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Target and position article

# Knowledge configurations of small and medium-sized knowledge-intensive firms in a developing economy: A knowledge-based view of business-to-business internationalization

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## ABSTRACT

This paper explores knowledge configurations (i.e. combinations of knowledge types and sources) in the business-to-business internationalization of knowledge-intensive small and medium-sized enterprises (SMEs) in a developing economy. Semi-structured interviews were conducted with 33 owners/managers of 22 such firms that internationalized from Tunisia; so to establish their knowledge configurations and other key characteristics. In spite of their many differences (e.g. firm age, host markets, entry modes, resource endowments, products and services) they share an interesting empirical regularity; they have not developed internationalization knowledge. That is, a knowledge type portrayed as key in the extant theorizing. The findings show the knowledge configurations of these SMEs and how they compensated for their knowledge shortcomings. The implications for industrial marketing management theory and practice are discussed, along with several viable avenues for further context-specific and practice-oriented research.

## 1. Introduction

Resource availability, and knowledge/learning in particular, play a pivotal role in SME internationalization (Autio, Sapienza, & Almeida, 2000; Casillas, Moreno, Acedo, Gallego, & Ramos, 2009; Johanson & Vahlne, 1977, 2009); especially in business-to-business (B2B) settings (Karlsen, Silseth, Benito, & Welch, 2003; Lindsay, Rod, & Ashill, 2017). Internationalizing SMEs face smallness, newness, foreignness, and outsidership liabilities (Almodóvar & Rugman, 2015; Buckley, 1989; Johanson & Vahlne, 2009; Knight & Cavusgil, 2004; Oviatt & McDougall, 1994). In addition SMEs internationalizing from developing economies<sup>1</sup> face severe home-liabilities. For example: weak institutions, elevated levels of economic and political instability/risk, poor infrastructure, shortage of specialised financial intermediaries, malfunctioning markets, and underdeveloped industrial linkages (Kiss, Danis, & Cavusgil, 2012; Meyer, Estrin, Bhaumik, & Peng, 2009; Schwens, Eiche, & Kabst, 2011).

The knowledge and learning needs of SMEs internationalizing from such home-settings have been well documented (Ibeh & Kasem, 2011; Nguyen, Ngoc, & Bryant, 2013; Thai & Chong, 2008; Yamakawa, Peng,

& Deeds, 2008; Zhu, Hitt, & Tihanyi, 2007). Yet none of these studies examined the respective knowledge configurations (i.e. combinations of knowledge types and sources), which have emerged as an increasingly important explanation for the ability of SMEs to internationalize from developed economies (Deligianni, Voudouris, & Lioukas, 2015; Fletcher & Harris, 2012; Fletcher, Harris, & Richey, 2013; Weerawardena, Mort, & Liesch, 2017).

This paper is a response to on-going calls for further study into SME internationalization from developing economies (Ibeh & Kasem, 2011; Kiss et al., 2012; Zahra & George, 2002), answering the research question: ‘how do the knowledge configurations of SMEs from a developing economy enable them to engage in international B2B markets?’

The answer to this question has significant implications for industrial marketing management (IMM) theory and practice. It has been argued for example that internationalization knowledge (IK), is a fundament of a firm's ability to effectively operate in foreign industrial markets (Weerawardena et al., 2017). However, the transformation of situation-specific experiential knowledge into IK (i.e. codified principles and effective organizational routines) is costly (Eriksson, Johanson,

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<sup>1</sup> In this study we use developing as shorthand for any economy that is not developed; e.g. emerging, less/under-developed, third world. More precise classification systems are introduced in the research context section (3.2).

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Majkgard, & Sharma, 1997: 340). The key sources of IK (e.g. consultants and lawyers) are expensive (Fletcher et al., 2013; Fletcher & Harris, 2012). In addition, maintaining strategic alignment with an ever-evolving base of IK requires on-going investments (Autio et al., 2000; Fletcher et al., 2013; Fletcher & Harris, 2012; Prashantham & Young, 2011; Weerawardena et al., 2017). Our findings demonstrate how B2B SMEs may avoid such costly affairs and internationalize on a 'shoe-string' with some measure of success (e.g. more than 56% of foreign sales, firm survivability, and continued engagement with internationalization).

Given the central role of knowledge and learning in knowledge-intensive firms (Brennan & Garvey, 2009) this study like many others before it (Deligianni et al., 2015; Ibeh & Kasem, 2011; Moen, Gavlen, & Endresen, 2004; Nummela, Saarenketo, & Puumalainen, 2004; Saarenketo, Puumalainen, Kylaheiko, & Kuivalainen, 2008; Voudouris, Dimitratos, & Salavou, 2011) focuses on Information and Communication Technology (ICT) SMEs. In particular 22 ICT SMEs that are dependant solely upon B2B markets, and that have been internationalizing from Tunisia during the 1992–2009 period; i.e. prior to the 'Arab Spring'.<sup>2</sup> This is a particularly interesting context for answering our research question as it allows us to investigate knowledge configurations of B2B SME internationalizing with meagre resources, from an underprivileged home-setting, at the periphery of the ICT industry.

The research objectives of this study can therefore be summarised as: 1) to explore the knowledge configurations of B2B ICT SMEs internationalizing with meagre resources from such a home-setting, 2) given that these have not been studied before, identify any novel empirical regularities that could enhance the extant theorizing in this area, and 3) develop respective recommendations on the basis of this new found knowledge.

The rest of the paper is organized as follows. In the next section we review the relevant literature. In the methods section, we discuss further our research context and why it is particularly pertinent along with our qualitative research design and analysis. In the penultimate section we detail the main findings concerning the knowledge configurations of our SMEs. We conclude by discussing some key areas for further research and the implications of our study.

## 2. Literature review

Internationalizing SMEs need different kinds of knowledge (Johanson & Vahlne, 1977). Satisfying this need requires the pursuit of multiple forms of knowledge acquisition (Autio et al., 2000; Eriksson, Majkgård, & Sharma, 2000; Fernhaber, McDougall-Covin, & Shepherd, 2009). By conceptualizing internationalization as a process of organizational learning and knowledge development (Autio et al., 2000; Eriksson et al., 2000; Johanson & Vahlne, 1977, 2009) a range of knowledge configurations have been explored in the literature (Fletcher & Harris, 2012; Hilmersson, 2014; Huber, 1991).

There is, thus, a history of attempts to classify knowledge configurations pertaining to SME internationalization with varying degrees of specificity. These range from the forms of knowledge specific to new international ventures (Park, LiPuma, & Prange, 2015), to the finer types of experiential knowledge in incremental internationalizers (Eriksson et al., 2000; Hilmersson, 2014), and the differentiated learning mechanisms of early versus late internationalizers (Schwens & Kabst, 2009). The Fletcher and Harris (2012) framework is adopted in this study as it:

- a) has been used successfully with cases of internationalizing ICT SMEs,

- b) not only does it classify the knowledge types popularised in the extant literature but also intersects them with an adequate set of source categories, and
- c) has been demonstrated to be able to identify "knowledge content and sources that are critical for internationalization, but that may be absent" (Fletcher & Harris, 2012: 631).

The framework was developed by drawing extensively on Huber's (1991) conceptualisation of knowledge acquisition. It synthesizes insights from SME internationalization and organizational learning to identify knowledge configurations. These can comprise three types of knowledge (technological, market, and internationalization) and five categories of sources (direct, vicarious experience, grafted experience, external search, and internal information). The importance of these knowledge types in SME internationalization from developed economies is well documented (e.g. Deligianni et al., 2015; Sullivan & Marvel, 2011; Voudouris et al., 2011; Weerawardena et al., 2017). They are discussed next in turn.

*Technological knowledge* confers firm-specific advantages in developing and adapting products and services that are transferable across borders (Kogut & Zander, 1993). Technological knowledge also includes organizational awareness of technological change across the broader market, and the relative position of competitors, thus informing positioning (Sullivan & Marvel, 2011). A growth in the organizational stock of technological knowledge will result in enhanced products and services, creating new opportunities both at home and abroad (Dhanaraj & Beamish, 2003; Oviatt & McDougall, 1994; Zahra, Ireland, & Hitt, 2000). Technological knowledge has been shown to be related positively to international diversity and high-control entry modes (Zahra et al., 2000: 944).

*Market knowledge* is specific to each host market, including knowledge of potential customers, distribution channels, institutions, legal and regulatory conditions, and risks (Burgers, Van Den Bosch, & Volberda, 2008; Johanson & Vahlne, 1977, 2009). A growth in the organizational stock of market knowledge will reduce uncertainty and risk (Fletcher & Harris, 2012), assist in exploiting growth opportunities (Wiklund & Shepherd, 2003), and help to better respond to market needs (Deligianni et al., 2015). Market knowledge has been shown to be related positively to variations in the experiences a firm has with different entry modes (Descotes & Walliser, 2010).

*Internationalization knowledge* (IK) is a firm-specific ability to understand and pursue multiple international opportunities (Blomstermo, Eriksson, Lindstrand, & Sharma, 2004). It assists in screening foreign markets, evaluating partners, and managing FDI (Prashantham & Young, 2011; Welch, Benito, & Petersen, 2007). IK has been shown to be related positively to variations in the experiences a firm has in different markets (Barkema & Vermeulen, 1998). It is formalised/codified in principles for evaluating and targeting new internationalization opportunities in general, as evidenced by enhanced organizational routines during subsequent market entries (Eriksson et al., 2000; Fletcher & Harris, 2012; Prashantham & Young, 2011). IK development is thus costly (Eriksson et al., 1997: 340) as it requires the transformation of situation-specific experiential knowledge into codified principles and effective organizational routines (Prashantham & Young, 2011). IK development is often enabled by expensive sources such as consultants, lawyers, new senior appointments, and/or government advisors, as reported in Fletcher and Harris (2012) and Fletcher et al. (2013). Such costs are further inflated by the time/effort needed to 'unlearn old IK' and in general by the need to maintain strategic alignment with an ever-evolving base of IK, which requires on-going investments (Autio et al., 2000; Fletcher et al., 2013; Fletcher & Harris, 2012; Prashantham & Young, 2011; Weerawardena et al., 2017).

Our discussion of IK already touched upon the first category of knowledge sources; namely *direct experience*. In SMEs this tends to originate from the owner (or senior management team's) previous international career, education, or business venture (Madsen & Servais,

<sup>2</sup> At the time an SME in Tunisia was defined as having less than 300 employees and/or USD 3,000,000 in assets (Conseil du Marché Financier, 2006).

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