



# Internationalizing through networks from emerging to developed markets with a case study from Ghana to the U.S.A.

Irene Kujala\*, Jan-Åke Törnroos

Åbo Akademi University, School of Business and Economics, Vänrikinkatu 3, FIN-20500 Turku, Finland

## ARTICLE INFO

### Keywords:

Internationalization  
Emerging markets  
Process inquiry  
Business networks

## ABSTRACT

This paper scrutinizes SME internationalization from an emerging African market to the affluent U.S. consumer goods textile market. First, by using a network and effectuation approach the paper makes a conceptual focus of SME internationalization. In order to present the internationalization process as it unfolds over time and in its context, a qualitative and dynamic event-based methodology is used to uncover the international development of SMEs. Secondly, a case study is presented which shows the relevance of the conceptual framework in practice. The combined network and effectuation approaches add to the current literature on SME internationalization from emerging to affluent markets. The paper also presents a critical evaluation with conclusions and implications for further research in this area.

## 1. Introduction

One aspect of globalization during the past decades has been the growth of emerging markets<sup>1</sup> and their closer integration into the global economy. A World Bank (2016) report confirmed and praised the improving business climate in emerging markets in Sub-Saharan Africa, but mentioned several sources of risks and challenges associated with the national business environments in this region. It is estimated that by 2020, the African continent's GDP will rise to nearly \$3 trillion (Chironga, Leke, Lund, & van Wamelen, 2011). However, research on the internationalization of firms has thus far primarily focused on firms from developed countries. Even with globalization and the current interest in emerging market economies, significantly fewer studies have placed their focus of attention on internationalization from emerging markets, and even less so on African economies (Owusu & Habiakare, 2011). Furthermore, existing theories are not necessarily applicable to emerging market contexts (Burgess & Steenkamp, 2006; Ibeh & Kasem, 2011). Due to the socio-economic differences between developed and developing nations, many presumptions made in prior theories, along with associated empirical results, cannot be directly generalized or used for firms from developing markets. Therefore, a need prevails for current theories to be developed and contextualized by conducting empirical studies in developing markets.

Previous studies have emphasized the crucial role played by SMEs in stimulating socio-economic advancement and providing employment opportunities through internationalization (Osei-Bonsu, 2014). Business relationships and networks are crucial in allowing such firms to overcome some of the associated challenges such as resource constraints during internationalization (Agndal & Chetty, 2007a, 2007b; Coviello & Munro, 1997).

Upon reviewing the existing internationalization research literature on emerging markets, the following contributions and research gaps were identified. First, the majority of previous studies have focused on internationalization strategies of multinational corporations (MNCs) in emerging economies (e.g. Bartels, Alladina, & Lederer, 2009; Klein, Wöcke, & Hughes, 2014; Owusu & Habiakare, 2011). A small but growing number of studies have been conducted on SME internationalization in these markets. In most cases, the research tends to be on firms from developed markets entering emerging market economies with particular focus on “bigger emerging markets”<sup>2</sup> (e.g. Sandberg, 2013, 2014). To our knowledge, this pertains especially to SME internationalization studies from emerging markets from Africa to a developed market economy such as the U.S.A.

Secondly, current research has recognized that there is little information on how SMEs, particularly those from emerging economies, develop network relationships to facilitate their internationalization

\* Corresponding author.

E-mail address: [ikujala@abo.fi](mailto:ikujala@abo.fi) (I. Kujala).

<sup>1</sup> According to Hoskisson, Eden, Lau, and Wright (2000), emerging markets constitute “low income, rapid growth economies using economic liberalization as their primary engine of growth” (p. 249). This definition incorporates emerging economies from Africa, former communist markets, east European countries, Latin American markets, and Asian economies. For this study, we have adopted the definition of Hoskisson et al. (2000). We focus specifically on emerging markets from Africa.

<sup>2</sup> According to the Economist (<http://www.economist.com/topics/emerging-markets>), the biggest emerging markets (BEM) are countries such as BRIC (Brazil, Russia, India and China) along with Eastern Europe, Turkey, South Africa, Mexico, and Argentina.

(Senik, Scott-Ladd, Entekin, & Adham, 2011). Although considerable research has highlighted the significance and usage of networks in SME internationalization (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009; Vahlne & Johanson, 2013), the focus has remained on informal and personal networks (Ibeh, Wilson, & Chizema, 2012). Previous research, particularly from an African SME perspective, has not sufficiently considered business network dynamics and critical events as important elements in the processes related to a firm's internationalization. Meanwhile, Halinen, Törnroos, and Elo (2013) suggest that it is important to incorporate these concepts in order to understand a firm's developmental process in general.

A third gap to be noted concerns the role of effectuation theory characterizing the managerial processes of SME firms (Sarvasvathy, 2001, 2008). Researchers have stressed effectuation as an emerging and relevant theory also for understanding the internationalization of firms, particularly SMEs (see e.g. Andersson, 2011; Chetty, Ojala, & Leppäaho, 2015; Harms & Schiele, 2012; Kalinic, Sarvasvathy, & Forza, 2014; Ojala, Chetty, & Kontinen, 2012; Schweizer, Vahlne, & Johanson, 2010). The effectuation approach has an entrepreneurial and network element as a base and has, in most cases, been integrated into the network approach (e.g. Chetty et al., 2015) related to internationalization studies in developed market economies. To our knowledge, no internationalization process studies have integrated the network and the effectuation approach in order to understand SME internationalization from the context of an emerging African market. As most SMEs from the emerging African economies are resource constrained and managed by an entrepreneurial actor (Mtigwe, 2006), integrating the network approach with the effectuation concept may be relevant/germane to providing a deeper understanding of the internationalization process.

Based on these noted empirical and conceptual research gaps and perspectives, the objective of the paper is 'to develop an understanding of SME internationalization in an emerging African market context using a business network (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009; Håkansson & Snehota, 1995) and an effectuation approach' (Sarvasvathy, 2001, 2008). The particular empirical context is a Ghanaian SME and its internationalization to the affluent U.S. consumer goods textile market. The two research questions of this study are: (i) How can a business network and effectuation approach be used to develop a conceptual framework for SME internationalization from emerging to affluent markets? (ii) How has the internationalization process of an SME in the Ghanaian clothing and textile-manufacturing sector unfolded over time as an internationalization process?

We have used a qualitative longitudinal and processual case study approach to understand how the internationalization process of the case SME has actually unfolded. The context that we have studied here is significant because particularly in emerging markets, SMEs in the textile and clothing industry may offer platforms for learning and developing business network relationships (Guercini & Runfola, 2010). Such an industrial context has been recognized as the primary takeoff industry for many emerging nations, primarily due to the labor intensity of the sector (Gereffi, 1999). Thus, textile SMEs in emerging African economies such as in Ghana has been supported through various policy initiatives.

The present study contributes to the literature on business networks, effectuation, and SME internationalization in the context of an emerging African economy. Furthermore, the results provide implications for management and policy makers to implement strategies and policies that could help improve the competitive advantage of African SMEs.

We begin with a literature review of internationalization from emerging markets, after which we highlight our conceptual framework. This section ends by showing the relevance of combining the two theoretical strands of literature concerning the objective at hand. In the next section, the method of research is presented with an emphasis on the case study and its relevance in conjunction with the gathering and analysis of the qualitative data. Following this, the longitudinal case study is presented of the SME in Ghana and its entry into the U.S.

market. In the final sections, we analyze the unfolding internationalization process as a joint networking and effectuation process and conclude with a section on the key findings, limitation, and implications.

## 2. Literature review

### 2.1. The development of internationalization research

The internationalization process of firms has been subjected to widespread conceptual and empirical research with a start in the 1960s. According to Johanson and Vahlne (1977), internationalization is a process that occurs in stages in which companies enhance their involvement gradually over time. Internationalization can also be viewed as "a synonym for expanding geographic operations over a national country border" (Ruzzier, Hisrich, & Antoncic, 2006, p. 477). Welch and Luostarinen (1988, p. 36) argue that internationalization should incorporate both "inward and outward" activities, and thus they define the concept as a process of intensifying engagements in operations with foreign actors and business environments. For its part, the network view defines the concept of internationalization as a process involving the establishment and development of business relationships internationally through interactions and influences of actors, activities, and resources (Johanson & Mattsson, 1988).

#### • Waves of internationalization

A first wave of internationalization of firms was spurred by the industrialization of Western countries. Even if international trade had occurred across the globe prior to this, it was not until the late 19th century that large corporations from Europe and the U.S.A. started to establish across their respective country borders using foreign direct investments (FDI) as a strategic way to grow. Thereafter, post-World War II, there was yet another major expansion of MNCs (Gjellerup, 2000), this time involving also countries from East Asia. Jansson (2007) suggests this as the start of a second wave of internationalization of firms that was spurred when also the concurrent emerging markets Japan and South Korea joined the world economy by transforming into market economies. Through this they opened up for foreign inward investments from the mature Western markets in Europe and the U.S.A., and in the 1970s also Asian firms entered the global marketplace and became MNCs.

Starting in the 1980s and escalating from early 1990s and onwards, liberalization and reforms of centrally planned economies across the globe are seen as the main drivers of a third wave of internationalization of firms (Jansson, 2007). Now mature market MNCs are establishing themselves to a large extent in these new emerging markets, at the same time larger emerging market firms also found the way out into the global marketplace. However, a new phenomenon in connection with this third wave is that also smaller firms seem to be more engaged in international business than before, and that it involves SMEs not only from mature markets but also from emerging markets. Possible reasons could be the business opportunities created by the high economic growth in these markets and lessened risks due to reduced barriers in a globalized market economy. The emerging markets are interesting as they are extremely expansive in terms of economic growth, and thus they play an important role in today's global market (Cavusgil, Ghauri, & Agarwal, 2002). They offer huge business potential not only for large firms but also for SMEs (Jansson, 2007; Meyer & Skak, 2002). Further discussion of the emerging market literature is provided in subsequent sections.

#### • SME internationalization research

For decades, the internationalization process of firms has been a highly debated topic, both in theoretical and empirical studies. In

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