

## **Experiential knowledge profiles of internationalizing SMEs**

### **- The ability to sustain market positions in the new turbulent era of global business**

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Paper to be presented at the 36<sup>th</sup> EIBA annual conference  
Porto, Portugal, December 9<sup>th</sup>-11<sup>th</sup>, 2010

Track: 2. Internationalization process and international entrepreneurship  
Session: Competitive

## **Abstract**

This study sets out to examine the ability of emerging market entrant SMEs' to sustain market positions in the new turbulent era of global business. From internationalization process theory we derive a model for classifying firms based on their levels of host market intellectual and social capital, which indicates their preparedness for changes in the external environment. By analyzing a sample of 203 entries into emerging markets by Swedish SMEs, we empirically verify the theoretical model and identify four types of entrant firms. Thereafter, we evaluate the ability of these types of firms to sustain market positions during and after the global crisis. We suggest that *Masters* are well prepared for such periods. *Learners* most probably will experience high levels of uncertainty, while *Country* and *Customer Experts* face less uncertainty due to their specialization on either host market or customer knowledge.

## **Keywords**

Internationalization processes; SME; Emerging markets; Internationalization knowledge; Societal knowledge; Business network knowledge; Social Capital; Great global recession

## 1. Introduction

The severe crisis that struck the global economy during 2008-2009 affected international business of firms all over the world. This paper examines the ability of internationalizing small and medium-sized enterprises (SMEs) to sustain market positions in the new turbulent era of global business. The period before the great global recession, between mid 1990's and 2007, was signified by a rapidly growing world economy, mainly caused by the emergence of new market economies. For the first time in history different national markets became integrated into one big global market. A major feature of this exceptional growth period was the rise of large numbers of SMEs internationalizing to such immature markets, as well as SMEs from these new markets internationalizing to mature western markets.

The emergence of the SME as a more common type of international firm is part of the third wave of internationalization of firms (Jansson, 2007a,b). The first wave involved the re-establishment of the Western business system with its dominance of multinational corporations (MNCs) after World War II and the ensuing large trade and FDI over the Atlantic Ocean. The second wave flooded Europe and the U.S. in the 1970's to 1990's, when foremost Japanese and Korean firms appeared as major competitors in the Western market system. At the same time, European and U.S. firms entered the emerging markets in East Asia. With the third wave, an increasing number of firms from mainly China and India, but also Russia and Eastern Europe entered the global market simultaneously as numerous Western firms started business with these emerging markets. This has dramatically changed the international competition in the global market.

In 2006 the first signs of a financial crisis occurred. Through the worldwide financial system it rapidly turned into a global economic crisis as it influenced other key service markets and product markets in particular. Governments all over the world sprung into action and managed after unprecedented economic cooperation to halt the slide into world depression. Still, it is called to be the hardest economic crisis in modern days and truly a great global recession. Trade between mature and emerging markets decreased drastically and swiftly. From previous research we know that the foreign market entry process is dependent on the firms' ability to reduce uncertainties related to the host country by developing knowledge from experience. Generally, the uncertainty is said to be the result of two liabilities; the liability of foreignness (Hymer, 1960) and the liability of network outsidership (Johanson & Vahlne, 2009). Since both liabilities are supposed to be high in emerging country markets, uncertainty is also high. To overcome these liabilities, SMEs have to establish an insider position in the business networks of these markets.

With the purpose of developing knowledge related to how internationalizing SMEs manage in times of turbulence, we set out to classify firms based on existing capabilities for sustaining competitiveness. The classes primarily relate to the SMEs' preparedness for a global recession. The major issue studied is how investments in intellectual and social capital before the crisis to establish competitive positions could influence the preparedness and ability of the SMEs to handle the great global recession. This introduction is followed by the theoretical framework. Next we account for the data and analysis, where four clusters are identified and interpreted. Thereafter we discuss how four types of SMEs are likely to cope with the increased uncertainty created by the great global recession. The paper ends with suggestions for further research.

## **2. Theoretical framework**

### *2.1 Internationalization processes of SMEs*

Internationalization of firms is generally seen as taking place in an incremental manner as a process driven by the interplay between learning about international business operations and commitment to international markets (Johanson and Vahlne, 1977; 2003; Penrose, 1959). Firms first move to markets with geographical proximity, to which perceived psychic distance is low. Thereafter, with a gradually growing stock of internationalization knowledge, uncertainty of the firm will decrease and they will move to more distant and complex markets (Johanson & Vahlne, 1977). Thus, the main obstacle to internationalization is considered to be lack of knowledge of foreign markets and operations (Johanson & Vahlne, 2003). Knowledge is mainly developed through experience of the markets. By having such experiential knowledge, the firm can discover and evaluate business opportunities for further expansion, thus reducing uncertainty through increased commitment to foreign markets (Hohenthal, Johanson, & Johanson, 2003). Since knowledge is developed gradually, the international expansion is incremental.

In later research on the internationalization of firms, relationships are seen as significant for internationalization (e.g. Axelsson & Johanson, 1992; Håkansson, ed., 1982; Håkansson & Snehota, 1995; Jansson, 2007a,b; Majkgård & Sharma, 1998; Forsgren, Holm & Johanson, 2005; Johanson & Vahlne, 2003; 2006). According to the network approach, firms internationalize by developing, penetrating or integrating international business networks (Johanson & Mattsson, 1988). Since firms engage in a set of close business relationships with important customers, suppliers and other partners, markets become structured as networks of interconnected relationships (Johanson & Vahlne, 2003). Through building relations firms gain experiential knowledge. The commitment increases as the firm becomes dependent and bound to the market (Ford, 2002). The firm establishes a position in the market, which it defends and develops, thereby creating interplay between current activity commitment and distinct commitment decisions (Johanson & Vahlne, 2009). The network models of internationalization are preferable when explaining internationalization patterns of smaller firms (Ojala, 2009), since SMEs through developing long-term network relationships can enlarge their competitive resource base and conquer size-related barriers that restrain their growth (Coviello & McAuley, 1999; Coviello & Munro, 1997).

### *2.2 Liability of outsidership and foreignness*

Previous research shows that business relationships are the main driver of internationalization of SMEs to emerging country markets (Jansson & Sandberg, 2008). Such network extending firms are initially assumed to suffer from a liability of network outsidership, which prevents them from learning from pooled resources and to understand changes in the business environment. This liability is reduced as firms learn through the relationships about foreign counterparts, their preferences and various business opportunities. Trust is also developed, enabling firms to develop their network positions. This relationship development process provides entrant firms with business network knowledge. The more relationships that have reached later stages, the greater the knowledge of the exporter. The deeper is also the commitment to the local business network, which enables firms to develop an insider network position (Johanson & Vahlne, 2009). Thus, the entry process takes the firm from an outsider to an insider position, being a networking process where relationships are developed with important actors. The success of these processes is evaluated through analyzing how well SMEs have

managed to establish positions along the entry process in the foreign business networks, and where the ultimate position is the network insider position.

Entrant SMEs also face barriers to internationalization by having a disadvantage towards local firms in terms of being foreign to the new emerging country market, i.e. a liability of foreignness (Hymer, 1960). It is based on three factors: exchange risk of operating in a foreign market, local authorities' discrimination against entrant firms and unfamiliarity with the foreign market. Here, the last factor is the most interesting, since it can be affected by the level of learning engagement by the entrant firm (Petersen & Pedersen, 2002). In line with Johanson & Vahlne (1977), experiential knowledge accumulated through learning reduces perceived uncertainty caused by the liability of foreignness. Thus, this liability mainly relates to differences in country environments. In accordance with the institutional network approach (Jansson, 2007a) these differences are defined as differences between institutions surrounding business networks, e.g. the political system or the legal system.

### *2.3 Strategies for coping with uncertainty in emerging country markets*

As noted above, to cope with uncertainty in internationalization, it is important to build up experiential knowledge and social networks, e.g. to get access to information like early warning signals, and to get experience from the local business environment be able to act quickly to take advantage of new opportunities and avoid new threats. Thus, in coping with uncertainty, international firms can take advantage of seeing the environment from a network perspective; being a part of the environment with which it interacts through a number of network relationships. According to Child (2001), uncertainty can be reduced through (1) controlling complexity or (2) by absorbing it. The first strategy is defined as complexity reduction, when the firm tries to control complexity by reducing it to known proportions, mainly to improve decision making by collecting information about the environment to make it more intelligible and predictable. The second strategy is defined as complexity absorption, which is seen as "the attempt to ride with complexity" (ibid, p. 704). The firm now accepts complexity as a fact and tries to live with it, mainly by being able to act fast, to be flexible. So instead of controlling through reducing it, the firm tries to penetrate it, for example by networking with persons or organizations to learn to deal with them through enacting the environment, e.g. through lobbying and similar activities.

Internationalizing SMEs are supposed to follow a mix of these two basic strategies, for which certain resources are required. To control complexity abilities are needed to interpret environmental factors, viz. resources for finding out, searching for and analyzing information. To absorb complexity, SMEs need to have experience from operating in the local market. The more the firms have of these abilities, the more resilient they are, since they will both know how to adapt to changes and be able to do it. The more complex and dynamic the environment, the harder to control complexity and the more important complexity absorption becomes. It is therefore assumed to be more important in emerging markets compared to mature markets.

### *2.4 Critical resources for sustained market positions*

From above, we can derive a number of critical resources for the sustainment of host market positions. For internationalizing firms, experiential knowledge and relationship building are basic resources behind competitiveness. Through operating in foreign markets, firms are able to build a knowledge base which is unique for each firm. Learning is done by transforming the experiences from a market into useful knowledge (Eriksson, Johanson & Majkgård, 1997) that is experience-

based, mostly tacit (Blomstermo, Eriksson, Lindstrand & Sharma, 2004; Johanson & Vahlne, 1977, 2006). Since knowledge is obtained by experience, it takes time to develop foreign business skills and knowledge viz. intellectual capital.

Knowledge is either operational (internationalization knowledge that is general for different markets) or market specific (societal and business network knowledge that cannot be transferred easy) (Johanson, Blomstermo & Pahlberg, 2002). Especially the latter is built up in interaction with the social capital found within the business network (Chetty & Agndal, 2007). Therefore, social capital and three types of intellectual capital of the international firm are considered to be the four main critical resources for sustained market positions in turbulent times.

Internationalization knowledge is the aggregate of firms' experience in managing international business activities and is not market specific (e.g. Johanson & Vahlne, 1977; Eriksson, Majkgård & Sharma, 2000). It is the foundation of firms' capability to engage in foreign markets, being embedded in the routines and structures. Those firms having such knowledge are better equipped to recognize and enact international business opportunities than firms with limited experience (Hohenthal et al., 2003). Therefore, internationalization knowledge is assumed to enable firms to foresee and handle turbulent situations in global market.

Societal knowledge concerns the society in the host country, i.e. knowledge about the macro environment or societal institutions within which the market network is embedded (e.g. Eriksson et al., 1997; Eriksson et al., 2000; Blomstermo et al., 2004; Jansson, 2007a). Since it is a type of market specific knowledge, it is hard to exploit in alternative settings. When lacking this knowledge, the firm suffers from a liability of foreignness. The second type of market specific knowledge dealing directly with the business network is the business network knowledge (Eriksson, et al., 1997; Eriksson et al., 2000; Blomstermo et al., 2004). It is generated by the firm in its interaction with network partners such as suppliers, customers and competitors, thereby having less value outside the specific market and the actual business relationship. Possessing such knowledge is the main condition for being able to achieve the network position of insidership. This type of experiential knowledge is similar to business network knowledge (Blomstermo et al., 2004) and business relationship development knowledge (Johanson & Vahlne 2006). Those parts of business network knowledge and societal knowledge that are also valid for other markets are added to the general internationalization knowledge of the firm.

Social capital is a capability based on trust and friendship established through the relationships of the business network (Jansson, 2007 a,b). Social capital is even used as synonym to mutual commitment (Johanson & Vahlne, 2003). It gives firms the ability to acquire resources from the business network, in particular knowledge, thus contributing to the competitiveness and internal growth of the firm (Chetty & Agndal, 2007).

### **3. Data and analysis**

#### *3.1 Sample and data collection*

The sample consists of manufacturing SMEs in Southern Sweden with experience of entries into emerging markets. A geographical delimitation was made due to time and cost restraints, still, the setting is well known for its high share of manufacturing SMEs. Concerning size, the EU definition of SMEs is used (less than 250 employees). To reach more mid-sized experienced exporters a lower limit of 20 employees was added as well as an export turnover limit of at least 10 million SEK, of which minimum one million SEK was to one of the new EU countries around the Baltic Sea (Estonia, Latvia, Lithuania and Poland), or to the larger more distant emerging

markets Russia or China. There is one respondent (market/sales manager, CEO or area manager) per firm answering for the emerging market s/he had most experience of.

Data was ordered from Statistics Sweden, covering all firms in southern Sweden matching the criteria presented above. The sample identification followed two distinct steps: (1) evaluation of secondary data on each firm towards the criteria posted, and (2) evaluation over phone excluding firms not representative for the population (no relevant experience e.g. due to no current export, being distributor to foreign facilities of Swedish customers or to sister firms within the own corporation). Thereafter the sample fulfilling our selection criteria consisted of 277 firms. Of these, 203 firms filled in the questionnaire, resulting in a response rate of 73 percent which exceeds the general response rate accomplished in mail or e-mail surveys of internationalizing Swedish firms. 74 firms did not fill in the questionnaire due to policies of not participating in surveys, had no time of participating or were unreachable still after four attempts.

The data was collected through an on-site survey method, being close to a 'drop-in-questionnaire technique' (Holzmüller & Stöttinger, 1996). It is rather labor and cost intensive but offers the advantages of ensuring commitment of the respondent, standardization of the data collection process and accessibility of support from the research team. A total of 203 SMEs were visited 1-1,5 hours on site in fall 2007 and spring 2008 in order to secure the reliability of the study; we met the right person and s/he filled in the whole questionnaire (i.e. avoid missing values). A template was set for the visit, thus the survey situation was standardized (Kvale, 1997) and each part of the questionnaire was presented and handled over separately as recommended by Podsakoff, Scott, MacKenzie, Podsakoff & Lee (2003).

The full questionnaire covered two parts: (1) general information on e.g. turnover, number of employees and number of markets as well as the perceived general degree of internationalization of the firm, and (2) specific country market information, e.g. trade development from 2000-2006 and customers, as well as perceived international experience, organizational learning, relationship linkages, institutional distance and performance. Overall the questions were answered using a 7 point Likert scale ('strongly disagree' to 'totally agree') which is suitable when measuring attitude or perceptions of respondents according to Neuman (2000), recommending 4 to 8 point scales. The questionnaire was developed based on a thorough literature review (e.g. Fowler, 2002, 2008). It was tested through a pilot study with six firms in fall 2007, where after adjustments were made. After conducting 203 visits, all data was compiled into a SPSS data base.

### *3.2 Factor extraction*

In the first step of our analysis, a factor analysis was undertaken in order to reduce the data set and to verify the proposed four critical resources for sustained market position. We performed an exploratory factor analysis based on the matrix of variable correlations (table 1). Even though not confirmatory, an exploratory factor analysis is useful when evaluating a proposed dimensionality among indicators (Hair, Anderson, Tatham & Black, 2005). Based on previous research on the internationalization process of firms, we assume an underlying structure of intellectual and social capital in the set of indicators to exist. The correlation matrix demonstrates relatively high correlations between the variables operationalized for each of the four hypothesized factors. A variance inflation factor was estimated to control for multi-collinearity and the risk seemed to be limited in this dataset. The knowledge about competitors in the local market significantly correlates with the more general indicators of internationalization knowledge. This is not surprising as it might indicate that the industries are globalised and the

competitors are the same in different markets. For the other variables, only modest correlations are found.

A major issue then concerned the assurance of good construct validity (Hair et. al., 2005). For this factor analysis we did not set any a priori criterion on the number of factors to extract, which would have been a prerequisite in a confirmatory factor analysis. In the first stage the PCA analysis (Harman, 1967; Hair et. al., 2005) was used based on an Eigenvalue >1 criterion. VARIMAX rotation was used to prevent inter-correlations among the dimensions. The factor purification process served to prepare for an acceptable construct validity of the subsequent model, based on two main criteria: item-to-total correlations and factor loadings to evaluate convergent validity. Reliability tests were based on Cronbach's alpha values and the discriminant validity test was based on each indicators loading on factors to which it did not belong. In addition, a careful theoretical appraisal of each indicator assisted the assurance of acceptable translation validity. During the factor purification process, these criteria were used iteratively.

**Table 1**

Means, standard deviations and Pearson correlation coefficients.

	Indicators	S.D.	Mean	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	<i>We have great experience of...</i>																
1	...supplying foreign customers	,75	6,56	1													
2	...adapting our organization to meet the needs and wants of foreign customers	1,08	5,80	,34*	1												
3	...sales and marketing of our products abroad	1,11	5,85	,40*	,54*	1											
	<i>We have good knowledge about...</i>																
4	...the world view in X	1,43	4,51	,068	,062	,120	1										
5	...the government in X	1,58	3,85	,049	,108	,160	,54*	1									
6	...the culture in X	1,41	4,89	,140	,087	,230	,64*	,57*	1								
7	...the political system in X	1,54	4,42	,080	,049	,170	,61*	,68*	,63*	1							
8	...the legal environment in X	1,67	3,45	-,007	,084	,120	,49*	,75*	,51*	,63*	1						
9	...our customers needs and wants in X	1,01	5,68	,120	,170	,190	,25*	,25*	,26*	,22*	,21*	1					
10	...potential customers in X	1,36	4,76	-,081	,122	,110	,33*	,38*	,32*	,33*	,35*	,30*	1				
11	...our competitors in X	1,20	5,51	,22*	,19*	,22*	,28*	,23*	,21*	,30*	,22*	,30*	,41*	1			
12	...our customers private situation in X	1,91	3,17	-,017	,086	,111	,31*	,29*	,34*	,27*	,23*	,180	,133	-,008	1		
13	We often have private meetings with customers in X	1,87	2,61	,042	,124	,156	,27*	,180	,32*	,21*	,20*	,18*	,168	,015	,66*	1	
14	We consider our customers in X as close friends	2,02	3,26	,035	,18*	,18*	,23*	,28*	,30*	,26*	,25*	,28*	,20*	,035	,70*	,69*	1

\*Significant at  $p < 0,01$



Through the factor analysis four latent constructs were empirically verified, explaining 68,2% of the variance. The reliability test revealed acceptable values for research this exploratory, the lowest alpha value .605 is above the minimum limit of  $>.6$  (Bagozzi, 1994). The discriminant validity test revealed that the loadings on dimensions to which the indicator did not belong were all below 0,25, which verifies our value inflation test and underlines that multicollinearity should not be a problem of our data. The KMO value was  $>.850$  and all communalities  $>.6$  (table 2).

The first factor includes three indicators, all with strong factor loadings ( $>.730$ ) and a Cronbach alpha value of .689. The indicators of this latent construction involves the firms' knowledge about supplying foreign customers, adapting the organization to meet their needs and wants as well as the knowledge about sales and marketing of products abroad. These indicators clearly indicate different dimensions of international experiences which relates to the firms more general stock of knowledge of international operations, thus we label it *Internationalization Knowledge*.

The second factor consists of five indicators, the factor loadings are strong ( $>.740$ ) and the Cronbach Alpha (.885) indicate a good reliability of the construct. This latent construct is reflected by the firms' market specific knowledge about the host country, e.g. the world view, the government, the culture, the political system and the legal environment. These indicators reflect the market specific knowledge about the society in which the entrant firm is performing business. We therefore label this factor *Societal Knowledge* as it relates to the firms' knowledge about societal institutions in the host country.

The third factor consists of three indicators of the firms' knowledge about various market actors. The factor loadings are sufficient ( $>.660$ ) for a sample of 203 case (Hair et. al. 2005) and the Cronbach's alpha value is above the minimum of  $>.6$ . The latent construction is reflected by the firms' market specific knowledge about the needs and wants of their customers, their potential customers as well as the competitors. These indicators reflects various aspects of the firm's business network, thus we label this factor *Business Network Knowledge*.

The fourth factor consists of three indicators with strong factor loadings ( $>.860$ ) and a strong alpha value (.869). The indicator reflects the knowledge about the customers' private situation, the frequency of private meetings with the customers as well as the extent to which customers are perceived as close friends. This latent construction clearly mirrors the more social dimension of the firm's business relationships in the local business network. As it refers to the more informal and private aspect being a major foundation for trust building, we label this factor *Social Capital*.

As the factor analysis demonstrated sufficient reliability of the four factors, the following analysis is performed at the factor level. For enabling analyses on the factor level, the indicators of each factor were summed to create a factor scale. In the subsequent section, these values are used as input variables in a cluster analysis for classifying the cases in two distinct stages.

**Table 2**

Factors extracted.

Factor	Indicator	Items	Cronbachs alpha	Factor loading
<b>Internationalization Knowledge</b>		3	.689	
IK: Supply	We have great experience of supplying foreign customers			.799
IK: Ad org.	We have great experience of adapting our organization to meet the needs and wants of foreign customers			.732
IK: Sales	We have great experience of sales and marketing of our products abroad			.798
<b>Societal Knowledge</b>		5	.885	
SK: World view.	We have good knowledge about the world view in X			.746
SK: Gov.	We have good knowledge about the government in X			.840
SK: Culture	We have good knowledge about the culture in X			.767
SK: Pol. Sys.	We have good knowledge about the political system in X			.856
SK: Law	We have good knowledge about the legal environment in X			.810
<b>Business Network Knowledge</b>		3	.605	
BNK: Needs	We have good knowledge about our customers in X needs and wants			.663
BNK: Pot. Cust	We have good knowledge about potential customers in X			.743
BNK: Comp.	We have good knowledge about our competitors in X			.682
<b>Social Capital</b>		3	.869	
SC: Private	We have good knowledge about our customers in X private situation, e.g. their family			.854
SC: Meet	We often have private meetings with our customers in X			.862
SC: Friend	We consider our customers in X as close friends			.871

*The % of variance explained by the four factors was 68, 2%, Communalities >.6*

### 3.3 Cluster identification and interpretation

As our theory did not guide us in specifying the number of clusters in advance, the cluster analysis followed two distinct stages. First, a hierarchical cluster analysis was performed in order to identify the most stable and suitable number of clusters. To minimize the internal differences within the clusters, Wards' method was used (Hair et. al. 2005). This procedure suggested a four-cluster solution. In the second stage, a K-means cluster analysis was performed where a four-cluster solution was chosen. The K-means analysis maximizes the differences among cases in different clusters. As the change in distance from the cluster center was very small, convergence was achieved after seven iterations using the squared Euclidian distance (Hair et. al. 2005). Thus, clusters were identified by analyzing the variable means. To test the reliability of the cluster solution, ANOVA *F*-statistics revealed significant differences among the groups in the clustering variables.

**Table 3**

Final cluster centers.

Factor	Cluster 1 (n=61)	Cluster 2 (n=51)	Cluster 3 (n=51)	Cluster 4 (n=40)	Anova <i>F</i>
Internationalization Knowledge	6,1	6,4	5,9	6,0	3,52*
Societal Knowledge	4,8	5,4	2,9	3,5	121,19***
Business Network Knowledge	5,7	5,9	4,6	4,9	32,61***
Social Capital	2,0	5,1	1,4	4,2	225,58***

\*Sig. at  $p < 10\%$  \*\*Sig at  $p < 5\%$  \*\*\*Sig at  $p < 1\%$

To validate the clusters the mean values on the four dimensions were compared. As suggested by Hair et. al. (2005), additional variables (uncertainty, international orientation and performance) were used to validate differences among the responding units. From the final cluster centers it is evident that the sample firms possess high levels of Internationalization Knowledge (Cl:1 6.1, Cl:2 6.4, Cl:3 5.9, Cl:4 6.0, Avg. 6.05). This is verified by a separate analysis of the export share of their turnover; the mean value of the full sample is 70 percent where the individual cluster figures were in the span between 68-72 percent. In addition, the differences among the cluster on the Business Network Knowledge dimension are not very prominent due to the definition of the population and the sampling procedure for the study pinpointing internationally experienced SMEs. This is verified by analyzing the experience (time) of doing business in the host country. For the full sample the average was 12 years with no significant differences among the clusters where the span was between 11 and 13.5 years. In contrast, more prominent differences among the clusters are found in the Social Capital and Societal Knowledge dimensions. Below the clusters will be interpreted based on their final cluster centers and the cluster heterogeneity is validated through adding variables beyond the clustering procedure. In addition the clusters are named in line with the cluster interpretation.

The first cluster consists of firms with rather prominent Internationalization Knowledge (rank 2; mean 6.1) and Business Network Knowledge (rank 2: mean 5.7). The more profiling characteristics of this cluster is found in the horizontal axis with a high score on Societal Knowledge (rank 3: mean 4.8) but a low score on the Social Capital (rank 3: mean 2.0). This

indicates that this group of firms is more oriented towards a proper understanding of the society surrounding the business network than towards building close and trustful relationships with their customers. Thus, we name them *Country Experts*. They have a score above average of our sample on most of the variables. These exporters do not seem to perceive the host market as very uncertain. Instead they argue that they have information about the business environment to make grounded decisions. Additionally, they perform above average in the host country market, which is indicated by their rather high scores on the market position and market share established, as well as their levels of profitability. They also indicate rather positive growth figures in the host country for the last three years. On the other hand, a major characteristic of the exporters of cluster one is that they reveal rather low scores on international orientation. They seem to be relatively home-market oriented, giving this market a higher priority than foreign markets.

The second cluster consists of firms with prominent Internationalization Knowledge (rank 1; mean 6.4) and Business Network Knowledge (rank 1: mean 5.9). Except for these high score on the vertical axis, cluster two reveals high scores on the horizontal axis. From this axis we can interpret the cluster more properly. The final cluster centers indicates that these firms score high on Societal Knowledge (rank 1: mean 5.4) as well as on the Social Capital dimension (rank 1: mean 5.1). Thus these firms possess a prominent stock of resources and are therefore named *Masters*. They have the highest score in all dimensions and compared to cluster one they seem to both be oriented towards developing knowledge about the society in the host country as well as to build socially strong, trustful relationships with their customers. These exporters believe that they have information enough as regards decision-making in the host country and do also show the highest scores on the performance variables. Hence, on average, this group has experienced the greatest growth figures in the host country, has managed to establish a strong market position and is relatively more profitable than the entrant firms in the other clusters.

The third cluster consists of firms with limited resources since they have the lowest mean value on the final cluster centers in all four axes. The Internationalization Knowledge (rank 4; mean 5.9) and Business Network Knowledge (rank 4: mean 4.6) however, is not remarkably lower than for the other clusters. In the horizontal dimension on the other hand, the resource scarcity is more apparent. The mean for Social Capital only reaches 1.4 (rank 4) which indicates that this group of firms has a very limited social relationship with representatives of their customers in the host country. Judging from the mean values, this group also has a very limited understanding of the societal setting in the host country indicated by the low scores on Societal Knowledge (rank 4: mean 2.9). Having insufficient resources in terms of intellectual and social capital, this cluster is named the *Learners*. They seem to perceive an uncertainty in the host country as regards decision-making and are not so internationally oriented. In addition they have the lowest scores on the performance variables. Thus, they have experienced low growth rates in the host country; therefore they also have a relatively weak market position. The exception is our measure of profitability where they relatively outperform cluster four.

The fourth cluster consists of firms with limited Internationalization Knowledge (rank 3; mean 6.0) and Business Network Knowledge (rank 3: mean 4.9). These scores indicate that this is a group of firms with relatively low international experience and experience of interacting in the host country business network. The horizontal dimension however, reveals a more interesting pattern compared to the other three clusters. Here it is evident that cluster four consists of firms with a tendency to develop very strong social relationships with their customers which is indicated by the high scores on the Social Capital dimension (rank 2: mean 4.2). In turn, the final cluster center on the Societal Knowledge dimension (rank 3: mean 3.5) indicate that this group of firms has a limited knowledge about the host country

society. This leads our interpretation of cluster four as a group emphasizing the social aspect of a business relationship rather than the society of the host country, thus we name them *Customer Experts*. This group of firms is relatively internationally oriented and seems to give high priority to foreign markets. They are a bit more uncertain than the average firm in our sample. Their performance is relatively weaker than the average firm, and they come out as group number three in our sample on the market position and growth measures. More important is that the exporters of this cluster have the lowest scores on profitability.

To sum up, the cluster centers are visualized in Figure 1.

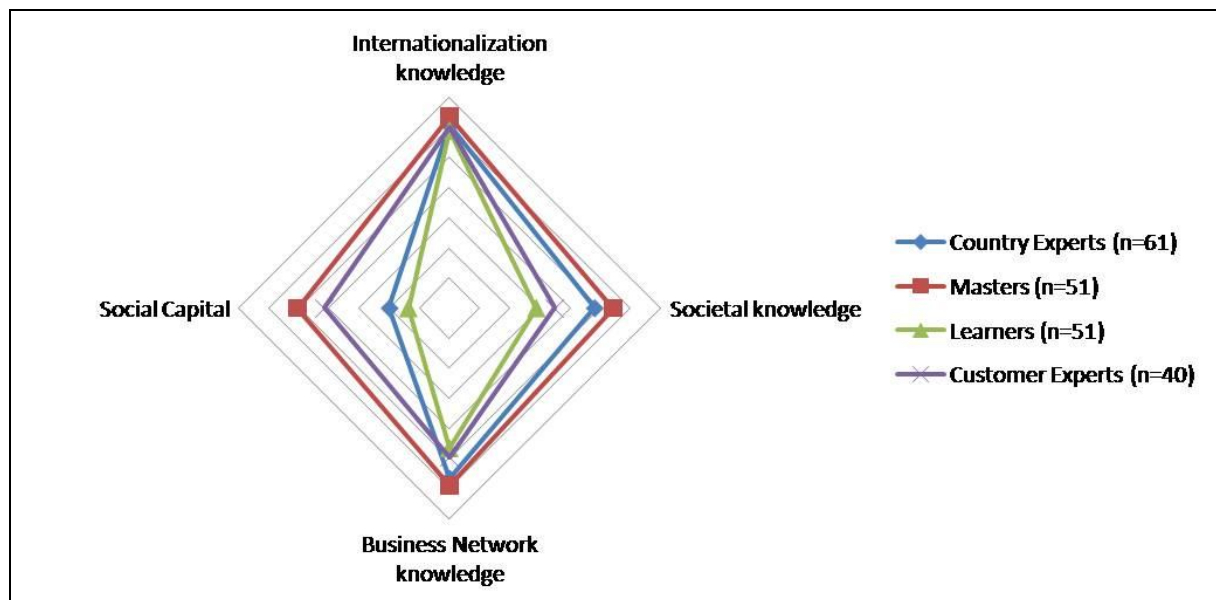


Figure 1. Visualization of cluster centers

#### 4. Discussion on SME abilities to cope with increased uncertainty created by the great global recession

Masters experience the lowest uncertainty in the host markets studied, which indicates that they have learnt how to cope with uncertainty. Thus, they are also in the best position to cope with the increased uncertainty of the new turbulent era of global business. Therefore we rank them as being the most resilient as well as being able to endure the crisis period the best. The high likelihood of these exporters having insider positions in many of their market networks should create staying power to endure the crisis. This is backed up by having the strongest performance among the four types of firms, which should mean that they have adequate financial resources. The high knowledge about both the local market and the society as well as good customer relationships indicate that they can better cope with the higher uncertainty created by the crisis. They are in a good position to stay flexible by taking advantage of a continued presence on the local market. They are able to follow local developments, learning to know how local business is affected and having a good chance to foresee when business picks up again. Having the highest score on international orientation and good internationalization knowledge indicate that they also have flexibility on global markets generally by being able to relate local developments to international developments, which is critical in a global recession.

The opposite of Masters are Learners, who experience the highest uncertainty to the emerging markets studied and we rank them as the least resilient and also to be in the poorest

position to endure the crisis. They will therefore probably have problems to cope with the rising uncertainty caused by the crisis. They primarily suffer from a liability of outsidership, since they do not have insider positions in the market network. They neither seem to possess enough business network knowledge and societal knowledge, or enough social capital to endure the crisis, which is also indicated by that these SMEs have the weakest performance. They also seem to suffer from a certain liability of foreignness, which could increase due to the crisis. They have the lowest international orientation, while their internationalization knowledge is on par with the other types of SMEs. The latter aspect also indicates that they have a limited general flexibility in balancing emerging country markets with different crisis patterns against each other. The flexibility in a local market more lies in withdrawing temporarily than being able to stay and adapt to various local developments.

It is more difficult to assess how Country and Customer Experts are able to cope with the uncertainty created by the global recession. Due to having more societal knowledge or more social capital, they would have a better possibility to cope with the increased uncertainty than Learners, but not as well as Masters. The high levels of societal knowledge possessed by the Country Experts make them experience low levels of uncertainty and they have a rather strong performance. These characteristics should make them relatively resilient and endurable, since it enables them to foresee and evaluate the effects of the crisis in the local market. This might also make them more generally flexible, since it helps them to know better whether to withdraw from the market or not in turbulent times. Customer Experts, on the other hand, have made larger investments in social capital. Thereby they are likely to secure continued business also in times of turbulence, which probably should make these firms relatively resilient and endurable. However, a drawback of Customer Experts could be to suffer from the reduced flexibility. The long-term oriented customer relationships could become rigid and hard to change at the same time as they are expensive to disinvest due to high switching costs.

## **5. Further research**

We suggest further research about whether the entrant firms in the four clusters, based on their existing resource base, actually respond to the crisis according to the discussion above. We will therefore go deeper into the turbulence created by the crisis, how it influences the internationalization of SMEs and how they respond. The probable response repertoire derived above will therefore be developed further with the purpose to validate it through a larger survey. This will be done by extending the database analyzed in this article with data collected from the same firms covering aspects during, and after the global recession. In that way, we will take more advantage of the present database, which is unique in the sense that it reflects SME experiences as the world economy peaked during 2007, just prior to the crisis.

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