Opportunity novelty, improvisation and network adaptation in the internationalization of Swedish SMEs

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Abstract
By deviating from previous ways of working and improvising new solutions to problems in the internationalization process, small and medium-sized enterprises (SMEs) will increase the likelihood of developing novel international opportunities. In this way, for instance, unforeseen customer demand, rather than following a specific plan, may govern market choice. Such novel opportunities, in turn, are likely to require network adaptation in order for the firm to reach an insidership position in the international business network. By integrating international opportunity theory with theories on improvisational behavior, three hypotheses are developed between the constructs of international opportunity novelty, improvisation, and network adaptation. The hypotheses were tested with Structural Equation Modelling on 258 realized international opportunities developed by Swedish SMEs (European Union definition: number of employees 10–250) and were observed through on-site visits. It is revealed that improvisation increases the degree of international opportunity novelty as well as the need for network adaptation. The degree of novelty of realized international opportunities positively influences the need for adaptation to a foreign network. Novelty can be seen as a proxy for opportunity’s wealth-creating potential, and developing improvisation capabilities seems to be a way to increase the novelty of international opportunities developed. Managers that are risk averse and therefore refrain from improvisation risk missing valuable novel opportunities.

KEYWORDS
improvisation, internationalization, network adaptation, novelty, opportunity, SME

1 | INTRODUCTION

A central assumption in the internationalization literature is that unfamiliarity with political regulations, the economic environment, culture and language in the host market causes a liability of foreignness for the international growth-aspiring firm (e.g., Denk, Kaufmann, & Roesch, 2012; Durand, Turkina, & Robson, 2016). This liability is likely...
to cause problems and unforeseen events that generate additional costs (Almodovár & Rugman, 2015). A strategic decision for the internationalizing firm then becomes the adaptations needed to manage these additional costs as well as the strategy implemented to overcome the liability of being a foreign firm (Hollensen & Møller, 2018).

Whereas most internationalization researchers (e.g., Johanson & Vahlne, 1977) and international market strategy researchers (e.g., Hollensen & Møller, 2018) build on the assumption that firms make adaptations in relation to the country market characteristics, more recent research has started to question this assumption. In their updated internationalization model, Johanson and Vahlne (2009) argue that there are many reasons to expect that the main challenge for the internationalizing firm is no longer the liability of foreignness but rather the liability of being an outsider to the business network of that market. Supporting research, which shows that business markets are networks of business relationships, linking business actors in complex patterns, Johanson and Vahlne (2009) argue that we cannot understand the behavior of the individual firm unless we consider the role of its network position and its relationships with other business actors. In the revision of the model, they contend that the development of opportunity is strongly contingent on the network position of the firm. This argument goes hand in hand with findings showing that network relationships impact foreign market selection (Coviello & Munro, 1995), patterns of international expansion (Denk et al., 2012), and the first step abroad (Ellis, 2011).

Internationalization is, then, not only a process of managing liabilities related to the nationality of the firm, but rather an entrepreneurial process of strengthening positions in networks with the aim of establishing insiderness within a relevant network (Schweizer, Vahlne, & Johanson, 2010). In their paper, Johanson and Vahlne (2009: 1415) argue that “anything that happens, happens within the context of a relationship, and a firm that is well-established in a relevant network or networks is an insider.” Researchers following these suggestions show that firms that have established insiderness positions in foreign networks are better equipped to identify international opportunities (Fiedler, Fath, & Whittaker, 2017) and have lower costs for international activities as well as a stronger overall performance than outsider firms (Almodovar & Rugman, 2015).

We argue, however, that in spite of the shift in focus from the country market environments to networks and from a liability of foreignness to a liability of network outsidership, the literature leaves us uninformed about the real drivers of adaptation of firm activities in foreign markets. The internationalization literature has primarily addressed adaptations made by firms facing a liability of foreignness. Consequently, even though we have an increasing number of studies showing the benefits for insiders as compared to outsiders in foreign market networks, our knowledge regarding the process that the firm is undergoing, from outsidership to insiderness, is underdeveloped (Chen, 2017; Fiedler et al., 2017; Yamin & Kurt, 2018). To address this shortcoming and to extend our understanding of the factors driving the degree of adaptation to foreign business networks, we integrate two evolving theoretical developments in the literature: international opportunity characteristics and the current activities of the firm.

First, along the lines suggested in international entrepreneurship research (e.g., Ellis, 2011; Oviatt & McDougall, 2005) as well as more traditional internationalization research (e.g., Johanson & Vahlne, 2009; Schweizer et al., 2010), we assume that international opportunities drive the internationalization of the firm. Consequently, we argue that the characteristics of the international opportunity realized determines the need for adaptation to the foreign business network. Research in international entrepreneurship has established that the first exchange in a new foreign market for the firm, meets the definition of an international opportunity (Ellis, 2011). Taking this one step further, we argue that the degree of novelty of the international opportunity acted upon determines the need for network adaptation. To some extent, some degree of novelty characterizes all opportunities. Consequently, novelty is a typical feature of opportunity and we view the degree of novelty as critical for how firms identify, absorb, assimilate, and adapt to it. There is always a risk that existing routines, structures, and competencies are not relevant when developing something new. Based on Witt (2009), we define opportunity novelty as an opportunity that was unknown before a certain point in time and therefore created or developed at that point in time, for example, the opportunity to enter a new market. Since novel opportunities imply that methods and actions followed earlier need to be adapted, we argue that the degree of opportunity novelty is an important determinant, as the firm internationalizes, of the need for adaptation to the foreign market network.

Second, we expect that the behavior of the firm is an important determinant of the need for adaptation to the foreign business network. Since novel international opportunities by definition are different from opportunities realized in the past, we argue that it is hard for the internationalizing firm to figure out, in advance, how to act and plan for foreign expansion, since previous experiences are a weak guide for future actions. The future is hard to predict, which creates difficulties for plans and routines (Sarasvathy, 2001). Acting on a novel opportunity, therefore, indicates that the firm may need to improvise. Improvisation is a means-oriented, as opposed to a goal-oriented, approach where the firm acts on the basis of resources possessed and controlled, rather than by specifying goals and targets in advance. Improvisational behavior is a response to unexpected and unforeseen events that take place by chance or accident (Chandra, Styles, & Wilkinson, 2009) as well as by luck and surprise (Dew, 2009). Hmieslki and Corbett (2006) suggest that improvisation is a reasonable behavior in situations where the firm faces unfamiliar environments and circumstances; we, in turn, suggest that improvisation resulting from an unfamiliar context will increase the need for adaptation to the foreign network being entered.

Considering these challenges to the internationalizing firm, we seek to advance the internationalization literature by examining the effects that the degree of international opportunity novelty and the degree of improvisation of the firm have on the need for adaptation to the foreign network being entered. To alleviate the shortcomings identified in the extant literature, we develop three hypotheses about the relationships between improvisation, international opportunity
n novelty, and network adaptation in the internationalization process. The study tests the three hypotheses using a dataset of 237 realized international opportunities reported by 160 small and medium-sized enterprises (SMEs) visited on site. For firm size, we applied the limit defined by the European Union (number of employees 10–250), a limit also used in several other SME studies (i.e., Dimitratos, Johnson, Plakoyiannaki & Young, 2016). We use LISREL to test the structural model, and our findings make three contributions to the extant internationalization literature.

First, we contribute to the evolving literature by arguing that the main liability for a firm to overcome when internationalizing is that of network outsidership (Johanson & Vahlne, 2009; Yamin & Kurt, 2018). The present study addresses one of the key themes identified by Johanson and Vahlne (2009), namely, opportunity development and its role in network adaptation. By studying the drivers of network adaptation in the internationalization process, we show that the characteristics of opportunities realized as well as the improvisational behavior influences the need for adaptation. Thus, if firms seek to build trust and generate experience in the internationalization process, they must not only adapt to the foreign country's characteristics but also to the network entered.

Second, we contribute to the international opportunity literature (e.g., Mainela, Puhakka, & Servais, 2014) by developing knowledge on the antecedents and implications of international opportunity characteristics. Up to this point, the research on these opportunities themselves lacks precision, and we have limited knowledge on the origin and role of the opportunity characteristics. In our study, we show that improvisation is positively related to novelty and that novel international opportunities increase the need for adaptation in the network entry process. Thus, if firms are more likely to identify novel opportunities, although they need to consider that acting on opportunities that are different from the ones they have encountered in the past is likely to increase the need to adapt to their network partners.

Third, our study contributes to the literature on improvisation in internationalization (Arend, Sarooghi, & Burkemper, 2015; Nemkova, Souchon, & Hughes, 2012) by examining outcomes of improvisation, in terms of the relationships among novel international opportunities, network adaptation, and improvisation. Our findings reveal a positive relationship between improvisational behavior and the degree of novelty of opportunities realized as well as an increased need for adaptation to foreign networks.

The rest of our paper has the following structure. First, we anchor our constructs in the internationalization literature. Second, we develop our hypotheses. Third, we describe the method of the study and present the results of our analysis. Fourth, we provide a discussion of the results, managerial implications, and limitations.

2 | THEORETICAL FRAMEWORK

2.1 | Improvisation and internationalization

Although Johanson and Vahlne coined the term “current activities” to define what firms do when entering foreign markets as long ago as 1977, it is only recently that internationalization scholars began to study how firms behave in foreign markets. In the original Uppsala model, current activities are what the firm does in the foreign market. As the key concept in the model is experiential knowledge, current activities are central to our understanding of internationalization. It is only by acting in the foreign market, thus performing current activities, that the firm can gain experiential knowledge.

Rational decision-making and planning have usually been put forward as suitable and profitable ways of acting (Delmar & Shane, 2003), but this is not always the way firms act. In fact, the internationalization process of SMEs is often “random and somewhat irrational” (Coviello & Munro, 1995:58), including important aspects of improvisation, what Arend et al. (2015) term “experimental and iterative learning techniques aiming at discovering the future” (Fisher, 2012:1022).

Under stable and well-known conditions, planning facilitates goal attainment and allows managers to make decisions more quickly than trial-and-error based processes (Delmar & Shane, 2003). Decisions made by using planning-oriented processes are based on previous experiences (Argote, 1999; Huber, 1991) in the form of experiential learning, which tends to result in a path-dependent development. Previous experiences, however, may not be fully transferable to a new market. Furthermore, when the track record of past performance is guiding future action, the span of action is limited. In entering a new market, planning may therefore be a hindrance, channeling as it does attention, and thereby also behavior, in certain directions (Mintzberg, 1994) that may be unsuitable and therefore unsuccessful in the new context. Using improvisation, the time gap between planning and action is closed, as design and action converge (e.g., Weick, 1993) and, therefore, mutually affect and shape each other. Most entrepreneurs must act under conditions of limited resources and time pressure (Hmieleski & Corbett, 2008) and improvisation is a proper way of handling complexity and ambiguity, not least under time pressure (Cunha, Clegg, & Kamoche, 2012). Improvisation is, furthermore, cost-effective and thus has the potential to increase profitability, implying as it varies based on combinations of currently available resources (Cunha, Cunha, & Kamoche, 1999). Research has shown that entrepreneurs do spend considerable time extemporaneously formulating and executing strategic decisions (Baker, Miner, & Eesley, 2003). It is therefore suggested that improvisation is a fundamental component of entrepreneurship (Hmieleski & Corbett, 2008).

There are studies developing conceptual models that contrast improvisation with more fixed strategies, like routines (Hohenthal, Johanson, & Johanson, 2003; Johanson & Johanson, 2006), or rational action, like systematic search or planning (e.g., Nemkova et al., 2012). Planning and improvisation can be mixed or take place in sequences, as firms may improvise around a plan or based on forecasts (Nemkova et al., 2012). The need to act fast, or on grounds that are previously unknown, limits the viability of systematic and rational planning and decision-making. Improvisation is a response to surprises (Bilkey & Tesar, 1977) that usually rests upon a strong skill base, practice, and experience (Crossan, Lane, White, & Klus, 1996).

Improvisation has been defined as “the conception of unhindered action as it unfolds, by an organization or its members, often (yet not
exclusively) in response to an unexpected interruption or change of activity” (Hadida, Tarvainen, & Rose, 2015:440), which means that firms “act extemporaneously, spontaneously, intuitively and ad hoc in an emergent manner” (ibid.). Consequently, we contend that improvisation entails doing new things, or at least applying existing solutions to new problems, or vice versa. It implies keeping an open mind, thinking outside the box, and thinking on your feet during the process where the firm establishes an insidership position in the foreign market’s business network. Moreover, as entry is a process that takes place over time, the firm is confronted by problems, which it has to solve. These problems are often difficult to predict in advance and may require urgent solutions. Such problems allow insufficient time to collect information, to analyze the situation, or to apply solutions.

Improvisation is thus a suitable internationalization behavior when the firm is aware of its ignorance or aware that the market is uncertain. Under such circumstances, events and insights emerge and it is not possible to incorporate them into plans before the start of the process (Johanson & Johanson, 2006). The firm’s actions are then likely to be improvised, and, as a result, its processes become non-linear (Evers & O’Gorman, 2011; Zhang, Zhu, De Cieri, Dowling, & Chen, 2019), and outcomes, such as opportunities, become more uncertain and more novel.

When a firm enters a foreign market network, it applies improvisation when its existing knowledge is insufficient for making plans. Creating, maintaining, and managing network relationships without sufficient existing knowledge places firms’ international operations under uncertainty (Galkina & Chetty, 2015). Leveraging contingencies by improvising is prominent during internationalization under uncertainty and insufficient knowledge (Sarasvathy, 2001). For example, rapid changes in the market in which a firm operates require fast adaptation to new circumstances. Improvising in the moment, compared with reacting based on plans formulated in the previous status quo, is the obvious solution when such changes happen. By improvising, the firm aims to reach beyond its existing knowledge toward finding new knowledge. Improvisation, compared with acting according to plans, therefore, tends to result in the identification of further novel opportunities (Johanson & Johanson, 2006). In line with Hohenthal et al. (2003), we, therefore, argue that the degree of improvisation applied determines what type of opportunity the firm discovers. There are case studies indicating this relationship (Evers & O’Gorman, 2011; Johanson & Johanson, 2006), but it remains to be tested with quantitative methods.

### 2.2 International opportunity novelty

Novelty has been at the core of entrepreneurship research ever since the work of Schumpeter (1934), and developing an opportunity in terms of entering a new country market is likewise at the core of the process of internationalization (Johanson & Vahlne, 2009; Mainela et al., 2014). Opportunities usually imply exchanges of resources or new combinations of resources (Eckhardt & Shane, 2003; Mainela et al., 2014), but the term “opportunity” refers to any new way of using resources that transforms the existing ends and/or means (Eckhardt & Shane, 2003). We define novelty as a feature of the opportunity developed, based on the perception of the internationalizing firm. Consequently, novelty is a perceptual concept and does not reflect the general view of what is new in the market. Novelty has been examined in a variety of contexts and across several disciplines, which explains its definitional ambiguity. In general, however, “novelty is something that was unknown before a particular point in time and that, hence, was discovered or created at that point of time” (Witt, 2009:313). Novelty comprises two essential and non-dichotomous blocks: recombinant and pioneering novelty (Gerken & Moehrle, 2012). Recombinant novelty refers to Schumpeterian novelty (Schumpeter, 1934) as new combinations of something already known; thus, the emphasis is on the originality or newness of the opportunity (Gerken & Moehrle, 2012).

Pioneering novelty, however, refers to the discontinuity created from unknown elements (Bhave, 1994; Hayek, 1945; Kirzner, 1973) and thus to the notions of uniqueness and exceptionality (Bhave, 1994). In other words, the degree of novelty varies, and thus characterizes each opportunity upon which the firm acts. On the one hand, an opportunity may bring very limited exceptionality and uniqueness, like following a customer expanding to a market that to the focal firm is new but nevertheless similar to previous experiences. Then it might suffice to combine previous knowledge about this customer with previous knowledge of this and similar markets. On the other hand, entering a country market that is very different from what the firm is familiar with, brings both high degrees of newness and uniqueness, in other words, a high degree of novelty, and requires the development of new knowledge.

However, Johanson and Vahlne (2009) argue that the role of opportunity discovery is exaggerated; instead, they maintain that critical opportunities are developed in the relationships with the customers and suppliers in the foreign market’s network, although acknowledging that these opportunities can be characterized by various degrees of novelty.

As international opportunity novelty contains two elements: starting business with the first customer and starting business in a completely new market than before, we contend that the uniqueness of these two elements determines the degree of novelty. Thereby, the novelty of finding the customer becomes the first step in developing a business relationship and begins the process of moving from network outsidership to network insidership. In addition, we suggest that the uniqueness of the market reflects the second element of novelty. When the firm perceives the market as unique, it differs from other markets where the firm is an established insider. Consequently, opportunity novelty is based on the firm’s perception of uniqueness and does not capture novelty on a general or objective level. Novelty is a subjective concept and implies both the process of finding the opportunity and the finding itself.

Identification of novel opportunities can be an outcome of planned actions, such as planned experiments or planned searches, but it can also result from things happening beyond the control of the firm, like chance or accidents (Chandra et al., 2009), or despite
ignorence, through luck and surprise (Dew, 2009). International opportunities can be classified in various ways. We follow Ellis' (2011) definition of opportunity because we contend that for SMEs whose internationalization is completely dependent on export, identifying the first customer in a totally new foreign market is an important opportunity, contributing to the international growth of the SME. A truly novel opportunity is unique in comparison to what the firm has experienced in the past, and in this case the novelty has two components: the specific customer and the specific market. The first customer in a new foreign market can completely differ from the firm’s already existing customers, as can entering a market which, in a wider respect, does not have much in common with the firm’s experience and knowledge of other markets (Yan, Wickramasekera, & Tan, 2018).

2.3 | Network adaptation

A traditional assumption in the literature is that psychic, cultural, and institutional distances prevailing between country markets lead a firm to experience risk and uncertainty when entering foreign markets (Johanson & Vahlne, 1977). This forces the firm to learn about the market and, as it gains knowledge about the foreign market's culture and institutions, adapt. Adaptation thereby relates to the uncertainty perceived by the firm when entering a specific market. This idea goes back to Johanson and Vahlne’s (1977) suggestion that psychic distance causes risk and uncertainty. Besides adaptations of the internal divisions within the firm to the differences in institutions and culture (Sousa & Tan, 2015), there is a vast body of literature in international marketing on how firms adapt their promotion, communication, and sales strategies in relation to the specific foreign markets where they operate (Hollensen & Møller, 2018; Westjohn & Magnusson, 2017).

The paradigm shift taking place in international business because of the emergence of international entrepreneurship suggests instead that firms act in the foreign market's network and not in a homogeneous market, and that firms primarily are seeking opportunities rather than looking for ways to reduce uncertainty. The business network view defines the foreign market as a system of long-term business relationships between customers and suppliers (Anderson, Håkansson, & Johanson, 1994). In the network, firms adapt their operations, which means that mutuality and interdependence emerge (Johansen & Ford, 2008). As explained by Johnsen and Ford (p. 473), "[t]he higher the involvement in a relationship, the more likely is the interdependence between the parties... If firms are mutually dependent, they may have problems coping with other relationships, but may manage quite effectively in their core relationship." Interdependence is a result of the firm and its counterparts making relationship-specific investments with each other, such as storage, distribution, production, equipment, or skills. Although these investments aim to increase the value of each partner as perceived by the others, they also give birth to mutual dependence.

In fact, studies have shown that suppliers can get fast returns on adaptation investments (e.g., Uzzi, 1996; Walter & Ritter, 2003). If we assume that markets are structured as business networks, it follows that firms' adaptations are made in relation to customers and suppliers, for instance, in terms of technologies or production processes, rather than toward culture and institutions per se. We therefore propose that adapting to specific actors in a foreign market's network is a critical factor in firm internationalization. There is a vast literature on the relationship between networks and relationships, on the one hand, and performance and profitability, on the other hand. For instance, the configuration of the network and the position of the firm in the network significantly influences innovation and learning (Ahuja, 2000; Tsai, 2001, Zaheer & Bell, 2005), but there is also evidence that network is closely linked to firms' internationalization (e.g., Musteen, Francis, & Datta, 2012; Zhou et al., 2007).

Network adaptations are a response to customers’ and suppliers’ needs, resources, and capabilities (Brennan, Turnbull, & Wilson, 2003). The activities of a firm and its counterparts are directly or indirectly linked to each other; thus, in order to coordinate these activities, firms interact. During these interactions, firms learn about each other (March & Simon, 1958), for instance, identifying each other's needs and capabilities. They discover problems that they might need to solve, or identify opportunities for improvements in offerings or processes. These signals often call for adjustments in production, technology, and organization, reflecting the interests of the actors in question and their search for more effective and efficient processes, or new resource combinations in terms of quantity, quality, or timing. Such adaptations show commitment and are likely to deepen the firm's relationships.

We view network adaptation as the sum of the actual changes made by firms toward their counterparts in the network (Cannon & Homburg, 2001). It entails several elements (Johanson & Mattsson, 1987) that are directly related to the exchange of products, like production, distribution, storage, technology, and payment (Håkansson, 1982). Thus, we define the notion of network adaption as the modifications of a firm's production processes, its technology, and organization so that it “fits” within the network and establishes an insider position within it. This type of adaptation strengthens the network as such, but it is also a critical activity of the process where the firm goes from outsidership to insidership. In addition, adaptation also refers to changes in skills, staff, competence, organization, and strategy, which are less connected to the business with customers and suppliers (e.g., Durand et al., 2016; Schmidt, Tyler, & Brennan, 2007).

In the next section, we pinpoint the impact of improvisation, opportunity novelty, and network adaptation on the firm’s internationalization process by discussing and developing hypotheses on the likely effects of improvisation of the firm’s need for adaptation to the foreign network being entered; the effect of improvisation on the novelty of opportunities acted upon; and the effect of opportunity novelty on the degree of network adaptation.

3 | HYPOTHESIS DEVELOPMENT

3.1 | Improvisation and network adaptation

Stable and known networks make a good platform for plans and joint planning between firms because they are predictable. In contrast,
when a firm enters a foreign market’s network, it is ignorant of the network’s structure and characteristics and thus faces unknown and uncertain situations where unexpected problems and opportunities can arise. This, in turn, makes it difficult to predict and to plan responses, even though the behaviors of the firms in the network require them (Child & Hsieh, 2014). This is particularly the case when the responses require improvisation, such as timely adaptation to what happens during the market entry process. Since planning dictates a specific way of action, based on path-dependent experiential knowledge, it can hinder the adaptability that is likely required when firms enter a new market (Bird, 1988). In contrast, improvisation makes it possible to be innovative and creative when facing unknown problems and uncertain opportunities (Crossan, 1998). For example, when a firm deliberately aims to enter a new country market, approaching the potential customers of the new market with the same plans and assumptions as customers in the past, the effort is likely to be inefficient and will likely not match the needs of customers in this unfamiliar market. In contrast, when the firm thinks “outside the box” and decides in the moment to solve unforeseen issues in an improvisational manner, it is likely to adapt faster to the unfamiliar market. An approach characterized by improvisation thus has a great deal in common with Mintzberg’s (1973) model of the strategy process, where strategies, ideas, and opportunities emerge and disappear, where plans are irrelevant or unrealistic.

When searching for new targets and new paths to these targets, it is likely that the firm ends up in situations in the network that are so new that old ways of treating customers and suppliers are found to be obsolete. These situations thus call for the adaptation of existing routines and processes, or the creation of entirely new ones (Hollensen & Møller, 2018). Adaptation, in other words, is a way of solving problems or exploiting opportunities. Notably, making such adaptations is harder if a firm has developed routines and plans that need to change. In contrast, we argue that firms that are flexible and used to improvising will find it easier to make adaptations, since improvisation combines occurrences of problems and solutions in an iterative, rather than sequential, process. However, as improvisation is context-dependent, to a large extent, it may lead in directions for which the organization is not designed. Improvisation is context-specific and depends, to a large extent, on the particular network of relationships that a firm has with its customers and suppliers. The relationships a firm has within the network are likely to influence its ability to improvise and the ways in which it can do so. This, in turn, has an impact on its ability to adapt to the new network. That said, improvisation is an act and see strategy, giving firms the flexibility to adapt their production and technology, as well as their organizational structure, to the network where they are trying to gain a position. We thus posit:

_**Hypothesis 1:** When firms enter new foreign market networks, improvisation has a positive effect on the firms’ adaptation to specific customers and suppliers in the networks._

### 3.2 Improvisation and opportunity novelty

Each opportunity is a unique combination of attributes, characteristics, and timing demands that can be hard to fully codify and categorize (Bingham, Eisenhardt, & Furr, 2007). Consequently, plans and possible scenarios, no matter how detailed, always need real-time adjustments to match with an opportunity. Novel opportunities will cause the most disruptions in relation to planning, but improvisation fosters innovation and creativity and is therefore a suitable strategy for finding and acting upon novel opportunities (Bingham et al., 2007; Eisenhardt & Tabrizi, 1995).

Entering a new market implies facing new conditions that the firm must handle. Unforeseen events, in the form of problems that need to be solved or new opportunities that can be acted upon, will appear on the scene. It is however not enough to sense potential opportunities; the firm must act to make a change (Crossan et al., 1996). To let planning precede action suits stable conditions but should be downplayed in more volatile environments since previously used ways of acting are less likely to be applicable (e.g., Gruber, 2007). A firm that adheres to a planning approach may thus favor opportunities that are similar to its present operations and therefore can be developed in familiar, planned ways. In contrast, a firm that allows for improvisation may be more open to developing novel opportunities.

Furthermore, SMEs may have restricted resources but their flexibility can give them a competitive advantage in relation to larger firms. They are thus more likely to be novelty driven, with a greater need to react quickly to opportunities, as their window of opportunity might be limited. Since planning requires analysis and calculation, which takes time to perform in a proper way, the time lost and the costs involved might be unbearable for SMEs. For example, an SME might not have the opportunity to expand their business network and meet potential customers at international conferences. In contrast, larger companies can participate in conferences, hold meetings with potential customers, and expand their business network by travelling abroad and targeting specific customer profiles and market segments as a result of their market research. In that sense, SMEs rely on taking advantage the moment an opportunity arises because plans cost more. Although improvisation may seem irrational (Chandra, Styles, & Wilkinson, 2012; Dimitratos, Petrou, Plakoyiannaki, & Johnson, 2011), it implies flexible, fast, and cheap problem solving, which has a positive effect on the development of a novel opportunity.

We contend that the novelty of the first opportunity acted upon in the foreign market’s network has two key components. The first refers to what the opportunity is, which for SMEs entering a foreign market is the first sale to the first customer in this network. In finding this customer, the firm may choose to repeat existing strategies to find exactly the type of customer that it is familiar with. Alternatively, it can find a customer that does not resemble the past, either by coincidence or because of improvisation. But the novelty of this opportunity may also refer to the context, that is, to what degree the market represents something new for the firm. The network may, for instance, be more or less familiar to the firm. What makes
improvisation specific is that the improvising firm does not wait for the outcome of the improvisation; improvisation allows for fast and flexible actions. It implies learning by processing information, acting on this new knowledge, and then evaluating the result (Chelariu, Johnston, & Young, 2002; Fyol & Lyles, 1985). It thus represents a behavior that may lead to a willingness and a capability to act on a novel opportunity in the foreign market’s network (Eisenhardt & Tabrizi, 1995; Moorman & Miner, 1998). This leads to our next hypothesis:

**Hypothesis 2:** When firms enter new foreign market networks, improvisation has a positive effect on the novelty of the opportunities acted upon.

### 3.3 | Opportunity novelty and network adaptation

Notably, internationalization not only involves identification of an opportunity in the foreign market network, but also a continuous exploitation of opportunities (Hånell & Ghauri, 2016; Schweizer et al., 2010). As internationalization tends to be a path-dependent process, the first opportunity is not only important. As it represents the first step in the further penetration of the market that is necessary for the firm to strengthen its network position, its characteristics will have an impact on the subsequent steps in the process. For example, a resource-scarce SME has no room for mistakes when it comes to allocating valuable resources. In this sense, gaining access to an unfamiliar market, in comparison with the firm’s past experiences, provides the confidence needed to make necessary changes to adapt according to the new circumstances, which will give the ability to distinguish similar opportunities in the future.

It is only when an opportunity has been acted upon that its true nature and its consequences appear. A more novel opportunity deviates from the opportunities that the firm has previously developed to a greater extent and therefore carries larger risks. It is difficult to define the scope in advance and in the process of developing a novel opportunity, unforeseen events will occur that may call for adaptation, as “outcomes to novelty are by definition indeterminate” (Dew, Read, Sarasvathy, & Wiltbank, 2008:52). Furthermore, acting on a novel opportunity in a new market implies developing relationships with customers and suppliers whose needs may be different compared to the firm’s previous experience. The more the network in the foreign market differs from the network’s previously encountered and the firm’s existing strategies, routines, and knowledge, the more likely the previous ways of acting and interacting have to be re-considered and replaced by network-specific adaptations. Thus, firms developing novel opportunities in new markets are likely to adapt to the network in order to reach a strong network insidership position (Holm, Johanson, & Kao, 2015).

We expect that the development of opportunities generates experiences that the firm subsequently can transform into routines, which it can then deploy in the future. This experience can thereby be re-used. Over time, actions designed to develop opportunities turn into routines and form a cornerstone in the firm’s organizational structure, which finds expression in how the firm produces and what technologies it applies to be able to exploit opportunities. The routines further reflect how the firm communicates internally and how it makes decisions. In this way, the firm becomes more skillful in identifying and acting upon opportunities — especially opportunities that are similar to the ones that it has previously developed.

Because opportunity development takes place in a market network, as long as they resemble each other, the routines and organizational structures emerge alongside the opportunities, in a symbiotic fashion. However, when an opportunity is novel, it is in some respects unique compared to previous opportunities. Thus, both the routines and the structure designed for existing networks are challenged, as they were developed to match other types of opportunities. Consequently, to be able to act upon the novel opportunity identified, the firm needs to adapt. The more novel the opportunity, the more adaptation is likely to be required. This leads to our third and final hypothesis:

**Hypothesis 3:** When firms enter new foreign market networks, the novelty of the opportunities acted upon has a positive effect on the firms’ adaptation to specific customers and suppliers in the networks.

### 4 | METHOD

#### 4.1 | Sample

Research on the internationalization of firms has mainly focused on large businesses (Graves & Thomas, 2008) with vast resources at hand. However, studies report differences in behavior between large organizations and small firms (Hulbert, Gilmore, & Carson, 2013). SMEs face more risks in the international context because of their more limited resources, experiences, and credibility, which leaves them relying more on opportunities arising from contacts and international relationships (Lu & Beamish, 2001). Thus, we find SMEs to be an appropriate population for studying opportunity development.

Our sampling frame was based on four criteria, theory-based sampling process: firm size, industry, location, and a recent international opportunity that has been developed. First, the firm size had to fall within the SME limits defined by the European Union (number of employees 10–250). Second, the industry that the firms operate in should be categorized as manufacturing because of the widely-established distinction within an international context between manufacturing and service firms (Buckley & Ghauri, 1993). Selecting only manufacturing firms meant that the effect of industry type on international opportunity identification and development could be reduced (Wincent, Thorgren, & Anokhin, 2014). Third, the firms had to be located in a geographic proximity but in a variety of locations; the firms selected for this sample are based in five different Swedish counties (Jämtland, Gävleborg, Västernorrland, Västmanland, and Halland). The geographic criterion was selected to ensure easy access.
to the selected firms, which enabled easy access if more than one visit was needed to obtain all necessary information. Our last criterion ensured that recalling biases for retrospective data were reduced. As we only included international opportunities from the last 7 years, we only visited firms that realized international opportunities during the last 7 years.

4.2 | Data collection

To enable high control of the research quality throughout the data collection process, the sample identification process followed three distinct stages. The first stage involved obtaining a list of companies from the central statistical organization of Sweden (Statistics Sweden) that met the first three sampling criteria: firm size, industry, and location. Next, we carried out a telephone interview lasting about 15 min with all firms, checking our criteria to make sure that the information on the list was still valid. We excluded firms that did not meet all the criteria. At this stage, the list of firms fulfilling all of the sampling criteria consisted of 214 firms, and 75% agreed to take part in the on-site interview. Then, a pilot study encompassing 10 firms was carried out, prior to commencing the main study. The pilot study interviews were recorded and the discussions, as well as the reactions of some of the respondents, led to some simplifications of specific items (the items relevant for this study are presented below).

The main study took place in 2014−2015. We conducted the data collection on-site to maximize the overall quality of the data, the response reliability, the response rate, and to reduce impersonality bias (Cobanoglu & Cobanoglu, 2003; Holbrook, Green, & Krosnick, 2003). A key informant approach was applied. We made sure to set up a meeting with a person with sufficient knowledge and an adequate level of involvement regarding the topics under investigation (Kumar, Stern, & Anderson, 1993). This was mostly the firm's CEO (68% of cases) or the sales manager (24% of cases).

We carefully followed the remedies suggested by Podsakoff, MacKenzie, Lee, and Podsakoff (2003) to reduce the risk of systematic biases related to single respondents. First, we tried to reduce the risk that the respondent would answer based on implicit theories by contextually and temporarily disconnecting the variables of our model. The indicators reflecting the constructs were presented to the respondent in three different sections, and a general discussion was held before providing each section. Second, we reduced the risk of socially desirable answers by including reversed scales and diverse formulations of the statements. Third, the on-site data collection enabled the responsible researcher to exclude certain unreliable or problematic answers or cases from the data-analysis.

In total, 160 firms (75%) agreed to participate in the study. Several firms reported more than one international opportunity developed during the last 7 years of their operations, which gave us, then, a sample of 258 new international opportunities. However, 8.8% of the cases had missing values and were excluded from the sample by list-wise deletion, resulting in 237 cases included in the analysis.

4.3 | Measures

All constructs were measured by closed, structured statements related to the 7-point LIKERT scale, where 1 equals completely disagree and 7 equals completely agree.

4.3.1 | Improvisation

We generated the items measuring the improvisational behavior of the firms by drawing on previous studies (Hmieleski & Corbett, 2008; Vera & Crossan, 2005) and adapting the items to the level of analysis of the international opportunity. The three items measuring improvisation were: (a) “We did a lot of thinking on our feet” (Vera & Crossan, 2005), (b) “In order to find this customer, we improvised solutions to problems” (Hmieleski & Corbett, 2008); and in order to capture how they did things in new ways, we added, (c) “In order to find this customer, we had to go out of the box.” The alpha values for these three items reached 0.812 and the lowest factor loading was 0.780.

4.3.2 | Network adaptation

We generated items measuring the extent of network adaptation for the respective opportunity in a new market and pretested them with marketing executives (n = 10) in our pilot study. The resulting items correspond to our theoretical definition where we contend that the network adaptation concept consists of three elements: (a) modifications of production, (b) technology to fit the network in the foreign market, and (c) adaptations of the organizational structure in order to create a fit between the firm and the network. The items were: “We had to modify our organization in order to fit into the changes of our customers and suppliers in the X market regarding: (a) the production process, (b) the technology, and (c) the organization.” The alpha values for the three items reached 0.796, exceeding the acceptable level (Nunnally, 1978). The lowest factor loading was 0.745, which ensured the construct reliability of the measures.

4.3.3 | Opportunity novelty

We measured the opportunity acted upon in terms of novelty by including the two key components of the definition of opportunity novelty: being both pioneering and unique. The items reflect the novelty of identifying the specific customer as well as the unique and pioneering experience of entering the specific market: (a) “Finding this customer could be characterized as unique for us and (b) Entering into the X market can be characterized as unique (or pioneering).” The alpha values for the two items reached 0.784 and the factor loading was 0.907.

The overall construct validity of the measures can be assessed by the figures in Table 1, which presents the results of a confirmatory factor analysis. The average variance extracted for the network
adaptations measure (0.717), improvisation measure (0.694), and novelty measure (0.820), all exceeded the cut-off level of 0.5 (Fornell & Larcker, 1981). We used multiple methods to test our proposed hypotheses. The direct effects, as well as the whole model structure, were examined using a SEM-based approach. In addition, we used Preacher and Hayes’s (2008) bootstrapping method to examine the statistical significance as well as the direct and indirect effects of each of the two hypothesized mediators (Improvisation and Business Network Commitment). We used Preacher and Hayes’s bootstrapping algorithm to produce 10,000 bootstrap resamples with a 95% bias-corrected confidence interval (MacKinnon, Lockwood, & Williams, 2004; Preacher & Hayes, 2008). We chose this technique to test for the significance of mediation effect because of the study’s sample size. Bootstrapping is not just a method that relies on the assumption of a normal sampling distribution, which is only relevant for very large samples. It is also a robust, computer-intensive analysis technique that can be applied to non-normal data.

### 5 | RESULTS

We used multiple methods to test our proposed hypotheses. The direct effects as well as the whole model structure were examined using a SEM-based approach (SEM) with LISREL software. The results are summarized in Tables 1 and 2. Relative fit indices (NFI) and non-centrality-based indices (RMSEA, CFI) indicate the overall goodness of fit of the model (James, Mulaik, & Brett, 1982). The model provided a good fit for the data ($\chi^2 = 17.04$, $df = 17$, $p = .45164$, RMSEA = 0.003, CFI = 1, GFI = 0.96, NFI = 0.98, AGFI = 0.91) and confirms all the hypotheses. Specifically, with regard to H1, improvisation positively relates to network adaptation (0.26, $t$ value = 3.65, $p < .01$). Concerning H2, improvisation positively relates to novelty (0.33, $t$ value = 2.38, $p < .01$). Finally, the analysis also confirmed hypothesis H3 (0.29, $t$ value = 3.21, $p < .01$). All the tests conducted for goodness of fit provided high values, which indicates an overall fit of the model to the empirical data with RMSEA = 0.003 < 0.06 indicating overall fit.

We did not find any modification indices, so no change was expected for the model and its indicators. Comparing the hypothesized model (Figure 1) with the resulting model (Figure 2), we found that no causal relationship had been omitted in the analytical process.

![Figure 1](image-url)
We thereafter used Preacher and Hayes’ (2008) bootstrapping method to examine the statistical significance as well as the direct and indirect effects of each of the two hypothesized mediators (Improvisation and Business Network Commitment).

We examined the indirect effect of the Improvisation mediator using Preacher and Hayes’ (2008) PROCESS macro in SPSS 24. Results were obtained using 10,000 bootstrap resamples and a 95% bias corrects confidence interval. Novelty explained, in a statistically significant way ($p < .05$), the relationship between improvisation and network adaptation and the confidence interval CI did not pass 0 ($B = .00629; CI = 0,0255 to 0,1,096$). These results thus confirmed the mediating role of opportunity novelty and explained 30.5% of the total effect of improvisation on network adaptation (Table 3).

**FIGURE 2** Structural model

**TABLE 3** Mediation test results

<table>
<thead>
<tr>
<th>Hypothesized mediation paths</th>
<th>Effect</th>
<th>SE</th>
<th>LLCI</th>
<th>UCLI</th>
<th>PM</th>
<th>p value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imp $\rightarrow$ Nov $\rightarrow$ Net</td>
<td>0.2062</td>
<td>0.0543</td>
<td>0.0992</td>
<td>0.3132</td>
<td>30.50%</td>
<td>.0002</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Total</td>
<td>0.1433</td>
<td>0.0554</td>
<td>0.0342</td>
<td>0.2525</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>0.0629</td>
<td>0.0219</td>
<td>0.0255</td>
<td>0.1096</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Results based on two tailed tests. Effects reported in unstandardized form. Bootstrapped confidence intervals using Preacher and Hayes’s (2008) PROCESS Model 4 and 10,000 resamples. LLCI, lower level confidence interval; ULCI, upper level confidence interval; PM, percentage of mediation effect; Imp., improvisation; Nov, opportunity novelty; Net, network adaptations.

6 | DISCUSSION AND CONCLUSIONS

In the internationalization literature, the focus is shifting from country markets to networks and from liabilities of foreignness to liabilities of network outsidership. We have seen a growing number of studies indicating the benefits of being a network insider (e.g., Almodovar & Rugman, 2015; Chen, 2017) as well as studies seeking to understand the process that the firm undergoes as it seeks to establish a network insider position (e.g., Schweizer et al., 2010; Yamin & Kurt, 2018). Up to this point, however, we have had a very limited understanding of the factors forcing the firm to adapt its behavior to the network entered. In our study, though, we found that a high degree of novelty of opportunities results in a high degree of adaptation to the new network. The analysis found the same effect for improvisation. Thus, firms acting on novel opportunities and firms following an improvisational logic are likely to adapt to the foreign network entered, because their organization, routines, structure, and competence have developed to fit the “novel,” or what is “non-existing.”

The point of departure of this paper is that, for the most part, the literature has been addressing adaptation by firms facing a liability of foreignness. We have argued that these studies leave us uninformed about the adaptations made to foreign business networks, a key aspect of the foreign market entry process (Schweizer et al., 2010). Thus, critical adaptation takes place in relation to culture and institutions, while the revised Uppsala school suggests that the firm needs to adapt to the customers and suppliers in the foreign market network. Addressing this gap, we show that higher degrees of improvisation are related to higher degrees of network adaptation and that the nature of the opportunities acted upon is also a central determinant of the need for adaptation to the foreign network. Furthermore, we found that the degree of novelty of the opportunity developed is not only contingent on the activities that the firm performs but also on
how they are performed. These findings are a result of combining a network view with improvisation theory, although they do, in turn, give rise to new research questions and gaps.

We contribute to the internationalization literature on improvisation by showing empirically the relationships between improvisation, novel opportunities, and network adaptation (Nemkova et al., 2012). Notably, however, this study deals with the first step into a foreign market, which implies that the firm typically possesses little knowledge about the market's network. This, in turn, makes it likely that the firm perceives uncertainty, which makes it difficult to plan and predict what will happen in the market, both in general and in relation to its network of customers and suppliers. In line with these ideas, the primary source of uncertainty has its roots in the exchange with customers and suppliers rather than as a consequence of cultural or institutional distance.

We maintain that improvisation in the internationalization process can be a result of both deliberate and non-deliberate activities to find new targets, or new paths for reaching targets that deviate from what the firm is familiar with from other markets' networks. One potential antecedent to improvisation, thus, could be that experiential knowledge developed from previous experience of entering other markets has made these firms conclude that in entering a new country market, improvisation is a more fruitful behavior than formal and systematic planning, with the effect that they deliberately begin to improvise. Thus, for the future, we encourage scholars to analyze the link between knowledge gained in other markets and improvisation in the new market.

This study also contributes to the international opportunity literature (e.g., Mainela et al., 2014) by developing knowledge on opportunity novelty, arguably an important dimension of studies on international opportunity. Indirectly, we thus contend that the nature of opportunities matters, but there are several opportunity dimensions and we do not know if the novelty dimension has the highest explanatory power. Based on this finding, we encourage internationalization scholars to more systematically analyze the different features of opportunities.

We identify improvisation as a likely antecedent of opportunity novelty. In contrast, adhering to plans may lead to the emergence of robust routines and strong path-dependencies that hinder identification and exploitation of novel opportunities. A standardized entry strategy would prefer to lead to opportunities that resemble those the firm has identified and acted upon in the past. As such, these opportunities would be less novel, and easier to integrate into ongoing operations. This may result in a vicious circle that in the long run may lead to stagnation and decline, as experience heterogeneity is crucial for creativity (Simonton, 1999) and essential for learning and knowledge development. In the field of international entrepreneurship, empirical studies examining aspects of learning are largely missing (Schwen & Kabst, 2009). Further studies relating improvisation to learning would thus have the potential to make important contributions to our understanding of the entrepreneurial process (Huber, 1991; Wang & Chugh, 2014).

So far, the literature has argued that differences in culture and institutions drive the firm's adaptations to the foreign market (Durand et al., 2016; Hollensen & Møller, 2018; Sousa & Tan, 2015). We argue, however, that firm behavior, such as improvisation, also influences the resulting degree of adaptation and that also for higher degrees of novelty, there is an increased need for adaptation in the network entry process. The results confirm our expectations that in entering a new market, improvisation and opportunity novelty cause the firm to pursue an adaptation strategy. However, it is important to keep in mind that entry into a foreign market starts from a situation where the firm is an outsider; it does not have a network and needs to gain a position in a new and opaque network. We encourage scholars to investigate the relationship between opportunity novelty and network adaptation in situations where a firm has already established an insider position in the market.

There is a vast literature on standardization versus adaptation strategies and their effects on performance (Albaum & Tse, 2001; Westjohn & Magnusson, 2017). However, when applying a business network perspective, the concept of adaptation is given a slightly different meaning and can be related to other effects on performance. It is, for instance, likely that a network adaptation strategy will promote the development of strong business relationships with specific customers. Furthermore, such a strategy may therefore discourage firms from entering markets with a large number of customers and where economics of scale regarding distribution or communication is the key to success. The relationship between network adaptation and performance thus seems to be a promising and important research area, but we need to distinguish between different performance indicators, such as for a specific opportunity, revenues, costs, or the return on assets.

7 | LIMITATIONS AND FUTURE RESEARCH

We have only studied Swedish SMEs and, thus, managers acting under the influence of the Swedish culture and Swedish institutions. It is possible that firms originating in other contexts view improvisation differently and apply it in other manners as well as under other circumstances. Furthermore, this study addresses the antecedents and consequences of novel opportunities based on retrospective statements. Although common as a method for practical reasons, the results should be tested on other samples and preferably in a longitudinal study. Such a study could further benefit from including in addition, opportunities identified but rejected in various stages of the exploitation process. During the step from identification to action, and in the longer term to sustainable exploitation, it is likely that some opportunities are rejected. Future studies can investigate the reverse relationship between opportunity novelty and the improvisation possibly required to make organizational adjustments after the accumulation of opportunity novelties.

8 | MANAGERIAL IMPLICATIONS

We can draw several managerial implications from this study. Novelty can be seen as a proxy for the wealth-creating potential of opportunities. Re-use of familiar technology would reduce experimentation and variability and make it more difficult to develop something very valuable (Ahuja & Lampert, 2001; Levinthal & March, 1993). In the same way as jazz musicians started improvising in the 1950s, and thus
founded a new musical landscape, so too are firms able to improvise and find new, unknown and, to some extent, unexpected opportunities. As these musicians were skillful and experienced when they began to experiment with new forms, firms also need to think in the same way. A firm that lacks the ability to improvise has to focus on exploitation rather than exploration (Hitt, Ireland, Camp, & Sexton, 2001; March, 1991), which may lead to stagnation in the long run. Managers that are risk averse and therefore refrain from improvisation thus risk foreseeing valuable novel opportunities. At the same time, a firm that welcomes dynamism and change needs to develop routines and an organizational structure, which is open for improvisation and novelty; otherwise, the development of that novel opportunity will be either impossible or costly.

Developing improvisation capabilities seems to be a way to increase the novelty dimension of opportunities. Furthermore, improvisation favors creativity (Crossan, 1998). Some work conditions require heightened degrees of creativity for problem solving and opportunity recognition (Shane & Nicolaou, 2015). Since previous studies have found that training programs can improve improvisational capacity (Vera & Crossan, 2005), managers facing a need for change, creativity, and innovation should consider developing their improvisational capabilities by training relevant staff. Firms can make use of trained improvisation behavior as a strategic tool when formulating their future goals. They can follow an exploratory behavior approach and leave room for improvisation and deviation from plans when aiming to introduce innovative products or new knowledge or they can stick to their plans when aiming to exploit opportunities with higher efficiencies and economies of scale.

Novel opportunity is an important prerequisite for development and renewal. Besides having this improvisation capability, however, the firm needs to have a structure characterized by a high degree of autonomy in managerial decision-making. This is necessary because those who identify opportunities must have room to act upon the opportunity identified in the market. Acting upon a novel opportunity is the first step in the development process. Especially when operating in dynamic markets, time is important; instant reaction and action in response to a novel opportunity make it more likely that the process will be successful. Thus, the firm’s management needs to be aware of the importance of building an organization with skillful employees who have the autonomy to develop novel opportunities.

Finally, to successfully enter new markets, it is crucial to learn about and to adapt to the business network in the foreign market. This is not to say that knowledge about culture and institutions is not relevant, just that the essential knowledge about them will be gained by interacting with customers and suppliers in the network. In addition, the ability of a firm to adapt its business relationships with its customers and suppliers has a direct impact on its performance in the foreign market network.

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