothesize:

Hypothesis 1 (H1). *Trust has a positive effect on foreign market performance, particularly for firms choosing equity-based market entry modes.*

3.2. Control and Foreign Market Performance

The vast majority of research acknowledges controls as essential for satisfactory performance [95,101]. Specifically, Anderson and Oliver [122] note that control removes incentives for the foreign party to sacrifice the long-term for immediate results, with the corollary that control provides the basis for foreign market performance. Monitoring of the foreign party directs the SME's attention to key performance indicators, enabling the organization to react quickly when performance risk rises above a certain threshold [101]. Further, control informs the SME about the foreign party's behavior and thus may effectively reduce the perceived risk of unsatisfactory cooperation. Consequently, control seems vital for SMEs entering Arab markets in which contemporary management approaches are mostly unknown and different cultural perceptions prevail [69]. The effectiveness of control, however, likely depends on an SME's chosen mode of foreign market entry.

As control requires monitoring and assessment of the foreign party's conduct and activities, this factor seems especially suited to tackle the performance and relational risks inherent to equity-based market entry modes [95,116]. For cooperative equity-based market entries such as joint ventures, control issues arise from the fact that there is more than one parent [123]. As it is argued that Arab markets entail poor coordination between tasks, jobs, and positions [79], a high degree of control seems necessary. The ability of an SME to exercise control over the other parent of a foreign joint venture enables it to influence the joint venture towards operating in a way that favors the SME's long-term objectives and renders opportunistic behavior unlikely [124]. For wholly-owned subsidiaries, control issues are often at the heart of management conflict between the SME and its Arab subsidiary. In this setting, control is a function of the SME's influence over its foreign subsidiary's managers. In order to monitor and assess its wholly-owned subsidiary's conduct and activities, the SME needs to formulate clear behavioral standards and goals. The process of reaching reasonable standards and goals, in turn, requires close collaboration with the foreign subsidiary, which should increase transparency and lower the perception of performance risk [125]. Further, as control is based on a process of socialization and consensus-making, it likely raises the foreign subsidiary's commitment [101], thereby deterring opportunistic behavior and reducing relational risks.

For non-equity-based market entry modes such as export or licensing partnerships, SMEs frequently rely on contracts and administration to govern exchanges [11]. More importantly, however, SMEs' direct involvement in the foreign business activities is marginal and the foreign party assumes most of the business risk [121]. In this setting, it is relatively easy for SMEs to move to another export or licensing partner, should the perceived degrees of relational or performance risk raise above a certain threshold [126]. Hence, SMEs' have only a limited need to control the foreign party's conduct and activities. Thus, control should play a lesser role for SMEs choosing non-equity entry modes to enter Arab markets than for those entering via direct equity investment. Accordingly, we hypothesize:

Hypothesis 2 (H2). *Control has a positive effect on foreign market performance, particularly for firms choosing equity-based market entry modes.*

3.3. Learning and Foreign Market Performance

Learning, the third success factor, has been an object of frequent study [20]. As being successful in a foreign market requires an SME to tailor its processes, products, and services to the foreign market's specific needs [127], it is evident that an organizational orientation towards learning is an important prerequisite. As the work of network scholars has demonstrated, SMEs' foreign networks provide access to fundamental foreign market knowledge [128]. Over time, SMEs' interaction with foreign parties leads to an accumulation of knowledge and enhances their ability to refine existing and use new information. Hence, learning has been found to be an important driver of innovativeness and performance [129], especially in Arab markets where conditions differ greatly from those of Western SMEs domestic environments and psychic distance is consequently high [61].

For foreign market entry via wholly-owned subsidiaries to be successful, learning is paramount. As Chang [130] showed, SMEs entering a foreign market are usually at an intrinsic disadvantage because they lack specific foreign market knowledge. Over time, however, the foreign subsidiary will accumulate knowledge and gain important foreign market insights, which substantially diminish or entirely remove the SME's disadvantages. In fact, several studies have confirmed the importance of such experiential learning [131–133], which is considered an integral prerequisite for SMEs increasing the level of their foreign commitment [39].

For SMEs choosing cooperative modes of equity-based entry to an Arab market such as joint ventures, experiential learning also matters. However, in this setting, SMEs may not only learn from the foreign party, but also about the foreign party [20]. As joint ventures entail two parent organizations, they provide the opportunity for SMEs to tap into the knowledge of the foreign parent. Hence, joint ventures enable SMEs to capture other organizations' experience through the transfer of technologies, procedures, and routines [134]. As Chang [130] notes, such learning is illustrated in the diffusion of knowledge among organizations, such as the spread of new technologies and procedures through diffusion and imitation. Moreover, interaction with the foreign party provides a way for SMEs to learn about this party. Over the course of repeated interaction between the SME and the foreign party a track record is built, which helps fine-tune operations and enhance collaboration. For example, over a number of successfully completed exchanges an SME may learn to perceive the foreign parent as complying with norms of reciprocity [135]. Likewise, unsuccessful and conflict-laden exchanges may help the SME to determine the foreign party's objectives. In sum, both should further the SME's understanding and knowledge about the foreign party's systems and ways of doing business and should essentially aid the SME in better managing its foreign market activities [20].

Finally, when choosing non-equity-based modes to enter Arab markets, such as exporting or licensing, SMEs are not directly involved in the foreign market. In this setting, SMEs rely on the foreign party to provide them with important market knowledge in order to allow for tailoring its processes, products, and services to specific foreign market needs [130]. Likewise, repeated interaction between the SME and its foreign importer or licensee is an important source of learning about the foreign party in order to improve the coordination of activities and business. Hence, for non-equity-based modes of market entry, learning is equally important for SMEs to successfully combine their skills with those of the foreign party [107]. In sum, we expect learning to act as a universal determinant of foreign market performance, and hypothesize:

Hypothesis 3 (H3). *Learning has a positive effect on foreign market performance, regardless of firms' chosen market entry mode.*

Figure 1 depicts our conceptual model.

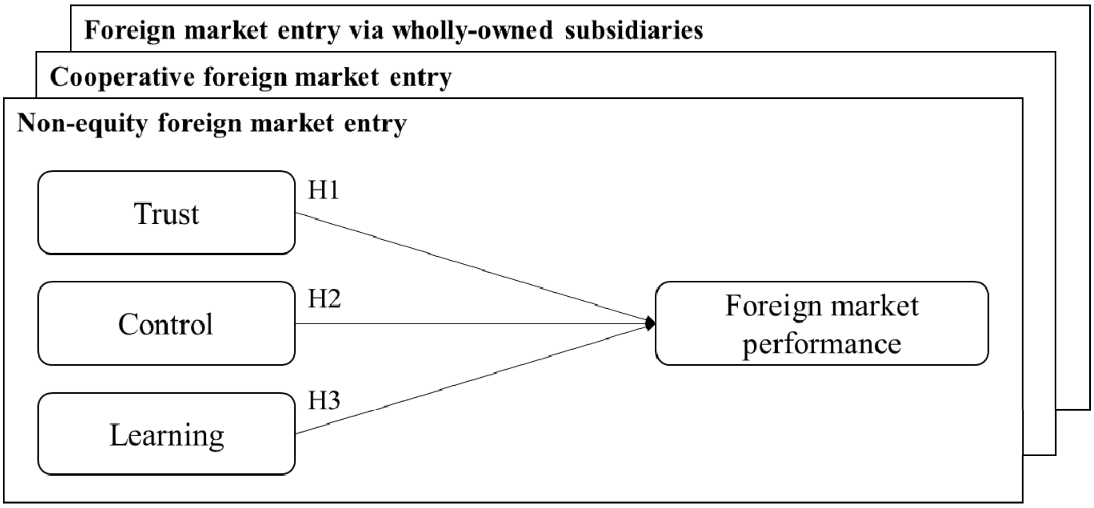

Figure 1. Conceptual model.

4. Research Methods

4.1. Sampling and Data Collection

For our study we identified a distinct sample of 2706 SMEs in Germany via the International Institute for Family Enterprises (IIFE). The IIFE is part of the Witten Institute for Family Business at the University of Witten/Herdecke, Germany and has over time curated an extensive database of German SMEs. Because the database did not provide information on SMEs' foreign activities, we could not single out those who were doing business in Arab markets beforehand. Hence, we sent each SME a cover letter with a detailed description of our research aim and clearly stated that the survey was only relevant for SMEs that were active in one of the Arab markets (i.e., Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, or the UAE). In our cover letter, we also stated contact information, provided a link to the online survey, and asked for the manager in charge of international operations to fill out our survey. Managers are knowledgeable about their organization's foreign activities and relationships with foreign parties, and thus are appropriate respondents for our study. Because matters concerning the relationship with a foreign party and how foreign activities are managed are very sensitive, our research design had to emphasize the respondents' anonymity. We therefore abstained from asking our respondents to provide us with specific details that would allow for drawing inferences regarding the nature of the foreign business activities, such as the exact geographical location of their foreign involvement or the name and size of the foreign party they were doing business with.

After four weeks, we had received 191 responses, indicating interest in our study's subject. In order to increase the response rate, we called a number of randomly selected SMEs at two-weekly intervals, asking their management to participate in our study and answering possible questions. We received another 102 responses from these approaches, increasing the overall number of participating SMEs to $n = 293$. However, 13 questionnaires had to be discarded because the SME was not active in any Arab market, due to missing information, or in the course of identifying statistical outliers. In total, we reported a net response rate of 10.4% ($n = 280$). It should be noted that this response rate is influenced by the (unidentified) percentage of German SMEs that are active in the Arab markets. Nonetheless, the rate appears to be within the range of prior studies on this subject and is well in line with the general recommendations for this research method [136]. Of our respondents, 38% were from the manufacturing industry, 20% from the service industry, 13% were retailers, and 29% were from other industries. According to the European Union's recommendation 2003/361/EG for distinguishing between small- and medium-sized SMEs, 21% of our respondents were small (less than 50 employees) and 79% were medium-sized (between 50 and 250 employees). The legal form was nearly equally distributed between joint partnership (55%) and joint-stock companies (45%). Of the SMEs that filled out our survey, 38.93% had chosen non-equity entry modes, 29.64% had chosen cooperative entry modes, and 31.43% had established wholly-owned subsidiaries to enter the Arab market.

Nonresponse assessment. In order to test for nonresponse bias, we compared early (the first 25%) and late (the last 25%) respondents on three organizational variables: the number of employees, financial turnover, and the number of years the SME had been doing business in the Arab market. Using multivariate analysis of variance (MANOVA), we found no significant differences in these measures (Wilks' $\Lambda = 0.95$; $F = 1.73$; $p = 0.17$). Subsequently, we compared three informant-related variables for both groups: hierarchical level, area of responsibility, and gender. Again using MANOVA, we found that the profiles of early and late responders did not significantly differ (Wilks' $\Lambda = 0.95$; $F = 1.88$; $p = 0.14$). Combined, these results raise no particular concern about nonresponse bias [137].

Common method assessment. We relied on SMEs' managers to collect information on both independent and dependent variables. Even though this is a prevalent methodological procedure in research and managers should be knowledgeable about both [138], common method bias might arise. We address this issue in two ways. Following Podsakoff and colleagues [139], we included distinct instructions on how to fill out our survey, assured our respondents' anonymity, applied thoroughly tested items with alternating scales, and separated exogenous from endogenous variables. Additionally, we performed the Harman one-factor test, which loads the total number of items into a principal component factor analysis [140]. Analyzing our data revealed a solution that explains 85.19% of the variance and whereby factor 1 accounts for only 38.15%, thus indicating no bias in our data. Even though we cannot entirely rule out the possibility of bias due to our research design, the carefully drafted questionnaire combined with the results of statistical post hoc testing renders common method bias unlikely.

4.2. Measures and Validation

Our questionnaire was pretested through 17 in-depth interviews that included managers of several German SMEs, researchers knowledgeable about survey research methods, and the head of the IIFE. Based on the feedback received in these interviews, a small number of items were revised in order to enhance clarity. Unless specifically indicated otherwise, all variables were measured using four-point Likert scales. Following the common classification criteria of Jarvis et al. [141], all constructs are measured reflectively.

Performance. In order to measure SMEs' foreign market performance, we rely on three items assessing management's perception of the degree to which an SME's financial and non-financial goals in the foreign market were met. Anderson [142] argued that such subjective measures are appropriate indicators of performance because goals vary and cannot always be measured quantitatively. The items are "In the Arab market, to which degree did your firm meet its goal regarding financial turnover?", "In the Arab market, to which degree did your firm meet its goal regarding market share?", and "In the Arab market, to which degree did your firm meet its goal regarding profits?" The scale ranged from 1 (completely) to 4 (not at all). The Cronbach alpha for this scale is 0.93, which is well above the common standard of 0.70 [143]. The average variance-extracted (AVE) is 0.85 and therefore exceeds the 0.50 benchmark [144]. All factor loadings are above 0.40 and highly significant ($p < 0.001$), indicating the one-dimensionality of this measure [145].

Trust. We use two items that assess the depth of the relationship between the SME's and the foreign party's management. The items are "My managerial colleagues and I have a strong personal relationship to the foreign party's management" and "The relationship between my firm and the foreign party is one of high trust." The scale ranged from 1 (strongly agree) to 4 (strongly disagree). Cronbach's alpha for this scale is 0.73 and the AVE is 0.58. All factor loadings are above 0.40 and highly significant ($p < 0.001$).

Control. We rely on three items to measure the extent to which the SME exerts formal and informal control over the foreign party. The items are "To what extent does your firm oversee the foreign party's activities?", "To what extent does your firm monitor the foreign party's outputs (e.g., products manufactured or services performed)?", and "To what extent did your firm make efforts to instill its business philosophy in the foreign party's managers?" The scale ranged from 1 (strongly) to 4 (not at all). Cronbach's alpha for this scale is 0.80 and the AVE is 0.61. All factor loadings are above 0.40 and highly significant ($p < 0.001$).

Learning. In order to measure learning, we use three items that assess the degree to which the SME generates knowledge from its foreign activities. The items are "To what degree does your firm acquire and internalize knowledge from its activities in the Arab market?", "To what degree is your firm able to derive innovations (e.g., product or process innovations) from its activities in the Arab market?", and "To what degree did your firm acquire a better understanding about the foreign party (e.g., regarding its objectives and ways of doing business)?" The scale ranged from 1 (to a very high degree) to 4 (to a very low degree). The Cronbach alpha for this scale is 0.74 and the AVE is 0.53. All factor loadings are above 0.40 and highly significant ($p < 0.001$).

Control variables. Although we focus on the three most prominently studies drivers of SMEs' foreign market performance, previous research has identified several other variables that might impact performance levels. Empirical evidence suggests that performance is closely linked to organizational size [146]. We therefore control for this variable, measured by an SME's number of employees. Additionally, a large body of research has found degrees of trust and control to depend on relationship length [24]. Hence, we control for the number of years an SME has been doing business with the foreign party.

5. Results

Table 1 presents the means, standard deviations, and correlations among the key variables. As expected, trust and learning are significantly correlated with foreign market performance ($r = 0.31$ and 0.55, respectively). Interestingly, our data show no significant relationship between control and performance ($r = 0.01$).

Table 1. Descriptive statistics and correlations.

	Mean	S.d.	1.	2.	3.	4.	5.	6.
1. Performance	2.07	0.81	1.00					
2. Trust	1.41	0.52	0.31 **	1.00				
3. Control	3.40	0.90	0.01	−0.27 **	1.00			
4. Learning	1.48	0.57	0.55 **	0.31 **	−0.05	1.00		
5. Firm size	4.88	4.10	0.31 **	0.19 *	0.03	0.09	1.00	
6. Relationship length	3.59	1.33	0.40 **	0.22 *	0.06	0.23*	0.10	1.00

Note: $n = 280$; S.d. = standard deviation. * $p < 0.05$; ** $p < 0.01$.

Hypotheses 1 and 2 predict that trust and control have a positive effect on foreign market performance, particularly for firms choosing equity-based market entry modes. In addition, Hypothesis 3 postulates that learning has a positive effect on foreign market performance, regardless of firms' chosen market entry mode. After calculating standardized latent variable scores from our measures, we used regression techniques to test our hypotheses [147]. In Model 1 we test the effects of trust, control, and learning on performance for our combined data comprising all modes of foreign market entry. Models 2 to 4 separately assess the effects of these variables for non-equity entry modes, cooperative entry modes, and market entry via wholly-owned subsidiaries, respectively, allowing for a comparison across market entry modes. Results for these analyses are stated in Table 2.

Table 2. Results of OLS regressions on foreign market performance.

	Model 1	Model 2	Model 3	Model 4
	All Modes of Foreign Market Entry	**Non-Equity Modes of Foreign Market Entry**	**Cooperative Modes of Foreign Market Entry**	**Foreign Market Entry via Wholly-Owned Subsidiaries**
Controls				
Firm size	0.25 ** −0.02	0.15 −0.02	0.13 −0.02	0.29 ** −0.02
Relationship length	0.16 * −0.06	0.14 −0.08	0.11 −0.09	0.25 * −0.08
Explanatory Variables				
Trust	0.1 −0.22	0.02 −0.26	0.23 * −0.31	0.12 −0.26
Control	−0.03 −0.07	−0.08 −0.08	−0.29 ** −0.11	−0.16 † −0.08
Learning	0.44 ** −0.12	0.52 ** −0.15	0.24 * −0.18	0.42 ** −0.16
No. of observations	280	109	83	88
R^2	0.43	0.42	0.47	0.59
F	16.78 **	10.63 **	10.41 **	17.93 **

Note: The dependent variable is foreign market performance. Reported coefficients are standardized. Standard errors are shown in parentheses; † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$.

Model 1 reveals that across all modes of foreign market entry performance is significantly affected by learning only (ß = 0.44, $p < 0.01$). Trust and control do not seem to significantly affect performance across all modes of foreign market entry (ß = 0.10 for trust and ß = −0.03 for control). Regarding the variables that we control for, our data indicate a significant and positive effect of both firm size (ß = 0.25, $p < 0.01$) and relationship length (ß = 0.16, $p < 0.05$) on performance.

We next compare the three different modes of foreign market entry. Model 2, which examines non-equity modes of market entry only, shows a pattern similar to Model 1, where learning again has a significant positive effect on foreign market performance (ß = 0.52, $p < 0.01$) but trust (ß = 0.02) and control (ß = −0.08) have no significant effects. For cooperative entry modes, analyzed in Model 3, we find foreign market performance to be again significantly enhanced by learning (ß = 0.24, p < 0.05) but also by trust (ß = 0.23, $p < 0.05$). Interestingly, our data indicate a significant negative effect of control on performance for cooperative modes of foreign market entry (ß = −0.29, $p < 0.01$). Lastly, the foreign market performance of SMEs that entered the market via wholly-owned subsidiaries appears to be significantly enhanced by learning (ß = 0.42, $p < 0.01$) but reduced by control (ß = −0.16, $p < 0.10$). In sum, our findings offer partial support for Hypothesis 1 but refute Hypothesis 2. Hypothesis 3, in turn, appears to be fully supported.

A further interesting pattern is revealed by our control variables. Both firm size and relationship length seem to significantly drive performance for SMEs entering the foreign market via wholly-owned subsidiaries. For non-equity and cooperatives entry modes, however, these variables seem to be of no particular relevance in terms of foreign market performance.

6. Discussion

6.1. Research Contributions

In this study, we examine the role of trust in SMEs' management of foreign market activities and contrast it with those of control and learning across the three different modes of foreign market entry.

Thereby, we seek to determine which managerial approach optimizes SMEs' foreign market performance given a particular mode of market entry. In sum, our results reveal marked differences between the three modes of market entry. Specifically, we show that the performance of SMEs choosing non-equity modes of market entry relies mostly on learning. For SMEs choosing equity modes of market entry (cooperative and via wholly-owned subsidiaries), learning is likewise important but control seems to have adverse effects on performance. Trust, however, only seems to drive performance for SMEs choosing a cooperative mode of market entry (e.g., joint venture or strategic alliance). We structure the discussion of these results as follows: First, we turn to the demonstrated similarities and differences between non-equity and equity-based modes of market entry. We then focus on the two equity-based modes of market entry and discuss in detail the differential effects of trust, control, and learning on SME performance for cooperative market entry and wholly-owned subsidiaries.

Non-equity- versus *equity-based modes of market entry*. First, contrasting the performance effects of trust, control, and learning between non-equity- and equity-based modes of market entry reveals trust and control to matter only for the latter, whereas learning seems an important driver of performance regardless of an SME's mode of market entry. To understand why, it seems necessary to revisit the properties of trust and control and the structural contingencies of the different entry modes. It has been argued that trust and control both lower the relational and performance risk that foreign activities entail. Whereas relational risk arises from depending on a foreign party that might not behave as expected, performance risk refers to the possibility that foreign activities will not yield the expected results [101]. The implications of the diverse effects of trust and control that we find support our notion that the degrees of relational and performance risk likely differ between non-equity- and equity-based modes of market entry. *Non-equity entry modes* such as exporting or licensing partnerships entail relatively low degrees of relational and performance risk. In these cases, the SME may provide marketing support, technical advice, and training [121]. However, its low involvement in the day-to-day operations in the foreign market means that the SME is comparatively free to change the foreign party it conducts business with, should the perceived degrees of relational or performance risk rise above a certain threshold [126]. Therefore it is not surprising that trust and control, as management factors to mitigate these risks, play a less significant role for SMEs that choose non-equity modes to enter Arab markets. *Equity entry modes*, in turn, generally imply that the SME is heavily involved in the day-to-day operations of the foreign market [1]. Moreover, as the SME holds assets in the foreign market, changing the foreign party it conducts business with (e.g., finding a new foreign parent company to a joint venture or incorporating a new wholly-owned subsidiary) is challenging and costly [126]. Hence, equity-based modes of market entry entail much greater levels of relational and performance risk, meaning that trust and control likely play a much greater role. Our results corroborate prior findings on the risk associated with non-equity- versus equity-based modes of market entry (e.g., [1,106,121]).

Learning, however, demonstrably improves performance for both non-equity and equity entry modes. The performance effect of learning thus seems to be unaffected by the levels of risk associated with a given mode of market entry. Instead, our results confirm the dual concept of learning from a foreign party and learning about a foreign party [20]. As such, learning apparently targets both the difficulties of managing foreign export or licensing activities in general and the challenges of being involved in day-to-day operations in Arab markets in particular. For one, being successful in a foreign market requires an SME to tailor its products and services to each foreign market's specific needs [127]. In this regard, learning from the foreign party enables SMEs to obtain general market knowledge that helps them to adapt their products and services so that they satisfy the foreign customers and create value [20,103,108]. Not surprisingly, leveraging foreign networks to obtain access to specific market knowledge or local marketing and sales capabilities is vital for SMEs' foreign market success [33,106]. Our results thus seem to corroborate those of Narooz and Child [61], who found that learning from their network partners helps SMEs fill the institutional voids many Arab markets suffer from. Second, by learning about the foreign party, SMEs pick up vital information regarding the foreign party's norms, values, perceptions, and ways of conducting business [20]. Particularly when entering markets as culturally distinct and different from Western markets, knowing and understanding the local particularities is important in order for the SME to cope with the high levels of psychic distance [88,89]. In addition, learning allows the SME to better coordinate activities and successfully combine its skills with those of the foreign party [107]. In this regard, our results further substantiate prior research that has identified learning as one of the most important drivers of foreign market performance [129].

Cooperative market entry versus *wholly-owned subsidiaries*. Second, looking at the two modes of equity-based market entry (i.e., cooperative and via wholly-owned subsidiaries) our data paint a rather complex picture of which factors drive SMEs' foreign market performance. Regarding *trust*, we find it to enhance SMEs' foreign market performance, but only for those SMEs that engaged in cooperative modes of market entry. This seems to corroborate previous studies' findings regarding the role of trust in joint ventures and strategic alliances (e.g., [20,103,114]). As the cooperative mode of market entry requires the SME to collaborate with the foreign parent company to the joint venture, trust in the other party's commitment and a firm belief that the other will not act opportunistically is paramount [115]. Particularly when dealing with a foreign party from a culturally and socioeconomically distant country such as the Arab states, psychic distance between a Western SME and its Arab market partner is likely high [88,89]. For situations as these, Das and Teng [98,101] have noted that trust likely lowers the relational risk inherent to the joint venture and thereby helps build a high-quality working relationship between the partners. Moreover, research has demonstrated a trusting relationship between joint venture or alliance partners to raise the likelihood of the partnership achieving its goals, thus also lowering performance risk [116,117]. Hence, our finding that trust is an important determinant of SME performance in cooperative modes of foreign market entry seems consistent with prior research results and is not surprising. Interestingly, however, we did not find any significant effect of trust on the performance of SMEs that chose to enter an Arab market by incorporating wholly-owned subsidiaries. Two explanations seem possible. First, degrees of relational and performance risk may be lower for SMEs with wholly-owned subsidiaries in a foreign market because of better managerial oversight and information [11]. In this case, trust would be less significant in determining performance. Second, if exchanges between an SME and its wholly-owned subsidiary are frequent, information sharing is high, and tasks are synchronized, a comparably high degree of trust between the parties is to be expected [118,119]. In this scenario, the non-significant effect found in our data would not indicate the unimportance of trust for this mode of foreign market entry, but rather would result from the high degree of trust throughout this subset. Further research seems necessary in order to determine the exact relationship at play. In sum, however, it seems doubtful that building trusting relations may actually provide a means for SMEs to overcome the liability of smallness [27,28]. While this may be true for cooperative market entry, other modes of foreign market entry require a different managerial approach.

Regarding control, we show that this factor significantly influences foreign market performance for both modes of equity-based market entry. As equity-based modes of market entry entail high levels of relational and performance risk [1,106], we had expected control to mitigate these risks and thus increase SMEs' levels of foreign market performance. However, apart from our initial hypothesis, the effect of control on performance is negative, meaning that SMEs exerting control over the foreign party do so at the cost of performance. We offer several explanations for this interesting finding. First, prior research has long debated possible links between trust and control, with many scholars arguing for a substitutive relationship between the two [148,149], and an equal number arguing for a complementary perspective instead [150,151]. Reconciling these conflicting notions, important differences between the exact practices through which control is exerted (i.e., formal vs. informal practices) and the timing of control in regard to the temporal stages of a business relationship have been demonstrated [24]. Fryxell, Dooley, and Vryza's [152] analysis of international joint ventures, for example, has shown that formal control enhances performance only for a short period after the joint venture formation. Soon after, the advantages of formal control wane and organizations need to rely on a combination of informal control and trust. Hence, SMEs relying on wrong timing of formal and informal control practices may undermine the relationship with the foreign party and thereby their foreign market performance [98,101]. This relates to a second explanation for our finding, which centers on the cultural characteristics of Arab markets. The Arab culture is characterized by a high degree of familism and collectivism, where the loyalty of individuals is first to their families and only second, at best, to the foreign SME [78,79]. Hence, business relationships are strongly influenced by and based on interpersonal relationships, indicating that informal control may be more readily accepted than formal control. "Western-style" formal practices of control such as reporting guidelines, close monitoring, or regular status reports are therefore likely incompatible with Arab culture and SMEs relying primarily on these practices are likely to encounter resistance from the foreign party [64], aiding an erosion of trust and impeding performance. In order to shed light onto the exact causal mechanisms at play, further research ought to contrast the performance effects of formal and informal control between different temporal stages of SMEs' business relationships with their Arab partners. Lastly, it should be noted that, in order to guarantee our respondents' anonymity, we did not obtain information regarding SMEs' relative size in comparison to the foreign party they are conducting business with. Generally it is to be expected that the German SMEs we surveyed provide the products and technology that are sought after in the Arab markets and thus have substantial leverage over the foreign parties. However, in cases where an SME is much smaller in size than the foreign party, power imbalances may be shifted to the SME's disadvantage [126]. Hence, it is possible that our results regarding the negative performance effects of control may in part be attributable to SMEs' lacking the power and ability to exert control over a foreign party.

Regarding learning, we find this factor to positively affect SMEs' performance for all three modes of foreign market entry. However, our data imply that this positive effect is considerably lower in cooperative modes of market entry as compared to either non-equity modes of market entry or wholly-owned subsidiaries. This is notable because the literature on joint ventures and strategic alliances has strongly advocated the importance of learning from and about a foreign party (e.g., [20,107]). While our results do not contradict this literature, they do raise the question of whether learning indeed plays a particular role in cooperative modes of market entry or whether its importance may have been exaggerated. Because joint ventures and strategic alliances provide strong structural ties between a Western SME and an Arab business partner, relevant product (provided from the Western SME) and market knowledge (provided from the Arab business partner) is more readily available and exchanged more freely between the organizations as opposed to non-equity modes, where structural ties are weaker, or wholly-owned subsidiaries, where market knowledge is lower [10,43,44]. Hence, it seems plausible that learning should be less important in cooperative modes of foreign market entry, although further research on this matter appears to be necessary.

6.2. Managerial Contributions

Our study offers important insights for practitioners, especially those managing SMEs that are engaged in foreign activities in Arab markets. First, our results highlight how to effectively manage SMEs' foreign activities in order to maximize performance, given a specific mode of market entry. Given SMEs' liabilities of smallness, knowing whether to invest in developing trust, exerting control, and/or learning allows SMEs to economize on resources and is therefore a clear advantage [86]. From our data, we encourage SMEs that choose non-equity modes of market entry such as exporting or licensing to invest heavily in learning from and about the foreign party they are conducting business with. For SMEs that choose equity-based modes of market entry, learning is also an important determinant of performance, but developing a trusting relationship is of equal importance. Control, however, should be exerted with caution and reviewed against compatibility with Arab culture. Moreover, our results allow us to draw a second insight. As we reveal which factors are most important in determining performance given a specific mode of market entry, our study provides insights as to which entry mode SMEs should favor in the light of their own resources and capabilities. Specifically, SMEs with a strong orientation towards learning may benefit from non-equity modes of market entry, whereas SMEs that have a track record of establishing trusting business relationships may leverage this capability in equity-based modes of market entry. Hence, our study not only demonstrates which factors determine performance across different entry modes, but also has important implications for the ex ante structuring of foreign activities.

6.3. Limitations and Future Research Directions

Like any research, our study has a number of limitations. First, we rely on single-source and self-reported data, which may lead to a common method bias in that respondents reported on both endogenous and exogenous variables. However, considering the careful construction of our questionnaire and the results of statistical post hoc testing, we are positive that common method bias does not pose a major concern [139]. Second, even though we control for SMEs' relationship length, the design of our study is cross-sectional in nature. This means that the inferences within this study largely rely on a theoretical rather than an empirical foundation [139]. Future research would benefit from a longitudinal research design, which enables more thorough testing of causal relationships. Moreover, longitudinal data would enable scholars to capture changes in (the structuring of) SMEs' foreign activities over time, allowing them to observe how trust, control, and learning may affect performance at different stages of SMEs' foreign market involvement.

As an important additional limitation, we would like to draw attention to the fact that our results are contingent on our conceptualizations of trust, control, and learning. However, as the exact nature of trust still seems elusive and there are multiple classifications of the concepts of control and learning [24,153], we encourage future research to validate our findings using alternative conceptualizations. Future research could, for instance, augment our study by conceptually and empirically distinguishing between formal and informal control practices (e.g., behavior, output, and social control [101]), different dimensions of trust (e.g., calculative and relational trust [92]), and the type or aim of learning (e.g., learning from the foreign partner to fill institutional voids versus learning about the foreign partner to decrease the risk inherent to the relationship [61,107]). Moreover, future studies could benefit from extending our model to include additional variables, such as the SME management teams' previous international experience, which has repeatedly been the successful internationalization of SMEs [30,31,106].

Lastly, we need to highlight that our study is limited to the analysis of SMEs' existing engagement in Arab markets, meaning that our study has likely captured mostly those SMEs that have achieved at least satisfactory levels of performance. We believe a promising avenue for future studies lies in broadening this focus by analyzing the reasons for SMEs' discontinuation of foreign market activity.

7. Conclusions

With this study we contrast the performance effect of trust with those of control and learning (three of the most prominently studied success factors) across three different structural modes of market entry: non-equity entry, cooperative entry, and wholly-owned subsidiaries. Using empirical data on 280 German SMEs' activities in Arab markets, we reveal marked differences between the three entry modes and offer a detailed discussion of the underlying structural and cultural reasons for those differences. In sum, we believe this study allows for a comprehensive understanding of the determinants of SMEs' foreign market performance and is a basis for providing relevant advice as to which managerial approach to emphasize for which mode of entry into the Arab markets.

Acknowledgments: The authors thank the International Institute for Family Enterprises (IIFE) at the University of Witten/Herdecke, Germany for its valuable support in the data collection for this research. This study was supported by the German Research Foundation [grant number 1712/2]. The views expressed in this work are those of the authors and do not necessarily reflect the organizations with which they are affiliated or their sponsoring institutions or agencies.

Author Contributions: Both authors contributed equally to this study.

Conflicts of Interest: The authors declare no conflict of interest.

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