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Experiential knowledge antecedents of the SME network node configuration in emerging market business networks

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ABSTRACT

This paper aims to determine experiential knowledge antecedents of the network node configuration (i.e., dyad or triad) of SMEs entering emerging market business networks. Three kinds of knowledge of different degrees of specificity are assessed, namely, general internationalization, market-specific, and customer-specific knowledge. The sample consists of 203 SMEs in southern Sweden with experience of entering the Baltic State, Polish, Russian, or Chinese markets. The theoretical framework integrates network theory and internationalization process theory in order to understand and explain the internationalization of smaller firms. The hypotheses formulated are tested using logistic regression, which indicates that market- and customer-specific types of knowledge favor a dyadic network node configuration into the emerging market business network, while general internationalization knowledge has no significant effect. In addition, interaction effects were seen to moderate relationships between knowledge antecedents and the network node configuration of the sampled SMEs.

1. Introduction

Knowledge and learning inevitably play an important role in the internationalization of firms (Forsgren, 2002; Johanson & Vahlne, 2003, 2006, 2009). The process of internationalization is incremental and driven by the interplay between learning about international business operations and commitment to international markets (Johanson & Vahlne, 2003). It contains ongoing international activities and interactions with international actors (Johanson & Vahlne, 1977, 2009), through which the firm gains experiential knowledge through learning by doing (Penrose, 1959). The learning then takes place as a transformation of firm experiences into useful knowledge (Eriksson, Johanson, Majkgård, & Sharma, 1997; Petersen, Pedersen, & Lyles, 2008). Accumulation of experiential knowledge is regarded to reduce the perceived uncertainty of a market and to lead to further international commitment (Johanson & Vahlne, 1977). It is thus the most important type of knowledge for internationalizing firms (Forsgren, 2002) and is also highly influential in terms of foreign market selection and establishment decisions (Casillas, Moreno, Acedo, Gallego, & Ramos, 2009; Coviello & Munro, 1997; Johanson & Wiedersheim-Paul, 1975).

Foreign market entry mode is one of the most well studied elements of firm internationalization (Morschett, Schramm-Klein, & Swoboda, 2010) and has been complemented by investigations of mode changes (Swoboda, Olejnik, & Morschett, 2011) and foreign operation modes (Benito, Petersen, & Welch, 2009). The organizational structure of how a firm establishes itself in a foreign market, i.e., the mode (Chetty & Agndal, 2007), has foremost been studied within the framework of economic theories (Brouthers & Hennart, 2007). However, there are calls to study foreign market entry from other perspectives as well, such as the network theory (Chetty & Agndal, 2007). This is in line with research into the internationalization of small and medium-sized firms (SMEs) that pinpoints the importance of network relationships (Bell, 1995; Coviello & McAuley, 1999; Coviello & Munro, 1997; Ojala, 2009; Wolff & Pett, 2000). Thereby, a network approach should be taken when examining the foreign market entry of firms, in order to complement existing mode research. Then the focus is on how the firm connects into a foreign business network, taking place either as a dyadic relationship between the firm and the foreign customer, or a triadic relationship via an intermediary (Hilmersson & Jansson, 2012; Jansson & Sandberg, 2008; Sandberg, 2013).

This paper advocates viewing foreign market entry as a process of plugging into foreign market business networks (Forsgren, Holm, & Johanson, 2005) rather than as the structural organization of international expansion. In this context, there is a lack of research from a network perspective into what affects the way firms establish themselves abroad (Chetty & Agndal, 2007). The current paper therefore aims to determine experiential knowledge antecedents of the network node configuration of SMEs entering emerging market business networks. The study integrates network

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theory and internationalization process theory in order to understand and explain the internationalization of smaller firms (Bell, McNaughton, Young, & Crick, 2003; Coviello & McAuley, 1999; Johanson & Vahlne, 1990, 2003; Meyer & Skak, 2002). It thereby answers to calls for new models of internationalization (Fillis, 2001; Meyer & Gelbuda, 2006).

The research questions are: (1) what knowledge antecedents affect the network node configuration of SMEs in emerging markets, and (2) what interaction effects moderate the relationships between different kinds of knowledge and the network node configuration? These questions will be answered by testing three kinds of knowledge of different degrees of specificity, i.e., general internationalization, market-specific, and customer-specific knowledge, as antecedents of the network node configuration in which the firm has established either a dyad or a triad as the way to connect to the customer in the foreign market.

The research will be based on a study of SMEs entering emerging markets. Studies and theorizing regarding firm internationalization processes have generally focused on multinational corporations rather than smaller firms (e.g., Coviello & McAuley, 1999; Coviello & Munro, 1997; Fillis, 2001). Small firm size is considered a disadvantage in internationalization, since SMEs (here defined as companies with fewer than 250 employees, following the EU definition) often lack the resources necessary to enter foreign markets (Jansson, 2007a; Meyer & Skak, 2002), such as relevant experience and network relationships (Eriksson et al., 1997; Fletcher & Harris, 2012). The geographical context is emerging markets, which are the main growth areas of the world due to their rapid economic and structural development (Cavusgil, Ghauri, & Agarwal, 2002). As such, they are important grounds for international business activities (Meyer & Gelbuda, 2006), though their business environments differ from those of mature markets (Ghauri & Holstius, 1996; Meyer, 2001). As a result, it has been challenged whether the existing knowledge base of firms is applicable when entering emerging markets or not (Hilmersson, 2011; Salmi, 2000).

The paper first presents the theoretical framework, hypotheses, and research model. Section 3 then describes the sample, data collection, measurement of variables, and analytical technique. The paper ends with a discussion of the results and the conclusions, managerial implications, as well as limitations of the research and suggestions for further research.

2. Theoretical framework, hypotheses, and research model

2.1. Internationalization of smaller firms

Firm internationalization has primarily been studied through four theoretical lenses: economic theories of the multinational firm/foreign direct investment, internationalization process theory, network theory (Coviello & McAuley, 1999; Leonidou & Katsikeas, 1996), and, more recently, international entrepreneurship focusing on rapidly internationalizing international new ventures and born globals (Knight & Cavusgil, 1996; Oviatt and McDougal, 1994, 2005). For this paper internationalization process theory and network theory are combined in studying SMEs, as advocated by, for example, Bell et al. (2003), Coviello and Munro (1997), Johanson and Vahlne (2003, 2009) and Meyer and Skak (2002).

Internationalization process theories (e.g., Johanson & Vahlne, 1977) view internationalization as an incremental process driven by the interplay between learning about international business operations and commitment to international markets (Johanson & Vahlne, 2003, 2009). As an extension of these thoughts, a network theory was developed to pinpoint the importance of relationships in internationalization. In this approach, the market is seen as comprising business networks that spur international business activities (e.g., Axelsson & Johanson, 1992; Håkansson, 1982; Håkansson & Snehota, 1995; Johanson & Vahlne, 2003, 2006, 2009; Majkgård & Sharma, 1998). This approach is considered especially important for smaller firms (Ojala, 2009), as developing long-term network relationships lets them enlarge their resource base and surmount size-related barriers that restrain their growth (Coviello & McAuley, 1999; Coviello & Munro, 1997). According to the network approach, firm internationalization is undertaken via the initiation, development, and maintenance of international relationships (Johanson & Mattsson, 1988) with the aim of establishing insidership positions in foreign business networks (Johanson & Vahlne, 2009).

2.2. The network node

Foreign market entry, and in particular the entry mode choice, has attracted considerable amount of research (Morschett et al., 2010). It has primarily (to 90%) been researched from the perspective of economic theories, such as the transaction cost approach and the eclectic paradigm (Brouthers & Hennart, 2007). The same goes for most studies of mode changes (Swoboda et al., 2011) and foreign operation modes (Benito et al., 2009). Nonetheless, calls are made to consider the foreign market entry of firms also from other perspectives, for example the network theory (Chetty & Agndal, 2007).

From a network perspective, the organizational structure of how a firm establishes itself in a foreign market, i.e., the mode (Chetty & Agndal, 2007), is complemented by the concept of the node, i.e., how the firm connects into a foreign business network (Hilmersson & Jansson, 2012; Jansson & Sandberg, 2008; Sandberg, 2013). How the relationship with the foreign customer in the emerging market is set up (either a direct or indirect relationship), is referred to as the network node configuration in line with Sandberg (2013). Direct relationships, or dyads, are then established between buyers and sellers in their respective countries. Indirect relationships, or triads, involve some outside party, usually an intermediary such as an agent, dealer, or distributor (Jansson & Sandberg, 2008). In contrast to mode theory, the node concept is based on network and relationship theory and is thereby not investment oriented. Node and mode thus represent two different aspects of foreign market entry, but are still interrelated since the actual organization of an entry node could be equivalent to an entry mode. (Hilmersson & Jansson, 2012; Sandberg, 2013)

Due to uncertainty when entering foreign markets and business networks, indirect channels seem to be preferable to reduce perceived risks (Cavusgil et al., 2002). Triads can thereby be useful in the first steps of a company's incremental internationalization process, when it might lack knowledge and experience of internationalization and specific markets. The responsibility then lies with the intermediary, who takes the burden off the exporter. However, a risk is involved: triads could isolate the seller from the foreign market, preventing the company from gaining any international knowledge and thus to commit further in the market. The intermediary then retains control of, for example, final pricing affecting profits, customer relationships affecting reputation, and foreign sales. Using dyads instead offers the firm the advantages of control, concentrated marketing, access to information, and more protected property rights, though dyads entail higher start-up costs and risks.

It has been demonstrated that, over time, firms tend to change their presence in a market, often into more committed forms (Agndal & Chetty, 2007), as a result of increasing experiential knowledge of the market (Johanson & Wiedersheim-Paul, 1975). Being interrelated, changes in mode also result in changes in node (Hilmersson & Jansson, 2012); therefore, when a more committed