THE ROLE OF KNOWLEDGE IN THE INTERNATIONALIZATION PROCESS OF SMALL AND MEDIUM ENTERPRISES

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ABSTRACT. The article analyses the role knowledge plays in the internationalization process of small and medium enterprises. Small and medium enterprises are considered from a knowledge-based view, an extension of the resource-based view of the firm, with knowledge as the most strategically significant resource of a firm and the basis for building and sustaining competitive advantage in nowadays complex, dynamic environment. Knowledge may be thus viewed as an essential determinant of small and medium enterprises internationalization processes. The assigned models of small and medium enterprises internationalization refer to this role, and an examination of the different approaches allows for an integrated view of the ways in which knowledge may determine, influence and support small and medium enterprises internationalization.

Small and medium enterprises internationalization strategy development implies several specific phases which are analyzed in order to identify the knowledge necessities for internationalizing small and medium enterprises. Knowledge is then object of certain knowledge processes which include knowledge acquisition, through creation or acquisition, use, handling and development, and revaluation, that are further analyzed according to their specificity related to small and medium enterprises internationalization. A special focus is placed on the process of knowledge acquisition, as the main premise of the internationalization process. These considerations are applied in the case of Romanian small and medium enterprises, providing proposals regarding possible ways of integrating knowledge in the process of internationalization and facilitating their access to knowledge.

Key words: Internationalization, Knowledge, Knowledge-Based View, Small and Medium Enterprises

JEL Classification: F23

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1. Introduction

Traditional approaches to internationalization have had as center of interest the large multinational companies, while entrepreneurship has targeted business development and management in the local context. Recent developments, especially since the 1990’s, which have marked the new, magnified role of small and medium enterprises in the contemporary economy and have opened new opportunities for an increased international involvement, have gnawed the demarcation between international business and entrepreneurship, implying the need for a reassessment of the traditional approaches regarding their applicability to small and medium enterprises.

The knowledge approach to internationalization is not a recent trend, but the understanding of how internationalization knowledge is acquired, retained, transformed and revalued has developed significantly over the past decades. The knowledge approach has been assigned as a useful framework for the analysis of internationalization, and linkages to knowledge can even be found in most traditional internationalization theories. Such a framework can also be applied in the case of small and medium enterprises.

2. Small and medium enterprises internationalization from a knowledge-based view

The knowledge-based view on the firm has emerged from the resource-based view, both also having been applied in the case of internationalization small and medium enterprises. The resource-based view of the firm has become significantly influent since the beginning of the 1990’s. In this view, organizations are considered as being made up of a unique set of tangible and non-tangible resources: assets, capabilities, processes, managerial attributes, information and knowledge. Such resources create organizational capabilities, referring to an organization’s capacity to perform a particular function or value activity. They should be valuable, rare, inimitable and non-substitutable - the so-called VRIN attributes - and, therefore, hard to copy or transfer. Those capabilities that make a significant contribution to ultimate customer value, or to the efficiency with which the value is delivered, providing a basis for entering new markets, are referred to as core capabilities. Firms acquire sustainable competitive advantage if having a set of unique resources that create value in the marketplace, which is, superior core capabilities over the competitors’.

The knowledge-based view focuses on intangible resources, rather than on physical assets. While resource-based models recognize the importance of intangible knowledge-based resources in providing a competitive advantage, in the knowledge-based view, knowledge is the most important resource of a firm, and the basis for building and sustaining competitive advantage, as heterogeneous knowledge bases across firms are the main determinants of performance differences.
Knowledge has been dichotomised into two types: explicit and tacit\(^5\). *Explicit knowledge* is objective, sequential, and digital, and can be acquired from books, lectures, and other formalised means. Explicit knowledge may take form of studies, patents, licenses, analyses, standards, computer programs, etc. Conversely, *tacit knowledge* is embedded in its possessor, of which he is either unaware or simply cannot articulate, as it is not codifiable, unable to be transferred through formal language. Tacit knowledge can only be acquired through experience or imitation. It may take form of know-how of different types: technical, informatical, managerial, etc.

The knowledge-based view of the firm is actually a response to the criticisms received by the resource-based view, which for example has been called conceptually vague and tautological and not applicable to dynamic markets as the sustainable competitive advantage is hard to achieve in such an environment. Resource-based models have thus been extended in order to address not only the ownership of resources, but also the dynamic ability for organizational learning required to develop new resources. This has lead to a dynamic process view, which is actually the knowledge-based view of the firm.

Past research offers few examples of resource-based or capabilities-based studies of small and medium enterprises internationalization. It has been argumented that small and medium enterprises are dependent on the development potential of key internal and external resources, which can be adjusted or developed within the firm and between firms and their environments. Thus, small and medium enterprises may pursue different internationalization development strategies, with different international activities over time. They can be either firm- or network-oriented resource development strategies or a combination utilizing internal and external resources\(^6\).

Nevertheless, the knowledge-based view has been largely discussed in the literature related to small and medium enterprises internationalization, as this has become an amplifying phenomenon, and especially related to the Born Global model of internationalization - enterprises which internationalize their activities right from their establishment or shortly after\(^7\). Especially in the case of small and medium enterprises, competitive advantage is merely explained by knowledge as a primary firm resource. Thus, if small and medium enterprises can generate competitive advantage from their knowledge, they should be able to internationalize just like large firms. By their experience-based learning in non-domestic environments, small and medium enterprises can develop experimental, tacit, knowledge that can be transferred across foreign markets.

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2. Knowledge linkages in internationalization theories

There are two main categories of approaches to internationalization in the literature: economic and behavioral approaches. Within them several streams, theories and models integrate; most studies adopt perspectives based on both approaches, since they are rather complementary and not contradictory, offering different perspectives on internationalization mechanism, namely:

- **Economic approaches**, which view internationalization as a result of internal and external contingencies, as the firm seeks for an appropriate degree of control over its international activities, bearing on its own risk exposure and flexibility (market imperfections theory or monopolistic advantage theory, internalization theory or transaction cost theory, oligopolist reaction theory, eclectic paradigm, etc.)

- **Behavioral approaches**, which emphasize the evolutionary nature of internationalization, focusing on the influence of decision factors, how they actually base the decision of internationalization, and the learning processes that underpin it (network theory, stage models of internationalization, product life cycle theory, etc.).

An examination of the assigned models of internationalization, which can also be applied in the case of small and medium enterprises, based on both economic and behavioral approaches, allows us to state that most of them recognize the role of knowledge in the internationalization process, explicitly or implicitly. Knowledge is not only a necessity for internationalization, but also an inherent component of various internationalization approaches.

**Market imperfections theory**, or **monopolistic advantage theory**, which was proposed by Hymer (1960) and has been subsequently tested and developed through various contributions, among which: Kindleberger (1969), Gruber, Mehta, Vernon (1967), Horst (1972). According to this theory, the existence of multinational companies shows imperfections of competition, since the firm, in order to become multinational, should have a monopolist advantage to compensate the initial handicap on the foreign markets in the competition with local firms, especially in the case of investments abroad. Such an advantage is based on capabilities, processes, and technologies, which actually derive from the specific knowledge that the firm has acquired. These assets allow the firm to obtain differential advantage in foreign markets.

**Internalization theory**, or **transaction cost theory**, proposed in the 1970’s and subsequently developed and enriched by contributions such as those of: Teece (1986), Williamson (1979, 1985), Buckley, Cason (1976), Hennart (1982), McManus (1972), Rugman (1986), focuses on transactional market imperfections, considering that the internationalization of the firm pursues subordination or internalization of market

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mechanisms that determine trading costs. Such market imperfections may be transportation costs, trade barriers, risks of know-how dissemination, significant differences of information between buyers and sellers, etc. In order to proceed to market internalization, firms pursue a process of knowledge gathering and assessment, through which management determines the best foreign expansion approach.

Stages approach to internationalization, understood as a gradual process, with the completion of several stages, remains the explanatory basis for the internationalization mechanism. This approach originates from the so-called Uppsala model of internationalization, proposed by the Swedish school of business internationalization (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977, 1990, 2003, 2006) from a study on Swedish firms internationalization. Under this model, there are four stages of the process of internationalization: no permanent export, then, typically, firms begin to export to another country through an intermediary, then they establish a branch of trade and finally, in certain cases, begin production in the host country.

Regarding the market selection, firms will begin to internationalize on the markets perceived as close in terms of psychological distance, and browsing through the stages of internationalization, will target more and more distant markets. The concept of psychological distance, introduced in the literature with the Uppsala model of internationalization, was defined as all factors that impede the flow of information from and into the market. Examples are differences in language, education, business practices, culture and level of industrial development.

A basic assumption of the model is that the lack of knowledge about foreign markets is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad - through experiential market knowledge. The model is a dynamic one in which there are state and change aspects of internationalization variables. The state aspects are market commitment - resources committed to foreign markets, and market knowledge, and the change aspects are the decisions to commit resources and the performance of activities. By distinguishing between objective and experiential knowledge, the latter one is highlighted as critical in the international process, as the driving force behind the process.

Numerous stage models have developed over time, which approach internationalization as a gradual process. According to an assigned study of the 1990’s, there has been made a distinction between the U-models - Uppsala model and subsequent developments, and the I-models – based on innovation, respectively, stage models which emphasize the importance of innovation in the

internationalization of the firm, among which can be mentioned contributions like: Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982), Reid (1981, 1983), etc. In the I-models the role of knowledge is even more obvious, as internationalization is presented as an innovation of the firm, a learning approach.

A summary of the key characteristics of knowledge in the U-Models, which may also be applied to the I-Models is presented below:

- The knowledge of critical importance to firms is market-specific.
- Knowledge is experience-based and is acquired in a learning-by-doing process.
- Knowledge is embedded in individuals and is not easily disseminated throughout the organization.
- Market commitment increases proportionally with acquisition of market knowledge.

Network theory - contrary to the traditional idea of the existence of clear demarcations between the firm and its environment, which underpins the traditional approaches to firm internationalization, both economic and behavioral – is the perspective contoured in the 1990’s of the company’s interaction with its environment. This approach has been developed through many contributions, beginning from Johanson and Mattson (1988). In this approach, the process of internationalization depends on the relationships and networks that the company owns or builds on foreign markets, the emphasis being moved from an economic and organizational to a social plan. Such relationships can be with customers, suppliers, competitors, public authorities, their branches, etc. Therefore, the degree of involvement on international market will depend not only on formal relations, but also on informal, personalised relations. It is obvious, and has also been stated that the acquisition of knowledge on external assets and target markets is fundamental to the network approach.

3. Knowledge processes in small and medium enterprises internationalization

The strategy of internationalization is a business strategy, and in its development, enterprises, regardless of their size, follow the overall well-known methodology for strategy development, taking into account the nature and specificity of the international activities. There are three broad stages for strategy development: fundamentation, elaboration and implementation.

- Internationalization strategy fundamentation involves an analysis of the context (external and internal environment), which takes into account general external factors, competitive market factors and enterprise factors. Such factors influence the

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strategic options of the company on a long-term, stimulating, or, on the contrary, discouraging international involvement. The analysis of external factors is reflected in identifying opportunities and threats associated with internationalization, and the analysis of enterprise factors allows for the identification of the company’s strengths and weaknesses, accordingly, the resources and restrictions for internationalization. Viewed together, the two approaches (strengths / weaknesses on the one hand, opportunities / threats, on the other hand) are components of a SWOT analysis (strengths, weaknesses, opportunities, threats).

- **Internationalization strategy elaboration** is based on the SWOT analysis, as identified in the previous stage, according to which the key elements of the internationalization strategy are identified, which should consider the inclusion in the overall strategy of the company, internationalization decision, market selection, location and facilities, marketing mix elements - product / service, promotion, distribution, price, etc.. Of these, essential for the internationalization strategy are considered to be the foreign markets selection and operation methods establishing.

- **Internationalization strategy implementation** - it is the proper implementation of the strategy, according to how it was previously founded and elaborated.

During each of these stages, there are certain knowledge necessities which have to be considered according to small and medium enterprises specificity. Such knowledge is actually object of some specific processes, which include knowledge acquirement, through creation or acquisition, use, handling and development, and revaluation.

Internationalization triggering is essentially determined by the existence of relevant knowledge, obtained by processing information related to internationalization and foreign markets. The role of knowledge in the development of internationalization strategy is essential for establishing the operation methods and external markets concentration or diversification, especially related to uncertainty, asset specificity, knowledge appropriability through tacit or explicit means, economies of scale and scope.

Knowledge processes in the case of small and medium enterprises internationalization can be analyzed as a specific case of the general knowledge processes which develop within an organization, as presented in the figure below. These processes thus imply the following phases:

- **Available and accessible knowledge evaluation** – for both internal, organizational and individual knowledge, and external, stakeholders’ and potential partners’ knowledge;

- **Knowledge necessities and sources forecasting** – according to the existing knowledge and the internationalization strategy; a special focus must be put on the identification of knowledge sources and ways of acquirement;

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- **Knowledge acquirement** – from both inside the firm and outside, also including knowledge creation if the existing knowledge is not sufficient and its acquisition is not possible;
- **Knowledge use, handling and development** – makes the most of the knowledge processes in a firm, and is a laborious, complex phase which implies several technical, economic and human aspects. Several operations can be included in this phase, in order to develop superior, innovative products and services;
- **Knowledge revaluation** – is the phase in which the organization economically benefits from the previous processes, and the core purpose of knowledge processes.

The knowledge necessities for small and medium enterprises internationalization are various and complex. Specific for the internationalization process is knowledge related to foreign markets selection - which includes an examination of political, economic, social, cultural, technological, legal, environmental factors, as well as competitive market factors related to competitors, customers, suppliers, etc. – and operation methods – the path whereby the firm is to be internationalized, which implies a choice between different alternatives, the most appropriate for small and medium enterprises being considered: the Internet, export, intermediaries, counter trade, licensing, franchising, joint-ventures, foreign direct investment\(^\text{15}\). The need for knowledge increases as small and medium enterprises shift from simple to more complex internationalization paths.

Moreover, internationalization implies changes and developments in the internal and external functions to support the chosen strategy, especially referring to those functions most closely influenced by a particular choice. Such functions may be sales, logistics, production, research and development, commercial intermediaries or strategy consultants.

The necessary knowledge may be acquired from a number of sources such as written works, government agencies, trade associations, personal contacts, or the Internet, relevant to the intended internationalization strategy. This may imply both desk research and field research. Due to the advances in information and communication technology, small and medium enterprises access to knowledge is practically equal to that of large firms.

If the role of knowledge as a key determinant of competitive advantage in internationalization is widely recognized, the approach to knowledge in the small and medium enterprises does not constitute an integrated, systematic process, but rather independent and randomly, with a restricted use of the specific knowledge management methods and techniques, and of the specific applications, such as the production chain management or customer relations management. The knowledge based approach to small and medium enterprises internationalization is actually more related to the entrepreneur and his characteristics, including on the expense of the available resources\(^\text{16}\).

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4. Knowledge acquirement for Romanian small and medium enterprises internationalization

Romanian small and medium enterprises internationalization issues are currently only tangentially approached, both in the literature and as a reality of the business environment. Until present there are no studies regarding the internationalization status of Romanian small and medium enterprises, though its knowledge and analysis are a necessity where the development of this sector, which includes fostering internationalization, is currently a priority for Romania. Small and medium enterprises internationalization stimulation is a current concern in the European Union and will be also emphasized in Romania in the near future. In this regards, a first step would be the ensuring of appropriate access to internationalization knowledge.

Small and medium enterprises are not to be considered a single class or typology of economic organization, and, moreover, the effective demand concerning internationalization knowledge by small and medium sized firms is probably very little compared to the unexpressed or hidden one, as small and medium enterprises may specifically have a partially clear and largely unconscious perception of their needs. Thus, providing access to appropriate internationalization knowledge is a complex task, especially since currently such an access is very limited, and requires special efforts for Romanian small and medium enterprises.

This should include several ways of access to internationalization knowledge, taking into account the heterogeneity of the sector and its needs. As a first step, standardized access to internationalization knowledge should be provided, respectively, largely independent of the demand by a specific category or enterprise, like the organization of international exhibitions, supply of statistics on foreign trade, access to online databanks providing news on international markets.

Furthermore, flexible access to internationalization knowledge should be designed to meet the requirements of differential groups of small and medium enterprises. This may include legal or international marketing advice provided by consultants, technology related services extensively using telecommunication instruments, access to online databases using specialized software, etc. Flexible access to knowledge requires professionals’ contributions, which should intervene when it would be too costly for the small and medium enterprises to produce and manage such services by themselves. It should be oriented especially to those industries and products and services that have better chances of succeeding abroad, taking into account for example that Romania’s current comparative advantage as compared to the European Union is in the production of clothing. Though, one may notice a decreasing trend of the comparative advantage for clothing, but there is an increasing trend of the comparative advantage for textiles.17

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Last but not least, *appropriate access to internationalization knowledge* should be provided, especially for small and medium enterprises operating in rapidly evolving industries, with highly specific knowledge needs. The need for such knowledge is expected to grow in Romania in the near future, and is not limited to technology related knowledge necessities. It should be mentioned that Romania holds an appreciable number of registered patents, in various sectors, but their owners’ possibilities of commercializing them abroad are limited.

5. Conclusions

The knowledge-based view on the firm, emerging from the resource-based view, has become an assigned framework for analyzing small and medium enterprises internationalization, due to its explanatory value. It may also be viewed as an integrated framework which relates to traditional assigned theories, both economic and behavioural approaches, most of them recognizing the role of knowledge in the internationalization process, explicitly or implicitly. Knowledge determines, influences and supports small and medium enterprises internationalization in various ways, and is an essential necessity for internationalization.

Having considered the specific stages of the internationalization strategy development, we can conclude that specific knowledge necessities arise at each stage. Such knowledge is actually object of some specific processes, which can be structured according to the model for the general knowledge processes which develop within an organization. In the internationalization process, knowledge is object of certain knowledge processes which include knowledge evaluation, knowledge necessities and sources forecasting, knowledge acquirement, knowledge use, handling and development, and knowledge revaluation. Knowledge necessities specific to small and medium enterprises internationalization include knowledge related to foreign markets selection, operation methods, changes and developments in the internal and external functions, and it may be acquired from a number of sources that should theoretically be equally accessible to both small and large firms.

We have put a special focus on the process of knowledge acquirement, as a main premise of the internationalization process, providing an analysis for the case of Romanian small and medium enterprises. Romanian small and medium enterprises internationalization issues are currently only tangentially approached, and a first step for their stimulation would be the ensuring of appropriate access to internationalization knowledge. In this regards, several ways of access have been proposed: standardized, flexible and appropriate access to internationalization knowledge - by taking into account the heterogeneity and complexity of the sector’s necessities.
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