

Unlocking international entrepreneurial opportunities: The impact of dynamic capabilities on creation and discovery

Linda Hui Shi & Wade M. Danis

2026

Peter B. Gustavson School of Business

Faculty Publications

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Original citation:

Shi, L. H., & Danis, W. M. (2026). Unlocking international entrepreneurial opportunities: The impact of dynamic capabilities on creation and discovery. *Journal of World Business: JWB*, 61(3), Article 101723.

<https://doi.org/10.1016/j.jwb.2026.101723>

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Unlocking international entrepreneurial opportunities: The impact of dynamic capabilities on creation and discovery

Linda Hui Shi , Wade M. Danis ^{*} 

Peter B. Gustavson School of Business, University of Victoria, PO Box 1700 STN CSC, Victoria, BC V8W 2Y2, Canada

ARTICLE INFO

Keywords:

International entrepreneurship
SME internationalization
International opportunity recognition
Creation
Discovery
Dynamic capabilities

ABSTRACT

This study theorizes and empirically validates two international opportunity recognition modes: creation and discovery. It examines how internationalizing small- and medium-sized enterprises (SMEs) leverage international dynamic capabilities to engage in these modes and analyzes their impact on international performance. It finds that the propensity of an internationalizing SME to adopt a specific mode—whether creation or discovery—is influenced by specific organizational-level international dynamic capabilities (intelligence acquisition, inter-country coordination, reconfiguration). The strength of these relationships is moderated by industry globalization and cultural distance. Furthermore, the interaction between the two opportunity recognition modes reveals a significant negative effect. This interaction suggests that when internationalizing SMEs simultaneously engage in both modes, the effectiveness of each is diminished, leading to lower international performance outcomes. We use multi-informant, cross-industry data collected from 303 internationalizing SMEs in China and Tunisia and empirically test our model using structural equation modeling. This research contributes to the literature on international business and entrepreneurship by offering a more comprehensive understanding of the interplay between international dynamic capabilities, international opportunity recognition, and international performance, emphasizing the strategic trade-offs involved in SME internationalization.

1. Introduction

Opportunity recognition is fundamental to entrepreneurship theory (Ozgen & Baron, 2007; Shane & Venkataraman, 2000) and remains a dynamic research area in both international entrepreneurship and international business more broadly as evidenced by ongoing scholarly contributions (Ellis, 2011; Mainela, Puhakka & Servais, 2014; Muzychenko & Liesch, 2015; Paul, Parthasarathy & Gupta, 2017; Reuber et al., 2018; Tabares et al., 2021). International opportunity recognition (IOR) is a foundational construct in these literatures, referring to the process through which individuals or firms identify and act upon opportunities that span national borders (Mainela et al., 2014; Reuber et al., 2018). Theoretical advances in IOR have acknowledged the multi-level nature of the phenomenon and prior research has established that IOR is shaped by individual-level factors (e.g., alertness, prior knowledge and experience, networks, cognition), organizational-level capabilities (e.g., resources, international experience, strategic orientation), and environmental contingencies (e.g., institutional and/or geographic context, industry characteristics, market conditions)

(Tabares et al., 2021; Muzychenko & Liesch, 2015). Entrepreneurship scholars have debated competing epistemologies – creation versus discovery – on the nature of opportunities, which are theorized to shape how individual entrepreneurs recognize and pursue them (Alvarez & Barney, 2020, 2007; Kirzner, 1973). However, several important gaps remain, particularly beyond the individual level of analysis. Three key unresolved questions motivate our study: 1) Can creation and discovery be distinguished as distinct *firm-level* strategic postures, through which SMEs recognize international opportunities? 2) If so, what firm-level dynamic capabilities underpin creation- and discovery-based opportunity recognition, and how do these linkages impact international performance? 3) How do contextual factors, such as industry globalization and cultural distance, moderate the effectiveness of these capabilities and the international performance outcomes of different opportunity recognition modes?

To address these questions, we position dynamic capabilities as the mechanisms through which SMEs enact creation- and discovery-based opportunity recognition, shaping both strategic behavior and performance outcomes. Although work on dynamic capabilities in

* Corresponding author.

E-mail addresses: lshi@uvic.ca (L.H. Shi), wdanis@uvic.ca (W.M. Danis).

<https://doi.org/10.1016/j.jwb.2026.101723>

Received 2 August 2024; Received in revised form 26 November 2025; Accepted 17 January 2026

Available online 27 January 2026

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international contexts is expanding (Brock & Hitt, 2024; Pitelis, Teece & Yang, 2024), empirical understanding remains limited, particularly regarding how specific international dynamic capabilities (IDCs) relate to the opportunity recognition modes used by internationalizing SMEs (Theodosiou et al., 2024; Vuorio & Torkkeli, 2023). We know little about whether particular IDCs, such as intelligence acquisition, inter-country coordination, and reconfiguration, are differentially associated with creation versus discovery among SMEs, or how cultural and industry contexts shape these associations. More evidence is needed to clarify these connections and the pathways through which SMEs identify and exploit international opportunities. This paper examines whether specific IDCs are associated with the opportunity recognition modes (creation or discovery) SMEs adopt, how cultural distance and industry globalization condition these relationships, and the implications for international performance.

Our study makes at least three contributions. Firstly, we advance international entrepreneurial opportunity recognition theory by showing how firm-level IDCs shape the choice between creation and discovery in international settings, and we develop validated measures to distinguish these opportunity recognition modes (cf. Reuber, Dimitratos & Kuivalainen, 2017). Secondly, we integrate dynamic capabilities and international entrepreneurship within a strategic-management lens by specifying key IDCs (intelligence acquisition, inter-country coordination, and reconfiguration) and theorizing their links to creation versus discovery. This cross-pollination offers a richer, more holistic view of SME internationalization and advances strategic-management accounts of firm internationalization. Thirdly, we develop a contingency-and-fit perspective by theorizing cultural distance and industry globalization as boundary conditions that shape IDC-opportunity recognition mode linkages and we articulate a substitution logic between creation and discovery, addressing calls to move beyond general discussions of dynamic capabilities toward contextualized applications in international entrepreneurship (Zahra, Petricevic & Luo, 2022).

2. Literature review

2.1. International dynamic capabilities

Dynamic capabilities, originally conceptualized as the ability to integrate, build, and reconfigure resources in rapidly changing environments (Teece et al., 1997), have been extended to international business contexts, where they enable firms to navigate cross-border complexities (Teece, 2007; Zahra et al., 2006). These capabilities are particularly salient for SMEs, which face high levels of uncertainty, resource constraints, and liability of smallness during their internationalization processes. In this context, SMEs are compelled to develop unique dynamic capabilities to survive, gain legitimacy, and grow (Zahra, Sapienza & Davidsson, 2006). The process by which SMEs develop and leverage dynamic capabilities, especially in smaller, resource-constrained firms, is insufficiently understood and represents a significant area for theoretical exploration (Zahra et al., 2006). Dynamic capabilities are distinguished from ordinary capabilities (e.g., a strong market orientation) in that they comprise higher-level processes that enable firms to proactively adapt and reshape its resource base, to meet rapidly changing market demands and maintain a strategic competitive edge (Helfat et al., 2007). These processes comprise three sets of activities: 1) sensing opportunities and threats, 2) seizing opportunities to create value, and 3) reconfiguring, transforming and renewing assets and capabilities in response to environmental change (Teece, 2007).

We focus on *international* dynamic capabilities, which are the market sensing, seizing, and reconfiguration processes necessary to develop strategies for entering foreign markets (Gölgeci et al., 2019), and elaborate below three IDCs that are theorized to be essential in cross-national contexts (Teece et al., 1997; Teece, 2014; Zahra, Petricevic & Luo, 2022): 1) acquiring intelligence about heterogeneous customer needs and competitive environments, 2) coordinating

activities across borders, and 3) reconfiguring strategies, resources and operations to adapt to change.

Intelligence acquisition refers to the learning processes (Cohen & Levinthal, 1990) through which SMEs develop customer- and competitor-focused knowledge. This dynamic capability enables them to gain a deeper understanding of consumer trends, preferences, and behaviors and to better understand competitive environments within and across diverse international markets. Unlike domestic contexts, where consumer preferences may be relatively homogeneous, SMEs must navigate significant cultural, social, and institutional differences in customer behavior. These processes enable SMEs to design products and services tailored to distinct market needs, craft culturally appropriate marketing communication strategies, and identify market entry points that align with consumer expectations. Furthermore, the dynamic nature of global markets, driven by trends such as digitalization and globalization, necessitates continuous and iterative customer-focused learning to remain competitive and relevant (Zahra, Petricevic & Luo, 2022).

Internationalizing SMEs also face the challenge of competing against both local incumbents, who possess deep market knowledge, and other international entrants, which requires gathering, filtering and integrating competitor intelligence to gain insights into their strategies. This is particularly critical in global contexts where competition may vary widely across markets. By leveraging competitor intelligence, SMEs are better able to anticipate shifts in market dynamics, develop proactive strategic responses, and align their positioning with global and local competitive forces (Teece, 2007, 2014).

Inter-country coordination pertains to the processes by which SMEs adapt and orchestrate their value chain activities across national borders. This dimension involves not only optimizing internal resources but also coordinating external partnerships to achieve strategic objectives (Teece, 2007; Zou et al., 2003). In the international domain, coordination is further complicated by differences in time zones, legal systems, cultural norms, and infrastructure. For example, ensuring seamless supply chain management across regions with disparate regulatory requirements and transportation systems requires advanced logistical capabilities. Additionally, inter-country coordination enables SMEs to adapt global strategies to local market conditions, ensuring both efficiency and responsiveness.

Reconfiguration is the processes through which SMEs adapt their strategies, resources and operations to changing market forces. In the international context, reconfiguration is especially critical, as SMEs must contend with volatile exchange rates, diverse and shifting trade policies, and rapidly evolving consumer preferences across diverse markets (Paul, Parthasarathy & Gupta, 2017; Buccieri, Javalgi & Cavusgil, 2023; Teece, 2007). This capability enables firms to sense international market opportunities and threats in real time and to redeploy or adapt resources to capture these opportunities effectively. For instance, an SME that identifies a growing demand for sustainable products in a specific region might reallocate R&D resources to develop eco-friendly solutions while restructuring its supply chain to ensure compliance with local environmental standards.

In sum, IDCs are critical in global contexts as they enable firms to sense and seize opportunities, and adapt to rapidly changing environments, particularly in international markets characterized by uncertainty and complexity (Teece, 2007; Zahra et al., 2006). Despite their importance, limited research has examined the specific ways in which such capabilities shape the strategies SMEs employ to identify international opportunities, or the conditions under which these capabilities drive performance outcomes (Knight & Cavusgil, 2004; Zahra et al., 2022). This underscores a need for deeper inquiry into the mechanisms linking IDCs to IOR, and the boundary conditions that influence their effectiveness. Such insights can enrich both theoretical and practical knowledge of how SMEs might succeed in global markets.

2.2. International opportunity recognition: discovery and creation

Creation and discovery are the two dominant explanations for opportunity recognition in entrepreneurship. Discovery holds that opportunities exist objectively, typically arising from exogenous shocks, and are identified by alert actors who search and evaluate available information (Kirzner, 1973; Shane & Venkataraman, 2000; Alvarez & Barney, 2007). Creation, by contrast, treats opportunities as endogenously enacted through imaginative, experimental action under uncertainty, where outcomes and probabilities are unknowable *ex ante* (Alvarez & Barney, 2007, 2020). These views rest on countervailing assumptions about knowledge, agency, and uncertainty and have fueled sustained debate over the nature of entrepreneurial opportunity (Alvarez & Barney, 2020). Prior work has richly elaborated these logics at the individual level, but firm-level treatments, especially in cross-border contexts, remain comparatively sparse; the creation construct, in particular, lacks strong organizational-level empirical grounding. International entrepreneurship research further shows that opportunity recognition is multilevel and context-dependent (Mainela, Puhakka & Servais, 2014; Reuber et al., 2018; Tabares et al., 2021; Muzychenko & Liesch, 2015).

What we know suggests that discovery aligns with systematic sensing and evaluation of external signals, whereas creation aligns with agentic experimentation and resource recombination. Yet we lack evidence on whether these logics operate as distinct firm-level strategic postures in IOR and, if so, which organizational capabilities underpin each posture in SMEs. Dynamic capabilities offer a promising bridge because they explain how firms sense, seize, and reconfigure in turbulent international environments (Teece, 2007; Zahra, Sapienza & Davidsson, 2006), but existing research has not mapped specific IDCs (e.g., intelligence acquisition, inter-country coordination, reconfiguration) onto creation versus discovery. Moreover, boundary conditions are under-specified: cultural distance and industry globalization likely shape the efficacy of capability–mode linkages (Gölgeci et al., 2019), and it is unclear whether pursuing both modes simultaneously yields complementarities or substitution effects in performance (Zahra, 2008). Addressing these gaps requires firm-level, cross-national evidence that distinguishes the modes, links them to concrete capabilities, and identifies the conditions under which each contributes to international performance.

3. Theoretical framework and hypotheses

Our theorizing posits positive associations between IDCs and opportunity recognition generally and is aligned with prior theoretical and empirical work in both the international business and international entrepreneurship literatures (Theodosiou et al., 2024; Oviatt & McDougall, 1994; Vuorio & Torkkeli, 2023). We conceptually distinguish between different IDCs (intelligence acquisition, inter-country coordination, reconfiguration) and opportunity recognition modes (creation, discovery) to highlight that SMEs may have different portfolios of IDCs that may shape opportunity recognition, and internationalization outcomes, in different ways (Vuorio & Torkkeli, 2023). Hence, *our main hypotheses are focused on the strength of association between different IDCs and alternative opportunity recognition modes*, an approach that provides more nuanced insights into how IDCs differentially shape IOR in SMEs.

3.1. International dynamic capabilities as antecedents to international opportunity recognition mode

Intelligence acquisition. The discovery perspective assumes that there is usually sufficient *ex ante* information for SMEs to search for and evaluate opportunities and plan their strategies accordingly (Alvarez & Barney, 2007). Firstly, intelligence acquisition is a fundamental international dynamic capability, as it enables SMEs to sense the market and identify emerging opportunities (Teece, 2007). This sensing process

involves scanning, searching, and exploring technologies and markets to gain an astute awareness of environmental changes, customer needs, and technological advances (Hutton, Demir & Eldridge, 2021; Shi & Wu, 2011). The ability to stay informed about market trends, customer preferences, and competitive strategies is essential for SMEs to recognize and capitalize on opportunities (Chetty et al., 2018). The emphasis on intelligence acquisition as a dynamic capability highlights the importance of continuously acquiring and updating information to support entrepreneurial activities and decision-making (Jiang, Mavondo & Zhao, 2020). By acquiring intelligence, SMEs can recognize shifts in the market and technological landscape, which could lead to the discovery of new opportunities.

Secondly, intelligence acquisition sheds light on where SMEs can mobilize their resources to capture identified opportunities (Hutton et al., 2021; Shi & Wu, 2011). This process involves drawing on external knowledge and ideas (e.g., through open innovation activities), which are not present within the SME's immediate organizational boundaries. Such external knowledge can be instrumental in developing new products, services, or processes that capitalize on identified opportunities, thereby facilitating opportunity creation (Glavas, Mathews & Bianchi, 2017). Moreover, intelligence acquisition through innovation activities allows SMEs to align their resources and capabilities with emerging market needs (Gölgeci et al., 2019). Since discovered opportunities are assumed to be objective in nature, the SMEs can engage in data collection and analysis – i.e., intelligence acquisition – to assess the risks associated with a given opportunity.

In contrast to the discovery view, the creation perspective differs in that *ex-ante* information is either not assumed to exist or is presumed to be less useful for evaluating the nature of an emergent opportunity. Hence, the SME's task is not to synthesize pre-existing information but rather to ask questions, experiment, and learn (Chetty et al., 2018). The creation perspective thus emphasizes the importance of information and knowledge generated from the path dependent process of enacting an opportunity, suggesting that new products or services might be different from those initially envisioned by SME founders (Alvarez & Barney, 2007). It further emphasizes the role of the SMEs' cognitive and creative capacities and processes in forging new knowledge and technology that enables new solutions, and the ability to serve customers in innovative ways (Knight & Cavusgil, 2004). Because the creation perspective prioritizes action over analysis and emphasizes the path dependent generation of idiosyncratic knowledge over *ex ante* collection of objective knowledge, we expect that the strength of association will be weaker for the creation than the discovery mode of IOR.

Hypothesis 1a. *Among internationalizing SMEs, the dynamic capability intelligence acquisition is positively related to the creation opportunity recognition mode.*

Hypothesis 1b. *Among internationalizing SMEs, the dynamic capability intelligence acquisition is positively related to the discovery opportunity recognition mode.*

Hypothesis 1c. *Among internationalizing SMEs, the dynamic capability intelligence acquisition is more strongly associated with discovery than creation.*

Inter-country coordination. We posit that inter-country coordination, which comprises the alignment of resources, information, and efforts within an organization, is crucial in facilitating IOR via both the discovery and creation modes. When different parts of an organization work together harmoniously, it enables a more comprehensive and integrated approach to identifying and capitalizing on entrepreneurial opportunities. By coordinating activities, sharing knowledge, and aligning strategies, organizations can enhance their ability to recognize and act upon opportunities in a timely and efficient manner (Helfat et al., 2007). Cross-border coordination allows SMEs to *discover* opportunities that arise from differences in market conditions, consumer

preferences, and technological advancements across countries. It also facilitates the *creation* of opportunities through the redeployment and integration of resources and capabilities scattered across different geographical locations (Faroque, Morrish, Kuivalainen, Sundqvist, & Torkkeli, 2021). By coordinating their international operations effectively, SMEs can mobilize resources across borders, enabling the development of innovative products, services, and business models that cater to global market needs (Theodosiou et al., 2024; Knight & Cavusgil, 2004).

Inter-country coordination also supports the development of international networks that are instrumental for both opportunity discovery and creation (Faroque et al., 2021; Gölgeci et al., 2019). Networks provide access to critical resources, knowledge, and capabilities that may be outside the SME's immediate domain but can be accessed through strategic partnerships, alliances, and collaborations (Jiang et al., 2020; Ozgen & Baron, 2007). These international networks enable SMEs to tap into a wider pool of ideas, innovations, and market opportunities, thereby enhancing their ability to discover and create new international opportunities. Inter-country coordination also facilitates both opportunity discovery and creation by enabling the integration of diverse market intelligence, facilitating resource orchestration across borders, and supporting the development of international networks (Chetty et al., 2018).

While we expect that inter-country coordination should underpin both opportunity discovery and creation, a key difference between these two IOR postures is the degree to which SMEs are *proactive* in their search for opportunity. The creation perspective assumes the highest degree of *proactivity* in that opportunities are presumed not to exist until entrepreneurial agents construct them via a process of enactment (Alvarez, Barney & Anderson, 2013). Since the discovery perspective assumes that opportunities exist independent of the SME, this implies a lower degree of proactivity. SMEs need not enact opportunities, they simply need to be alert to them and claim those that hold the greatest potential. Following this logic, we theorize that inter-country coordinative capabilities are more strongly associated with opportunities recognized via highly proactive means (i.e., creation), as the process of enacting cross-border opportunities is likely to facilitate the development of such capabilities. Since discovered opportunities imply a more moderate level of proactivity, we expect a positive but more moderate association with cross-border coordinative capabilities.

Hypothesis 2a. *Among internationalizing SMEs, the dynamic capability inter-country coordination is positively related to the creation opportunity recognition mode.*

Hypothesis 2b. *Among internationalizing SMEs, the dynamic capability inter-country coordination is positively related to the discovery opportunity recognition mode.*

Hypothesis 2c. *Among internationalizing SMEs, the dynamic capability inter-country coordination is more strongly associated with creation than discovery.*

Reconfiguration as a focal international dynamic capability

Sustained competitive advantage in dynamic global environments requires that elements of the business model be continuously reconfigured – i.e., adjusted, upgraded, reinvented or replaced to accommodate change. The aim of reconfiguration is to maintain “evolutionary fitness” once international opportunities have been successfully exploited thereby ensuring long-term success (Teece, 2007: 1335). Reconfiguration, hence, refers to an SME's ability to restructure and realign its resource base to adapt to changing environments and capitalize on emerging opportunities (Teece, 2007). This ability is the most essential IDC for both discovering and creating new opportunities. By continuously reconfiguring their resources, SMEs can maintain a state of readiness to exploit new technologies, market trends, and customer needs as they emerge, thereby enhancing their capacity for opportunity discovery

(George et al., 2016). Additionally, SMEs can improve their ability to recognize and capitalize on opportunities by reorganizing routines and engaging in experience-based learning to interpret signals and implement necessary changes, thereby creating novel entrepreneurial opportunities (Buccieri et al., 2023; Jiang et al., 2020).

Furthermore, reconfiguration supports opportunity creation by enabling SMEs to combine and recombine assets and capabilities in novel ways (Teece, 2007). This process can lead to the development of innovative products, services, or business models that did not exist before, creating new opportunities for growth and competitive advantage (Buccieri et al., 2023; Knight & Cavusgil, 2004). The act of reconfiguration itself can be a source of innovation, as it often involves experimenting with new combinations of resources and capabilities, leading to unexpected discoveries and creative solutions. Moreover, reconfiguration is essential for aligning the SME's internal capabilities with the external environment (Zahra & George, 2002). As markets and technologies evolve, the ability to reconfigure resources ensures that the SME remains relevant and competitive (Shi & Wu, 2011). This alignment is particularly important for seizing opportunities in fast-paced, globally competitive environments where consumer needs and technological opportunities are constantly in flux (Kirzner, 1973; Zahra et al., 2022). By effectively reconfiguring their resources, SMEs can better sense and shape opportunities and threats, positioning themselves to capitalize on emerging trends (Muzychenko & Liesch, 2015; Vuorio & Torkkeli, 2023).

Reconfiguration influences the opportunity discovery and creation modes by enabling SMEs to adapt their resource bases to changing environments, foster innovation through novel combinations of resources, and align their capabilities with external market and technology trends. While the emphasis of reconfiguration is different from cross-border coordination, they are in close alignment, and both are fundamentally concerned with asset orchestration capabilities. Consequently, we expect the theoretical arguments we made previously, regarding the degree to which entrepreneurs are proactive in their search for opportunity, to apply here as well.

Hypothesis 3a. *Among internationalizing SMEs, the dynamic capability reconfiguration is positively related to the creation opportunity recognition mode.*

Hypothesis 3b. *Among internationalizing SMEs, the dynamic capability reconfiguration is positively related to the discovery opportunity recognition mode.*

Hypothesis 3c. *Among internationalizing SMEs, the dynamic capability reconfiguration is more strongly associated with creation than discovery.*

3.2. Moderating effects: cultural distance and industry globalization

Consistent with international entrepreneurship and international business theorizing, we expect IDCs to be positively associated with IOR, with the strength of association varying by mode (discovery versus creation). Here we add contextual nuance by positing that the strength of these capability–mode linkages depends on cultural distance and industry globalization. We focus on reconfiguration, the most integrative and implementation-oriented IDC. Reconfiguration orchestrates, recombines, and redeploys resources as environments shift (Teece, 2007; Zahra et al., 2022). As a meta-capability, it enables and refreshes other capabilities and is pivotal in strategy execution (Brock & Hitt, 2024; Pitelis, Teece & Yang, 2024; Theodosiou et al., 2024). In global markets, where SMEs face heterogeneity and rapid change, reconfiguration enables adaptation, innovation, and competitive endurance. Accordingly, we theorize that cultural distance and industry globalization condition how reconfiguration links to creation and discovery and we articulate the mechanisms underlying these moderating effects.

While intelligence acquisition and inter-country coordination also

matter, they primarily involve sensing and information processing. Reconfiguration, by contrast, transforms structures and strategies to align the firm with external pressures and ecosystem demands (Pitelis, Teece & Yang, 2024). It is therefore especially exposed to contextual forces. Cultural distance complicates knowledge acquisition, transfer, and integration, weakening reconfiguration's effect on discovery, which relies on interpreting ostensibly objective signals. By contrast, industry globalization increases standardization, transparency, and access to market knowledge, amplifying reconfiguration's impact on both creation and discovery. These distinctions justify our focus on reconfiguration in the moderator hypotheses and reflect our aim for theoretical parsimony by focusing on the capability most consequential for how SMEs recognize and exploit international opportunities (Pitelis, Teece & Yang, 2024).

Cultural distance and reconfiguration. Cultural distance presents unique challenges for SMEs because it introduces barriers to communication, coordination, and resource integration (Kogut & Singh, 1988). We posit that cultural distance weakens the relationship between reconfiguration and IOR in the discovery mode because cultural differences make it more difficult for SMEs to interpret market signals, acquire, assimilate, and transfer knowledge, and integrate local resources (Helfat et al., 2007). Since discovery-based opportunities rely on objective market conditions (Alvarez & Barney, 2007), misalignment due to cultural differences creates higher costs of search and adaptation, reducing the effectiveness of reconfiguration. Likewise, the cognitive and behavioral differences associated with cultural distance can impede the organization's ability to discern opportunities, thereby limiting the effectiveness of reconfiguration in driving opportunity recognition (Helfat et al., 2007).

In contrast, opportunity recognition in the creation mode should be less culturally sensitive because creation is endogenously driven and relies more on entrepreneurial imagination and agency than analysis and interpretation of objective information and external market signals (Alvarez & Barney, 2007). SMEs exploiting opportunities via the creation mode recognize that information is often flawed and incomplete and that decision making in this context is uncertain (Alvarez & Barney, 2007). Consequently, they are less inclined to engage in objective risk assessment and more inclined to act – i.e., they *form* opportunities that could not have been objectively known or rationally assessed. Consequently, we expect no significant moderator effect of cultural distance with respect to the creation mode.

Hypothesis 4. *Among internationalizing SMEs, cultural distance negatively moderates the relationship between the dynamic capability reconfiguration and the discovery opportunity recognition mode.*

Industry globalization and reconfiguration. Industry globalization is the degree to which industry forces, including consumer demands, and purchasing and selling practices, are standardized across markets (Zou & Cavusgil, 2002; Zou et al., 2003). Globalization amplifies value of reconfiguration by standardizing industry norms, increasing market transparency and access to information, and lowering barriers to international trade (Zou & Cavusgil, 2002). We posit that these effects will facilitate opportunity recognition across both the discovery and creation modes. For discovery, a positive moderation effect is expected because high industry globalization enhances the accessibility of objective market information and allows SMEs to replicate successful business models across multiple markets, thereby reinforcing the effectiveness of reconfiguration. For creation, a positive moderation effect is also expected because a more interconnected global industry landscape fosters entrepreneurial agency, idea exchange, cross-border collaboration, and resource recombination, which are fundamental to the opportunity creation process (George et al., 2016).

As globalization increases, communication networks among SMEs and consumers are likely to become denser, more multiplex, and more transparent, thereby increasing the likelihood of IOR via both the creation and discovery. These networks act as conduits for information

exchange, enabling SMEs to identify and capitalize on emerging trends and consumer needs in global markets. SMEs can harness global shifts to launch innovative products, leveraging diverse ideas to both create and discover new opportunities that arise from increased interconnectedness (George et al., 2016; Knight & Cavusgil, 2004).

Industry globalization also provides access to a more connected and transparent global marketplace and allows SMEs to develop consistent global operations, which can create a wider scope and increased connectedness for innovation, research and development, and production orientation (Glavas et al., 2017). Improved connectivity and transparency also facilitates the exchange of ideas, resources, and innovations, creating a favorable environment for entrepreneurial agency and opportunity creation for SMEs (Oviatt & McDougall, 1994). Moreover, industry globalization can lead to the emergence of new market trends, technologies, and consumer preferences on a global scale (Zou & Cavusgil, 2002; Zou et al., 2003). SMEs often reengineer processes and products to suit global market conditions, which can lead to innovation and creation of new product (Knight & Cavusgil, 2004). Lastly, international trade, spurred by globalization, is a catalyst for job creation and economic growth. By embracing globalization, SMEs can leverage their innovativeness and research and development capabilities more effectively to create and seize international opportunities that arise from these shifts (Oviatt & McDougall, 2005). In sum, we argue that SMEs using both the creation and discovery IOR modes will view globalization as a positive influence on their ability to recognize new opportunities.

Hypothesis 5a. *Among internationalizing SMEs, industry globalization positively moderates the relationship between the dynamic capability reconfiguration and the creation opportunity recognition mode.*

Hypothesis 5b. *Among internationalizing SMEs, industry globalization positively moderates the relationships between the dynamic capability reconfiguration and the discovery opportunity recognition mode.*

3.3. International opportunity recognition mode and international performance

The creation mode of opportunity recognition contributes uniquely to positive international performance outcomes by emphasizing proactive, imaginative, and experimental entrepreneurial behaviors. Unlike discovery-based opportunities, which exist independently in external markets, creation-based opportunities emerge through entrepreneurs' deliberate actions under conditions of uncertainty, where neither supply nor demand is clearly established (Alvarez & Barney, 2007; Oyson & Whittaker, 2015). By actively generating novel market configurations, entrepreneurs not only differentiate their offerings but also shape and define market spaces, thereby establishing competitive advantages that discovery-oriented competitors find difficult to imitate (Hills, Hansen & Hultman, 2004; Alvarez & Barney, 2020). This is particularly critical for SMEs, which often face intense competition and resource scarcity in global markets (Chetty et al., 2018). We advance theory by articulating creation-based opportunity recognition as a firm-level mode that endogenously constructs international opportunities and is rooted in specific dynamic capabilities. This framework rebalances a literature dominated by discovery and answers calls for nuanced theorization of how opportunities are formed and leveraged in international contexts (George et al., 2016; Zahra et al., 2022; Alvarez & Barney, 2020).

H6a: *Among internationalizing SMEs, the creation opportunity recognition mode is positively related to international performance.*

Opportunity discovery positively influences international performance primarily through firms' strategic responsiveness to external market dynamics. Unlike creation, which emphasizes proactive and internally driven innovation, discovery leverages external market knowledge and environmental scanning to swiftly identify and exploit existing yet previously unnoticed market opportunities. This external orientation equips firms with a competitive edge by enabling rapid

adaptation to changing international conditions, thereby enhancing operational efficiency and responsiveness. Discovery-driven firms systematically integrate external insights such as shifts in consumer preferences, regulatory changes, or technological advancements, and strategically respond to these market signals (Glavas et al., 2017). The agility and precision of this market-driven approach enable firms to reduce entry barriers, optimize resource utilization, and swiftly capture first-mover advantages or niche market positions, thus significantly enhancing their international market performance (Faroque et al., 2021).

Additionally, the discovery process reinforces international performance through effective utilization of external relational networks, including distributors, strategic alliances, and industry associations. These networks act as critical conduits of tacit market knowledge, providing real-time, localized insights that facilitate superior understanding and responsiveness to international market opportunities (Knight & Cavusgil, 2004). Such network-driven informational advantages allow firms not only to recognize opportunities more effectively but also to mitigate risks by proactively anticipating competitive threats and market uncertainties. Consequently, discovery-driven firms maintain operational flexibility, quickly realign strategic priorities when necessary, and thereby sustain enhanced performance outcomes. This elucidates a significant theoretical contribution to the international business literature: discovery is not merely reactive, but strategically proactive, systematically bridging external market intelligence with internal strategic execution to enhance international performance (Teece, 2007; Brock & Hitt, 2024). Thus, we propose:

H6b: Among internationalizing SMEs, the discovery opportunity recognition mode is positively related to international performance.

While both discovery and creation can potentially enhance international performance (Mainela, Puhakka & Servais, 2014), they may do so through distinct theoretical mechanisms (Alvarez & Barney 2007) and the feasibility of employing both modes simultaneously remains an open question. Building on Alvarez and Barney's (2007) foundational distinction between opportunity creation and discovery, we propose that the simultaneous pursuit of these two opportunity recognition modes introduces inherent strategic contradictions and resource allocation conflicts, particularly for resource constrained SMEs, thereby negatively influencing international performance. Opportunity creation involves proactively shaping market demands through imaginative and iterative entrepreneurial actions under conditions of uncertainty, typically requiring substantial long-term investments and intensive cognitive engagement (Alvarez & Barney, 2007). Conversely, opportunity discovery pertains to identifying and rapidly exploiting existing market opportunities triggered by external market signals such as unsolicited customer orders or market shifts, necessitating rapid decision-making and flexible resource allocation (Hills et al., 2004).

The concurrent engagement in both creation and discovery modes across multiple international markets may generate significant strategic and managerial tensions. When internationalizing SMEs attempt to actively develop markets through creation processes in one country, while simultaneously responding passively to immediate external opportunities through discovery processes in another, integrating concurrent opportunity recognition modes can become challenging (Kiss et al., 2020). Such dual engagement is likely to induce managerial bandwidth overload and conflicting managerial priorities, diluting strategic focus and impairing effective resource allocation. Effectuation theory underscores the importance of maintaining strategic coherence, emphasizing that conflicting opportunity recognition modes can erode operational clarity and efficiency, ultimately undermining firm performance (Sarasvathy, 2001).

Empirical research further substantiates the theoretical rationale for anticipating negative interactions between these two modes. Specifically, prior studies have indicated that firms employing multiple opportunity recognition strategies without clear integrative mechanisms may be less effective in leveraging opportunities, particularly within

complex international environments characterized by varying market conditions and cultural institutional pressures (Kiss et al., 2020). The inherent contradictions stemming from simultaneous use of creation and discovery, such as misaligned strategic goals and resource competition, thus heighten the risk of suboptimal international outcomes.

Accordingly, we argue that the simultaneous pursuit of opportunity creation and discovery modes within internationalizing SMEs is inherently problematic due to strategic contradictions and competing cognitive demands. These conflicts erode the efficiency of resource utilization, dilute managerial attention, and compromise overall international performance. Thus, we hypothesize:

H7: Among internationalizing SMEs, the creation and discovery opportunity recognition modes negatively interact, reducing international performance.

4. Methodology

4.1. Data collection: multiple informants, sources, and countries

Our study used a paired-informant method to collect data from both China and Tunisia. We conducted survey with the founding CEOs and one of the top founding team executives responsible for international business from SMEs that had been operating globally. This method provided more objective data than single source data and taking the average of two responses helped to reduce potential bias and measurement error. Our approach is also based on the logic that the collective thinking of executives provides better predictions for organizational outcomes.

Empirical context and sample. Our sample includes 303 manufacturing SMEs from China ($n = 118$) and Tunisia ($n = 185$), averaging 8.4 years old and 5.5 years post-internationalization, with 47 % of sales overseas and activity in a mean of 11 foreign markets (range: 1–200); firms average USD\$8 Million revenue and 321 employees, with 8 % of staff abroad and 8 % in R&D (Tunisia higher in overseas-sales share; China higher in international staffing/R&D), spanning electronics, textiles, agriculture, and other manufacturing. Our study examines manufacturing SMEs in China and Tunisia because both host many internationally engaged firms spanning markets from developing to advanced economies—yielding variance in industry globalization and cultural distance while holding sector constant. The East Asian–North African pairing offers contrasting institutional contexts and addresses the literature's underrepresentation of Asia and Africa. We target “internationalizing SMEs”—firms that began internationalization within the last 15 years and export at least 5 %—and restrict the sample to young firms (≤ 12 years; 99.7 % ≤ 10 years). Focusing on manufacturing aligns with work on tangible product development in early internationalization and enables clearer conceptualization and measurement of internationalization outcomes.

Data collection and survey respondents. To ensure the validity and robustness of our sample, we utilized two reliable sources for data collection. In China, we leveraged an alumni network from a national university's MBA and EMBA programs, ensuring a well-targeted and credible respondent pool. We analyzed the profiles of recent graduates to identify 240 individuals who had successfully established international SMEs and conducted business in foreign countries. From this group, we selected firms operating in four regions of China—Pearl River Delta, Yangzi River Delta, North, and West—to ensure geographic diversity. The research team personally visited each firm to conduct interviews with two key informants: the CEO and a senior executive. This double-informant approach provided richer, more reliable data. Out of the 240 firms, 118 completed the surveys, yielding a response rate of 49 %, and an effective sample of 118 enterprises (236 respondents) with an overall response rate of 35.5 %.

In Tunisia, we worked with a local government-sponsored data collection agency, which employed random sampling to select 800 enterprises across the country, ensuring representativeness by including

firms from various industries and regions. The agency’s staff visited each firm to conduct interviews with both the CEO and a senior executive, following the same double-informant approach used in China. This process resulted in a sample of 185 SMEs (370 respondents), with an effective response rate of 23 %. In total, we collected survey data from 606 respondents (303 SMEs) in both China and Tunisia.

Content Analysis. We employed a systematic approach to ensure the content was valid and reliable. The double-informant method allowed us to cross-check the responses and minimize bias, enhancing the credibility of the data. The interviews conducted with both the CEO and a senior executive in each firm provided complementary perspectives, ensuring a comprehensive understanding of the IOR and internationalization strategies employed by these SMEs. This rigorous data collection process, including the use of reliable sources and double-informant surveys, ensures that our sample is both representative and methodologically sound.

4.2. Instrument development

Due to the lack of established measures for key IOR constructs in the SME internationalization context (George et al., 2016), we adopted a multi-stage research design to operationalize and refine the constructs of Opportunity Creation and Opportunity Discovery. Initially, we reviewed the international business and entrepreneurship literature to identify relevant constructs and developed new scales based on theoretical foundations. We then worked with entrepreneurs from China and Tunisia, as well as academic experts from the USA, Canada, China, and Tunisia, to refine the scale items for contextual relevance and academic rigor.

Before we conducted the final survey, we did a pilot study with 100 small and medium-sized exporters in China to refine the scales, and confirmatory factor analysis (CFA) on the pilot data confirmed the new scales’ validity, reliability and model fit ($\Delta\chi^2_{[1]} = 1.68$, Comparative Fit Index (CFI)=0.95, Root Mean-square Error of Approximation (RMSEA)=0.08). Opportunity Creation has composite reliability (CR) = 0.81, average variance explained (AVE) = 0.71, while Opportunity Discovery has CR=0.91, AVE =0.7. The final questionnaire was distributed to CEOs and top executives from 16 SMEs, and the data collected formed the basis of our final analysis. This multi-stage process ensured the constructs were both theoretically robust and practically applicable.

CFA test: construct reliability and validity. First, we conducted factor-level CFA to purify the measures and ensure the reliability and unidimensionality of factor measures. As shown in Table 1, AVEs are greater than the cut-off point of 0.50; construct reliability is high for all constructs; factor loadings are all positive and significant; and cross loadings are low. All coefficients from latent constructs to their corresponding indicators were high and significant at $p < 0.001$, providing evidence for convergent validity. The construct reliability coefficients (ρ ’s) were above the recommended guideline of 0.60 for early-stage studies. The construct validity measures (AVE) were above the recommended guideline of 0.50 (Fornell & Larcker, 1981). Further evidence for discriminant validity came from all the correlation coefficients between constructs being significantly lower than the square roots of AVE. We also tested the discriminant validity of the construct/factor measures with a series of two-construct CFA models for all possible pairs of factors. In each model, the Φ coefficient was constrained to unity and then freed and a Chi Square-difference test was then performed. Discriminant validity was obtained for all the study constructs using this test ($\Delta\chi^2_{[1]} > 3.84$ for all pair-wise comparisons), indicating a good discriminant validity. We assessed common method variance (CMV) by employing Harmon’s one factor test (Podsakoff et al., 2003). CMV was not detected based on Harmon’s one-factor test.

Cross-cultural measurement equivalence test. To rigorously establish cross-national measurement equivalence, we closely followed the comprehensive procedures proposed by Mullen (1995). All study scales

Table 1
Measurement Model Confirmatory Factor Analysis (Standardized).

	Constructs and Their Items	Loading ^b	
Customer	International Dynamic Capabilities		
	1. We continuously acquire information from our customer.	.74	
	Intelligence Acquisition		
	2. We regularly use multiple methods (e.g., sales calls, focus groups, and surveys) to gather information about our customer’s products, services, and strategies.	.87	
(Shi & Wu, 2011)	3. We frequently collect information about our customer’s operations that are relevant to our business (e.g., procurement, marketing, research & development).	.90	
CR ^a = 0.92 AVE = 0.74	4. We continuously review the likely effects of changes in business environment (e.g., regulation) that may affect our exporting practices.	.90	
Competitor	Intelligence Acquisition		
	1. We continuously gather information about our competitors.	.84	
	(Shi & Wu, 2011)	2. We regularly collect information on our competitors’ products, services, and strategies.	.89
	3. Our top management constantly discusses our competitors’ strengths and weaknesses.	.89	
CR = 0.90 AVE= 0.76	4. We continuously review the likely effects of changes in business environment (e.g., regulation) that may affect our competitors’ strategies.	.84	
Inter-country Coordination	1. We can coordinate product-related activities (e.g., product adaptation, new product development, technology exchange) in international market.	.89	
	(Shi & Wu, 2011)	2. We can coordinate service-related activities (e.g., training, consulting, troubleshooting, and warranties) in international market.	.92
	CR = 0.96 AVE = 0.75	3. We can coordinate pricing-related activities (e.g., special pricing terms, pricing strategy, financing) in international market.	.91
	4. We can coordinate supply chain management activities (e.g., inventory management, transportation, order processing) in international market.	.89	
	5. We can coordinate marketing-related activities (e.g., commercial campaigns, sales promotions) in international market.	.88	
Reconfiguration (Shi & Wu, 2011)	1. We can redeploy the resources serving our customers in global markets faster than our competitors can.	.91	
	CR= 0.97 AVE= 0.87	2. We can realign our processes (e.g., logistics, product design and service processes) with respect to our customers’ changing needs ahead of competition.	.94
	3. We can modify our products or services to accommodate customers’ needs ahead of competition.	.95	
	4. We can adopt best practices in the industry ahead of competition.	.93	
	5. We can reconfigure our systems (e.g., management information system and accounting system) as needed to adapt to changes in the global environment ahead of competition.	.92	
Industry	1. In our industry, customer needs are standardized worldwide.	.79	
	Globalization (Zou & Cavusgil, 2002)	2. In our industry, competitors market standardized products worldwide.	.98

(continued on next page)

Table 1 (continued)

	Constructs and Their Items	Loading ^b
CR=0.85 AVE =0.67	3. In our industry, purchasing practices are standardized for our products worldwide.	.61
	International Opportunity Recognition Modes	
Creation (New construct)	1. We flexibly utilize existing resources to create new products and services.	.85
	2. We interact with our business partners to finally come up with new ideas.	.93
CR = 0.89 AVE = 0.74	3. We have tried a number of different approaches before creating a brand new international business model that works well in international market.	.84
Discovery (New construct)	1. We participate in various business events (e.g., trade shows, missionary trip and business conferences) in order to discover international opportunities.	.92
CR = 0.91 AVE = 0.67	2. We carefully select our target market (s) through research.	.88
	3. We use network connections to enter the international market.	.74
	4. We rely on our network with governments, agencies, or the other formal organizations to discover international market opportunities.	.56
International Performance	Compared to major competitors,	
	1. our revenue from international market grows faster.	.93
(Ciavarella et.al. 2004; Pedersen & Petersen 1998)	2. our international market share grows faster.	.96
CR=0.92 AVE=0.80	3. our income before tax grows faster.	.91
Second Order Construct Intelligence Acquisition CR=0.94, AVE=0.75	Customer Intelligence Acquisition	.95
	Competitor Intelligence Acquisition	.88
Model Fit	$\Delta\chi^2/df= 3.18$ Comparative Fit Index (CFI)=0.98 Root Mean-square Error of Approximation (RMSEA)=0.08	

Notes: All factor loadings are significant at p -value <0.001.

^a Denotes composite reliability (internal consistency) of reflective measures (Fornell & Larcker 1981).

^b Denotes measurement model loadings for items of reflective measures.

were originally developed in English and then translated into French for the Tunisian survey and Mandarin Chinese for the Chinese survey, ensuring that respondents in each country completed the questionnaire in their primary business language. Translation equivalence was first established first through a meticulous three-round iterative translation and back-translation process conducted by bilingual professors and professional translators. After each round, translations were refined to reconcile discrepancies until only minor differences remained, ensuring accurate conceptual equivalence (Mullen, 1995). We then systematically ensured calibration equivalence by independently verifying the consistency of measurement units, response formats, and anchors used in both Chinese and Tunisian questionnaires, and assessed configural and metric invariance using multi-group confirmatory factor analysis (CFA) before final analysis. The results indicated satisfactory model fit across groups, supporting the validity of cross-national comparisons.

We conducted a confirmatory factor analysis (CFA) to test cross-cultural configural equivalence across Chinese and Tunisian samples, confirming that the same factor structure applied consistently to both countries. The CFA results demonstrated robust fit indices (CFI = 0.96; RMSEA = 0.08), confirming consistent factor structures across contexts. We further validated cross-cultural measurement equivalence using multiple-group structural equation modelling (SEM), which tested and

confirmed invariance in factor loadings across both samples (CFI = 0.95; RMSEA = 0.08). These tests provided further validation that no systematic biases existed in responses, ensuring cross-national comparability of our measures. Collectively, these comprehensive tests strongly confirm the measurement equivalence of our scales across Chinese and Tunisian contexts, ensuring the robustness and validity of cross-national comparisons reported in our study (Mullen, 1995).

4.3. Operationalization of the constructs

Independent variables: International Dynamic Capabilities. We developed scales for measuring three IDCs based on the extant literature (Shi & Wu, 2011; Teece, 1997). Intelligence acquisition is a second order construct comprised of customer intelligence acquisition (measures of processes used to collect, analyze and use customer information) and competitor intelligence acquisition (measures of processes used to collect, analyze and use competitor information – e.g., strategies, products, services and general competitive environment). Inter-country coordination refers to cross-country processes used by the SME coordinate marketing mix and supply chain activities. Reconfiguration refers to processes used to change and modify the SME's existing products and services to adapt to new changes in the international export market.

Mediator variables: International opportunity recognition. We developed scales for measuring two opportunity recognition modes, creation and discovery based on the prior literature and case data. The creation mode scales were developed on the basis work by Alvarez and Barney (2007) and Baker and Nelson (2005). The creation mode assumes that opportunities are created endogenously via the actions of SMEs that seek to exploit them (Alvarez et al., 2013; Alvarez & Barney, 2007). When developing scales, we gauged the process by which SMEs in resource-poor environments were able to render unique services by recombining elements at hand for new purposes (Baker & Nelson, 2005). Measures for the discovery mode were based on the prior literature rooted in the Austrian economics approach (Kirzner, 1973). This perspective views opportunities as objective artifacts that are discovered by alert SMEs. Based on the prior empirical work (Ellis, 2011), our discovery measure tapped four important dimensions of discovering opportunities, such as participating business events, conducting international marketing research, using personal network connections, and relying on organizational networks.

Dependent variables: We focused on one dependent variable, *international performance*, defined as the extent to which SMEs achieve faster growth in revenue, market share, and pre-tax income compared to major competitors (Ciavarella et al., 2004; Pedersen & Petersen, 1998). All items were rated on a five-point Likert scale, from "Strongly Disagree" (1) to "Strongly Agree" (5).

Moderator and control variables: Cultural distance and industry globalization. We asked the respondents to report their top three international clients' countries of origin. Following Kogut and Singh (1988), we then used Hofstede's cultural indices (<https://geerthofstede.com/research-and-vsm/dimension-data-matrix/>), power distance, uncertainty avoidance, masculinity/femininity, and individualism, to assess the deviation of the client countries' cultural values from the focal countries, either China or Tunisia. We used the mean cultural distance score of the three client countries in the model. The deviations were corrected for differences as we averaged four dimensions to calculate a single composite cultural distance score.¹ This approach is suitable when theoretical arguments are based on the notion of cultural distance in general, as opposed to specific dimensions of distance, as is the case with our

¹ Cultural Distance = $\sum_{d=1}^n \left[\frac{(I_j^d - I_c^d)^2}{V_d} \right] / n$, where n is the number of cultural dimensions (e.g., power distance), I_j^d is the index d of the host country j , I_c^d is the index k of the home country c , and V_d is the variance for cultural dimension d .

theorizing (see hypothesis 4). Industry globalization refers to the degree to which global forces, such as customer needs, competitor moves, and corporate purchasing practices, are consistent across worldwide markets (Zou & Cavusgil, 2002). The measures for all latent constructs are presented in Table 1, and the inter-construct correlations are reported in Table 2. We include sales revenue and years of internationalization as control variables; their estimated effects are reported in Table 3.

4.4. Analysis and results

We used structural equation modeling to test the main effect hypotheses using the elliptically reweighted least square (ERLS) procedure of the EQS program to test the overall model fit. This procedure is suitable when the assumption of normal data distribution is not met (Zou & Cavusgil, 2002), as is the case with our data. The results for these tests are: $\Delta\chi^2_{(1)}=3.50$, CFI=0.97, RMSEA =0.08. These results suggest that the overall model hypothesized in Fig. 1 fits the data well, supporting our theorizing. We tested the moderation effects of cultural distance and industry globalization using Ordinary Least Squares (OLS) regression and these results are visualized in Appendix 2. The results for individual hypotheses are detailed next.

4.4.1. Test of the main-effect hypotheses

H1a, H1b and H1c are supported. Specifically, the paths from Customer & Competitor Intelligence Acquisition to creation ($b_{1,i} = 0.18, p = 0.002$) and discovery ($b_{1,ii} = 0.62, p < 0.001$) are significant, supporting H1a and H1b. The inequality constraint test supported H1c as the intelligence acquisition to discovery path shows the stronger association than the creation path ($\Delta\chi^2 = 14.41, p < 0.001$), indicating intelligence acquisition is the most crucial determinant for opportunity discovery, less so for creation.

H2a, H2b and H2c are supported. Our results showed that the main effects of Inter-country Coordination on creation ($b_{2,i} = 0.39, p < 0.001$) and discovery ($b_{2,ii}=0.30, p < 0.001$) were positive and significant, supporting H2a and H2b. The inequality test supported H2c as the Inter-country Coordination to creation path showed a stronger association than the discovery path ($\Delta\chi^2 = 4.49, p = 0.03$), indicating that inter-country coordination might be more important for creation than discovery.

H3a and H3b hypothesized, respectively, that Reconfiguration is positively related to the creation and discovery opportunity recognition modes, and H3c posited that the association is stronger for creation than discovery. Again, similar to H1 and H2, the main effects on creation ($b_{3,i} = 0.60, p < 0.001$) and discovery ($b_{3,ii}=0.43, p < 0.001$) were positive and significant supporting H3a and H3b. Likewise, the inequality test on the third main effect supported our strength of association predictions. Specifically, reconfiguration seems to be the more crucial capability for creation ($\Delta\chi^2 = 5.77, p = 0.02$), less so for discovery, supporting H3c.

Table 2
Correlation Matrix.

	Mean	SD	IA	IC	REC	IG	OC	OD	IP
Intelligence Acquisition (IA)	3.99	.76	.87						
Inter-country Coordination (IC)	3.57	.93	.72* (.000)	.87					
Reconfiguration (REC)	3.17	1.08	.57* (.000)	.80* (0.000)	.93				
Industry Globalization(IG)	3.79	.91	.05 (0.382)	-.18** (0.002)	-.11 (0.059)	.82			
Opportunity Creation (OC)	3.72	0.97	.70*** (0.000)	.78*** (0.000)	.66*** (0.000)	-.29* (0.000)	.86		
Opportunity Discovery (OD)	3.66	.96	.74*** (0.000)	.74*** (0.000)	.64* (0.000)	-.09 (0.12)	.83* (0.000)	.86	
International Performance (IP)	3.03	1.08	.39*** (0.001)	.72*** (0.001)	.85*** (0.001)	-.17** (0.003)	.61*** (0.001)	.57*** (0.001)	0.9
Cultural Distance (CD)	1.59	.91	.14* (0.013)	.15* (0.009)	.13* (0.025)	-.09 (0.115)	.26*** (0.000)	.19*** (0.000)	.14* (0.02)

Notes:

1) p-value is reported inside parentheses.

2) * indicates that the correlations are significant at p-value<0.05, ** p-value<0.010, ***p-value<0.001.

3) Numbers on the diagonal shown in bold denote the square root of the average variance extracted.

4.4.2. Test of the moderating effects of cultural distance

Cultural distance was hypothesized to negatively moderate the relationship between reconfiguration and discovery (H4), which was supported ($b_{4,b} = -0.06, p = 0.010$), indicating SMEs might have more difficulty discovering opportunities as cultural distances increases. Cultural distance did not significantly moderate the relationship between reconfiguration and creation. This suggests that, as SMEs enter more culturally distant countries, the effect of endogenous creation mode was not changed as cultural distance increases, supporting our conceptualization that creation is an internally oriented opportunity creation strategy. We posited that Industry Globalization would positively moderate reconfiguration's effect on the creation ($b_{5,a} = 0.13, p = 0.03$) and discovery ($b_{5,b} = 0.28, p = 0.001$) modes (H5a, b), and these predictions were supported. The results for the moderating effects of cultural distance and globalization, including a visualization of confidence intervals and marginal effects, are also depicted in Appendix 2.

4.4.3. Effects of creation and discovery on international performance

H6a hypothesized a positive relationship between the creation opportunity recognition mode and international performance, which was supported ($b_{6,a} = 0.32, p < 0.001$). H6b hypothesized a positive relationship between the discovery opportunity recognition mode and international performance, which was also supported ($b_{6,b} = 0.21, p < 0.001$).

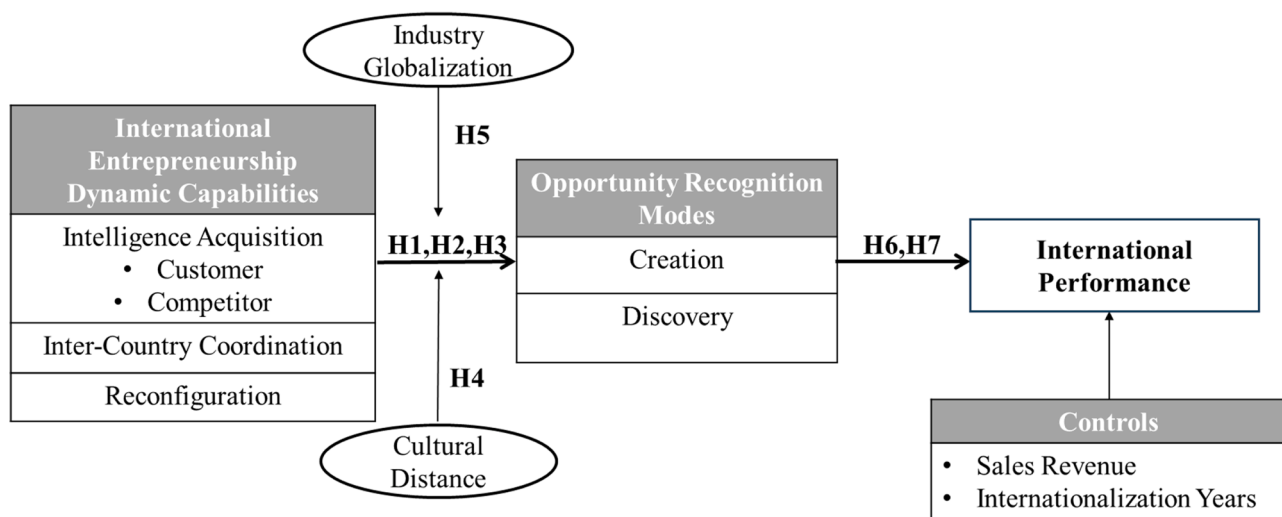
H7 hypothesized the opportunity creation and discovery modes negatively interact, reducing international performance, which was supported ($b_7 = -0.17, p < 0.001$). Regarding control variables, sales revenue was positively and significantly associated with international performance ($b_{sales\ revenue} = 0.12, p = 0.006$), whereas the relationship between internationalization year and international performance was insignificant ($b_{internationalization\ years} = 0.07, p = 0.13$).

Support for H6 and H7 corroborates our theory that opportunity creation and discovery are distinct modes of opportunity recognition. Discovery involves identifying existing opportunities based on external changes, such as market shifts, while creation is a proactive, entrepreneurial process where opportunities are shaped through experimentation and innovation (Shane & Venkataraman, 2000; Alvarez & Barney, 2007). These modes may conflict when pursued simultaneously, as discovery requires rapid, efficient resource deployment, whereas creation demands long-term investment and innovation. This misalignment creates a substitutional interaction effect, where firms face challenges in balancing the reactive nature of discovery with the proactive demands of creation. Resource allocation struggles arise, as focusing too much on creation may hinder the exploitation of discovered opportunities, and vice versa. Furthermore, the timeframes for both modes differ: discovery offers short-term returns, while creation requires longer-term development. This trade-off weakens the firm's ability to optimize both approaches, resulting in diminishing returns. Thus, we conclude that the simultaneous pursuit of creation and discovery negatively impacts international performance.

Table 3
Regression results for path model.

Mediators	Creation (a)		Discovery (b)		$\Delta\chi^2$ Constraint (c)	
	b	p	b	p	$\Delta\chi^2$	p
Dynamic Capabilities						
Intelligence Acquisition (H1)	0.18**	0.002	0.62***	0.001	14.41***	0.001
Inter-country Coordination (H2)	0.39***	0.001	0.30***	0.001	4.49**	0.030
Reconfiguration (H3)	0.60***	0.001	0.43***	0.001	5.77**	0.020
	b	p	b	p		
Interaction						
Cultural Distance (CD)	0.11***	0.001	0.08**	0.020		
Industry Globalization (IG)	-0.18***	0.001	-0.04	0.250		
Reconfiguration X Cultural Distance (H4)	-0.04	0.170	-0.06**	0.010		
Reconfiguration X Industry Globalization (H5)	0.13*	0.030	0.28***	0.001		
Internationalization Performance						
	b	p				
Creation (H6a)	0.32***	0.001				
Discovery (H6b)	0.21***	0.010				
Interaction						
Creation X Discovery (H7)	-0.17***	0.001				
Controls Sales Revenue International Years	0.12** 0.07	0.006 0.130				

* indicates that the coefficients are significance at p -value<0.05. ** significance at p -value<0.01. *** significant at p -value<0.001.



Note: Industry globalization and cultural distance moderate reconfiguration.

Fig. 1. International Dynamic Capabilities, International Entrepreneurial Opportunity Recognition, and International Performance.

4.4.4. Robustness checks

To further test the robustness of our findings, we conducted an alternative analysis using the growth of international employees relative to competitors as the dependent variable instead of international performance. The results of this regression model yielded very similar outcomes to those obtained with international performance as the dependent variable. Specifically, the interaction between opportunity creation and opportunity discovery was significant and negative ($\beta = -0.18, p < 0.001$), supporting our hypothesis that these two modes negatively interact and reduce international performance. The model's fit indices were also significant across all stages, with ANOVA results showing a significant regression model ($F = 36.699, p < 0.001$). These consistent findings across both dependent variables—international performance and the growth of international employees—reinforce the robustness and reliability of the results.

Our sample includes 15 cases with over 1000 employees. To ensure our findings are robust, we conducted additional analyses by excluding these larger firms and found that our main results remain virtually unchanged across all subsamples. This provides confidence that our results are not driven by outliers and that the firms in our sample display the core traits of SMEs.

5. Discussion

Our study explains how IDCs underpin the creation and discovery modes of IOR among internationalizing SMEs and elaborates their implications for international performance.

By highlighting the distinctive constraints faced by SMEs', such as limited resources and heightened uncertainty, we offer a more precise view of how IDCs influence IOR during early internationalization (Knight & Cavusgil, 2004; Zahra et al., 2022). Although IOR and dynamic capabilities have each received substantial theoretical attention, few empirical studies have directly linked them in the SME context. Prior research often treats dynamic capabilities generically, overlooking how specific capabilities align with distinct opportunity recognition modes. We address this gap by offering empirical evidence on how IDCs differentially support creation versus discovery and by delineating contextual conditions, related to cultural distance and industry globalization, under which their effects vary.

5.1. Advancing international entrepreneurial opportunity recognition research

We advance theory on international entrepreneurial opportunity recognition by delineating how creation and discovery constitute distinct modes that shape SMEs' international performance through different mechanisms. Opportunity creation—proactive entrepreneurial action under uncertainty—enhances performance by deliberately developing novel offerings and configurations that discovery-oriented rivals struggle to replicate, answering calls for deeper theorization of creation in international settings (Alvarez & Barney, 2020; Oyson & Whittaker, 2015; George et al., 2016; Zahra et al., 2022). In contrast, opportunity discovery reflects strategic responsiveness to external dynamics: SMEs systematically mobilize environmental scanning and relational networks to identify and exploit existing opportunities, thereby improving agility, market responsiveness, and risk mitigation; discovery thus links external market intelligence to internal strategic execution (Glavas et al., 2017; Faroque et al., 2021; Brock & Hitt, 2024). This addresses long-standing calls for deeper theorization and empirical examination of creation, counterbalancing a literature that has disproportionately emphasized discovery (George et al., 2016; Zahra et al., 2022).

We theorize and substantiate a negative interaction between creation and discovery. Building on Alvarez and Barney's (2007) distinction, we argue that simultaneous pursuit embeds conflicting logics that fragments attention, generates managerial tensions, and erodes strategic coherence. This contribution addresses ongoing debates about integrating opportunity recognition strategies (Chetty et al., 2018; Kiss et al., 2020; Sarasvathy, 2001) by specifying when strategic focus and coherent resource allocation are more likely to yield superior outcomes for SMEs navigating international markets. Finally, we draw on multi-country, multi-source, and multi-informant evidence to support two distinct modes—creation and discovery. We introduce measures that clearly distinguish between them, addressing common limitations of single-country, single-informant research and strengthening both rigor and generalizability.

5.2. Integrating dynamic capabilities with international entrepreneurial opportunity recognition

We offer a theoretical contribution by extending the dynamic capabilities framework to the domain of international entrepreneurial opportunity recognition and by specifying how IDCs enable distinctive opportunity recognition modes among internationalizing SMEs. Although dynamic capabilities theory explains firm adaptation under change (Tece, 2007) and has been applied to MNE competition (Tece, 2014; Zahra, Sapienza & Davidsson, 2006), its application to international entrepreneurship—especially SMEs—remains underdeveloped (Zahra, Petricevic & Luo, 2022). The SME context—marked by rapid internationalization, resource constraints, and heightened uncertainty—offers a focused setting for theory building (Knight & Cavusgil, 2004;

Zahra et al., 2006).

We theorize a dynamic capabilities–IOR mode mapping: intelligence acquisition aligns with discovery (systematic scanning and risk assessment), whereas inter-country coordination and reconfiguration align with creation (cross-border orchestration and resource recombination). Framing opportunity recognition mode as an organizational choice shaped by firm-level capabilities bridges the dynamic capabilities and international entrepreneurship literatures, showing that capabilities not only help firms adapt to markets but also shape how market opportunities are recognized and formed. This integration yields a finer-grained theoretical account of SME internationalization and clarifies the associated performance implications (Zahra, Petricevic & Luo, 2022).

5.3. Contextualizing dynamic capabilities: environmental contingencies and strategic trade-offs

Our research advances a more contextualized understanding of how dynamic capabilities shape IOR by theorizing cultural distance and industry globalization as moderators of the reconfiguration–opportunity recognition mode relationship. Cultural distance negatively moderates reconfiguration's effect on discovery, as greater differences heighten information-processing and interpretation challenges that hinder the detection of ostensibly objective opportunities. By contrast, it does not significantly affect creation, which is endogenously enacted rather than reliant on market scanning. Industry globalization positively moderates reconfiguration's impact on both discovery and creation by expanding access to international knowledge networks, standardizing market interfaces, and increasing transparency (Zou & Cavusgil, 2002). These contingencies refine dynamic capabilities theory by specifying when transforming/orchestrating capabilities differentially enable the two modes of IOR. Importantly, we also find a substitution effect between creation and discovery: concurrent pursuit diminishes international performance. This challenges assumptions of seamless complementarity (Chiasson & Saunders, 2005; Vaghely & Julien, 2010; Zahra, 2008) and underscores risks of resource fragmentation and strategic incoherence (George et al., 2016). The implication is the need for strategic focus and sequencing, particularly for internationalizing SMEs that face liabilities of newness and smallness (Knight & Cavusgil, 2004). Together, these insights clarify the conditions under which SMEs can effectively manage and exploit opportunities in varied and dynamic environments.

5.4. Practical implications

The distinction between creation and discovery offers actionable guidance for internationalizing SMEs. Firms pursuing creation should prioritize investments in R&D and innovation, cross-border orchestration, and resource recombination to shape markets and build novel offerings; by contrast, firms pursuing discovery should emphasize market and competitor intelligence systems, rapid evaluation, and timely execution to exploit identifiable gaps (Zahra, 2008). Discovery often requires swift commitment to capture windows of opportunity, whereas

Table 4
Descriptive Statistics.

	China (N = 118)		Tunisia (N = 185)		Overall (N = 303)	
	Mean	S.D.	Mean	S.D.	Mean	S.D.
Percentage of Overseas Sales	36 %	0.2	57 %	0.37	47 %	0.35
Percentage of Overseas Employees	16 %	0.19	3 %	0.07	8 %	0.14
Percentage of R&D Employees	14 %	0.14	5 %	0.09	8 %	0.12
Internationalization Years	6	2.2	5	2.5	5	2.5
Number of Employees (Mean)	488	616	216	270	321	458
Number of International Employees	10	8	11	7	10	8
Overall Sales Revenue	8 Million USD	6.5 Million USD	8 Million USD	3.3 Million USD	8 Million USD	5 Million USD
Internationalization Scope	22 (Range: 3 to 200)	30	5 (Range: 1 to 60)	9	11 (Range: 1 to 200)	21

creation typically entails iterative development and market education. Clarifying the dominant mode thus informs resource allocation, capability development, and sequencing of activities, helping managers align organizational processes with the nature of the opportunity and the demands of unfamiliar international contexts (George et al., 2016).

A critical caveat is that the two modes are not always complementary. Although both can enhance international performance through distinct pathways, their joint pursuit can fragment attention and dilute resources, producing substitution effects. The propensity to favor one mode is shaped by firm-level IDCs and conditioned by industry globalization and cultural distance. In practice, internationalizing SMEs should adopt a clear primary mode, match it to their capability portfolio, and govern against mode drift—for example, by sequencing (e.g., discovery to generate early cash flows followed by staged creation) or structurally separating initiatives when dual pursuit is unavoidable. By understanding how each mode contributes to performance and how context moderates capability–mode links, managers can align strategy with internal capabilities and external conditions more effectively (Vuorio & Torkkeli, 2023; Zahra, 2008).

Finally, we suggest aligning the opportunity recognition mode with the firm's capability portfolio and the international context. When industry globalization is high, creation tends to yield superior returns if the firm can orchestrate and reconfigure cross-border resources through deep collaborative ties; when cultural distance is high, discovery tends to perform better when grounded in systematic customer/competitor intelligence and disciplined risk appraisal that mitigates misinterpretation and entry misalignment. Because these contingencies privilege different mechanisms, the support ecosystem should differentiate its instruments accordingly—building intelligence and analytics infrastructure (market research, export analytics, risk tools) to enable discovery in high-cultural distance entries, and providing flexible, experimentation-oriented finance and capability building in reconfiguration and inter-country coordination to enable creation in highly globalized industries.

6. Limitations and future research directions

Like all studies, ours has limitations that suggest directions for future

Appendix 1. Sample characteristics

Our sample comprised SMEs from the manufacturing sectors in China and Tunisia. This empirical context is justified for several compelling reasons. Both countries are home to a significant number of SMEs that actively engage in global markets, offering a diverse range of IOR. This diversity makes them an ideal empirical setting for testing our proposed theoretical model. Moreover, Chinese and Tunisian SMEs operate across a wide array of international markets, spanning developing to highly developed economies across various continents. This engagement generates considerable variance in industry globalization and cultural distance, providing valuable insights into the dynamics of international entrepreneurship. Manufacturing is a key driver of international trade in both countries and provides a delimited context that helps control for variance between sectors (such as services and manufacturing) when examining the hypothesized relationships. This focus also aligns with prior research emphasizing the role of tangible product development in early internationalization (Knight & Cavusgil, 2004), and tangible outputs also allow for a more straightforward conceptualization and measurement of internationalization outcomes.

China, as the world's second-largest economy and a global leader in trade, represents a unique East Asian context, while Tunisia, a North African country with a relatively open market and vibrant political and economic changes, offers a contrasting institutional environment. By selecting these two emerging markets, our research fills a significant gap in the IOR literature, which has often overlooked regions such as Asia and Africa (Gupta, Pandey & Sebastian, 2021). Both countries have experienced significant economic transitions, but their institutional environments differ markedly, leading to variability in the internationalization strategies and outcomes of SMEs.

Our study focused on internationalizing small and medium enterprises (SMEs) that began their internationalization within the last 15 years and exported at least 5 % of their total production, in line with prior research (Knight & Cavusgil, 2004). We included only firms under 12 years of age at the time of data collection, with 99.7 % under 10 years of age, thus focusing on relatively young, dynamic firms. This approach aligns with recent recommendations to use the more inclusive term “internationalizing SMEs” to capture early and rapid international engagement without the definitional ambiguities associated with the “international new ventures” construct (Gölgeci et al., 2019).

Our sample comprises 303 manufacturing SMEs from China ($N = 118$) and Tunisia ($N = 185$). Table 4 summarizes the descriptive statistics. On average, firms in the sample are 8.4 years old (China: 8.2; Tunisia: 8.6), with a mean of 5.5 years since initial internationalization (China: 6.1; Tunisia: 5.0). These firms demonstrate a significant commitment to international markets: the mean percentage of overseas sales is 47 % (China: 36 %; Tunisia: 57 %), while the average number of foreign markets served is 11 (range: 1–200). The firms' average overall sales revenue is approximately USD 8

research. Although we have provided empirical support for two different modes of IOR - creation and discovery, the cross-sectional design of our study does not allow us to assess whether entrepreneurs can develop and use multiple IOR modes over time. To fill this gap, future research can investigate the degree to which entrepreneurs can switch between alternative IOR modes and how firm capabilities and contextual variables influence their ability to do so. While our empirical focus on Chinese and Tunisian international SMEs answers calls for more opportunity-focused research in varied and diverse contexts (Reuber et al., 2017), especially in emerging markets, this may also be viewed as a limitation to the extent that our findings may be idiosyncratic to the empirical contexts we studied. Replication studies are hence warranted to validate our findings. While our theorizing was largely supported, future research could extend our framework by testing its boundary conditions in a broader range of empirical contexts (e.g., services, established firms), and by examining additional internationalization processes or performance outcomes.

Declaration of generative AI and AI-assisted technologies in the writing process

During the preparation of this work, the authors used OpenAI's ChatGPT to assist with phrasing and to generate alternative ways of expressing complex academic concepts as a means of improving clarity and readability. After using this tool, the authors reviewed and thoroughly edited the content and take full responsibility for the content of the publication.

CRedit authorship contribution statement

Linda Hui Shi: Writing – review & editing, Writing – original draft, Resources, Methodology, Formal analysis, Data curation, Conceptualization. **Wade M. Danis:** Writing – review & editing, Writing – original draft, Conceptualization.

million, and the mean number of employees is 321, indicating substantial firm size heterogeneity.

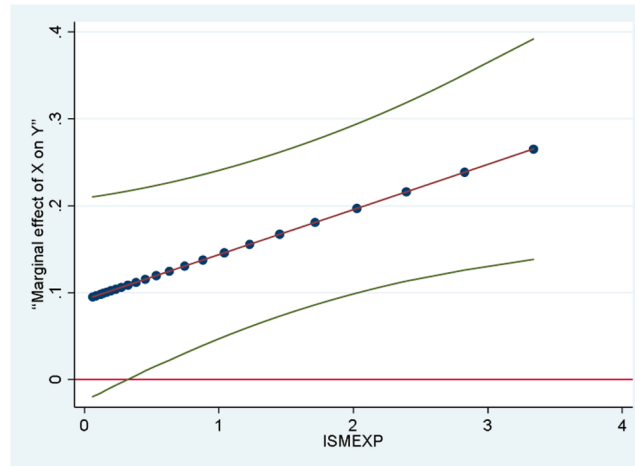
Regarding internationalization intensity and innovation, an average of 8 % of employees are based overseas (China: 16 %; Tunisia: 3 %), and 8 % are engaged in R&D (China: 14 %; Tunisia: 5 %), reflecting an emphasis on both international operations and innovation capacity. The mean number of international employees per firm is 10, and the average number of foreign markets served per firm is 11 (China: 22; Tunisia: 5), highlighting the broad international footprint of the sample firms.

Regarding the sectoral diversity of our sample, in China, 37 % of sampled firms operate in electronic manufacturing, 39 % in textile manufacturing, 15 % in agriculture, and 9 % in other manufacturing. In Tunisia, 60 % are in textile manufacturing, 23 % in agriculture, 10 % in other manufacturing, and 8 % in electronic manufacturing. This industry diversity provides important contextual variation and increases the generalizability of our findings.

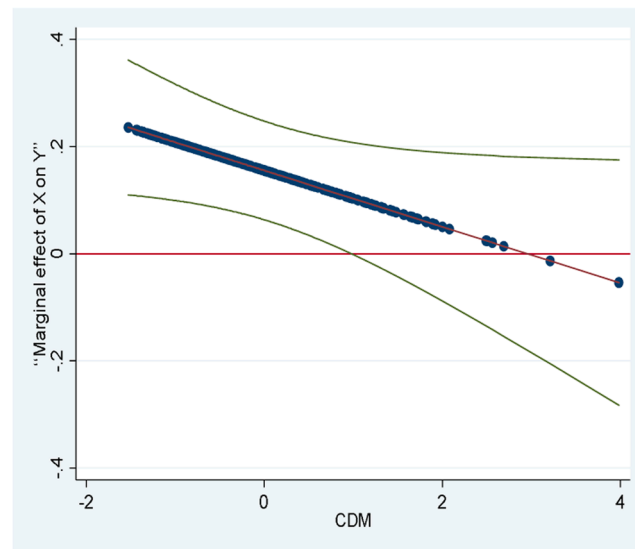
Collectively, these data confirm that the firms in our sample are internationalizing SMEs—characterized by early and substantial international engagement, significant overseas revenues, a broad scope of foreign market participation, and an emphasis on innovation.

Appendix 2. Illustrating the marginal effect of reconfiguration on opportunity recognition

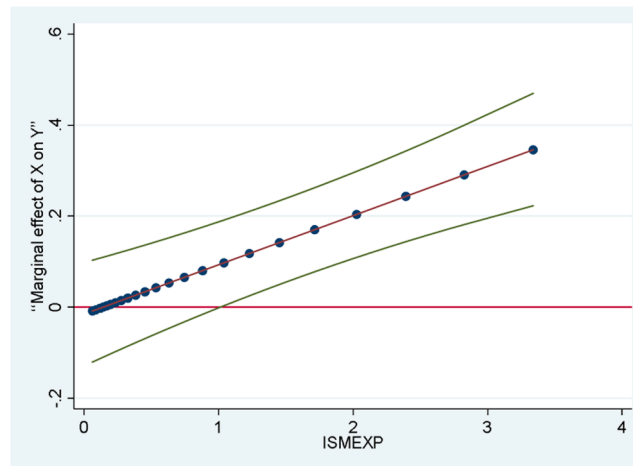
2.1 Industry Globalization as Moderator (DV = Creation)



2.2 Cultural Distance as Moderator (DV = Discovery)



2.3 Industry Globalization as Moderator (DV = Discovery)



Notes:

The graph's two outer lines represent a 95 % confidence range for the interaction between moderators, such as cultural distance or industry globalization, and reconfiguration. All variables are continuous. The Y axis displays the marginal effect of reconfiguration on the dependent variable, which is creation and discovery. The small dots on the graph represent all observations for moderators. All three interactions indicate that a majority of observations of interactions are above the horizontal zero line, suggesting that the interaction effect is significant. This visualization is valuable as it demonstrates the strength of all observations of moderators, rather than just those one standard deviation below or above the mean.

Data availability

The data that has been used are confidential.

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