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Article

Knowledge acquisition for SMEs first entering developing economies: Evidence from Senegal

Sonia María Suárez-Ortega[a,*], Antonia Mercedes García-Cabrera[b], Gary Alan Knight[c]

[a] Universidad de Las Palmas de Gran Canaria, ULPGC, Facultad de Economía, Empresa y Turismo, Departamento de Economía y Dirección de Empresas, Edificio de Ciencias Económicas y Empresariales, C-3.09, 35017 Las Palmas de Gran Canaria, Spain
[b] Universidad de Las Palmas de Gran Canaria, ULPGC, Facultad de Economía, Empresa y Turismo, Departamento de Economía y Dirección de Empresas, Edificio de Ciencias Económicas y Empresariales, C-3.03, 35017 Las Palmas de Gran Canaria, Spain
[c] Willamette University, Atkinson Graduate School of Management, 900 State Street, Salem, OR 97301, USA

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ABSTRACT

As developing economies have weak institutional environments, and these are highly distant from SMEs' home conditions in developed economies, those firms entering into developing economies should acquire new knowledge resources for a successful entry. In this paper, we analyze the type of knowledge required by SMEs to enter a foreign market, the alternative sources for acquiring that knowledge, and the specific challenges associated with the case of SMEs from developed economies in their first entry in developing economies. In our empirical work, we examined the specific case of Spanish SMEs entering Senegal as a first incursion in developing economies. This work shows evidence of usefulness to contribute to literature. Specifically, we found that the key knowledge is that which is specific to the target market, rather than the general knowledge about internationalization. In addition, we provide a matrix that summarizes the most appropriate sources to acquire each type of knowledge in the light of the main challenges identified: myopic managerial thinking, inflexible managers, absence of a culture of cooperation, and relevant knowledge embedded in local networks of the host market.

Introduction

Research on internationalization to developing markets is not new, but the focus has been made on multinationals (MNCs) (e.g., Demirbag, Glister, & Tatoglu, 2007; Meyer, Estrin, Bhaumik, & Peng, 2009). Few research works have been published that explicitly address the case of small and medium-sized enterprises (SMEs) from developed economies entering developing markets (Hilmersson & Jansson, 2012; Jansson & Sandberg, 2008). However, research conclusions from MNCs may not be always valid for SMEs because of their specific characteristics. In particular, SMEs are firms with 250 and fewer employees, which are independent, not integrated in a corporate group or being a spin-off firm from a large MNC, so not having parental resources and decision-making support (Spence & Crick, 2006). Thus, one can easily consider that there is not much room for those SMEs to play an important role in serving those growing but almost unknown developing markets, mainly acknowledging that SMEs typically have far fewer resources (Knight & Kim, 2009) and are likely less experienced in foreign markets than MNCs. However, the emergent interest in these markets among SMEs is a fact. This is encouraged by the standstill of many developed economies, and by a growing number of developing countries with good economic perspectives and a better business climate (World Bank, 2014).

As developing markets are institutionally weaker and different from developed ones (Choi, Kim, & Kim, 2010), firms from more advanced economies internationalizing toward developing markets would be an extreme case of the classic liability of foreignness when entering foreign markets (Petersen, Pedersen, & Lyles, 2008). According to Petersen et al. (2008), a critical component of this liability is the gap between the knowledge the firm possesses and the knowledge the firm needs to accomplish the foreign venture, being this gap greater in cases of distant institutional host markets. As SMEs tend to possess far fewer resources than MNCs, they would face higher challenges to acquire the knowledge needed for a successful entry in developing economies.

Focused on this topic, on the one hand, some research works have already advanced our understanding about the type of

* Corresponding author.
E-mail address: sonia.suarez@ulpgc.es (S.M. Suárez-Ortega).

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knowledge firms need in their internationalization process in order to be successful (e.g., Eriksson, Johanson, Majkgard, & Sharma, 1997; Cuervo-Cazurra, 2011; Johanson & Vahlne, 2009): general knowledge about internationalization – market-nonspecific knowledge, and that about business, institutions, and opportunity recognition in the host country – market-specific knowledge. Furthermore, Hilmersson and Jansson (2012) found that, in the emerging market entry process, the kind of experiential knowledge that has a significant uncertainty-reducing effect is that related to the host country, and not the one about international operation which is a market nonspecific international knowledge. Besides, they found that the greater the degree of specificity of the experiential knowledge, the greater is its uncertainty-reducing effect.

On the other hand, some scholars have focused their research efforts on the alternative sources of knowledge to the traditional learning by doing approach or experiential learning. For example, Fernhaber, McDougall-Covin, and Shepherd (2009) found that international knowledge may be sourced externally, including from alliance partners, venture capital firms, and firms in close proximity (i.e., spillovers); and Bruneel, Yli-Renko, and Clarysse (2010) found as alternative sources the management team's pre-start-up international experience (i.e., congenital learning), and interorganizational learning from key exchange partners (customers, suppliers, investors, etc.). Both research works confirmed substitutive interrelationships among different learning mechanisms, as they found that firms with limited internationally experienced managers benefited most from alternative international knowledge sources. However, an understanding of the specific key knowledge SMEs from developed economies need to entry into developing economies and particularly how each type of knowledge could be appropriately acquired in such an institutionally peculiar settings is necessary. Thus, this research aims to analyze the type of knowledge SMEs need to succeed in their first entry in developing economies, and the most appropriate source for acquiring each type of knowledge due to the specific challenges they face.

Thus, the present work can significantly contribute to the literature. First, no article has been published that attempt to assess systematically type of knowledge required for internationalization and sources for acquiring that knowledge. We discuss the relevance of each type of knowledge in internationalizing toward developing economies and whether each source of knowledge is convenient or may play a key role in bridging each type of knowledge gap in this specific context for the particular case of SMEs. Second, this paper builds on the premise that the appropriateness of the alternative sources to acquire each type of knowledge will depend on the specific challenges encountered in a given developing economy by SMEs, which possess less nurtured resources than large firms to deal with them. Specifically, we examine challenges previously identified in the literature and stemming from the peculiarities of the emerging countries, as well as others that emerge from the developed countries and from the interaction between the pairs of countries involved. Later on, we identify the appropriate sources of knowledge to acquire each type of knowledge.

The remainder of this paper is organized as follows. We theoretically identify the different types of knowledge required in the internationalization process of firms and the sources for their acquisition. Then, we focus on the specific challenges that the acquisition of each type of knowledge entails when internationalizing to developing economies. Next, we describe and justify the methodological aspects of our empirical approach, a qualitative method based on a specific case study: Spanish SMEs entering Senegal as their first incursion in developing economies. Among other conditions, this case is especially suitable for our research as institutional and linguistic distance between these two countries assure the potential challenges in the process of knowledge acquisition. The discussion section is focused on contributing to the development of SME's internationalization theory by illustrating and emphasizing the key elements – i.e., knowledge requirements, challenges, and sources – and potential relationships in our particular context (Doz, 2011): developed economy SMEs' first entering developing economies. Finally, we conclude highlighting the main results, implications, and limitations of our study, pointing future research directions.

Theoretical background

Knowledge requirements in foreign market entries

According to the understanding-based theory of the SMEs internationalization (Lamb, Sandberg, & Liesch, 2011), the basic understanding of the external expansion (state 1 out of four) by an owner-manager corresponds to considering internationalization as confronting opportunities, this is overcoming the unfamiliarity and uncertainties associated with prospective international markets. Owners-managers at stages 2, 3, and 4 are focused on price competitiveness of products, products distinctiveness, and products philosophy, respectively. This implies that owners in stage 1 start internationalization by seeking knowledge and being well-informed about the nuances within different international markets. In fact, from the international business literature, knowledge is considered a critical determinant of international expansion of SMEs (Fletcher & Harris, 2012). Eriksson et al. (1997) highlighted that firms, irrespective of their size, need to develop three types of knowledge to internationalize successfully: (1) internationalization knowledge, about how to manage the increase in complexity and diversity associated with the overall foreign expansion; (2) foreign business knowledge, about clients, markets, and competitors abroad; and (3) foreign institutional knowledge, about government institutional frameworks, rules, norms, and values prevalent in foreign countries. Also, Johanson and Vahlne (2009) have highlighted that "recognition of opportunities" is a subset of knowledge that denotes the most important element of the body of knowledge that drives the internationalization process. Thus, we will study this type of knowledge separately.

All this knowledge needed for a successful internationalization, can be classified according to two relevant knowledge characteristics: tacitness and specificity. On the one hand, based on tacitness, Johanson and Vahlne (1977) have distinguished two categories: (1) objective knowledge, the one that can be taught – i.e., how to obtain FOB or CIF prices; and (2) experiential knowledge, the one that can be acquired mainly through learning by doing – i.e., how to manage the complexity and diversity of international business. Objective knowledge is basically explicit and can be acquired quickly and ease because it is available in datasets (i.e., market statistics, information about competition laws, product approval requirements, and technical standards of the foreign market). Experiential knowledge is highly tacit and is considered to be critical in firms' internationalization processes. On the other hand, based on specificity, it is pertinent to differentiate between: (1) context-free knowledge that can be applicable to any foreign market; and (2) context-bounded knowledge, that is, market-specific knowledge. The specific characteristics of the four types of knowledge according to these two classifications are described below.

Internationalization knowledge

It relates to firm-specific general knowledge about how to manage the internationalization process, as well as to the firm's capability and resources to engage in international operations. According to Eriksson et al. (1997), a firm's experience of organizing internationalization, means knowing what knowledge is required in different situations and different settings connected with