Learning from internationalisation success and failure

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Abstract
The internationalization process is not always a success story, it may also include failure. Both success and failure may however result in valuable experiential knowledge with an impact on future foreign market entries. The learning outcomes may nevertheless differ in important aspects, but in this respect our knowledge is still limited. This paper reports on the findings of a case study of four Swedish SMEs, each presenting one successful and one failed market entry.

Introduction
International Business (IB) researchers oftentimes characterize internationalization as a path of continued growth and success (Vissak & Francioni, 2013). Firms may certainly learn from successful markets entries but an unbroken path of successes is rarely the case since internationalization implies dealing with a context of uncertainty and risk. In other words, encountering a liability of foreigness (Zaheer, 2015) as well as a liability of network outsidership (Johanson & Vahlne, 2009). Internationalization trajectories thus often include episodes when firms experience reductions in different dimensions of their foreign presence (Trąpczyński, 2016): they may downgrade their foreign operation modes, decrease their number of foreign markets, offer less diversified products abroad, cut down the scope of the value-adding activities they perform overseas, or even reduce the integration of their foreign operations. Such changes may represent a voluntary strategic more, for instance a decision to give priority to other markets, or emerge as a necessary consequence if the firm encounters some form(s) of problem on a market. For the latter case, failure, we apply the definition proposed by Nummela, Saarenketo, and Loane (2016, p. 53): “unexpected decreasing involvement in international activities”. However, given that frustrated attempts to enter new markets can also be seen as internationalization failures from the firms’ viewpoint, we extend Nummela's et al. (2016) definition to include both the unexpected decreasing involvement in international activities and the frustrated attempts to expand those activities to new markets.
A failure need, however, not to be negative in every respect. The experiential knowledge derived from such events may be an important piece in firms’ internationalization decisions (Eriksson et al., 1997). An important question in this respect is if learning from failure is different from learning from success. Our study therefore investigates if firms experiencing successful as well as failed market entries change their decision-making in the continuation of their internationalization.
We answer our research question with a multiple cases study based on eight market-entry cases reported by four Swedish SMEs, equally distributed between successes and failures. Success has been implied in internationalization research and the few studies that address failure are mostly concerned with explaining its antecedents; thus very little is known about the aftermath of internationalization failures (Trąpczyński, 2016).

Theoretical background

The role of experiential knowledge in internationalization and failures as learning opportunities

The internationalization process can be portrayed as an interactive dynamic that interweaves the development of knowledge about foreign markets and the commitment that firms make there, as outlined in the much-known Uppsala Model (Johanson & Vahlne, 1977, 2009). Higher levels of foreign market commitment generate increased market and customer closeness (Zhao et al., 2017), in turn, facilitating learning and knowledge development. Direct involvement in foreign markets is thus seen as the major source of experiential knowledge during internationalization (Johanson & Vahlne, 1977).

Regardless of representing failures or successes, the experiences associated with foreign market entries provide firms with knowledge that can be specific to a given market or allow for more general uses. The knowledge that is particular to the social, political, and economic environments that exist in a given host market is called *market-specific* and is often acquired through the experience of directly operating there. This knowledge informs firms about the functioning of local institutions, the dynamics of local markets, and about the social networks found in the considered market. A lack of market-specific knowledge can be a barrier for a firm's ability to develop its activities abroad, while its accumulation is considered necessary to long-term successful foreign operations.

When firms are able to incorporate their foreign experience into procedural know-how transferrable to other markets, they accumulate *internationalization knowledge* (Eriksson et al., 1997). This type of knowledge is market-neutral and firm-specific, contributing to the development, implementation, and management of international operations in general. As discussed by Riviere, Suder, and Bass (2018) for the case of multinational enterprises, the accumulation of internationalization knowledge has an important role in shaping the strategy that firms use abroad and contributing to its renewal.

The utility of the experiential knowledge derived from successes and well as failures can be expected to be larger when it is incorporated into some form of internationalization knowledge that could be used to avoid failures in other markets. Converting market-entry related knowledge into internationalization knowledge involves a process of reflecting upon the experienced success or failure and attributing reasons for it retrospectively. After being processed, the knowledge internalized from failures isolates reasonable causes of the frustrated experience and helps firms in identifying if (and how) they should proceed differently with subsequent opportunities. Notably, there is a large body of literature on *how* individuals and organizations learn from failures (Dahlin et al., 2017), but our focus here is on the *use* that firms make of the knowledge developed from failures in new market entries.

Success-related experiential knowledge has a more limited impact on the internationalization process to the extent that it only signals the effectiveness of the firms' strategies, informing very little about what to do next (Madsen & Desai's, 2010). This results echoes the broader literature on organizational learning, according to which successes may reinforce strategies and attitudes associated with past victories as firms expect the continuation of favorable outcomes (Levinthal & March, 1993). Consequently, despite being initially market-specific, the knowledge resulting from successful market-entries is likely to reinforce the configuration of the international knowledge that was involved in the successful experience. Compared to internationalization successes, failures may thus constitute richer and necessary sources of knowledge for firms in the international arena.

The benefits of failure-related knowledge in internationalization

The knowledge acquired through successes and failures makes the platform for the firm's subsequent internationalization decision-making, which can be identified based on Sarasvathy's (2001) conceptualization of *causation* and *effectuation*. Causation is the label that Sarasvathy gave to the reasoning usually privileged in the conventional management and economic literature. It is based on the definition of clear goals and on choosing among paths of action according to projections of potential returns. Compared to that, Sarasvathy outlined effectuation from the empirical observation of entrepreneurs' behavior: especially when faced with highly uncertain environments, they often avoid assumptions about the predictability of the future, focusing on affordable loss and what they can do with the available resources.

Over the last decade, internationalization research has embraced effectuation as a fruitful way to explain the internationalization of SMEs, making parallels between the uncertainty characterizing their internationalization decisions and entrepreneurial processes. Also suggesting that firms can change between causation and effectuation over the course of the internationalization process, emphasizing each of them to different extents (Nummela et al., 2014; Sarasvathy et al., 2014).

Methodology

Given that learning from internationalization failures can be a highly context-dependent phenomenon (Nummela et al., 2016), we adopted a multiple cases study as research design. To better identify particularities of failures and their associated dynamics, for each case firm we mapped both a successful and a failed market entry for makeing comparisons. In total, we gathered data from four firms on a total of eight market entries.

We decided on a theoretical and purposeful sampling method. In addition, the following criteria were applied: (1) the selected firms should be SMEs according to the European Commission's definition, i.e. employing fewer than 250 persons and with a maximum annual turnover of EUR 50 million (and/or an annual balance sheet total not exceeding EUR 43 million) (European Commission, 2005); (2) they should be manufacturing firms; and (3) the successes and failures discussed should not be older than ten years, for minimizing respondents' problems for recalling facts and details. Moreover, we sought knowledgable respondents that were present at their firms at the time of the reported events.

Empirical data was collected with semi-structured face-to-face interviews conducted between April and May in 2014, as well as from on-site visits, documentation, and records from the selected firms. Before each interview, a shorter telephone interview of about 15 minutes was conducted with each respondent in order to collect background information and to verify whether the planned respondent was the most appropriate informant. In each firm the CEO was our respondent, which facilitated access to more sensitive information and resulted in a holistic understanding of the market entry processes we discussed. A single case informant implies a limitation in our understanding of the cases, but this is less of a problem in SMEs as decision making then tends to be concentrated to a few individuals including the CEO (Styles & Hersch, 2005). Each interview lasted about one and a half hour and was tape-recorded with the respondents' permission.

Data analysis started with the transcription of the interviews into manuscripts and a detailed case history of each firm, thereafter used in intra- and cross-case analyses to identify patterns or categories in the learning and changes that the firms experienced through the successes and failures they reported (Miles, Huberman, & Saldaña, 2014). We constructed data display tables summarizing relevant information and checked them against what was observed during the interviews and against relevant documents. The analyses were first done separately by the researchers. In the next step we compared and cross-check our categorizations.

Results

Cases overview

The firms are all located in the middle of Sweden. Alpha is a leading producer of aluminum boats for military and commercial uses. It is a third-generation firm founded in 1905, when it started building wooden boats for local fishermen. In 1969 it started manufacturing aluminum vessels and in 1982 it began exporting its products. In 2005 Alpha started to cooperate with customers in Russia, delivering 12 boats for military and security usage (public and private sectors) during the subsequent years. In 2013 Russia decided to manufacture this type of products domestically, which made Alpha withdraw from that country. Alpha's last successful market entry happened in 2008, when it initiated export to the United Arabic Emirates (UAE).

Beta was founded in 1976 and is in the business of manufacturing plastic products (e.g. mattresses) for Health Care Centers. Beta entered the Japanese market in 1992, which proved to be a successful endeavor. More recently, it stopped exporting to the Indian market after three years of operating there, due to multiple reasons, such as the unstable and immature local environment.

Gamma is a third-generation firm founded in 1958. It initially started making cakes and then turned to producing the traditional flatbread that is famous in Sweden. Finland represents Gamma's most recent market entry success, entered around 2010. Before that, in 2009, Gamma accidentally started exporting to

Bulgaria and kept that market for almost two years, but corruption and problems in its relationships with its local agent forced the company to withdraw from there. In its market entries, Gamma has heavily relied on the assistance of the Swedish Trade Council (STC), "Business Sweden".
Delta is a family-owned machine producer within wood processing and woodworking. It was founded in 1989 and started exporting in 1991. After extensive preparations, Delta entered the Brazilian market in 2007. This entry never reached the intended outcome and is therefore perceived as a failure. There is however still some export through a commercial agent. A few years later, Delta was contacted by a reseller wanting to be their representative on the Hungarian market. This turned out to be a success.

Market-entries and decision-making logic
Among the four case companies, three of them (Alpha, Gamma, and Delta) reported successful market entries featuring elements of effectuation. The opportunities for these market entries arose from network partners or from approaching actors entirely new to those firms and almost no time was spent with learning before taking action. These market entries did not involve the crafting of detailed strategies targeting particular markets, but instead represented decisions motivated by loosely defined aspirations. In contrast, Beta features a success case that is distinct from the three other firms due to the causal logic it adopted after coming into contact with the new market opportunity. Beta engaged in an extensive research effort incuding "a very close study of our competitors" that backed up a market-entry decision by confirming Beta's price and technological competitiveness in the Japanese market.
Also for the failed market entries, the firms had adopted different decision-making frameworks: Alpha and Gamma assumed a rather effectual approach, not engaging in any search processes, while Beta and Delta applied more pronounced causal reasoning, took part in events, exhibitions, and made multiple travels to their prospected foreign countries, looking for clients.

The aftermath of internationalization successes
The successful internationalization cases form two groups. On the one hand, Alpha and Beta were both aiming to acquire specific knowledge about their new markets and employed this knowledge in profound adaptations in their product lines to better suit local preferences. These firms also made changes in their internationalization strategies due to the general-purpose knowledge they derived from their successful experiences. Gamma and Delta, on the other hand, obtained very limited knowledge from their successful market entries. These firms reported minimal or no product changes and no changes in their internationalization strategies.
Successes followed by changes in internationalization decision-making logic. Fulfilling the UAE contract was challenging for Alpha. The products' requirements were entirely different from Alpha's usual production. Furthermore, there was a "complicated administration and a special culture to handle", informed Alpha's CEO. "It is a lot of cost inside the contract, to handle the contract - this government shall have this, and this government shall have this, and so on, and a lot of paper work which costs". Their experiences made Alpha turn to a more causal approach, spending more time evaluating business opportunities and on preparations before making a move.
In entering Japan, Beta realized how relationship-oriented the Asian culture is: "if they are going to protect your products on the market they need to have a lot of loyalty and responsibility from you". Beta developed a new, low-end product line specifically for the Japanese market since the European mattress standards were considered too soft by Japanese customers. Summing up the experience the CEO underlines that competing in Japan changed the firms' way of conducting its internationalization efforts, "we picked up a lot of important 'puzzle pieces' for other markets". For instance, Beta "has become more flexible in understanding how to adapt to the market (…) We know that we have to be more open, more flexible towards each country and we also became more adaptable to the needs of the market".
Successes followed by minimal or absent changes in internationalization decision-making. Considering Gamma's experience in Finland, their CEO concludes that "Finland is Finland. You cannot really apply that (experience) in any other countries". The Finnish experience did not result in any product changes, nor in adjustments in Gamma's internationalization decision-making. At the time of entering Hungary, Delta was

already an experienced exporter and had developed a way of working that paved the way for a mutually benefitting relationship, reduced risks and kept the potential loss affordable. The fact that the market entry into Hungary proved a success further strengthened this strategy and did not result in any further changes.

The aftermath of internationalization failure

The four firms can also be separated into two groups according to the failures they experienced. On the one hand, the failure narratives reported by Alpha and Beta suggest that the knowledge they acquired from their foreign experiences was essentially market-specific. These firms reported no changes directly related to the knowledge they had acquired. In contrast, Gamma and Delta not only obtained market-specific knowledge from their failures but also accumulated general-purpose knowledge that fed into their internationalization strategies.

Failures followed by minimal or absent changes in internationalization decision-making. After entering Russia, Alpha's CEO considered that "it is much easier to work with these people than I thought." According to Beta's CEO, India features "a lot of corruption without any doubt. (…) we cannot do business that way." No changes were recorded in Beta's internationalization decision-making after its Indian experience and the firm turned its attention to the Korean market, which it perceives as a more mature environment.

Failures followed by changes in internationalization decision-making. As reported by Gamma's CEO, he left Bulgaria with the certainty that "we should have a closer look on how markets work and look a little bit more thoroughly before starting to export in a new market … we consider references a lot and more thoroughly than before". Likewise, Delta's failure in Brazil contributed to a change in their market entry strategy. They decided to stop spending money on searching for markets and resellers, but evaluate the potential of opportunities that turn up. Levaraging contingencies, they thus allow for serendipity in the choice of markets to consider by reducing the causal approach to evaluations of the specific resellers that contact them and the potential of those specific markets.

Discussion

Learning from success

Alpha and Beta made major investments in product development to be able to enter the new market and Beta also invested in market research and relationship development before entering the new market. They both report that they learnt a lot from making these efforts. In addition, for neither of them it was the first market entry. There were thus previous experiences to build upon and relate to in the knowledge development processes.

Delta was also an experienced exporter, the most experienced of them all, but Delta's market investment was not of the same extent as Alpha's and Beta's. The additional knowledge gained was therefore more limited for two reasons. Since they made less changes, there was less to be learnt from comparisons and new feedback. Furthermore, the lack of learning effects was likely affected by diminishing return to experience, a learning curve effect previously noticed in production learning (Dahlin et al., 2018). By contrast, Gamma, the smallest firm of the four and a newcomer to export, could have been expected to learn the most from entering a new market. Gamma, however, made very limited adaptations to the Finnish market and, unlike Delta, Alpha and Beta, extensively relied on external assistance. Gamma's CEO acknowledges that after their first customer contact, they consistently relied on the market intelligence provided by the Swedish Trade Council 'Business Sweden'. "We have been using them at all points actually".

Effects on internationalization strategy from success

Both Alpha and Beta learnt to adapt, and by adapting, their products to the market. They also learnt to be more flexible in relation to their partners on the market. In other words, they learnt to be less dependent on pre planning their market entry. Gamma, making a very small scale marked entry aided by Business Sweden, did not develop that confidence, as stated by their CEO: "Finland is Finland, you can't really use that (the learning outcomes) in any other country." Finally, Delta, by then an experienced exporter having tried various strategies, interpreted their success as a corroboration of their current strategy and saw no need for further changes - an example of diminishing return to experience (Dahlin et al., 2018).

It thus seems like the possibility to learn from a successful market entry increases when a firm is able to acquire internationalization knowledge through direct contact with the foreign market. But there is a diminishing return in relation to the amount of experience previously gained from other foreign markets.

Effects on internationalization strategy from failure

Failure, on the other hand, made all but Delta express the need for more systematization (causation) prior to new market entries. Notably, what Alpah, Beta and Gamma have in common is finding exteral reasons for their market failure. Alpha's failure in Russia was associated to interferences from the Russian government, Beta's failure in India was connected to the low maturity, corruption and high turbulence of the local market and Gamma blaimed corruption on the Bulgarian market. By contrast Delta considered internal reasons. Delta's CEO explained that their failure made them reconsider their business model towards resellers: "(…) before we said ' This is our way of doing sales and if it does not work for you, then you're not the right partner for us'." After their failure experience they developed a set of more flexible business models, aiming to adapt more to the resources and capabilities of the reseller in question. Gamma changed its internationalization strategy by adoping more comprehensive search routines prior to new market entries and Alpha sought new financing mechanisms to support the prospecting of new clients and ease new market entries while Beta's logic after India reinforced the causal approach they usually applied. Their CEO highlighted that "normally before we go into a market we make a very clear market study" – in other words, their deviation from the causal "normality" was interpreted as a mistake.

For Alpha, Beta and Gamma, there thus seems to be a relationship between finding external reasons for failure and increased causation. In contrast, Delta, which saw internal reasons for its failure, reacted by questioning its current causal approach. After self-reflecting on effectual aspects like 'who I am' and 'what I know' (Sarasvathy et al., 2014) they turned to a more effectual approach by leveraging contingencies through relationship development with their resellers, making adaptations based on a means-orientation, under the rule of affordable loss and the logic of non-predictive control.

Notably, Alpha and Beta only made minor changes in their internationalization strategies. Understanding failure as external-driven may result in increased caution and the prioritization of incremental, causal solutions aiming to reduce risk. Conversely, when firms see failure as an internal issue, they may feel more able to take action and therefore be more inclined to look for a major reorientation of their operations. Construing failures as mistakes represents understanding them as connected to reasons that are under the firms' control, differently from when failures are seen as misfortunes (Cardon, Stevens, & Potter, 2011).

Whether a failure directs the firm towards effectuation or causation may furthermore depend on its present way of acting. As Delta's CEO explained, their first failures made them turn from trial-and-error to causation, while the failure in Brazil caused a change from causation to increased effectuation. Causation may thus initially seem like the 'safe' choice when facing failure, not the least since that is the strategy generally taught at universities (Dew et al., 2009). Nevertheless, as indicated by the Delta case, after repeated failure, a causation strategy may be questioned if the firm is open to questioning its own behaviour.

Learning from failure

The cases show that firms can learn from failure. Once more, there seems to be a relationship between the extent of market investments and learning. Alpha failed in keeping the Russian market but learnt a lot from adapting their products to that market. Similarly Delta, after investing in entering the Brazilian market, had a major learning outcome in questioning their market entry logic. Gamma, however, made very limited adaptations to the Finnish market and, unlike Delta, Alpha and Beta, extensively relied on external assistance. Like in their success case, they heavily relied on Business Sweden in preparing the market entry and their major learning outcome was just a decision to aviod corrupt markets in the future. The exception is Beta, which invested a lot in entering India but, repeating its previous way of acting, did not learn much.

Final remarks

Learning from successes seems to depend on the degree of commitment that firms hold in their foreign markets, which can affect their capacity of acquiring relevant knowledge (Zhao et al., 2017). Learning from failures shows a similar pattern in three out of four cases, but is also affected by how firms interpret the causes of their failures (external or internal reasons). Failure thus seems to be more subject to interpretation and biases while learning from successes is more objective, in terms of being based on financial outcomes and market shares. The aftermath of failure is based on counterfactual thinking (e.g. What could have been done differently?), while successes often depict single, quantifiable scenarios. One of the questions that remains to be discussed is whether firms using effectuation would be more capable of identifying internal reasons for their failures in comparison to causal peers, due to the means-based reasoning at the core of effectual strategies.

Our cases do not support such a perspective since there seems to be no relation between the use of effectuation and the interpretation of failures among our firms. Nevertheless, the idea that choosing between causation and effectuation may affect firms' attitudes towards successes and failures is a topic defended within Effectuation literature (e.g. Dew et al., 2008).

Regarding research limitations, it is worth noting that our results do not include potential moderators of learning, such as firms' absorptive capacities (Cohen & Levinthal, 1990), nor do they control for intra- and extra-organizational influences that may affect firms' interpretation of success and failures (Cardon et al., 2011).

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