European Business Review

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Received 13 January 2014
Revised 21 October 2014
Accepted 21 October 2014

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Abstract

Purpose – The purpose of the study is to examine the political sources of uncertainty in the internationalization process of small- and medium-sized enterprises (SMEs).

Design/methodology/approach – The authors theoretically derived a research model embracing three hypotheses. These hypotheses are tested on a sample of 203 on-site interviewed SMEs. Regression analysis is used to test two individual hypotheses and one interaction effect.

Findings – The regression analysis reveals that political knowledge possessed by the firm reduces uncertainty in the internationalization process. Political turbulence is shown to increase uncertainty in the internationalization. The interaction shows that political turbulence obliterates the uncertainty reducing effect by political knowledge.

Research limitations/implications – The authors identifies two main political sources of uncertainty in the internationalization process of SMEs. For managers and business researchers, it is shown that experiential knowledge is useful under stable conditions. When turbulence increases, however, firms need to develop alternative strategies for uncertainty management.

Originality/value – This study is the first to test the uncertainty reducing effects of experiential knowledge in turbulent environments. Thus, by running the interaction between political knowledge and political turbulence, the authors shed new light on the usefulness of previous experiences in the internationalization process.

Keywords Uncertainty, SME, Emerging markets, Internationalization process, Political knowledge, Political turbulence

Paper type Research paper

Introduction

This paper sets out to progress knowledge related to uncertainty management in the internationalization process of small and medium-sized enterprises (SMEs). We seek to examine the relationship between the degree of experiential political knowledge, political turbulence and the uncertainty perceived by SMEs in their internationalization

The authors would like to express their gratitude to Handelsbankens forskningsfonder for funding the data collection.

European Business Review
Vol. 27 No. 3, 2015
pp. 234-252
© Emerald Group Publishing Limited
0955-534X
DOI 10.1108/EBR-01-2014-0004

process into emerging country markets. During the past decades, we have witnessed a dramatic change in the world economy, where emerging markets has come to play a more central role for business activities. As these markets opened up, they have also been the scene for political reforms and changes in institutions (Bengtson *et al.*, 2013; Santangelo and Meyer, 2011; Khanna *et al.*, 2010). Thus, in the internationalization process, firms are entering more complex, turbulent and underdeveloped institutional environments than before (Santangelo and Meyer, 2011; Khanna *et al.*, 2010; Meyer, 2001). As a consequence, a main issue for the internationalizing firm concerns uncertainty management where the firm either needs to reduce uncertainties concerning the market environment or it needs to develop abilities of riding with uncertainty (Hilmersson and Jansson, 2012).

In the extant literature, the importance of perceived uncertainty is well-documented as most internationalization models include an uncertainty aspect (Liesch *et al.*, 2011). The underlying logic is that when firms enter foreign markets a liability of foreignness will be faced (Kostova and Zaheer, 1999; Zaheer, 1995; Hymer, 1960). Research has shown that, in emerging markets, firms experience larger political uncertainty, in terms of instability and change in the formal and informal institutional environment, than in developed countries (Bengtson *et al.*, 2013; Johanson, 2002; Meyer, 2001). Thus, the institutional environment can be described as an external source of uncertainty associated with investments in the host country (Lópes-Duarte and Vidal-Suárez, 2010; Delios and Henisz, 2003; Henisz and Delios, 2002; Xu and Shenkar, 2002).

Traditional internationalization research has shown that lack of knowledge is a main source of uncertainty with regard to decisions for committing resources to the foreign environment (Hilmersson and Jansson, 2012; Figueira-de-Lemos *et al.*, 2001). Thus, an essential element of the liability of foreignness is the gap between the knowledge that the firm possesses and the knowledge that is needed to accomplish the foreign venture (Petersen *et al.*, 2008). Knowledge gaps might hinder the firm from realizing the entry process and reaching its potential in the foreign market. Consequently, it has been underlined that decisions based on experiences are more accurate and realistic (Barkema and Vermeulen, 1998; Delios and Beamish, 1999; Penrose, 1959) and are positively associated with a firm's ability to recognize opportunities for further international expansion (Hohenthal *et al.*, 2003).

In more recent research, Santangelo and Meyer (2011) argued that the degree of institutional turbulence is a main factor affecting the internationalization process of firms. Similar ideas were forwarded by Johanson (2002) and Hadjikhani and Johanson (1996) after examining internationalization processes into turbulent environments. Their findings revealed that, when the environment is turbulent, then the firms' experiences are less relevant for predicting firm behavior. Thus, on the one hand, researchers have shown that uncertainty is the result of knowledge gaps of the firm. This means that, by generating experiential knowledge, the firm can close its knowledge gaps and thereby minimize the uncertainty perceived. On the other hand, researchers have shown that institutional environments can be turbulent and undergo major changes. In such situations, previous experiences can be assumed to be less relevant as they represent knowledge about the past, not about the future institutional environment. To this point, these two streams of research have been developed in parallel. A problematic shortcoming in the literature is that no studies have examined how the two determinants of uncertainty: knowledge gaps and turbulence and interacts. In this study, we aim to address these shortcomings by examining the research question: what is the interplay among the constructs political knowledge, political turbulence and uncertainty in the internationalization process of SMEs?

The paper is outlined as follows. First, we review the literature on the concepts of uncertainty, knowledge and turbulence ending with the hypotheses. Thereafter, we account for the method for data collection, our analysis and the results. This section is followed by a discussion of the results and the conclusions of the research. The paper ends with some reflections on the managerial implications from our findings as well as the limitations of the study.

Theoretical framework and hypotheses

Uncertainty in the internationalization process

Uncertainty has, for a long time, been a central concept within internationalization process research (Liesch *et al.*, 2011). In line with the Uppsala model of internationalization (Johanson and Vahlne, 1977), market uncertainty, in this paper, is defined as the decision-makers perceived lack of ability to estimate and predict the present, and future, market and market-influencing factors. Further, Figueira-de-Lemos *et al.* (2001) pinpoint uncertainty as lack of knowledge within a firm. This is derived from the notion of liability of foreignness, which is the disadvantage entrant firms face in comparison to local firms in the host market (Zaheer, 1995; Hymer, 1960). These disadvantages, expressed, for example, in different culture, political environment and language, cause a psychic distance preventing the flow of information between the firm and the foreign market (Johanson and Wiedersheim-Paul, 1975).

Internationalizing firms undisputable faces various kinds of uncertainty in foreign markets. For example, about the host market, regarding cultural differences, economic and political risks, customer demand regarding technology change, changes in customer needs and the behavior of potential opportunistic partners (Sanchez-Peinado and Pla-Barber, 2006). Reviewing risk and uncertainty, Liesch *et al.* (2011) argue that more research is needed as these concepts have been treated simplistically as well as have been used interchangeably in previous research. Figueira-de-Lemos *et al.* (2001) support a division between the concepts, based on the notion that risk relates to explicit knowledge, while uncertainty is related to implicit knowledge. Thus, as pinpointed by Milliken (1987) and Huber *et al.* (1975), uncertainty should then be viewed through the eyes of the beholder and how he or she perceives it.

Viewing uncertainty as lack of knowledge leads to the assumption that increased knowledge about international business operations through learning by doing (Penrose, 1959) will result in experiential knowledge, which decreases the perceived uncertainty in a market (Johanson and Vahlne, 1977). However, uncertainty can never be totally eliminated, as there are always unpredictable elements in the future. Figueira-de-Lemos *et al.* (2001) thereby divide uncertainty into pure and contingent uncertainty. The former represents a type of uncertainty that is unchangeable because it always, due to bounded rationality (Cyert and March, 1963), regards the future as uncertain, while the latter can be reduced through learning. Thus, the contingent uncertainty can be reduced through accumulating knowledge and experience of international operations, which is in line with the Uppsala model (Johanson and Vahlne, 1977) and pinpoints knowledge as a key antecedent of uncertainty.

Two kinds of contingent uncertainty that can be reduced through learning are then the liability of foreignness (Hymer, 1960), and the liability of outsidership of not being an insider with an established position in a foreign network (Johanson and Vahlne, 2009). The former entails, for example, political environment (Johanson and Wiedersheim-Paul, 1975), which could cause turbulence in markets. Turbulence is characterized by frequent, and in some cases unexpected, changes in the market which makes it hard to predict (Johanson, 2002). According to Johanson and Vahlne (1977), such unstable conditions could result in that experiences do not result in decreased uncertainty. Thus, turbulence could be seen as another main source of further uncertainty of the internationalizing firm.

Political knowledge and uncertainty

Internationalization has been described as an incremental process driven by the interplay between learning about international business operations and commitment to international markets (Johanson and Vahlne, 2003). We define political knowledge as the firms' experiential knowledge about the political, governmental and legislative system in the foreign market. From previous research, we know that experiential knowledge is an essential driver of the international expansion of firms (Forsgren, 2002). Knowledge gaps of the entering firm, caused, for example, by liability of foreignness (Hymer, 1960) are likely to result in a perception of uncertainty (Petersen *et al.*, 2008). The level of knowledge held by the firm is thereby assumed to impact how the level of risk accepted by the internationalizing firm (Figuiera-de-Lemos *et al.*, 2001). Firms that lack knowledge about foreign markets could even overestimate risks (Nakos and Brouthers, 2002). Increasing the knowledge about international business operations will then decrease the perceived uncertainty by the firm (Johanson and Vahlne, 1977). Especially experiential knowledge, which is learning by doing (Penrose, 1959), is considered essential for the internationalizing firm (Forsgren, 2002). Such knowledge is foremost acquired in the interaction with various market actors (Chetty and Eriksson, 2002; Hadley and Wilson, 2003; Johanson and Vahlne, 2006) and the information exchange within the network then spurs the further internationalization of the firms (Chetty and Agndal, 2007; Ellis, 2000).

Knowledge acquired through cross-border operations has been identified as being either general or market-specific knowledge. The general internationalization knowledge is the accumulation of the firms' knowledge on how to do business in foreign markets, and it is regarded applicable across country markets (Eriksson *et al.*, 1997). This assumption, however, has been challenged by research on emerging markets, where former knowledge (from dissimilar markets) have shown to be less valuable when entering turbulent business networks (Salmi, 2000; Sandberg, 2013). In comparison, market-specific knowledge is specific for certain markets and consists of two parts: business network knowledge and institutional knowledge (Eriksson *et al.*, 1997). The former concerns knowledge about the business network in the market, including suppliers, customers and competitors, as well as certain market conditions (Blomstermo *et al.*, 2004; Eriksson *et al.*, 1997; Eriksson *et al.*, 2000). As this knowledge is mainly acquired from the business network, it is an important facilitator to reach an insider network position (Johanson and Vahlne, 2009). The foreign institutional knowledge, on the other hand, concerns the macro environmental institutions in the host country in terms of, for example, local government, laws, culture and norms (Eriksson *et al.*, 1997, 2000; Hilmersson, 2014). Firms with limited institutional knowledge are seen to suffer from a liability of foreignness because they lack important information of the society of the foreign market they entered.

Knowledge about the foreign market can be conceptualized as political competence or the ability of the firm to understand and adapt to the political situation in the host market (Khanna *et al.*, 2010). In a comparative study of MNCs and SMEs in developing and developed markets Hadjikhani and Thilenius (2005) considered political competence crucial for the firm and divided the concept in:

- knowledge about positive and negative political decisions;
- knowledge about government and bureaucratic agencies;
- knowledge about decision and execution processes;
- utility of existing political and business relationships; and
- political ability in terms of mobilizing resources.

More frequently, however, this type of knowledge has been conceptualized as political knowledge. Bengtson *et al.* (2009) defined political knowledge as knowledge about political decisions and the political actors involved in decisions, as well as understanding the needs of the connected actors. Thus, the government as well as the legal and political system in a market sets the boundaries for the political knowledge of firms. Political knowledge is also a critical element that is closely connected to firms' ability to successfully develop a political strategy in its network, and to minimize the degree of uncertainty to sustain, or even strengthen, their position in the business network (Pourmand, 2011). Therefore, the hypothesis on political knowledge and uncertainty is formulated as follows:

H1. Political knowledge will reduce the perceived uncertainty in the internationalization process of SMEs.

Political turbulence and uncertainty

Turbulence can generally be described as a setting of confusion and disorganized change. In a market, turbulence is characterized by frequent and, to some extent, unexpected changes. Thus, we define political turbulence as a situation where political changes are disorganized and cause confusion for the market actors. If turbulence prevails in the market, it is difficult to predict the outcome of the behavior of various actors (Johanson, 2002). Johanson (2002) argued that a main characteristic of market turbulence was when institutional changes are frequent, unpredictable and extended over a longer period of time. Thus, when the prerequisites for business behavior constantly change, we can assume that turbulence exists in the market environment. A main problem shown by Johanson (2002) is that the response of firms to institutional changes amplifies the turbulence created. As firms interpret institutional changes heterogeneously, different responses will take place. Thus, the heterogeneity in firm behavior as a consequence of institutional changes is likely to catalyze the turbulence. This type of market turbulence is expected to be an outcome of frequent institutional changes (Peng and Heath, 1996).

Santangelo and Meyer (2011) showed that apart from turbulence, the level of institutional voids and institutional uncertainty also affects firm behavior in the internationalization process. Institutional voids, on one hand, relates to the lack of formal legal and regulative frameworks supporting business activities. Such a situation is expected to cause turbulence itself. Moreover, when these voids are bridged by the implementation of regulatory frameworks, a turbulent situation is also expected. Institutional uncertainty, in turn, is said to arise from instability in the existing institutions. If these institutions constantly change, then they are hard to predict and an institutional turbulence prevails.

A main driver of institutional changes, and thus determinant of the market turbulence, is political initiatives taken by national and transnational governmental authorities. Such political initiatives can be classified as coercive or supportive. Coercive political impact refers to legislative rules that firms must follow when political actors use their legitimate power to apply restrictions to firms' activities (Hadjikhani and Sharma, 1999). A negative impact of a coercive action may affect how firms do business in terms of effects on their business relationships, market activities, business development, competitive position, etc., which could result in increased perceived uncertainty. Supportive political impact, on the other hand, is when the effect of an initiative on business actors is positive in terms of financial support and subsidies (Hadjikhani and Sharma, 1999), as well as supportive rules and regulations that promote firms.

Governments are then a source of a wide range of political goods that potentially benefit firms in their market exchanges:

- public sector contracts, licenses and approvals;
- industry policies and regulations;
- support in the form of tax concessions, tariffs; and
- other protectionist measures.

In addition, governments are an important source of market-specific information for firms. At the same time, regulations in terms of antitrust regulations (e.g. competition, co-operations and price) economic and industry-specific regulations (e.g. prices, output and licensing) and social regulations (e.g. environmental law, occupational health and safety and labor issues) (Walters, 1993), could impose both positive and negative effects in firms entering a foreign market. Along this line of arguments, Cuervo-Cazurra and Dau (2009) showed that political reforms implemented in emerging markets might benefit domestic firms rather than foreign firms entering these markets. Thus, the power and control that institutional actors have to regulate business activities, affect the stability of the business market. Thereby the political system and the authorities within this system are expected to affect the level of uncertainty among business actors in a market (Pourmand, 2011). Thus, the following hypothesis is formulated on the relationship between political turbulence and uncertainty of internationalizing firms:

H2. Political turbulence will increase the perceived uncertainty in the internationalization process of SMEs.

Political knowledge, political turbulence and uncertainty

Based on the literature review, leading to the hypotheses stated above, political knowledge and political turbulence are two main antecedents or sources of uncertainty in the internationalization processes into emerging markets. It is reasonable to expect that these are interconnected, thereby causing interaction effects on the relationships between the degree of political turbulence and political knowledge on the uncertainty perceived. Along the lines suggested by Hilmersson and Jansson (2012) and Figueira-de-Lemos *et al.* (2001), we expect that the greater the turbulence in the market, the less useful the previous experiences. In a situation where the turbulence is low, it is likely to expect that experience based knowledge will reduce uncertainty. In contrast, a situation where turbulence prevails in the market, we do not expect experiential knowledge to reduce uncertainty for the firm. The logic thereof is that experiential knowledge concerns the past, whereas turbulence is expected to change the future. Under such circumstances, the managers of the firm faces a situation where they are unable to predict the future, this is a situation where managers of the firm do not know and can not know what they need to know (Tsoukas, 1996). This reasoning goes in line with Khanna *et al.* (2010) who argued that firms need to adapt their strategies in changing markets. Strategies that have been successful in stable market environments are not likely to be successful in instable environments. Consequently, we expect that the relationship between political knowledge and uncertainty is affected by the degree of turbulence prevailing in the market. Thus, we postulate our third hypothesis:

H3. Political turbulence will obliterate the uncertainty reducing effect by political knowledge in the internationalization process of SMEs.

Data and analysis

Data collection

Data were collected from 203 manufacturing SMEs in southern Sweden with a total export turnover exceeding €1 million with recent experience of entries into the emerging markets of the Baltic States, Poland, Russia and China. These markets were chosen as it gave access to data regarding recent foreign market entries, as they mainly became accessible during the past two decades. As emerging markets, they have been on top of the agenda for internationalizing firms. First, as a result of the opening up of the formerly planned economies for foreign trade, offering vast business opportunities. In addition, the enlargement of the European Union (EU) in 2004 triggered this development when the Baltic States and Poland become part of the EU (Hilmersson and Sandberg, 2007). This development goes in hand with Cavusgil *et al.* (2002), who predicted these markets (along with India) to be the growth engines of the world for the coming two decades. As a consequence, this study follows Meyer and Skak (2002), as well as Nakos and Brouthers (2002), who suggested that more research should capture the opportunities of studying parallel and on-going entries into emerging markets.

Data for sampling were ordered from Statistics Sweden, covering all exporting SMEs in southern Sweden following the EU definition of SMEs (headcount < 250) and the criteria above, giving a sampling source of 692 firms. A two-step exclusion of firms not belonging to the population (manufacturing SMEs in mature EU-15 markets with experience of entries into emerging markets) was made based on secondary data and personal phone calls, leaving 277 firms as a representative sample.

The data collection was conducted through an on-site survey in 2007-2008 to ensure the quality of the data. It offers three generic advantages:

(1) It minimizes the number of missing values in the dataset because the interviewer was present on site and could check for this before the questionnaire was finished.

(2) The reliability was safeguarded because it was ensured that the right and most knowledgeable person answered the questionnaire. Additionally, the interviewer could control the situation under which the respondent answered to the questions, thus each respondent has paid the questionnaire his/her full attention while answering the questions. It was also ensured that each question was understood in the intended way.

(3) The on-site data collection ensured a strong response rate of 73 per cent to be compared to similar mail-based surveys that seldom reach a response rate above 20 per cent.

Even though these advantages of the on-site data collection ensures a relatively high data quality, there is a risk of interviewer effects. To minimize these effects, the suggestions by Groves *et al.* (2004) were followed and an interviewer guide was developed to standardize all contacts with the respondents before, during and after the interviews.

As a single respondent answered the dependent and independent constructs, the risks of common method biases needed to be considered (Podsakoff *et al.*, 2003). Thereby the questions in the questionnaire were answered to in different groups or sequences. During our visits to the responding firms, each section of questions in the questionnaire was introduced and clarified to the respondent before they were asked to report their answer. Before the next section was handed over, the interviewer asked if there were any questions or clarifications needed. Once the questionnaire was completed, the interviewer was open to feedback from the respondent and went through each section of the questionnaire to ensure that the respondent had interpreted each section of the questionnaire as intended and that all questions had been answered.

An overview of the sample is provided in Table I, reporting the descriptive statistics of the sample.

Measures

Following the argument by e.g. Hair *et al.* (2005), single measures for the constructs were avoided. Instead, multifaceted representations of the underlying constructs were sought. As recommended by Fowler (2002), a seven-point Likert scale was used for both the dependent and the independent variables. The measures are perceptual, which follows the notion of Milliken (1987) and Huber *et al.* (1975), for example, who stated that uncertainty should be viewed through the eyes of the beholder.

The dependent variable is the degree of perceived *uncertainty* in the market entry process. Two indicators reflecting the ability of the entering firm to foresee the consequences of strategic decisions in the local market measure it. The first indicator

Measure	Minimum	Maximum	Mean	SD
Turnover (000)	842	166,200	27,578	26,744,037
Employees	3	510	107.7	94.46
Number of export markets	3	160	32.5	27.61
Export/turnover (%)	10	100	70	0.23
International employees (%)	0	90	16	0.25
International assets (%)	0	90	9	0.18

Table I.
Sample statistics

assesses the extent to which the entering firm perceived a lack of information for decision-making in the host country. The second indicator assesses the extent to which the entering firm could foresee market changes in the host country. These measures were inspired by the perceptual view of uncertainties held by Johanson and Vahlne (1977).

The assessment of the independent variables was inspired by research on experience-based knowledge in the internationalization process of firms (e.g. Blomstermo *et al.*, 2004; Eriksson *et al.*, 1997; Eriksson and Chetty, 2003; Petersen *et al.*, 2008) and on the turbulence in the foreign market (Johanson, 2002). The degree of *political knowledge* was assessed by the experiential knowledge when operating in international markets by the firm:

- experiential knowledge of the government;
- the political system; and
- the legal environment in the market entered.

These measures were inspired by the studies of Blomstermo *et al.* (2004) and Eriksson *et al.* (1997). The degree of perceived *political turbulence* in the market was measured by two indicators representing the extent to which the authorities in the market entered act in a way that causes uncertainty, and the difficulty in predicting the impact from the political system on business activities in the market entered. These measures were inspired by Johanson (2002). To ensure the content validity of the measures, they were tested on a group of four researchers experienced with internationalization research, and the measures were tested as indicators of uncertainty in the foreign market entry process in a round of test interviews with eight of the sampled firms.

For our hypotheses tests, we included three control variables: host market, firm size and firm international experience. First, the host market is important, as previous research (e.g. Khanna *et al.*, 2010) has shown the heterogeneity in institutional environments between emerging markets. Therefore, we can expect that the level of uncertainty vary between China, Russia, Poland and the Baltic States. Second, we controlled for firm size measured by the number of employees. A generally held assumption in the literature is that SMEs suffer from more constrained resources than large firms. Research on the political behavior of firms in the internationalization process has come to similar conclusions (Hadjikhani and Ghauri, 2001). Consequently, we believe that it is important to include a control of firm size. Third, we controlled for the international experience of the firm. Previous research (e.g. Johanson and Vahlne, 1977, 2009) has argued that firms generate experiential knowledge that can be transferred between markets. Consequently, we control for the number of international markets supplied by the firm, as we believe it is likely to have an impact on the uncertainty perceived in the host country.

Descriptive data

Descriptive statistics in terms of means, standard deviations and Pearson correlations are provided in Table II.

Factor extraction

As the correlation matrix revealed a promising ground for a factor analysis, the next step aimed at reducing the variables into a more manageable dataset. In the first stage,

Table II. Descriptive statistics and correlations

Indicators	Mean	Maximum	Minimum	SD	1	2	3	4	5	6	7
We have well-develop knowledge about the government in X (rev)	3.15	7	1	1.56	1						
We have well-develop knowledge about the legal system in X (rev)	3.56	7	1	1.67	0.756**	1					
We have well-develop knowledge about the political system in X (rev)	2.58	7	1	1.54	0.685**	0.630**	1				
In X, the authorities act in a way that cause us great uncertainty	3.8	7	1	1.63	−0.004	0.078	0.028	1			
It is hard to predict the impact of the political system on the market situation in X	4.98	7	1	1.53	0.113	0.153*	0.145*	0.499**	1		
We usually have limited information about developments in X when making decisions	4	7	1	1.57	0.187**	0.308**	0.198**	0.241**	0.226**	1	
In X it is hard to predict market changes	4.92	7	1	1.45	0.111	0.124	0.032	0.318**	0.384**	0.379**	1

Notes: **Correlation is significant at the 0.01 level (two-tailed); *Correlation is significant at the 0.05 level (two-tailed); (rev) Scale has been reversed to enable interaction effects the principal component analysis (Harman, 1967; Hair *et al.*, 2005) was used. This extraction was subjected to a varimax rotation to prevent inter-correlations among the dimensions. The factor purification process served as preparation for acceptable construct validity. Two main criteria were followed to ensure convergent validity: item-to-total correlations and factor loadings. Reliability tests were based on Cronbach's alpha values, and the discriminant validity test was based on each indicator's loading on factors to which it did not belong. In addition, a careful theoretical appraisal of each indicator assisted the assurance of acceptable translation validity. All these principles were used iteratively. Through the factor analysis, three latent constructs were extracted. The reliability test revealed acceptable values. The Kaiser–Meyer–Olkin value was > 0.70 and all communalities were > 0.70. The factors extracted, their statistical values and indicators are revealed in Table III.

As the factor analysis demonstrated sufficient reliability of the three factors, the subsequent analysis is performed at the factor level. For enabling analyses on the factor level, the indicators of each factor were summed to create a factor scale. In the subsequent section, these values are used as input for the regression analysis.

Hypotheses test

As the descriptive data revealed a promising variation as well as correlation among the variables included in the model, we have reason to believe that we will find support for the hypotheses. Before testing the hypotheses, we controlled for multicollinearity in the dataset. For this purpose, we calculated the variance inflation factor (VIF) for the independent variables. If multicollinearity exists, there is a harmful correlation among the independent variables that can lead to a misinterpretation of the relationships in the model and an overestimation of the R^2 value. In this analysis, the VIF values between the main-predictor variables are below 1.1, which is a relatively low and acceptable level (Hair *et al.*, 1998). The interaction variable was residual centered and orthogonalized, as suggested by Little *et al.* (2006), Brambor *et al.* (2006) as well as Lance (1988). This strategy allowed us to minimize the multicollinearity and to use a variable fully representing the interaction effect independent from the effects from the two

Table III.
Factor extraction

Factor and indicators	Cronbach's alpha	factor loading
Political knowledge	0.870	
We have well-develop knowledge about the government in X (rev)		0.909
We have well-develop knowledge about the legal system in X (rev)		0.875
We have well-develop knowledge about the political system in X (rev)		0.869
Political turbulence	0.664	
In X, the authorities act in a way that cause us great uncertainty		0.837
It is hard to predict the impact of the political system on the market situation in X		0.848
Uncertainty in the entry process	0.548	
We usually have limited information about developments in X when making decisions		0.865
In X it is hard to predict market changes		0.725

All crossloadings below 0.370
(rev) Scale has been reversed to enable interaction effects

main-predictor variables. Consequently, there is no reason to believe that there is any major multicollinearity in the regression leading us to misinterpret or overestimate the final model and its predictive ability. The next step in the analysis involves hypotheses test; this was undertaken through a regression analysis where the control and independent variables were stepwise regressed on the uncertainty of the firm. The result of the analysis is presented in Table IV.

In Model 1, we regressed the three control variables on the perceived uncertainty in the internationalization process. The model returned no significant results, which indicates that the size of the firm and the international experience of the firm does not have any effect on the degree of uncertainty. Model 1 also reveals that there is no significant host country effect. Thus, there is no significant difference on the degree of uncertainty from entering China, Russia, the Baltic States or Poland.

Model 2, in turn, includes these three control variables and tests the first hypothesis. For *H1* we postulate that the degree of political knowledge possessed by the firm would reduce the perceived uncertainty. This hypothesis test returned significant results. Thus, from Model 2, we find support for our first hypothesis.

Model 3 included our three controls and the second independent variable testing hypothesis two. It returned with significant results supporting *H2*, which postulated that the greater the turbulence, the greater the uncertainty in the internationalization process. This analysis returned significant results. Thus, from Model 3, we find support for our second hypothesis.

Model 4 includes all variables in the study into the analysis. In this step, we test the interaction between the political knowledge and political turbulence as predictors of uncertainty in the internationalization process. Model 4 did not return with any statistical significance as predicted in the hypothesis. *H3* postulated that host market political turbulence would obliterate the uncertainty reducing effect by political knowledge in the internationalization process of SMEs. It draws on the support for the first hypothesis, where we showed that experiential knowledge about the political system reduces uncertainty. When testing the interaction effect among political turbulence and political knowledge, Model 4 reveals that, if the turbulence increases, the uncertainty reducing effect by experiential knowledge fades. Thus, under turbulent circumstances political knowledge seems less useful.

Discussion

This study has sought to determine the main political sources of uncertainty in the internationalization process of SMEs. From a review of the literature, we identified two major determinants of uncertainty. First, a fairly established stream of research argues that the main source of uncertainty in the internationalization process is the knowledge gaps or lack of experiential knowledge of the firm. However, prior to this study little or no research had explicitly examined the relationship between experiential knowledge and uncertainty in internationalization. Instead, the uncertainty reducing effects of experiential knowledge has remained one of the assumptions in internationalization research that have been mostly taken for granted. As a consequence, this paper responded to a call for further studies on how uncertainty is reduced and the means for uncertainty reduction available to internationalizing firms. Second, a parallel stream of research has indicated that the main sources of uncertainty might not be the knowledge gap; rather, it has been argued that uncertainty in the internationalization process is the

Table IV.
Regression results

Variable	Model 1 β	Model 1 Standard error	Model 2 β	Model 2 Standard error	Model 3 β	Model 3 Standard error	Model 4 β	Model 4 Standard error
Market	0.077	0.113	0.086	0.11	0.02	0.105	0.01	0.105
Employees	−0.041	0	0	0	0.069	0	0.086	0
International experience	−0.100	0.003	−0.101	0.003	−0.095	0.003	−0.100	0.003
Political knowledge (rev)			0.254**	0.061	0.202**	0.057	0.202*	0.058
Political turbulence					0.376**	0.063	0.381**	0.063
Interaction								
Political knowledge* political turbulence							−0.046	0.088
Diagnostics								
N	203		203		203		203	
R^2	0.013		0.075		0.203		0.205	
Adjusted R^2	−0.002		0.056		0.182		0.18	
F-statistics	0.839		3.87**		9.644**		8.085**	

Notes: Standardized parameter estimates reported; **Correlation is significant at the 0.01 level; *Correlation is significant at the 0.05 level; (rev) Scale has been reversed to enable interaction effects result of turbulence in the environment entered. In this study, we have integrated these two streams of research and tested the individual uncertainty effects of the degree of political knowledge possessed by the firm and the level of political turbulence in the market entered. We also tested for the interaction between the political knowledge and the political turbulence on the degree of perceived uncertainty in the internationalization process.

On the relationship between political experiential knowledge and uncertainty, our first hypothesis postulated that the greater the degree of experiential political knowledge possessed by the firm, the lower the uncertainty perceived. It was supported in our analysis, which confirms findings of previous research on internationalization of the firm. Our analysis revealed that the level of experiential knowledge possessed by the firm is an important determinant of the uncertainty perceived in the entry process. Thus, along the lines suggested by Hilmersson and Jansson (2012), generation of experiential knowledge is key in reducing uncertainty regarding operations in new and distant environments. In this paper, we have contributed to the literature by revealing the importance of knowledge regarding the political system and its impact on the business activities in the particular market. This knowledge adds to the findings by Hilmersson and Jansson (2012) as well as Eriksson *et al.* (1997), who showed the importance of knowledge regarding the business network and the institutional environment in the market.

On the relationship between political turbulence and uncertainty in the internationalization process, our second hypothesis postulated that the greater the political turbulence in the market entered, the greater the perceived uncertainty. Our analysis revealed that the greater the turbulence in the political environment, the greater the uncertainty perceived. These findings confirm the findings by Johanson (2002) and by Santangelo and Meyer (2011). Thus, if firms enter markets where turbulence prevails, it is difficult to predict the outcome of the behavior of various actors, as suggested by Johanson (2002).

On the interaction between political knowledge and political turbulence as predictors of uncertainty, our third hypothesis postulated that an increased political turbulence would obliterate the uncertainty reducing effect by political knowledge. In our analysis, the interaction variable returned with no significant value. This insignificant relationship indicates that under turbulence the effect of political knowledge on uncertainty fades away, meaning that previous experiences can be expected to be less relevant as they represent knowledge about the past, not about the future institutional environment. Therefore, we can confirm the argument that, if the market environment is turbulent, firms are expected to face a situation where they are unable to predict the future. Thus, previous knowledge could be redundant (Salmi, 2000). This is a situation where managers of the firm do not know, and cannot know, what they need to know, as claimed by Tsoukas (1996).

Conclusions, managerial implications and limitations

Uncertainty is a key moderator of the internationalization process of the firm. Lately, we have witnessed two main developments increasing the uncertainty for internationalizing SMEs, being the growing importance of emerging markets as well as the political initiatives taken to handle globalization and turbulence in the word economy, such as the great global economic recession in 2007. Consequently, uncertainty management is on the top of many firms' agenda to handle turbulence in foreign markets.

This study has shown that political knowledge gaps and political turbulence are two main determinants of uncertainty in the internationalization process of SMEs. The study has also shown that generation of political experiential knowledge is an important aspect of uncertainty management. By generating experience, uncertainty is reduced. The study has further shown that increased levels of political turbulence increase the degree of uncertainty. Thus, the more turbulent the environment is, the greater the uncertainty perceived. In contrast to previous research, this study has shown that experience and turbulence are two constructs that should not be studied in isolation. Instead, researchers should integrate them, as suggested in this study. More explicitly, our study has shown that experiential knowledge is useful under stable conditions. When turbulence increases, firms need to develop alternative strategies for uncertainty management. A potential explanation to this is that the heterogeneity of not only the firms interpretation or management of institutional changes (Johanson, 2002) but also by the heterogeneity of the actual turbulence. Firstly, the heterogeneity of politically turbulent environments cannot be comparable to any other, as the driving forces, actors involved and issues are probably different from the previously turbulent situation experienced, if experienced. Economic recessions or the emergence of emerging markets are good examples of political reforms and changes in institutions that characterize the heterogeneity of turbulent environments and explains why firms cannot manage turbulence with experiential knowledge to decrease uncertainty. Secondly, turbulent situation can have different phases. In the first phase of the turbulence, it is difficult for firms to manage the uncertainty with the unknown situation as the firm has difficulties in predicting a highly uncertain future (Tsoukas, 1996); perhaps a "wait-and-see" strategy is most likely in this situation. In the second phase of the turbulence, the characteristic of the turbulence has been detected and can be understood to some extent, i.e. what is the political issue? What actors and authorities are involved? What is creating the uncertainty? How does it impact the political system and the market situation? In the third phase, where more is known about the turbulent environment, firms can through the information gathered start generating a strategy to manage the situation, but yet hold a flexible approach as the market still is unstable.

These findings have implications for mangers of internationalizing firms. To reduce uncertainties regarding the foreign market entry process, managers should emphasize the generation of experiential knowledge. Through learning about the political environment in the foreign market uncertainty is reduced. But, if the firm enters a politically turbulent environment, then managers should be aware of the limited usefulness of such experience. Under such circumstances, managers should seek to develop a flexible organization to ride with uncertainty rather than emphasizing already accumulated experiential knowledge generation to try to reduce uncertainty.

Future research should seek to address the limitations of this study. These findings have been reached through an analysis of 203 entries of Swedish firms into the Baltic States, Poland, Russia and China. Thus, a first limitation of this study relates to the external validity of these findings, which potentially suffers from a home market or host market bias. Future advancement of the relationship between experiential knowledge and uncertainty would therefore benefit from testing the relationships established in this study on other samples and in different geographical contexts.

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