SMEs' learning from failing in emerging markets: a longitudinal perspective

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Abstract: An increasing number of SMEs have decided to expand into emerging economies to seize new market opportunities. Emerging markets remain challenging for SMEs and failure rates are relatively high. The objective of this paper is to analyze how SMEs can learn from their failures in emerging countries. The empirical study takes the form of a longitudinal case-study of a French industrial SME that has established subsidiaries in Brazil and China. The authors conducted 22 interviews with the actors involved in the international expansion of this born-again global company and several promotion agencies. Their findings show that the learning process of SMEs differs according to the origin and the magnitude of the failures: major failures caused by external factors often result in a weaker commitment or withdrawal from foreign markets whereas smaller failures linked to internal factors tend to increase the local commitment of SMEs.

Keywords: Internationalization, SMEs, born-again globals, failure, learning process.

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Introduction

Small and medium-sized enterprises (SMEs) have become major players of the global economy. Despite their size and limited resources, an increasing number of SMEs have decided to develop abroad to seize new market opportunities in both mature and emerging economies (International Trade Centre, 2018). Their international expansion leads to contrasting results, especially in emerging markets where failure rates remain relatively high (Kalinic and Forza, 2012). Emerging economies are particularly challenging for Western SMEs since they are often characterized by lower market efficiency, active government involvement, extensive business networking, and high uncertainty (Meyer and Peng, 2016; Xu and Meyer, 2013). These constraints are likely to shape the internationalization strategies followed by SMEs (Holtbrügge and Baron, 2013).

IB scholars have emphasized the importance of learning processes and experience for the success of international expansion moves (Hollender, Zapkau and Schwens, 2017; Vahlne and Johanson, 2017). Learning processes and international experience influence the resources committed abroad, leading SMEs to increase, maintain or decrease their level of commitment (Vissak and Francioni, 2013; Welch and Welch, 2009). They can concern the individual, team and organizational levels. SMEs can learn from their own experiences and from experiences acquired by other organizations (i.e. vicarious learning) (Kc, Staats and Gino, 2013; Levitt and March 1988). Failures often have a stronger impact on learning processes than successes (Madsen and Desai, 2010) since they force companies to question their habits, processes, strategy and understanding of market needs. This is particularly important for SMEs since, due to the limited resources available, failures can strongly affect their financial situation. However, little is known about how SMEs can learn from their failures in foreign markets. This research attempts to fill this gap. The objective of our paper is to contribute to a better understanding of how born-again global companies can learn from their failures in emerging markets. The authors conducted a longitudinal case-study of a French industrial SME that has established subsidiaries in Brazil and China. The empirical study is based on 22 interviews conducted with the actors involved in the international expansion of this born-again global company and several promotion agencies.

Our findings indicate that the learning process of SMEs differs according to the origin and the magnitude of the failure. They show that failures faced abroad are linked to both external and internal factors and that SMEs tend to react in a different way according to the factors causing the failures. Moreover, major failures often lead to a reduction of the commitment in foreign markets whereas smaller failures tend to increase the commitment abroad. The changes in terms of commitment are strongly linked to the strategic vision of SME managers.

We will first explain the theoretical framework of our research before presenting the methodology used. We will then analyze and discuss our findings highlighting major theoretical and managerial implications.

Theoretical framework

Going global is of critical importance for many Western SMEs since it allows them entering new markets, accessing new resources and extending their networks. International SMEs are more competitive, innovative and enduring than their domestic counterparts, notably because of their specific knowledge acquired through their international experience. The importance of individual and organizational experiences for SME internationalization is well recognized in the literature. Scholars agree on the fact that experience influences the internationalization process (Johanson and Vahlne, 1977), speed (Casillas and Moreno-Menendez, 2014) and performance (Ruigrok and Wagner, 2003). It has an impact on the amount of resources committed abroad, leading companies to increase, maintain or – in the case of a de-internationalization – decrease their level of commitment (Vissak and Francioni, 2013; Welch and Welch, 2009). In other words, international experience influences several strategic decisions taken by SME managers – such as the location choice or the allocation of resources – (Jones and Casulli, 2014; Hitt, Li and Xu, 2016) and the overall performance (Hollender, Zapkau and Schwens, 2017), among others. It is of particular importance in the case of SMEs due to the constraints they face in terms of size and resources - namely the liabilities of smallness, newness, foreignness and outsidership (Hollender et al., 2017).

In IB literature, experience is considered as a wide concept covering individual, team and organizational levels, each one participating to enrich the company's stock of knowledge. It participates to increase the company's stock of experiential knowledge and level of confidence (Johanson and Vahlne, 1977; Vahlne and Johanson, 2017). Experiential knowledge can be direct – coming from the company's direct experiences – or vicarious, coming from the observation of other companies' experiences (Levitt and March 1988; Kc, Staats and Gino, 2013). Research conducted on organizational knowledge shows that failures have a stronger and more sustainable impact on organizational performance than successes since they strongly affect the learning processes (Madsen and Desai, 2010).

Failure is a central but vast concept in international entrepreneurship and international business since it is part of companies' life cycles (Coad, 2014). Despite the lack of consensus regarding a common definition of failure (Nummela, Saarenketo and Loane, 2016), scholars usually describe it as a series of unexpected events leading to inferior results or undesirable outcomes (Madsen and Desai, 2010; Nummela et al., 2016).

Failures constitute a necessary condition for adaptation and change (Chuang and Baum, 2003; Baum and Dahlin 2007; Madsen and Desai 2010). First, they drive attention on potential - internal and external – issues. Second, they encourage companies to challenge their existing assumptions by pushing them to look for new information and to design new strategies. Knowledge coming from failures depreciates more slowly than learning from successes and depends upon the magnitude of the failure: the larger the failure, the deeper the knowledge effects since companies will have to change their practices to overcome future failures (Madsen and Desai, 2010).

Direct failures have three major impacts on companies' behaviour: they influence (1) the amount and the impact of the experiential knowledge gained, (2) the way companies search for and process information and (3) their attitude towards information sharing with other organizations. Successful prior experiences make companies overconfident and lead managers to simplify their decision-making processes. Success generates stability in organizational knowledge whereas failure challenges it (Kc et al., 2013). Companies having experienced failures engage in complex and deep mindful reflections consecutive to the sudden awareness of their lack of knowledge. Failures generate internal instability as they are pushing managers (1) to find the origin and the location of the knowledge gap and (2) to reconsider their existing strategies (collection of information, market penetration, product development, etc.). They influence the organizational culture and generate new/divergent ideas that can be source of efficiency and competitive advantage in the future (Brettel, Chomik and Flatten, 2015; Cameron, 1984).

Organizational learning theory suggests that companies learn by making mistakes but also by observing the failures of other organizations (Beckman and Haunschild, 2002; Kc et al., 2013). Companies act according to the strategy they defined and implemented but also from observing strategic moves of other organizations. Vicarious learning helps companies moderate the negative impact of psychic distance when internationalizing (Jimenez and De La Fuente, 2016). Empirical evidence suggests that vicarious learning from failures is more effective than learning from successes (Chuang and Baum, 2003; Madsen and Desai, 2010). First, observing successes raises their confidence since it convinces managers about the apparent relevance of their existing strategies. It does not push companies to question or challenge themselves since they are not aware about the existence of potential knowledge gaps (Baum and Dahlin, 2007). Second, knowledge from failures is more accessible than knowledge from success since successful companies are reluctant to share information that could erode their competitive advantage (Madsen and Desai, 2010).

Prior research conducted on the topic reveal that learning is a dynamic process (Pellegrino and McNaughton, 2015) evolving across time and that learning from failures requires specific competencies at both the organizational and individual levels. Indeed, organizations tend to react defensively when facing failures. They often focus more efforts in trying to identify the people responsible for the failure rather than understanding the origins (Madsen and Desai, 2010). They also tend to refuse admitting their mistakes and continue with their present course of action despite growing costs (Tjosvold, Yu and Hui, 2004) – leading to a risky escalation of commitment. This is notably the case when individual actions are not totally in line with the company's strategy (Fischer, Mazor, Baril, Alper, DeMarco and Pugnaire, 2006). In a study conducted in the medical field, Fischer et al. (2006) reveal that failing generates intense emotional reactions and tensions that can limit the learning process. These results have been confirmed by Fang He, Sirén, Singh, Solomon and von Krogh (2018) who show that the learning process depends upon the managers' ability to regulate their emotions.

Learning from failure is possible only when organizations provide a comprehensive and supportive environment – notably when experiencing highly emotional-charged situations (Fang He et al., 2018) and when operating in a stable business and technological environment (Pérez-Nordtvedt, Mukherjee and Kedia, 2015). Indeed, blaming managers for their mistakes generates defensive attitudes and does not allow space for learning whereas developing cooperative goals and problem-solving cultures promotes learning from mistakes (Tjosvold et al., 2004). In the same vein, Perez-Nordtvedt, Mrkherjee and Kedia (2015) show that environmental turbulences weaken the effectiveness of the learning process and the company's performance, in particular for strategic operations like cross-border mergers and acquisitions. According to Fischer et al. (2006), individuals and organizations learn more effectively when experiencing directly a failure than when discussing about the failures of other organizations since they need to find specific solutions to solve their own mistakes and prevent future ones. In other words, resilient and/or innovative companies – notably SMEs - learn more effectively than others since they create an environment enabling managers to experience, fail and learn from their mistakes.

In the case of SMEs, managers play a major and focal role due to their personal attachment and commitment to the organization. They influence both the organizational culture and market/innovation dynamics. Resource-based view theorists argue that, in the specific case of SMEs, managers constitute a strategic resource as their international orientation and vision can be a source of competitive advantage abroad (Weerawardena, Mort, Liesch and Knight, 2007). They enable and facilitate both the innovation (Nga and Shamuganathan, 2010) and internationalization processes (Hsieh, Child, Narooz, Elbanna, Karmowska, Marinova and Zhang, 2018). They also provide safety for the company since their managerial experience and business competences participate to filter the external drivers of failure (Nummela et al., 2016). International entrepreneurship scholars show, for example, that the internationalization of SMEs is deeply linked to the personality of their managers, notably their international orientation - experience, competences and mind-set – and the personal, professional, and institutional networks built both domestically and abroad (Domurath and Patzelt, 2016; McDougall, Shane and Oviatt, 1994). Managers need to make strategic choices that can have significant consequences on the organizational performance. Failures are often perceived at the individual and organizational levels and appear to be particularly difficult to overcome for SMEs because of the scarcities they are suffering from (Nummela et al., 2016).

Although insightful, the literature has primarily focused on large organizations, trying to understand why they fail to learn and what strategies they can develop to learn effectively from failure over time (Haunschild and Rhee 2004; Haunschild and Sullivan, 2002; Madsen and Desai, 2010). However, our knowledge regarding how SMEs - notably born-again global companies - manage, recover and adapt their strategy after failing abroad is still limited. Prior research conducted on the topic focuses on traditional SMEs (e.g. Baum, Schwens and Kabst, 2013) and INVs (e.g. Sleuwaegen and Onkelinx, 2014), and leads to contrasting results (Mudambi and Zahra, 2007; Nummela et al., 2016). Interestingly, born-again global companies appear to be missing in the literature. We believe that born-again global companies deserve specific attention and need to be considered as a specific research object because of their idiosyncratic characteristics (Schueffel, Baldegger and Amann, 2014).

Born-again global firms are traditional companies who suddenly and intensively internationalize in response to a critical incident, after a long period of domestic focus (Bell, McNaugthon and Young, 2001; Bell, McNaugthon, Young and Crick, 2003). The critical incident can be of internal or external origin and usually acts as a major driver for the company's strategy: nomination of a new CEO, arrival of a strong competitor in the domestic market, access to new strategic resources, etc. The notion of failure is particularly important for born-again global companies. Depending on the nature of the critical incident, internationalization often constitutes a response to a domestic failure to ensure the company's survival. That is, failure is at the origin of the internationalization process for many born-again global companies. The adaptation resulting from the critical incident makes them more resilient and flexible (Schueffel et al., 2014). These characteristics are particularly useful when targeting unfamiliar and/or dynamic environments such as emerging markets. Indeed, emerging economies are still challenging for Western companies because of the importance of informal institutions, the frequent intervention of governments in companies' operations as well as the diversity and instability of their business environments (Meyer and Peng, 2016). Understanding how these companies learn, adapt and grow in emerging economies is, thus, of particular relevance.

In the following section, we will present the methodological approach adopted for this research, namely a longitudinal study conducted with a French born-gain global company in the manufacturing industry that has chosen to expand into emerging markets.

Methodology

To analyze and understand how born-again global SMEs learn from failure and adapt their strategies while internationalizing in emerging markets, we base our work on a qualitative methodology (Denzin and Lincoln, 2011; Ghauri and Gronhaug, 2005; Yin, 2017). Qualitative studies are frequently used by IB and IE scholars as they allow the completion of context-specific in-depth analyses in their real-life contexts (Cuervo-Cazurra, Andersson, Brannen, Denzin and Lincoln, 1994; Eisenhardt, 1989; Nielsen and Rueber, 2016; Yin, 2017). They provide the innovative insights (Gibbert, Ruigrok and Wicki, 2008) necessary to explain complex phenomena like SMEs' learning and the internationalization processes (Chetty, Partanen, Rasmussen and Sevais, 2014; Taylor and Jack, 2013).

More specifically, we decided to conduct a longitudinal study – this approach being particularly relevant to explore change processes (Van de Ven, 1992; Chetty et al., 2014) and the evolution of organizations over time. Longitudinal case studies allow the generation of a chronologic matrix facilitating the identification of critical events as well as the visualization of their impact on a firm's strategy and operations (Murray, 2003). Moreover, this technique proves to be relevant when conducting research on business failures (Nummela et al., 2014) since it contributes to a better understanding of the role played by experiential knowledge in the internationalization path of born-again global SMEs.

Regarding the explorative nature of our research, we conducted a longitudinal case study with a French industrial SME (Mixel Agitators) which established subsidiaries in China (in 2005) and in Brazil (in 2008). Our selection logic relies on the critical nature of the case, as (1) this born-global company has established production and sales subsidiaries in emerging countries since 2005 after failing several times in entering those markets, (2) the headquarters is facing difficulties in managing the relationships established with the Chinese subsidiary and (3) the SME failed to enter the Brazilian market and had to close down the subsidiary in 2014.

Between 2013 and 2017, we conducted 14 interviews with several key members involved in the internationalization process of the SME such as the chief executive officer (CEO), the subsidiaries' managing directors and operational managers located at the headquarters and the subsidiary levels (table 1). In addition, we realized a one-day non-participant observation in China to become immersed in the subsidiary's context and culture. Including real-time study mitigates bias from retrospective interviews (Chetty et al., 2014). We enriched and triangulated our data by conducting eight interviews with several institutional partners involved in Franco-Chinese business relationships as well as by collecting secondary data available on the company's website, in newspapers, etc. This allowed us to develop a better understanding of the environment the company is operating in and to identify the main forces influencing the SME's actions. It also enabled us to capture the SME's growth in real time, to identify several critical events, to understand the reasons and the magnitude of the setbacks endured abroad as well as the adaptations made to prevent future failures.

[Insert Table 1]

We constructed a broad interview outline adopting a historical perspective. The interview guide covered the history of the company, its internationalization process, the difficulties faced abroad, the strategy currently implemented and the objectives in a three-year horizon. Whenever possible, interviews were carefully recorded, transcribed and reviewed by the respondents to ensure the accuracy of the collected data. When observing and interviewing Chinese managers, the sensitivity of our questions and the reluctances expressed by local actors forced us to adapt our data collection process. Following Schouten and McAlexander's (1995) ethnographic work, we conducted several informal interviews during our observation day. Beyond being fully immersed in the local context, conducting informal interviews allowed us to earn local managers' trust and free their speeches. The two researchers took notes separately after each interview, followed by pool and discussion sessions to triangulate their findings (Schouten and McAlexander, 1995). Data were completed, discussed and verified if contradictory.

The data collected was analyzed in two steps. First, we built a chronological matrix as recommended by Miles, Huberman and Saldana (2014) to identify the critical incidents explaining a major change in the internationalization strategy of our case-firm. This allowed us to identify six steps (and their critical incidents), having different characteristics – notably in terms of level of commitment. Second, we analyzed our primary and secondary data through a content analysis, enabling us to identify the origins and consequences of the issues faced by the SME in emerging countries. Our content analysis shed light on five key dimensions, notably the coordination of global activities, the distance (both cultural, geographic, institutional and linguistic), the importance of networks (clients and guanxi), the need for control, the CEO's international orientation. Our analysis also highlighted the key role of the individual, institutional and reticular dimensions in the SME's internationalization process. After introducing the case of Mixel Agitators, we will analyze the main issues encountered in Brazil and China.

Analysis of case-study

The French SME Mixel Agitators was founded near Lyon in 1969. It began as a three-person design office focusing on agitators. In 1990, the founder's nephew, Philippe Eyraud, took over the family business and the SME diversified in terms of business activities and markets. From the outset, Philippe Eyraud integrated manufacture and maintenance, until then subcontracted to small local foundries, while also developing operations internationally.

Mixel Agitators started its internationalization in 1990 and is currently exporting to around thirty countries, primarily to Europe, Asia, Africa and the Middle East. In 2017, international activities account for 67% of total sales, of which 15% concern the Chinese market. The company employs 68 people and has total sales of more than 9 million euros. Mixel Agitators operates in a niche market and is well known for manufacturing and marketing industrial agitators. The company holds several national and international certifications such as the NF 13980 standard (French Standard) and ISO 9001 standards (International Organization for Standardization).

Philippe Eyraud, a mechanical engineer by training, began his career as a commercial attaché at the French Embassy in Singapore in 1988-1989. The two years he spent in Asia awoke his interest for international operations. *"The two years I spent at the French Embassy, in Singapore, were a real eye-opener for me: I became addicted to exporting during my time there, where all the people I met were exporters or budding exporters who came to the embassy for information about how they should go about it – and that got me totally caught up in this adventure".* When he joined the SME in 1989, Philippe Eyraud decided to develop export activities to diversify the markets and find new drivers for growth. His nomination marked a significant change in strategy both on domestic and international markets: in 1990, the new chief executive deployed a proactive strategy to expand into Belgium, Morocco and Switzerland to offset the increasingly intense competition and the departure of long-standing customers in a context of deindustrialization. It became rapidly clear, however, that these markets were as saturated as the domestic one and that a disruptive approach was required to ensure the survival of the SME.

"I was just coming back from a country in the heart of Asia, which was in the middle of all the other developing countries – I had this sensibility, I was not afraid… and besides, all my competitors, who were in the same situation as me, had moved into Switzerland, Belgium, Italy, Spain, etc. I was coming up against them again. I was fed up with always competing with the same companies, with, in some cases, a kind of hateful rivalry which was quite unpleasant. So I decided to look elsewhere, and go and look at other types of competitors who presented other types of challenges." (CEO Mixel Agitators)

With no local networks, and lacking resources, the CEO tapped the networks of his long-standing customers and took part, in 1991, in a trade mission run by a French trade union to China, India and Japan with the objective of "*hunting in a pack where no one goes*". The idea was to form a partnership, mainly because of the lack of financial, human and reticular resources faced by the SME and the important distance existing between the domestic and the target markets.

Several efforts were made between 1991 and 1994 to establish new contacts and penetrate local networks. However, starting exporting to Asia exposed the SME to difficulties that had not been anticipated by the CEO. Due to its domestic orientation, the SME did not have the structure, resources and expertise to manage its international operations in-house – forcing the CEO to call in external resources to strengthen the company's commercial capability and international focus.

The 1995-1996 period was marked by Mixel Agitators' first attempt to establish in foreign markets. In order to overcome problems stemming from the SME's weak international focus, the CEO joined forces with three metallurgy SMEs to acquire a representative office in Hong

Kong – owned, until then, by a French industrial union. The objective was to capitalize on the knowledge and business networks developed by the local manager during 15 years to rapidly enter the Chinese market. This first attempt ended in failure, due to the local manager's lack of dedication to sales prospecting and business development. In 1996, with no orders from China despite the significant amount of resources committed, Mixel Agitators sold its shares and withdrew from the market. This first stumble proved to be a valuable lesson showing the key role played by human factors for the success of the internationalization process.

The failure in Hong Kong led the SME to partially de-internationalize by halting all proactive commercial endeavours in China. Between 1996 and 1999, the SME refocused on its traditional markets and committed few resources to developing new business streams in emerging countries due to the cost of the failure. If this failure was perceived as a shock for the headquarters' employees, it did not weaken the CEO's motivation regarding emerging markets. *"Our first attempt to open something in China failed… We did not do any mistake, the plan was good and relevant but we did not anticipate that it would be that hard to motivate someone who was there for 15 years. We all committed a lot of resources to support him, in vain. I decided to withdraw after only one year. It was not an easy decision to make and I seriously wondered whether I was doing the right thing, notably because it would be hard to explain to my employees – who were already reluctant to international markets at that time. Anyway, it was costing a lot and not bringing any business… I failed… but it did mean that we did not have our place on the market, it just meant that we had to find another way to enter the market."* (CEO Mixel Agitators)

"The first attempt to be physically present in Asia was a failure… It took three years to recover from the losses but, what is interesting in this experience is that it led to positive results in the end. Since the CEO remained deeply convinced about the potential of the Chinese market, he continued to network, to attend to trade fairs and other missions and, in 1998, it finally paid.

What was, initially a failure, turned to something positive thanks to the CEO's conviction and the energy engaged to make Mixel an international player." (Former Director Mixel Beijing)

From 1998, the SME noted a growing number of requests from China to equip future wastewater-treatment plants. This demand was due to a combination of two factors: (1) benefits from the CEO's proactivity in establishing and building networks (trade shows, joint missions etc.); and (2) mobilizing the networks of French customers operating abroad. At that time, China was suffering from a lack of local suppliers capable of meeting the government's demands. The government therefore called on various international groups to develop and modernize the country's infrastructure. In 1998, Mixel Agitators signed its first two contracts in China, including one with the French Veolia group, one of its historical clients. These contracts were a turning point for the SME as they unlocked the door to the Chinese market. Due to growing business volumes, the need to be close to clients and the dynamism of the Chinese market, the CEO of the company decided to set up in the country: Mixel Agitators created its first subsidiary abroad in 2005, establishing a production and sales unit in Beijing. The aim was to make the company more competitive in the country, while safeguarding established relationships with historical clients in the long term and protecting market share.

"*In 2004, I got the chance to travel with the foreign trade minister. As I was part of a ministerial delegation, I had access to the boss of Veolia, who placed orders with me. I said, 'why are you ordering products from me, a small Lyon firm with 30 employees?'. He said, 'because we haven't found them here yet.' I had two options: wait until they did, and ultimately loose the business; or try to secure this business by becoming the local link myself. And that's what I did, which is I ended up in China. Going back to see them three months later, I said, 'I've found a tip-top local manufacturer for you, they know exactly what you need, you know his products, all's good: I'm setting up to supply you from China.' He said, 'That's what I expect from all my suppliers, but you're the first to do it – congrats.' I said 'ah but hang on, you're going to* *support me right? There's no question of you ordering elsewhere...?' 'Don't you worry.'."* (CEO Mixel Agitators)

For two years, the informal partnership with Veolia guaranteed Mixel Agitators a minimum volume of orders, thus supporting the establishment of the subsidiary. Between 2007 and 2009, the change of contact at Veolia China in 2007 led to a renegotiation of the previously agreed business deals. Unable to convince the new team why its prices differed from the competitors and to make them recognize the products' added value, Mixel Agitators temporarily lost its contracts with Veolia. The decrease in business volume forced the head office to devote significant financial resources to supporting the subsidiary's operations – impacting the performance of the whole company. Following the appointment of a new managing director at Veolia China in 2009, new contracts could be signed. The nomination of the sales director, a former managing director of the Asian subsidiary of a Dutch multinational, as the managing director of Mixel Beijing (2011) allowed developing the sales of the subsidiary. Through his previous professional experience, the new managing director had extensive knowledge of Asian markets, export procedures and bridgehead strategies. In 2012, he worked to restructure and strengthen the subsidiary, which could then export the products manufactured in China to neighbouring markets. Despite the efforts made, the Chinese subsidiary had to rely on international clients because it did not succeed in signing contracts with local companies.

In 2016, aware of the importance of local networks and the key role played by Chinese middlemen, the CEO decided to nominate his local sales agent managing director of the subsidiary.

"I know Philippe since Mixel's early stages in China. I have been working for 50 Western companies and we have been working together for ages: we know each other, I know the product and how the Chinese market works. When Philippe offered me to take the lead of Mixel Beijing, I said yes." (Director Mixel Beijing)

The relationships established with the Chinese agent over the years remain a source of confidence for the CEO, who expects to benefit from his partner's contacts and networks to respond more effectively to tenders in China.

"Even though I have been in the country for twelve years now, many things still go over my head. We do things differently - today I have reached the point where I can go no further. If I want to expand in China, I need a Chinese person. I know that I can win some fantastic contracts in the country. We have the skills and the products. Over the last few months we have responded to several tenders in unbelievably short timeframes, but it did not work. I do not know why our proposals were not accepted: we offered a good price for good quality but our competitor won everything. What we need, in my opinion, is a local representative, someone to engage with the order-makers… in 2016, I asked the local sales agent that I had been working with for over twelve years to head up the subsidiary. He is Chinese, he is in the business, he has experience and I know him well, so he is perfectly placed to advance our case successfully over there. I have been to China more than ten times this year to help him, to support him, and to see clients there etc. He also comes to France occasionally to talk to the engineers, to discuss any problems encountered etc." (CEO Mixel Agitators)

The cultural differences and the geographic distance existing between the headquarters and the subsidiary remain source of tensions since they generate communications problems, *"I have a problem of communication with the French team. Is it language? Is it culture? For the French headquarters, the sales curve forecast is important, but my objective is to make money. No customer is important for me until we make money. That's where we have a discussion and conflicts: the French headquarters are afraid of losing customers. In China, we have so many customers that I can pick just 1 or 2 % of orders. The French CEO always gets enthusiastic when we receive a call for price, but that's not the key. Why should I work* with a company like *Veolia?"* (Director Mixel Beijing).

These tensions convinced the CEO to increase the headquarters' control over the operations conducted by the Chinese subsidiary director in order, notably, to save the business relationships developed with multinational companies. *"It is not always easy to manage and it is very demanding: he needs a lot of support and we have to push him hard because some things that seem basic to us go against Chinese culture: the Chinese fear failure because they fear losing face and that has a huge impact on business. He does not want to understand that we need forecasts to adjust our production volumes, that stopping the relationships with Veolia in China will have a major impact for us at the headquarters level, etc. We constantly need to make sure that we are on the same wavelength to control our development in Asia and to 'protect' our relationships with our partners."* (CEO Mixel Agitators)

In parallel to its business operations in China, the SME continued its strategy of market diversification. Driven by the promising start of the Chinese subsidiary between 2005 and 2007, the economic growth in South America, the local contacts established during prospection trips and the quotation requests frequently emailed to the headquarters, the CEO decided to develop the company's activities in Brazil (due to the strategic location of the country) despite his lack of market-specific knowledge and experience.

The market study conducted by a consultant in 2007 revealed that an increasing number of European manufacturers were locating production plants in Brazil and that they were struggling to find reliable suppliers. Despite the failure faced in Hong-Kong in 1996, Mixel Agitators decided to team up with a Brazilian manufacturer to open a sales subsidiary in São Paulo in 2008. The objective was to penetrate this emerging market with high growth potential, and quickly establish a reputation as a go-to supplier in the country.

In contrast to China, the SME was facing numerous difficulties due to a lack of preparation, the insufficient consideration of cultural differences, and the complexity of the institutional environment. The CEO explains that "*Brazil is still a very complicated country: everything* *takes much longer than expected, and they have a very different approach to business. The Brazilians show such empathy that you do not imagine the cultural differences that separate us. The problem is not so much the differences, but to forget they exist*". (CEO Mixel Agitators)

Faced with the market's complexity and the Brazilian subsidiary's lack of competitiveness, the company reduced the amount of resources committed to the Brazilian subsidiary. Early 2015, given the deteriorating business climate and the losses recorded following the local economic crisis, the CEO decided to close down the Brazilian subsidiary and to focus on Asia, creating a sales office in Vietnam to consolidate its presence in the region and to generate new business opportunities for the Chinese subsidiary.

"*The Brazilian subsidiary closed in 2015 because the country has been in recession for a year, and there is no point in investing for no return. I have done a 'Brazexit'. I have decided to put my money in Asia. The mistake I have made was to think that because Brazil was part of the BRICS, what worked in China would work in Brazil. I have listened to other CEOs explaining how they succeeded in doing business in Brazil, how they did, who they worked with…. But, still, we failed. What I know now is that when you want to enter a new business, do not listen to people explaining how they succeeded. Listen to people who talk about how they failed because successes are contextual and depend on too many variables. However, if a company failed somewhere, if I fail somewhere, there is a 90% chance that you will fail in trying the same thing. When people ask me to give feedback on my international experience, I do not talk about my successes anymore, I just talk about my failures because you learn much more from failures than successes*". (CEO Mixel Agitators)

Discussion of findings

The longitudinal case study conducted for this research indicates that the failures faced abroad are linked to both external and internal factors, namely the degradation of the local business environment (Brazil), the SME's lack of resources and international orientation as well as the underestimation of the complexity of doing business in emerging markets. Our findings show that the SME reacted differently regarding to the nature of the failure.

When failing mainly because of external factors, Mixel Agitators reduced its commitment and then completely withdrew from the market. The institutional instability, coupled with the lack of resources, market-specific knowledge and networks, considerably increased the costs of doing business in Brazil. This major failure taught the company the contextual nature of the internationalization knowledge as well as the value of the information collected through business networks. In line with Chuang and Baum (2003) and Madsen and Desai (2010), our results reveal that SMEs can increase their stock of vicarious knowledge by getting information about the failure of other organizations. They also show that vicarious knowledge from failure is more impactful and valuable, because vicarious knowledge from successes is often context-specific. As mentioned in the case study, knowledge coming from failed experiences can be more easily generalized than when ensuing from successes.

Our longitudinal case study also shows that, when mainly due to internal factors, failures generate a high stock of knowledge impacting the way the SME is doing business in the country or region. The two failures faced in Hong-Kong and China rose the SME's awareness regarding the key role played by human factors, the lack of resources (human, financial and reticular), international experience and diversification as well as the impact of cultural and geographic distance on the coordination of international operations. Unlike in Brazil, the failures faced in Asia did not lead to total withdraw but rather to a decrease and re-increase of local commitment – i.e. to a partial de- and re-internationalization (Welch and Welch, 2009; Vissak and Francioni, 2013). The objective was to allow the SME to recover from the financial losses and to analyze the causes of the failure to adapt the strategy. Convinced about the relevance of being physically present in Asia despite the first (major) failed attempt to settle in Hong-Kong, Mixel Agitators changed its entry mode and committed more resources to get a better control of its local operations. The second (smaller) failure faced in China after the loss of the informal partnership with Veolia pointed the risks linked to the lack of diversification of both markets and clients. In contrast to the two other large failures, this failure did not lead to a decrease of commitment but rather to a stronger support provided by the headquarters and the CEO to the subsidiary. These results add to Fischer et al.'s (2006) and Fang He et al.'s (2018) studies by specifying that learning processes do not only depend upon the entrepreneurs' ability to regulate their emotions but also to react positively so that they can create an environment allowing risk-taking and errors. In this sense, the entrepreneur's involvement proved to be of critical importance. As shown in our case study, the early intervention of the CEO helps containing the magnitude of the failure while driving the experiential learning dynamics. Thanks to his international orientation and his tolerance for failure, the CEO participated to change the SME's organizational culture by increasing its agility, resilience and by giving more space to learning (Fang He et al., 2018; Tjovold et al., 2004). This is particularly important when dealing with emerging markets due to higher failure rates linked to their peculiarities (Meyer and Peng, 2016). Table 2 summarizes our findings.

[Insert Table 2]

Our study adds to previous knowledge by pointing, first, the interactions existing between the individual and organizational dimensions. Getting a better understanding of how SMEs learn from failures abroad is hardly possible without integrating the individual factor due to the key role played by entrepreneurs in that type of organization. By their personality, competencies, vision and international orientation, entrepreneurs deeply influence SMEs' life path (Hsieh et al., 2018). They can either foster or slow the internationalization process and impact, by their attitude, the way SMEs react and learn from failure.

Second, we contribute to the literature by shedding light on the impact of prior failed experiences on SMEs' internationalization paths. Our findings reveal that the knowledge coming from failures has an impact on (1) the level of commitment, (2) the location selected, and (3) the use of external resources. More specifically, the commitment decisions appear to be linked to the magnitude of the failure: large failures often lead, in a context of resource scarcity, to de-internationalization (partial or total, temporary or definitive). On the opposite, smaller failures can lead SMEs to reinforce their local commitments – depending on the entrepreneur's vision – since these failures do not push companies to drastically change their strategy but rather to adapt it. In line with Madsen and Desai (2010), our results confirm that the learning process depends upon the magnitude of the failure: the larger the failure, the deeper the learning. However, our results also show that when leading to a total withdrawal caused by negative external factors, large failures can damage the firm's confidence and limit the learning process.

Third, our case-study suggests that born-again global companies - who suddenly and intensively internationalize in response to a critical incident, often to ensure the company's survival – may react in a specific way to their failures in foreign markets. Their experience makes them more resilient and flexible (Schueffel et al., 2014). Our findings contribute to a better understanding of how these companies can learn from their failures to adapt their internationalization strategies.

Conclusion

Despite their limited resources and lack of experience in international markets, SMEs often decide to develop ambitious growth strategies. Failure rates of their expansion moves appear to be high, especially in emerging economies (Holtbrügge and Baron, 2013; Kalinic and Forza, 2012). The case-study developed for this research shows how SMEs can learn from their failures. The longitudinal study of the expansion of an industrial born-again global company to Brazil and China shows that the SME has reacted in different ways according to the origin and magnitude of the failures: major failures caused by external factors often result in a weaker commitment or withdrawal from foreign markets whereas smaller failures linked to internal factors tend to increase the commitment abroad.

Our work contributes to a better understanding of the learning process and the experience industrial SMEs can acquire in emerging economies. It allows identifying the different reactions SMEs can have when failing their foreign operations. Learning processes appear to be complex (Madsen and Desai, 2010). Our analysis of the Mixel Agitators case-study suggests that SMEs do not necessarily decrease their commitment or withdraw when they are facing failures abroad. Small failures caused by internal factors can even lead to an increasing commitment in foreign markets. Our findings also reveal that changes in terms of commitment are strongly linked to the strategic vision of the SME manager.

The conducted research also presents several limitations and research perspectives. It seems necessary to follow the operations of Mixel Agitators in emerging markets over a longer period of time to better understand how the learning from failures further impacts the development of the SME in China and other emerging markets. It would also be useful to extend the study to other born-again global companies who have decided to develop in emerging markets, including SMEs from other countries and industries, in order to identify how the home-country and industry can possibly affect learning processes following failures in emerging economies. Future research could also measure learning effects according to the magnitude of failures and focus on the role of SME managers in the learning process. It would also be interesting to analyze how SMEs can share the information concerning their failures and learn from each other's experiences. In this perspective, future studies could examine how information about failures is shared in networks established by SMEs and with institutional actors. They could analyze how learning processes from the company's or other organizations' failures can affect location choices, entry mode selection and the speed of the international expansion. Finally, it would be useful to understand how learning takes place at the different levels of the organization given the key role played by SME managers. Their international experience and orientation strongly influences the companies' organizational culture, and notably their resilience in regard to failures.

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Table 1. Sample

Profile of interviewees	Number of interviews
CEO, Mixel Agitators, France	7
Vice-Director, Mixel Agitators, France	1
Sales Manager, Mixel Agitators, France	1
Trade advisor, Business France, France	1
Former Managing Director, Mixel Beijing	1
Managing Director, Mixel Beijing	2
Logistics Manager, Mixel Beijing	1
Sales Manager, Mixel Beijing	1
Director, Business France Beijing	1
Export Consultant, Business France Beijing	1
Trade Advisor, Business France Beijing	1
Director, Business France Wuhan	1
President of consulting company on Franco-Chinese relationships	1
Independent consultant organizing Franco-Chinese events	1
French university expert on China	1
Total number of interviews	22

Table 2. Impact of failures

	Hong-Kong	China	Brazil
Period	1996	2007-2009	2014
Market entry mode	Joint venture with 3 French SMEs – acquisition of a representative office	Wholly-owned subsidiary (greenfield investment)	Joint venture with a local partner (greenfield investment)
Cause/origins of failure	- Domestic focus of the SME's culture - Lack of international experience - Lack of resources - Results lower than expected - Underestimation of the complexity of managing a foreign subsidiary (human factor)	- Lack of client and market diversification - Liabilities of foreignness and outsidership (difficulties to build relationships and seize opportunities with local companies) - Lack of resources - Cultural issues	- Lack of market-specific knowledge and experience - Underestimation of costs and institutional complexity - Degradation of the business climate - Lack of resources - Selection of the wrong partner
Magnitude	Large failure	Small failure	Large failure
Consequences	1. De-internationalization - Temporary withdrawal from the market - Lower commitment to develop international business - Focus on traditional (mature) markets 2. Internationalization of organizational culture - External human resources 3. CEO's involvement - Develop and consolidate business networks with international clients	1. Large investments to support the subsidiary - CEO's involvement and regular visits to local subsidiary - Client diversification (in China) and market diversification (in Asia and Brazil) - External resources: new subsidiary managers – reorganization of the subsidiary 2. Definition and implementation of a new strategy - Springboarding in Asia - Exploitation of the Chinese manager's network	1. De-internationalization - Total withdrawal from the market (recover from the losses) 2. New internationalization strategy - Increased commitment on Asian markets (creation of a representative office in Vietnam to accelerate the regional expansion and to diversify the subsidiary's markets and customers 3. New strategy to collect information - Learn from the failures of other organizations