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Knowledge-acquisition strategies and the effects on market knowledge – profiling the internationalizing firm

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ABSTRACT

Knowledge management and experiential knowledge in particular has for long been at the core of theory on the behavior of internationalizing firms. However, the strong emphasis on direct experience in extant literature has been challenged. This study addresses the influence of various knowledge-acquisition strategies on market knowledge. Empirical studies on this topic are largely missing. The empirical base for this study is 144 internationalizing Swedish firms operating in the Baltic States, Poland, Russia, or China. Four knowledge acquisition strategies are identified based on the utilization of knowledge sources. The strategies are profiled through a cluster analysis, which is validated using a regression analysis to show the effects of strategy on market knowledge. The results show that firms with a passive strategy have less market knowledge. Firms that are focusing primarily on internal or external sources hold equal levels of knowledge about the market. Firms actively utilizing all available sources have the highest levels of market knowledge. This calls for a reevaluation of the relative importance of direct experiential knowledge in internationalization processes and supports the notion that more sources of knowledge than direct experience need to be taken into account in order to understand internationalization behavior.

Introduction

This study examines how the acquisition of new market knowledge is managed when growing internationally, beyond the initial market entry. Managing learning and knowledge in internationalization has been an often-discussed topic. Learning is a central element for understanding internationalization behavior (Bruneel, Yli-Renko, & Clarysse, 2010; Casillas, Acedo, & Barbero, 2010; Casillas, Moreno, Acedo, Gallego, & Ramos, 2009; Schwens & Kabst, 2009). Learning concerns acquiring knowledge (De Clercq, Sapienza, Yavuz, & Zhou, 2012; Forsgren, 2002) and occurs when an organizational unit acquires potentially useful knowledge (Huber, 1991). Acquiring knowledge refers to “the process by which knowledge is obtained” (Huber, 1991, p. 90). The role of knowledge for the internationalizing firm is multifaceted and central in understanding the patterns of firm internationalization, in terms of geographic spread as well as in terms of speed (Petersen, Pedersen, & Sharma, 2003). Managing the balance between exploration of knowledge and use of knowledge is an essential firm activity (March, 1991). Internationalization is no exception. The internationalizing firm needs to acknowledge both the acquisition and the use of relevant knowledge to grow internationally (Barkema & Drogendijk, 2007). Market knowledge is at the very core of internationalization (Barkema, Bell, & Pennings, 1996; Eriksson, Johanson, Majkgard, & Sharma, 1997) and is therefore essential to understand internationalization behavior. It is argued that as firms develop more experiential market knowledge the firm’s willingness to commit further to the focal market (Johanson & Vahlne, 1977) or to the focal network (Johanson & Vahlne, 2009) increases.

Internationalization behavior is based on knowledge prior to the action (Casillas et al., 2009, 2010). In particular, the emphasis is mainly on experiential knowledge from the firm’s ongoing operations in the market, which guide subsequent behavior (Forsgren, 2002). Still, the internationalizing firm has the potential to acquire knowledge from more sources than developing experiential knowledge internally, as organizational knowledge has its origin in a variety of sources (Huber, 1991). Other sources than developing experiential knowledge internally have been discussed (Johanson & Vahlne, 1977) but have been regarded as being less important (Eriksson et al., 1997). Conversely, other studies have challenged the strong emphasis on the firm’s internally developed, experiential knowledge in extant theory (e.g. Brennan & Garvey, 2009; Bruneel et al., 2010; Forsgren, 2002; Park & Harris, 2014; Petersen et al., 2003). Petersen et al. (2003) hold that experiential knowledge is necessary but not enough to understand the internationalization of firms. Following that line of reasoning Brennan and Garvey (2009) highlight that knowledge can be acquired in various ways depending on which type of knowledge is needed. Forsgren (2002) suggests that it is necessary to include knowledge acquired through other firms as well as a focused search for market information in order to understand

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firms' internationalization behavior. However, although these studies are pointing out an important field for further research, few studies have shown empirical support for the use of knowledge sources beyond developing experiential knowledge internally. Two notable exceptions are Schwens and Kabst (2009) who conclude that experience of others, as opposed to direct experience, has a positive relation to early internationalization and Bruneel et al. (2010) who state that learning from partners have an effect on the extent of young firm internationalization. Still, they call for further research on the effects of learning in internationalization.

While recognizing the importance of experiential knowledge it can be questioned whether considering experiential knowledge developed through operations in a local market is enough to explain variations in market knowledge held by internationalizing firms, and, thus, variations in firm behavior. Rather, it seems like the relative importance of experiential knowledge is overestimated in current internationalization literature. Thus, there is a notable need for further empirical validation of knowledge acquisition from a wider range of sources in internationalization. In particular, there is a need to better understand how various sources of knowledge is combined, i.e. the knowledge-acquisition strategies used by internationalizing firms.

Thus far, due to the limited empirical validation of the full scope of knowledge-acquisition possibilities available to firms little is still known about differences in how firms acquire market knowledge when they internationalize, and, how these differences influence the internationalizing firm's market-specific knowledge. It is, therefore, relevant to examine how the use of various knowledge-acquisition sources is facilitated to contribute to the accumulation of market knowledge in the internationalizing firm. Hence, this study sets out to answer the research question: are there different strategies among internationalizing firms regarding how they acquire market-specific knowledge and, if so, what are the consequences of these different strategies on the level of market-specific knowledge held by the firm? The aim of doing so is to better understand how internationalizing firms acquire knowledge from foreign markets when growing internationally. Thus, this study contributes to a better understanding of the interrelation between state and change aspects of the internationalization process (Johanson & Vahlne, 1977). More specifically, the study contributes to theory on knowledge acquisition in internationalization (e.g. Fletcher & Harris, 2012) by clarifying patterns for how firms combine various knowledge sources.

The paper is structured along a two-step approach. The first step starts with a literature review of market knowledge and knowledge acquisition for internationalizing firms. The literature review is the basis for a cluster analysis. This is followed by a discussion of data collection and the statistical analyses used in the study. Thereafter the cluster analysis is presented, which identifies four knowledge acquisition profiles using knowledge sources as grouping variables. These profiles are discussed and, in the second step, hypotheses concerning their respective effect on market knowledge are formulated. These hypotheses are then regressed on market knowledge, which is followed by a discussion leading into conclusions and contributions of the study. Limitations and suggestions for further research are also addressed.

Literature review

Market knowledge

Market knowledge concerns knowledge about the local business context. The main constituents of the context are the local institutional setting and the local actors (Eriksson et al., 1997; Eriksson, Johanson, Majkgård, & Sharma, 2000; Fletcher & Harris, 2012). Consequently, market knowledge concerns location-specific institutional knowledge and network specific knowledge about actors. Firstly, the institutional knowledge involves laws and norms of the foreign market as well as the practices of the regulatory system. It is also held that rules for import and export, language and culture are parts of the institutional knowledge (Eriksson et al., 1997; Hilmersson, 2012; Hilmersson & Jansson, 2012). Knowledge of this type is referred to as societal knowledge (Hilmersson, 2012). Secondly, knowledge about local actors are primarily pertaining to knowledge about the resources, capabilities, and behavior of the actors operating in the local market, such as suppliers, competitors, and first and second tier customers (Fletcher & Harris, 2012) and has been referred to as business network knowledge (Hilmersson, 2012; Hilmersson & Jansson, 2012). Thus, societal knowledge and business network knowledge show an increasing degree of specificity by pertaining to the macro and meso environment respectively (Hilmersson & Jansson, 2012).

All since the introduction of internationalization-process theory market knowledge holds a central role as an uncertainty reducing and risk-reducing factor as firms expand geographically (Fletcher & Harris, 2012; Forsgren, 2002). Market knowledge is gradually accumulated and develops with market commitment and, iteratively, market commitment increases with increased market knowledge (Johanson & Vahlne, 1977). More knowledge leads to lower perceived risk (Forsgren, 2002) and a reduced perceived knowledge gap in the foreign market (Petersen, Pedersen, & Lyles, 2008) and, therefore, increased investments in the market. As 'more knowledge increases international involvement proportionately' (Petersen et al., 2003) additional knowledge acquired has a pivotal influence on the internationalization of firms. In addition to the uncertainty-reducing effects knowledge and learning about international markets is an important determinant for firm growth (Autio, Sapienza, & Almeida, 2000, p. 921) by influencing the recognition of opportunities in international markets (Chandra, Styles, & Wilkinson, 2009; Johanson & Vahlne, 2009). Consequently, market knowledge has a two-fold influence on international growth, firstly by the identification of initial and subsequent international opportunities and, secondly, by the uncertainty reducing effect that drives increased commitment.

Market-knowledge acquisition in internationalization

Knowledge acquisition is the basis for learning. Acquisition of knowledge concerns obtaining knowledge and the acquisition of market knowledge specifically concerns foremost "expanding the scope of information search beyond existing customers or markets" (Zhou & Li, 2012, p. 1092). New knowledge can be developed internally and externally to the organization (Eisenhardt & Santos, 2002; Fletcher & Harris, 2012; Freeman, Hutchings, Lazaris, & Zyngier, 2010; Huber, 1991) and knowledge can be experiential or objective (Eriksson et al., 1997; Johanson & Vahlne, 1977). Consequently, the acquisition of knowledge is discussed along two dichotomies: experiential knowledge versus objective knowledge having its origin in internal or external sources (Fletcher & Harris, 2012). This has implications for discussing the sources of new knowledge. Following the division between internal–external sources and experiential–objective knowledge four distinct knowledge-acquisition sources can be identified: direct experience, indirect experience, external search, and internal information (Fletcher & Harris, 2012; Huber, 1991).

Experiential knowledge is a result of consistent repetitive actions (Eriksson et al., 1997) that are cumulative and path dependent (Autio et al., 2000) and very closely linked to the persons and organizations performing these actions. Therefore, experiential knowledge is not easily taught and transferred to others (Johanson & Vahlne, 1977). Direct experience concerns experiential market knowledge that is developed by the firm itself from operations in foreign markets