Something old, something new: learning cycles in the internationalization process of emerging market firms.

Abstract:

In the view of traditional IB theories, the decision to internationalize operations, when made by relatively young entrepreneurial firms that lack resources and capabilities that can be considered internationally exploitable firm-specific advantages, seems almost to be a paradox. The objective of this paper is to explore this phenomenon by studying internationalization from a processual and learning perspective. We aim to answer two major questions: (1) How do emerging market firms (EMFs) learn to overcome resource deficiencies in internationalization? and (2) What factors influence their learning ability? Using a case study method, we propose vicious and virtuous cycles of learning in internationalization that are created by a system of initial conditions, managerial mindset, motives, pacing and speed of internationalization. A vicious process is characterized by limited learning resulting in resource dispersion and failure of internationalization efforts, while a virtuous cycle is a process of intensive learning leading to resource accumulation that helps to make internationalization successful.

Keywords: internationalization, resources, learning

Introduction

There is a growing interest in emerging economy multinationals and possibilities to extend key IB theories , especially by studying the internationalization of these companies as a process (Meyer, 2014). Process studies allow researchers to track the evolution of the resource-related decisions and moves that companies make: how they leverage existing limited resources, acquire and use new resources, and shed resources over time (Eisenhardt and Martin, 2000). Also, as Cuervo-Cazzura (2012) argues, the possible theoretical contributions of such research are particularly important when analyzing the early stages of foreign expansion of emerging market multinationals. On one hand, at these stages the impact of the country of origin is very visible as a source of potential advantage or disadvantage. On the other hand, in such early stages of internationalization, resource deficiencies have major impacts and are considered the main barrier to the internationalization of emerging market firms (EMFs). In the view of traditional IB theories utilizing the concepts of country- and firm-specific advantages (Dunning and Lundan, 2008), the decision to internationalize operations seems to be paradoxical when made by young entrepreneurial firms from emerging markets. The objective of this paper is to explore this increasingly important phenomenon by studying internationalization from a processual and learning perspective and by answering two major questions: (1) How do EMFs learn to overcome resource deficiencies in internationalization? and (2) What factors influence their learning ability?

In order to answer these questions, we present an in-depth qualitative study of Polish companies with 'entrepreneurial' origins that have recently made two important decisions: 1) to be listed on the stock exchange and 2) to internationalize their operations through foreign direct investment. A key contribution of this study is the recognition of the impact of two logics of learning in internationalization and their determinants. We will reveal two cycles of learning – a virtuous cycle, resulting in intensive learning and resource accumulation, and a vicious cycle, resulting in limited learning and resource dispersion. Specifically we argue that country specific advantages, internationalization motifs, firm' resources etc. *per se* are less important determinants for successful learning in internationalization than the *complementarity* of these elements, which creates a systemic virtuous process of learning and adjustments over time. Moreover, we also find that the *low* velocity of the process is very important because it leaves room to absorb information and to understand and evaluate the causal structure of outcomes, allowing for learning and actions to be adjusted accordingly.

The paper is structured as follows. The following two sections discuss the theoretical framework and the method of the study. Next, a comparative analysis of two cases of Polish listed companies is presented. On this basis, theoretical propositions are developed concerning learning in the internationalization of companies with limited resources. The paper concludes with a discussion on the implications and limitations of the findings.

Theoretical framework

IB theories (developed and emerging market perspective)

A significant body of international business literature has focused on the role of firm-specific advantages in the internationalization process (Dunning and Lundan, 2008). Since Hymer's (1976) study of the role of a firm's proprietary resources in the process of internationalization via FDI, researchers have identified several factors that support internationalization. The main evolutionary path of this research stream has led from studies on the impact of tangible assets to studies on the role of intangible resources that are fungible, flexible and difficult to imitate. An integration of these studies was performed by Dunning and Lundan (2008) using the ownership-location-internalization (OLI) framework. This framework postulates that three main sources of advantages explain firms' decisions to internationalize their production and operations. First, ownership-specific advantages take the form of privileged possessions or access to tangible or especially intangible assets. Second, location-specific factors refer to the uneven spatial distribution of natural and created resources. Finally, internalization advantage refers to the ability to circumvent or exploit market imperfections. According to this framework, firm-specific advantages, which are mainly accumulated in particular location resources and capabilities, are necessary to offset the 'liability of foreignness', or the social and economic costs related to operating in a foreign market. These, in turn, result from geographic, cultural and institutional differences – that is, the 'psychic distance' between the home and host country.

Psychic distance is defined as a combination of factors disturbing the flow of information between the company and its target market, such as "differences in language, culture, political systems, level of education, level of industrial development, etc." (Johanson and Vahlne, 1977: 308). The internationalization process (IP) model (Johanson and Vahlne, 1977) provides insight on how companies cope with this psychic distance in their internationalization process. According to the Uppsala model, firms begin their international operations in countries with low psychic distance and then gradually increase their exposure to foreign markets, in terms of both geographic scope and resource commitment. Thus, internationalization is an incremental process, minimizing uncertainty and resource commitment and depending upon the level of knowledge of a particular market. Decisions are made sequentially as a reaction to problems and opportunities. The firm's own operations constitute its main source of market knowledge; thus, experiential learning itself is an incremental process of learning through ongoing activities. More recently, Johanson and Vahlne (1990, 2007) have extended their original insight by incorporating networks as a potential source of knowledge and learning. The model clearly emphasises the role of individuals and networks members as the holders of market-specific knowledge (Forsgren, 2002). Only after acquiring a deep understanding of the key success factors and accumulating other resources can firms successfully proceed with internationalization. The speed of this process has stirred a heated debate, and research has shown that both knowledge-intensive companies ('Born-Globals' or International New Ventures (INVs)) and traditional SMEs can internationalize at high velocity and skip over some typical stages, mainly as a result of learning and networking capabilities (Kalinic and Forza, 2012).

Until very recently, an overwhelming majority of the research on the internationalization process was focused on firms from developed countries (Liu et al., 2008). Considering the internationalization of firms from emerging economies, Mathews (2006) proposed a new theory, the *linkage – leverage – learning* (LLL) model. He argued that firms from emerging markets, particularly from the Asia-Pacific region, internationalize very rapidly, using both technological and organizational innovations to strategically exploit their latecomer status, turning it into an advantage. These firms' international expansion is driven by *linkage* (i.e., entering collaborative partnerships with Western companies), *leverage* (i.e., using external resources) and *learning* (i.e., repetition of the linkage and leverage processes) (Mathews, 2006). The salient features of this model are that it captures entrepreneurial dynamics of internationalization (a feature missing from the OLI model), and resource development instead of resource exploitation focus. In the context of emerging market firms (EMFs), entrepreneurial orientation is seen as a key capability that compensates for the firm's lack of pre-internationalization experience and technological and managerial knowledge (Liu et al. 2008).

The question of whether the internationalization of EMFs needs new theories, such as the LLL model, or whether this phenomenon can be understood based on traditional theories, such as the OLI model, has raised a heated debate (Narula, 2012). According to Cuervo-Cazurra (2012), EMFs are neither 'hot' nor 'cold'; instead, they are 'just right' to serve as a vehicle to extend existing theories by applying them in a new context. Following this approach, this paper aims to extend existing theories by studying them in the context of emerging markets.

Luo and Tung (2007: 482) argue that emerging markets “have undergone significant structural transformation in the recent past… representing countries whose national economies have grown rapidly, where industries have undergone and continue to undergo and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems”. Although the population of emerging markets is extremely diverse, most of the research on EMFs has been set in China, India and, to a far lesser extent, Latin America (Jormanainen and Koveshnikov, 2012). Few such studies have been conducted in Central and Eastern European countries like Poland (Wasowska and Obloj, 2012), mainly because these countries lag behind not only advanced economies but also Asian emerging markets in terms of internationalization of companies. Polish outward FDI started very recently and, until now, has reached only very modest values. By setting our study in the Polish economy, classified by FTSE Group as ‘advanced emerging’, we respond to the call for more diversified geographic focus in EMF research.

In this paper, we chose to study Polish entrepreneurial companies that were created and developed under the conditions of a market economy and that, after being listed on the stock exchange, struggled with the challenge of becoming multinationals. Therefore, we focus on companies that overcame the main obstacle for international growth, - lack of financial resources, despite the significant limitations to other ownership advantages (i.e., brands, technological know-how, and managerial competencies). We observe these companies’ process of internationalization in order to better understand how they cope with resource deficiencies. Specifically, we investigate how they acquire knowledge through the process of learning.

Learning as an integrating framework in the internationalization process

The IB approach to the relationship between firm-specific advantages on one hand and the gradual or accelerated process of learning in the internationalization process on the other hand parallels resource-based concepts of a firm’s competitive advantage in the theory of strategy. The resource-based view (RBV) perceives organizations as bundles of resources. These resources can be either tangible or intangible, although both IB and strategy researchers argue that the latter might be the principal source of competitive advantage (Peteraf and Barney, 2003; Sahaym and Nam, 2013). Organizational renewal and success involve allocating and leveraging existing resources, creating new resources, accessing external resources and renewing organizational resources over time. The crucial driver of these processes is the dynamic capability of learning through each cycle of renewal (Eishenardt and Martin, 2000; Binghman and Haleblian, 2012); in this focus on learning, strategy meets international business theories.

Li (2010) argues that cross-border learning is also a central theme that may serve as an integrating platform for all MNE models, including both conventional models (i.e., IP and OLI) and emerging models (i.e., LLL and INV). Proposing a learning-based view of internationalization, he differentiates between two types of knowledge required in international expansion. First, *ownership knowledge* results from "learning about the ownership-based advantage (i.e., the knowledge about technological, marketing, and other functional expertise)" and is the focus of the OLI model (Li, 2010: 45). Thus, this type of learning refers to the firm's resource base. Second, *location knowledge* is the effect of "learning about the location-based advantage i.e., the knowledge about institutional context, social relationship, and economic conditions in a specific country/region" (Li 2010: 45) and is central in the IP model, providing market-specific knowledge. This classification of the knowledge required in internationalization complements the dominant classification developed by Eriksson et al. (1997), which posits business knowledge and institutional knowledge as a part of location knowledge, and internationalizing knowledge as a part of ownership knowledge.

The learning processes underlying the creation of ownership or location knowledge may be either exploitative or explorative (Li, 2010; cf. March, 1991). The former focuses on using ex ante (prior to international expansion) developed knowledge stock to improve/apply internal knowledge, while the latter focuses on acquiring novel and tacit knowledge following international expansion. On the basis of existing literature, Li (2010: 45) argues that the phenomenon of accelerated internationalization that characterizes both EMFs and INVs can be better understood in terms of exploratory forms of learning that "push and pull MNE latecomers toward their FDI in the developed economies, often via the aggressive entry mode of merger and acquisition (M&A)", while exploitative learning is more effectively explained by conventional models that are relevant for traditional MNE from developed economies.

Although EMFs and INVs are different, both are characterized by the trend of accelerated internationalization (Mathews and Zander, 2007; Li, 2007; Li, 2010) and resource deficiencies (Oviatt and McDougall, 1994). Meyer (2014) suggests that the INV perspective and INV research are also applicable for EMFs, as they are internationally relatively inexperienced. Thus, in the following paragraphs, we summarize research findings on knowledge and learning in internationalization, including findings discovered in both settings.

First of all, a vast and still growing body of research indicates sources and knowledge acquisition processes other than the experiential knowledge postulated in the IP model. For example, Forsgren (2002) argues for the inclusion of learning through imitation, learning through incorporating people or organizations, or conducting a focused search for new information. In a similar vein, Meyer (2014) summarized the findings of earlier studies by indicating four processes of knowledge accumulation that supplement the original IP model: (1) building an entrepreneurial team with international experience, (2) working with internationally experienced partners in the domestic market (particularly important before the first foreign experience), (3) imitating others, and (4) collaborating with partners abroad. A very comprehensive overview of learning and knowledge in early internationalization research was compiled by De Clercq, Sapienza, Yavuz and Zhou (2012). To understand how different processes of foreign knowledge acquisition contribute to the decision of early internationalization, the post-entry process and the resulting performance, they applied Huber's (1991) distinction of five knowledge acquisition types: experiential learning (from experience and activities), vicarious learning (by observing others), searching (looking for information about the environment), grafting (adding components of new knowledge to existing knowledge) and congenital learning (drawing on the management team's pre-start-up international knowledge and experience). De Clercq et al. (2012) found that vicarious and congenital learning were particularly significant for ventures' internationalization decision and subsequent process of ventures, while experiential learning, searching and grafting were prominent in post-entry internationalization.

Studies based in the context of EMFs have also provided evidence that multiple processes of knowledge acquisition are used. For example, Sahaym and Nam (2013) found that top managers' prior experience (specifically global managerial and technological experience) and a favorable institutional environment contributed to EMF international diversification. Building on earlier works (Gavetti, 2005; Rosenbloom , 2000), they argue that "managers draw on unique experiences and prior knowledge to compile a cognitive representation of present and future business opportunities" (Sahaym and Nam, 2013: 424). Thus, global managerial experience may mitigate the uncertainty and complexity of internationalization. Elango and Pattnaik (2007) observed that networks help EMFs to acquire knowledge that is particularly relevant for international expansion. Kotabe et al. (2010) applied an absorptive capacity[1] concept to examine how knowledge acquired through managerial ties with government officials and foreign MNC partners affects firms' new product market performance. They found that absorptive capacity determined the positive effect of knowledge acquisition on new product market performance. However, the authors suggest that external knowledge sources do not necessarily enhance new product market performance; instead, "managerial prowess in integrating and transforming knowledge becomes paramount in enhancing new product market performance" (Kotabe et al., 2010: 166).

Second, despite the assumption of the IP model that learning processes in internationalization result in the broadening of foreign market (i.e., location) knowledge, De Clercq et al. (2012) indicate that learning processes may also have important effects on technological (i.e., ownership) knowledge and domestic knowledge (De Clercq et al., 2012). For example, exposure to foreign markets increases a firm's technological knowledge (Zahra et al., 2000; Yeoh, 2004), and the development of a foreign customer network supports new product development (Tolstoy, 2010). Sapienza et al. (2005) observed that early internationalization and entrepreneurial orientation supported a culture promoting learning efforts in international and domestic markets. However, they also found that the degree of internationalization to be negatively related to domestic learning efforts.

In sum, different theoretical frameworks offer different perspectives on what factors matter in the internationalization process. They stipulate that (1) important factors include country- and

[1]Cohen and Levinthal (1990:128) defined absorptive capacity as a firm's ability "to recognize the value of new, external information, assimilate it, and apply it to commercial ends". In their view it is critical to the ability of a firm to learn. Later refinements of the concept indicate that it refers to a firm's ability to acquire, assimilate, transform, and exploit new knowledge (Zahra and George, 2002).

firm-specific advantages; (2) the process of knowledge accumulation and capabilities development is typically gradual and depends on the sequence of internationalization moves, as well as resources leveraged through participation in networks; and (3) different types of learning processes and knowledge are crucial for successful internationalization. Therefore, we know from studies in developed markets that external and internal company resources matter and that the learning process has strategic importance in the internationalization process. However, we do not know how these processes operate in firms in emerging markets that have just started their internationalization drive. Hence, this study will address the following research question: *How do firms from an emerging market learn to overcome resource limitations as they internationalize, and what factors influence their learning ability?*

Research method

The study employs a case study method for two reasons. First, this method best serves the exploratory character of our research: the research questions are of the "how" type, the study is focused on contemporary events and little research has been conducted on the internationalization of Polish entrepreneurial companies. As foreign direct investments from emerging economies of Central and Eastern Europe are a new phenomenon, cross-sectional research designs are of limited usefulness. Second, a case study method allows for rich data to be collected in order to study internationalization as a process (Yin, 2003). Calls for longitudinal qualitative research and the inclusion of temporal dimensions are made regularly in the IB literature (Jormanainen and Koveshnikov, 2012; Blazejewski, 2011), but only recently have they begun to receive serious responses.

The research design (selection of cases, data collection, analysis) builds upon the principles described by Yin (2003) and Eisenhardt (1989). The case companies were selected in the process of purposeful sampling based on the following *a priori* criteria that are important to the research: the IPO must have been in 2006 or 2007, internationalization moves had to be of importance to their strategies, and the companies had to be of an entrepreneurial character. First, only companies that performed their IPOs in 2006 or 2007 were selected. The rationale behind this criterion was that, at the time the research was conducted (May-November 2010), these companies had been listed on the stock exchange for a period of three to five years.

Since the maximum tenure of the members of management boards in Poland is five years, this criterion increased the chances that TMT members of the studied companies would have been directly involved in the IPO process and the investment decisions following the increase in equity. Moreover, this criterion was intended to increase the homogeneity of the sample, since the selected companies made their IPOs in times of economic prosperity, and their first decisions following the IPO were not influenced by the external shocks that resulted from the turmoil in the financial markets in late 2008. Finally, studying listed companies allows us to access additional sources of information (investments analysis reports, external publications and press releases), as they are required to report their results, their strategies and the outcomes of their major decisions in detail.

Second, we chose firms that had performed at least two FDIs in the last five years, because this improves the likelihood that the studied firms see internationalization as an important move. Furthermore, such sampling enhances the probability that the studied firms have extensive and accumulated experience associated with international activities. Finally, the five-year timeframe enabled the researchers to reach the informants who were directly involved in the internationalization process and familiar with the associated decisions, moves, results, and idiosyncrasies.

Third, we focused on entrepreneurial firms by choosing those with ‘private’ origins in which an individual investor (or family) was the dominant shareholder after the IPO. This criterion is consistent with prior research that has stressed the importance of founders’ presence as a key characteristic of entrepreneurial firms (Bingham and Haleblian, 2012; Kowalewski et.al. 2010).

After applying the selection criteria to the companies listed at the Warsaw Stock Exchange, only three companies were identified that met all of the above criteria; of these, two agreed to take part in the research project. In order to study internationalization as a *process*, we applied a longitudinal case study design using an *ex post* research perspective, in which the research process starts only after the events under study are terminated (Blazejewski, 2011: 256). We gathered *retrospective data* including retrospective interviews and annual reports (i.e., data produced at a distance from the events of interest (Blazejewski, 2011: 257). Triangulation was assured by using multiple sources of evidence: in-depth interviews with TMT members, annual financial reports, IPO prospects, company presentations, news releases and external analyses and publications. The respondents were selected using the key informants method (Myers, 2009). Following the practice used in IB research (Welch et al. 2002), TMT members directly involved in the internationalization process were considered key informants. Five interviews were conducted in each firm with managers that had direct, hands-on experience with the decisions and moves related to the firm's internationalization. In each firm, the CEO or owner initially provided her or his account of the internationalization process. Later, we interviewed top managers who were directly involved in the firm's strategic decisions and moves, including the internationalization process. When informants represent different functions, two research gains occur: information bias is reduced, and complementary perspectives on the same decisions and events are provided. We used a semi-structured interview questionnaire divided into three main parts, and all interviewees were asked the same set of directive and nondirective questions. First, respondents were asked to elaborate on key events in the history of the firm, including the preparation and execution of the IPO. In the second part of the interview, they were asked to explain the firm's strategic position in the Polish market. Respondents were then asked to describe and explain step by step the motives, decisions, actions and outcomes related to the internationalization process. The semi-structured interviews conducted with TMT members were recorded and transcribed, and case-study databases were created to ensure validity (Gibbert et al, 2008).

Following the multiple-case-study approach (Eisenhardt, 1989), we began by synthesizing the data for each firm into individual, detailed case histories (20-25 pages in length), describing the chronology of the firm's development and internationalization process. Next, we performed within-case analysis, focused on high-level categories that corresponded to main parts of the questionnaire (i.e., open coding). Afterwards, each category was divided into sub-categories that together represented all major aspects of international expansion and learning and formed a sequential continuum: motives for foreign entry, resource usage, and the internationalization process and its learning effects. With good understanding of each case, we proceeded with an analysis of cases (Miles & Huberman, 2000), identifying and examining similar themes and patterns as well as major differences. This analysis produced contrastive models of virtuous and vicious cycles of internationalization.

Background of the case companies

Company A

The first company (hereinafter Com-A) specializes in the production and distribution of canned meat and pates, ready-to eat dishes and pet food. The company has four production plants in Poland, one in Belarus and three in the Czech Republic. Com-A operates in the low-end segment of the market, where both main competitors and suppliers are of domestic origin. Its history dates back to the late 1980's, when two local entrepreneurs from a regional city located in Eastern Poland established a small meat-processing plant. In 1996, the company changed its name and increased its capital as a result of the entry of several private investors. In 1998, one of the founders of Com-A moved to Belarus and established a replica of the Polish plant, producing mainly canned meat, using his own capital and know-how. Although there were no formal relations between the two companies, Com-A helped the Belarusian company by providing informal managerial support and access to technology and machinery, mainly for personal reasons (its CEO at the time was a son of the founder that ventured to Belarus). In 2000, the company's equity was increased again, and a part of it was acquired by a venture capital fund. Com-A focused on the domestic market; in the early 2000's, its exports accounted for less than 5% of its revenues. Export contracts were typically initiated by customers and were treated as secondary to domestic operations; in some cases, they were considered burdensome (e.g., kosher canned food for an Israeli client). In 2006, Com-A acquired the Belarusian company and upgraded its production facilities, using a new Polish meat plant as a benchmark. A few months later, the company was listed on the Warsaw Stock Exchange. In 2007, with the capital raised through the IPO, Com-A acquired a large Czech producer of pet food.

Company B

The origins of the second company (hereinafter Com-B) date back to 1991, when two entrepreneurs from a small city in Southern Poland started a company to import second-hand trailers from Western Europe. The imported products were upgraded and sold successfully in the Polish market. In 1996, the founders decided to change their business model by producing trailers under the company's own brand. The design and durability of their trailers was quickly appreciated by Polish transportation companies and fleet operators, and Com-B's sales grew quickly. The company also occasionally sold to international buyers (e.g., Volvo and Scania) and followed slowly expansion of these companies in Central Europe and Russia. The main competitors, suppliers and complementators of Com-B were of foreign origin. The company internationalized incrementally. In 2010, it had sales subsidiaries in Ukraine and Russia; eight commercial agencies in Lithuania, Latvia, and Belarus; and seven dealers in Holland, Czech Republic, Slovakia, Italy, Romania, Turkey, Germany, Bulgaria and Hungary. In 2006, Com-B increased its capital significantly as a result of the entry of new private investors. Since 2007, the company has been listed on the Warsaw Stock Exchange.

Comparative analysis and interpretation

Although the examined companies represent different industries, their development paths have the same points in common. In both cases, the first years of operations coincided with the transformation of the political and economic system in Poland. Both were founded by local entrepreneurs originating from small, peripheral cities. Both represent low-tech industries and originally operated on a semi-professional basis, using very simple methods of production. In the mid-2000's, both were publicly listed and had foreign subsidiaries and revenues amounting to approximately 300 million PLN (app. 75 million EUR). Below, we present a detailed comparative analysis of these two companies concerning four aspects of internationalization: motives, resources, processes and learning effects.

Motives for internationalization

Com-B's motives for internationalization clearly correspond to 'market-seeking' in Dunning's typology (Dunning and Lundan, 2008). The choices of sales subsidiaries in Russia and Ukraine were made in a systemic and analytical way to tap the significant potential of Eastern markets. The decision to start production in Russia was also motivated by market-seeking, since the main reasons for this move were to reduce transportation cost, overcome protective duties and follow the producers of complementary goods (Dunning and Lundan, 2008). The market selection was determined by the low saturation of Eastern markets and the weak competitive position of Western companies in Russia and Ukraine.

Com-A's main reasons for internationalization did not correspond clearly with the main motives indicated in Dunning's typology, but instead were rather idiosyncratic and opportunistic. The acquired Belarusian company was not performing well, but it was available at the time of IPO preparation and was built by one of the former founders. Therefore, the managers decided to acquire the Belarusian company to improve the image of Com-A in the eyes of future investors. One of the interviewees explained: *The main reason why we acquired the Belarusian company was that we wanted to show to potential investors that we're not just a Polish company but an MNC.*

The importance of investors' expectations in the internationalization process has been little examined in the literature. However, there is evidence that financial markets increase competitive pressure and that expectations of financial analysts impact the strategic decisions made by managers (Meyer, 2006).

The subsequent internationalization of Com-A to the Czech Republic via the acquisition of a pet food producer there (which represented a new product in the company's portfolio) was motivated by the need to acquire a brand, distribution channels and technology, corresponding to strategic-assets seeking (Dunning and Lundan, 2008), but also by the need to spend IPO money in accordance with promises made in the company's prospectus. The move was communicated to the investors as an acquisition of strategic resources and diversification of the company's product-market portfolio. The simultaneous diversification of product offering and geographic scope is contradictory to the resource-based theory of the firm, which treats the two types of diversification as alternative growth strategies (Penrose, 1995) that cannot easily be combined, as both absorb significant resources. The decision to pursue these two types of diversification at the same time can be explained by the fact that one was considered a strategic decision, while the other played only an instrumental role. For Com-A, the product diversification was of strategic importance, while foreign acquisition was treated as an alternative to domestic acquisition. During the due diligence process, the financial condition of the target company and its strategic resources had a more significant role than its location. Com-A had to spend money from its IPO according to the declared strategy of international expansion; the fact that the Czech company seemed to be a good target at a proximate location justified the decision.

Resource usage

For both companies, marketing resources such as brand and marketing skills proved to be difficult to leverage in the foreign markets. This result is consistent with previous research suggesting that marketing resources are difficult to transfer abroad (Caves, 1996), especially if the market is served through exports (Lall, 1980).

Two main barriers hinder the transfer of marketing resources abroad. The first is related to the public character of resources, which simultaneously causes difficulties in controlling the resources and increases the risk of imitation, though it also provides the opportunity to reuse them (Tseng et al., 2007). The efficient transfer of marketing resources abroad requires the internalization of the market through foreign direct investment.

When deciding on foreign direct investment, both companies intended to leverage marketing resources. Com-A expected that the acquisition of the Belarusian company would facilitate the transfer of marketing competencies, specifically the product development and distribution that the latter was missing. For Com-B, setting up sales subsidiaries in Ukraine and Russia was an alternative to cooperation with dealers or to managing the network of its own sales representatives. The development of Com-B followed the establishment chain indicated by incremental models of internationalization (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 2009). Moving towards capital forms of serving the market, Com-B gained better control over its marketing resources.

The second barrier to the transfer of marketing resources is the 'location-specific disadvantage' (Erramilli et al., 1997) that arises from the differences between home and host markets in terms of clients' needs, organization of distribution channels and perception of brands (Tseng et al., 2007). These barriers were present in the internationalization process of both companies. Com-A faced major difficulties in organizing distribution in Belarus and in developing relations with distributors in Russia. As a result of these problems, the Belarusian plant utilized only 25 percent of its capacity for a long time.

Com-B discovered that its Polish origin was a disadvantage in Western markets. Despite the low cost and reasonable quality of its offerings, large fleet operators, transportation companies and truck producers like Renault, Mercedes, Scania and Volvo did not initially perceive the Polish supplier as an interesting partner, particularly in Western markets. However, in Ukraine and Russia, buyers preferred to buy trailers and trucks as a set rather than separately and Western companies that were not eager to cooperate with Com-B in EU markets did not have the same objections in Eastern European markets. First, Com-B offered trailers specially adapted to the local market needs (i.e., with increased resistance to road shocks in Eastern European countries). Second, the Polish company's ability to communicate efficiently with these customers in locally accepted ways made it an interesting partner for Western truck manufacturers. Nevertheless, in both cases, marketing resources – including brands, customer understanding, sales and distribution systems – proved difficult to transfer abroad.

Internationalization was based on technological resources for both companies, as well as financial resources in the case of Com-A. The development of Com-A's Belarusian subsidiary was accomplished using the financial and technological resources of the headquarters, with the latter replicated in the new production facility. The investment in the Czech Republic was perceived as a 'portfolio investment' – an exchange of financial resources for technological and marketing resources. For Com-B, specific technological competencies were the main source of competitive advantage in Eastern European markets. However, this advantage was based on the ability to adapt the products to the needs of local markets, not on technological excellence *per se*.

The managerial mindset was an important factor shaping the internationalization process of both companies. In the case of Com-A, the key supporter of internationalization was the CEO, who had a financial background and had worked mainly for investment funds. His educational profile and professional background were consistent with the strategy of growth through acquisitions pursued by the company during his tenure. The case data suggest that the mindset reflecting the business logic of an investment fund was one of the resources that determined the internationalization of Com-A through foreign acquisitions. However, other managers and employees lacked in post-acquisition and/or international management as well as corporate controls, which left the management of the whole process in the hands of the CEO.

In the case of Com-B, none of the key managers had previous international experience. However, their attitude towards foreign markets fostered the process of experiential learning to gradually reduce psychic distance. TMT members traveled and gained field experience abroad and thus were directly involved in the knowledge acquisition. The 'international' mindset of Com-B's managers was vividly described by one of the key decision-makers:

> *You can't be afraid of going East, and you have to do certain things on your own. Our top managers travelled to Russia. Me too. I travelled by car from Smolensk to Novosybirsk. I know the routes; I knowthe conditions in Russia that are very different, sometimes extreme. But if we are afraid of this country and we send someone else, instead of going on our own and getting to know the market, we could easily fail.*

This approach of TMT members had three consequences for the internationalization process. First, it increased the legitimacy of the international expansion in the eyes of the employees. Second, it facilitated the implementation of the decisions made in the process of internationalization. Third, it enhanced organizational learning, since the experiential knowledge was accumulated at the TMT level. Moreover, this approach could reflect particular characteristics of TMT: determination, flexibility and the ability to act in an uncertain environment. All of these characteristics constitute an asset in the internationalization process.

Internationalization process

Com-A initially did not devote much attention to foreign markets. For several years, foreign sales accounted for less than 5% of the company's revenues and were initiated mostly by occasional special orders from clients. This stage of internationalization can be described as experimental involvement (Cavusgil, 1984). An increased commitment to foreign markets coincided with the IPO. As discussed earlier, just before the IPO, Com-A took over a Belarusian canned-food company that had originally been established by one of Com-A's founders as a separate business. Com-A expanded internationally in an unknown market without systemic analysis, with decisions made *ad hoc*, and with top management at loss how to handle major post-acquisition production and sales problems. The reasons for this particular pattern of Com-A's capital internationalization include IPO preparation and a major project that started in the year following the IPO. With IPO funds, the company pursued both geographic and product diversification simultaneously by acquiring a large pet food company in Czech Republic. Com-A's rapid expansion did not follow the incremental model of internationalization described by the Uppsala school (Johanson and Vahlne, 1977).

Com-B's internationalization process, on the other hand, corresponds better to the Uppsala model. Three years after starting production under its own brand, the company engaged in exports, first sporadically, then regularly. In the high-potential markets of Eastern Europe, the company set up sales subsidiaries, requiring low assets commitment while providing high revenues. It followed its major international buyers on the Eastern markets (especially in Russia), building sales and service subsidiaries. In 2010, the company managers were working on the expansion of the Russian subsidiary by building a factory there; however, the plan was put on hold because of the economic downturn.

For both companies, the countries of Central and Eastern Europe are the most important markets in terms of revenues and assets. Both can be therefore described as "regional MNCs" (Rugman & Verbeke, 2004).

The analysis of empirical material reveals significant differences in the perception of distance of the two companies' managers. The managers of Com-A, mostly because they did not invest in the learning process and faced problems in both FDI moves, perceived Eastern European markets as culturally and institutionally distant from Poland and believed that psychic distance was the main obstacle to tapping these markets. One of the interviewees explained:

> *For us, the East is a constant surprise, I cannot foresee what will happen in a month…. The knowledge gathered by [the founder] in Belarus was not sufficient; it was not tested in new institutional conditions. The new factory was built on an iceberg, which melted.*

However, at the time of the investment in Belarus, the managers of Com-A seemed to believe that the distance was much lower, as the subsidiary was just 60 km away from the company HQ and had been previously established and owned by one of the original founders of Com-A. Nonetheless, their later reflections indicate that the perceived differences deepened with first-hand experience.

In contrast, the managers of Com-B, operating in the same markets as Com-A, did not perceive these markets as distant. They invested in information-gathering processes, knew the local language, and hired local staff. One of the managers observed: *We can't hide that we were particularly successful in Eastern markets. It's because of the proximity – the lack of a language barrier.*

According to the managers of Com-B, the competitive advantage of the company over its Western competitors lies in the similarities between the Polish market and the regional markets in which it operates (i.e., Russia).One of the interviewees summarized this as follows:

> *Dealing with the clients was easier for us than for our competitors from Germany. For Western companies, contacts with the East were much more difficult.... We are culturally close to Russia and Ukraine. Nowadays our technological and organizational skills are stronger, but 15 years ago these differences were not visible; we were at a similar level. There was no culture clash. For example, during business meetings, it was very common to drink alcohol. It was shocking for the Western managers, but not for us.*

Considering the fact that the differences in the perceptions of the psychic distance by the two companies' managers are related to the same host countries of Central Europe, it seems well justified to assume that they resulted from idiosyncratic factors such as differences in managerial mindset, previous international experience and the internationalization process itself (Walsh, 1995).

Learning effects

The key element of the IP model is the experiential learning process, which leads to the gradual acquisition of knowledge regarding how to compete abroad. However, major differences in the learning process and approaches to experiential learning between the two companies can be observed.

For the first years of its operations, Com-B imported, repaired, and upgraded used trailers from Western countries. At that time, the company became familiar with the offer and production methods of its future competitors and started to develop its ability to adapt products to the needs of particular markets. Later, the company started production under its own brand and refined its technological skills by imitating some of the processes applied by Western producers. One of the factors that facilitated imitation was Com-B's cooperation with the same suppliers as its competitors, which made the knowledge transfer feasible, as explained by one of the interviewees:

> *As long as we were a small player, we could enter everywhere. Thanks to our Western suppliers, we were visiting the production facilities of our Western competitors. We were telling them that before we bought a machine we wanted to see how it works in practice, so they were taking us to the factories equipped with such machines. For us, it was a subtle way to gather knowledge. An experienced manager visited the production facilities and observed.*

It may be concluded that Com-B's advantage was based on two resources: first, its relations with foreign partners; second, its ability to adapt products to the needs of different clients and later to the requirements of different markets, especially in CEE and Russia.

Com-A developed its own technology for canned meat production, gradually increased production capacity and eventually building large modern plants. While its strategic focus was reactive, over the years Com-A developed an extensive domestic distribution system and expanded the scope of products to many types of canned meat and ready-to-eat dishes. It competed with domestic producers at the lower end of the market. Before the IPO, the company pursued its first major strategic move – a foreign acquisition.

At the very early stage of internationalization, both companies received non-standard orders from foreign clients, but they used them differently. Com-A's high-margin, kosher canned products exported to Israel required changes in technology and the production process. However, new methods of production were not leveraged for further growth. Adapting the production process to kosher standards was perceived as a burden by the staff, and, within a few years, the company abandoned the contract. In the case of Com-B, on the other hand, non-standard orders stimulated improvements in technology and product adaptation abilities. With each new order from a different country, the company learned to adapt its trailers in a distinct way. For example, for Russian orders, trailers were redesigned to increase durability and reliability, because in Russia limits of tonnage were notoriously disregarded; on the other hand, for Swedish orders, trailers had to conform to all formal specifications and possess all necessary certifications.

Both companies entered Western European markets, but they did so in different ways. Com-A targeted its products at Polish immigrants in the UK and therefore did not have to adapt its offerings. For Com-B, the attempt to enter Western markets triggered improvements in technology and marketing skills, since the products were sold to the most demanding foreign buyers. One of the interviewees explained:

> *Foreign production requires high standards. Each time we cooperated with someone from abroad, we learned a lot; we moved forward. As a result of internationalization, the company built its marketing skills. In 2002-2003, we exported to Sweden, and that's where we were learning. We were getting know-how, learning what was important for the client, learning to increase functionality, to pay attention to details.*

The pressure to improve technological quality and marketing performance resulted from higher expectations of both foreign clients and foreign producers of complementary goods. One of the Com-B managers explained:

> *We've learned responsibility towards the clients. As a local firm, we could afford to have lower quality. But now we're a multinational company, and our responsibility is much higher. If, together with our partner, we have a planned delivery of trucks to Morocco, we can't fail. We must work like clockwork.*

Discussion: Virtuous and vicious cycles of internationalization

We have presented a comparative analysis of two case companies along four dimensions: motives for internationalization, usage of resources, processes and learning effects. In this section, we will first discuss the interconnections among these aspects and identify two cycles of learning in internationalization: vicious and virtuous. Next, we will elaborate on the definitions of vicious and virtuous cycles, and, finally, we will analyze determinants of the cycles and develop propositions regarding the learning processes of EMFs.

At the beginning of the internationalization process, both companies' resources (e.g., technological know-how, marketing skills, and managerial competencies) were limited and were adapted only to the domestic market. Although the endowment of resources was similar for both companies, their motives for internationalization differed. Com-B was motivated by market-seeking, while Com-A was opportunistically motivated to improve its image before the IPO. Therefore, foreign markets were of strategic importance for Com-B, while the foreign market entry was instrumental to other goals for Com-A.

As a result of these differences, the two companies had different approaches to leveraging resources in foreign markets. The acquisition of the Belarusian company by Com-A consumed a significant amount of financial resources. However, the personal involvement of the company's managers in the internationalization process was relatively low, in spite of problems with distribution and sales, because of the non-strategic motivation of this move. The high commitment of financial resources coupled with the low level of managerial attention resulted in two consequences. First, this approach did not allow the company to build resources (e.g., market knowledge or managerial skills) related to managing a company as a MNC. Second, difficulties faced in Eastern markets (explained by the managers of Com-A in terms of high psychic distance), had a severe impact on the financial condition of the company as a whole. As a result, the company's experience in Belarus negatively influenced the TMT's perception of foreign markets as a field in which to take strategic actions. Similarly, the second acquisition pursued in the Czech Republic had instrumental importance as a tool for product diversification (leveraged mainly in the domestic market). The learning process was limited to technological skills and did not involve market knowledge or managerial competencies. As a result of foreign acquisitions, Com-A became an aggregate of activities and markets that lacked consistency and did not facilitate learning or the integration of domestic and international operations. Thus, its internationalization process created a vicious cycle, leading to resource dispersion rather than to resource accumulation. Also, it did not create much useful knowledge and did not facilitate continuous learning.

Conversely, the internationalization of Com-B was motivated by market-seeking. Foreign entries involved low financial commitment but required the high personal commitment of TMT. This combination of resources reduced risk and enhanced the incremental development of location knowledge. The subsequent steps of the internationalization process stimulated

learning and enforced the positive perception of foreign markets, thus reducing the perception of psychic distance and strengthening the belief in the strategic importance of foreign expansion. All of the activities undertaken in this process of internationalization created a virtuous cycle of positive reinforcements of knowledge and perceptions, thus enhancing resource accumulation and learning.
In order to enhance the development of our theory, we propose the following description of vicious and virtuous cycles in terms of learning processes and resource outcomes.

A *vicious cycle* is a process of limited learning in internationalization leading to resource dispersion; that is, a process in which internationalization results in disjointed actions and investments (or limited integration of domestic and foreign operations) that do not produce learning effects (in terms of either location or ownership knowledge) that can be leveraged in the next step of internationalization.
On the basis of the Com-A case, the cycle can be outlined as follows:

- Sporadic export experience did not result in any location (or ownership) knowledge that was useful for FDI.
- Rapid, exploitative FDI in Belarus did not result in desired performance results. Although technological resources were leveraged, marketing resources could not be leveraged due to a lack of local market understanding. Thus, ownership knowledge was of limited use in international expansion, as location knowledge was insufficient.
- Explorative FDI in the Czech Republic resulted in an acquisition of new resources (marketing and technology); however, these were used mainly in the domestic market with limited relevance for further internationalization.

A *virtuous cycle* is a process of intensive learning in internationalization that leads to resource accumulation; that is, a process in which internationalization results in integrated actions and investments (or integration of domestic and foreign operations) that produce significant learning effects (in term of both location and ownership knowledge) that can be leveraged in the next step in internationalization.
On the basis the Com-B case, the cycle can be outlined as follows:

- Sporadic export experience resulted in both location and ownership knowledge, both of which are useful in further steps toward internationalization. Good performance results encouraged the positive perception of foreign markets and motivated key managers to get personally involved in the internationalization process.

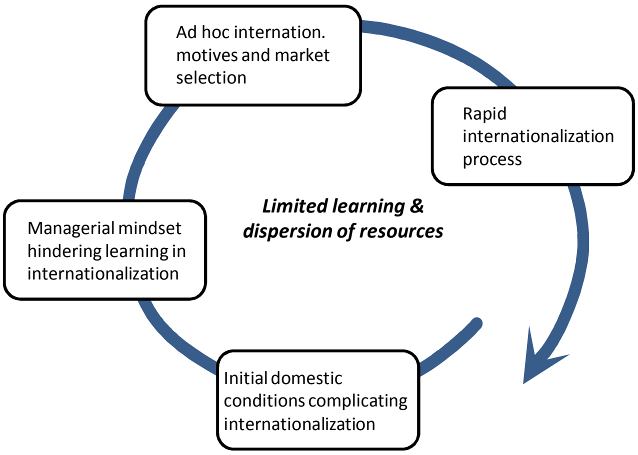
- Regular exports enriched both location and ownership knowledge. Again, good performance results fed the positive perception of foreign markets and triggered further commitment.
- Low-commitment, low-risk FDIs in Russia and Ukraine were a natural extension of export activity in these countries, allowing for better control over marketing resources.

Determinants of learning cycles

Internationalization theories are based on the assumption that one of the main obstacles to international expansion is the liability of foreignness (Hymer, 1976) that results from the psychic distance (Johanson and Wiedersheim-Paul, 1975) between the domestic and foreign markets. According to the OLI model, to offset the liability of foreignness, companies need to possess ownership advantages – marketing resources, technological resources and managerial competencies. The resource-based view and the emerging learning-based view of internationalization (Li, 2010) both also stress the importance of learning capabilities in such situations. The case studies discussed in the present article suggest that these resources and learning capabilities had an important role in the internationalization of the two Polish listed companies. In this section, we will provide insight into the relations between learning process and learning effects (in terms of changes in ownership and location knowledge) on the one hand and the internationalization process (in terms of motives, choices and pace), managerial capabilities and initial domestic conditions on the other hand. We will then present propositions explaining why the cycles diverge so dramatically in the two examined cases.

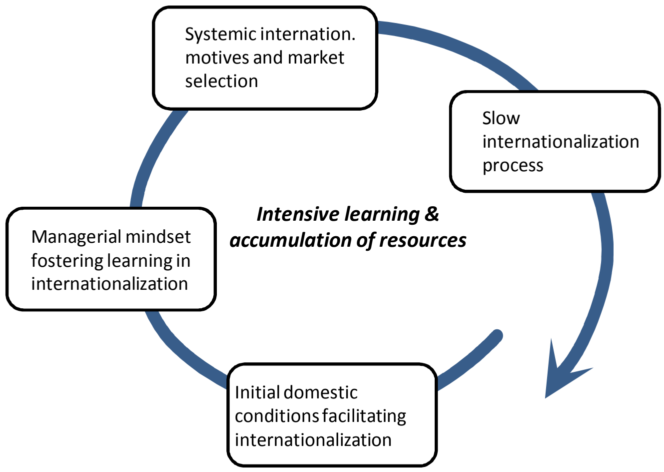
The vicious cycle is missing complementarity of choices and actions and is, at its most extreme form, disconnected. Initial conditions fail to prepare the firm for the challenges of internationalization, the managerial mindset hinders learning, motives are idiosyncratic and opportunistic, and internationalization is rapid and involves significant resource commitments without producing instant rewards. The process 'runs away', and resources are not accumulated, integrated or created (see Fig. 1).

Fig. 1 The logic of the vicious cycle (Com-A)



The virtuous cycle is, in its most extreme form, very systemic. Initial conditions in the company's environment facilitate internationalization. The managerial mindset fosters learning, and the motives for internationalization create an enabling context for market selection and learning. The internationalization process absorbs resources, but at the same time the firm's learning process allows for their reorganization and reinforcement. This observation is consistent with the logic of the incremental model of internationalization (Johanson and Vahlne, 1977) as well as the results of previous studies (Tseng et al., 2007), demonstrating that international expansion results from the possession of firm-specific resources while simultaneously enabling the firm to rebuild and broaden its resource portfolio. Such a systemic process facilitates learning due to shared and careful interpretations of environmental and competitive pressures, followed by complementary decisions and actions (see Fig. 2).

Fig. 2 The logic of the virtuous cycle (case B)



Conclusions

The present study has several important theoretical and practical implications. From a theoretical point of view, it shows several possible extensions of existing theories. First, it shows that the internationalization motives of EMFs are diverse and do not necessarily coresspond to Dunning's typology of FDI motives (market seeking, efficiency seeking, natural resource seeking, strategic asset seeking). Therefore, we should study EMFs internationalization at a more detailed level, paying particular attention to differences in the motives of companies that succeeded versus those that failed in their internationalization efforts.

Second, contrary to views that emphasize the value of high velocity in the internationalization of entrepreneurial companies that go global in order to capture fleeting opportunities, this study shows the value of *low* velocity in this process. Slowness has some natural drawbacks (it certainly makes it more difficult to capture 'fleeting' opportunities), but it also has evident advantages in facilitating learning during the internationalization process and in making it more convergent and effective as leaders gain experience, gradually expand their absorptive capacity, and make sense of the systemic nature of the process. Finally, our research underlines the importance of the systemic complementarity of choices that is stressed often in the strategic management literature (Roberts, 2004) but that is not evident in the extant international business studies. The insight provided by our research is that, in the case of infant multinationals from emerging economies, what 'makes or breaks' the internationalization process is the nature of the firm’s learning cycle, which may be either virtous or vicious.

Our study has also practical implications for managers preparing for international expansion from emerging economies. First, it indicates that resource barriers in entering foreign markets may be overcome through learning from multiple sources (with experiential learning particularly relevant). Second, it suggests that the key success factor in the internationalization of companies with limited resources is the ability to enter the path of ‘resource accumulation’ rather than ‘resource dispersion’. Third, it shows how to manage the sequence of the internationalization process to create complementarity and positive feedback among choices and actions.

Finally, the present study suffers from several limitations, some of which are inherent to qualitative research. We acknowledge the limitations of using retrospective instead of real-time data in our longitudinal research design. The propositions developed in this study need further refinement and verification using quantitative methods applied to large samples. Further research is also needed to explore the effects of internationalization upon organizational learning and resource accumulation by companies from emerging markets.

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