

ROLE OF TACIT KNOWLEDGE IN THE INTERNATIONALIZATION OF BORN GLOBAL FIRMS

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Abstract:

Emerging digital world has created the need for the firms to expand their market around the world. The firms do not operate solely in the local markets and with local competitors but also with the foreign markets with the foreign competitors. Some factors such as global mobility of goods and services, labour, technology and capital, favourable international trade policies, deregulation, advance transportation, telecommunication, internet etc. fueled the globalization. As a result, the local firms also seek fast international expansion to remain competitive in the global market (Gulanowski, et al., 2018). The firms are facing new and significant challenges in their international business expansion due to the emergence of digital technologies. In last few decades many studies have been carried out on internationalization. The researches already identified different types of market entry modes such as export, licensing, franchising, joint ventures and wholly-owned subsidiaries etc. For small firms, the export is one of the viable and cost-effective strategies for internationalization. Export allows the companies to expand their market internationally without any significant investment. The internationalization process greatly depends on many internal and external factors. Recent studies also identified some other innovative market entry mode such as use of internet and digital technologies. However, the previous researches have not studied the internationalization process purely in born global digital firms and how the tacit knowledge is influencing the international expansion. The paper analyses the main determinant knowledge factors of successful internationalization of the firms particularly in the digital economy.

Keywords: born global firms, knowledge management, tacit knowledge, internationalization, international new ventures, uppsala model, digital start-ups, digital economy

1. INTRODUCTION

The Global Digital reports(2019) identified that there are now more than one million people coming online for the first time every day (We Are Social &Hootsuite ,2019).The rapid globalization and developments in digital technology have created new business opportunities especially for small and medium sized companies to compete in a global environment (Ruzzier et al., 2006).Many industries like finance, transportation, music, retail, education, tourism etc. are massively affected by fast changing digital technologies. Several firms in traditional industries have reengineered the traditional business models to gain significant position in the market (Casadesus-Masanell & Ricart, 2011). The best-known examples are Airbnb and Über, both having disrupted the hotel and taxi industries (Van Alstyne et al., 2016). Internationalization of firms is a topic that has been researched for a long time, focusing particularly on small and medium sized firms (SME) and large multinational enterprises (MNE). But a few internationalization studies have been conducted on the role of tacit knowledge in Internationalization of global born firms. The effective internationalization strategy can be affected by several crucial factors related to tacit knowledge like business knowledge, business owners' management and professional knowledge, cross-cultural knowledge, internationalization knowledge, start-up experience, etc.. The internationalization process of born global firms can be completely different in respect to other traditional firms. The existing internationalization theories may not be fully compatible with changing digital world and the born global digital startups. The close observations found that the role of knowledge was not considered in the internationalization model like Uppsala model. Therefore, in the paper we tried to analyse the research gap and to understand role of experiential knowledge in International expansion of born global firms. However, to identify key knowledge factors of the firms' successful internationalization process, the research questions like what the knowledge factors are likely to influence the internationalization of born global digital startups and how may these factors influence the internationalization of born global digital startups were raised in the paper.

2. INTERNATIONALIZATION IN THE DIGITAL ECONOMY

Globalization has enabled international expansion for small firms also, to whom outward operations may offer long-term competitive advantage (Ruzzier et al., 2006). So, it is very clear that the firms which are operating in the local markets with the local competitors are now increasingly seeking to compete in the international market with international firms. However, for the firm's the internationalization is not anymore an option, it is a great necessity to compete and sustain in the long run. The firms also face a great deal of challenges and dilemmas when expanding internationally. The firms need to make the international market selection (IMS) and mode of entry (MOE) decisions (Gulanowski, et al.,2018).

Oviatt & McDougall (1994) identified that studies of internationalization have focused mostly on multinational enterprises (MNEs). Root (1994) identified five types of international entry strategies ('entry modes') such as export, licensing, franchising, joint ventures and wholly-owned subsidiaries. According to Burgel & Murray (2000) the selection of the market entry mode is one of the vital decisions for internationalization. Exporting is one of the major internationalization strategies for many firms and therefore several researchers over the past few decades have built the framework to explain the antecedents that contribute to export performance (Cavusgil & Zou, 1994; Chen et al., 2016; Cooper & Kleinschmidt, 1985; Sousa et al., 2008). Firms may face many challenges to implement their internationalization strategy, but the perceived barriers seem to differ between countries and regions (Whelan, 2008). The studies also suggest that new ventures tend to use alternative entry modes, which may include cooperation with other parties or creative use of internet (Coviello & Munro, 1997; Gabriellsson & Kirpalani, 2004). Startups in the digital arena are generally labeled as "International New Ventures" (INVs) or "Born globals". Born global firms are the new ventures that act to satisfy a global niche from the inception (Jones et al., 2011). Oviatt & McDougall (1994, p. 49) defined the international new ventures as *"a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries"*. Several scholars have studied different aspects of INVs. The speed of expansion of such firms differ in a great way. The paper found that there is great difference between the "traditional" or "incremental" model and the newer Born Global paradigm (Gulanowski, et al.,2018). The small firms are also limited in their ability to grow abroad because of insufficient information and know-how (Kaufmann, 1995). A consensus has emerged that an essential competency for success in managing the global organization lies in learning (Ferraro, 2002) .The findings showed that the understanding of the local culture, standards and traditions is essential for firms entering into a new market(Downey et al.,2005).Therefore, the findings support the argument that companies should adapt the product and promotion to the local market requirements (Brouthers et al., 2013). Moreover, the digital firms

have to deal with high risks due to a novelty of their products, the limited financing available, the necessary pace of growth, and the global character of operations (Gabrielsson et al. 2005; Tanev, 2012; Neubert, 2015).

3. KNOWLEDGE MANAGEMENT STRATEGY AND BUSINESS PERFORMANCE

The concept of "Knowledge Management" evolved existence in early 90's. In the article titled " Research paradigms of contemporary knowledge management studies: 1998-2007" Zhenzhong Ma and Kuo identified that "*with the rapid growth of knowledge economy, knowledge management has gradually developed into an independent academic field and a large number of researchers have begun to examine knowledge management.*" So far, several research papers and articles were published relating to knowledge Management concepts like explicit knowledge, implicit knowledge, tacit knowledge, value-chain in knowledge management and how the knowledge management techniques can be implemented to improve the financial and nonfinancial performance of an organization. According to Nonaka (1994) "*there are two types of knowledge: tacit and explicit. Tacit knowledge is subjective and experience-based knowledge that cannot be expressed in words, sentences, numbers or formulas, often because it is context specific. This also includes cognitive skills such as beliefs, images, intuition and mental models as well as technical skills such as craft and knowhow.*" On the other hand, the explicit knowledge is easy to communicate, record, and share. Youtube videos, documents can be the examples of explicit knowledge. But the transfer of explicit knowledge is not an automatic process. However, tacit knowledge cannot be codified, and it can be gained through experience. It is very difficult to share or transmit. The example of tacit knowledge can be riding a bicycle, walking etc., which can be learnt by experience. To develop a successful knowledge management strategy an organization need to have clear understanding of the basic concepts of knowledge management. However, tacit knowledge is really very important to gain a long-term competitive advantage for any organization. The organizations are required to focus on capturing the tacit knowledge. Now at the age of digital transformation the transfer of knowledge amongst people and organizations are becoming more effective and easier.

4. THE IMPORTANCE OF EXPERIENTIAL KNOWLEDGE IN INTERNATIONALIZATION

The tacit knowledge can influence the internationalization process of a firm to a great extent. The field of knowledge management is still young and evolving. Nonaka(1984) introduced a model of knowledge conversion that shows "*knowledge transfer as a spiral process. Starting with a 2x2 matrix, in which existing knowledge can be in either form – tacit or explicit and the objective of knowledge transfer can be to convey either tacit or explicit knowledge. Each mode of transfer operates differently*" The model is a spiral but not a cycle as the level of learning and understanding move to deeper level. The process that transfers tacit knowledge in one person to another person is socialization. Socialization can happen between individuals. One person from one cultural background can learn and follow the norms of other culture through socialization (Nonaka,1984). The scholars also agree that the more knowledge and experience firms have about foreign markets and the expansion process, the more informed decisions they can make (Gulanowski, et al.,2018). Therefore, the role of knowledge is becoming more important for the researchers who are working on internationalization. The firms are also required to pay a great amount of attention to manage the knowledge to become a successful international player. There are different views amongst the scholars regarding the effect of knowledge in internationalization of firms. Drawing from the original Uppsala model by Johanson & Vahlne,1977, the conventional view of internationalization considered the process a gradual staged approach in which new knowledge is acquired as the firm expands abroad over time (Forsgren, 2002). The international expansion of a firm can be influenced by some important knowledge factors like business knowledge, internationalization knowledge, institutional knowledge etc. Business knowledge refers to 'experiential knowledge of clients, the market, and competitors' (Eriksson et al., 1997). That is, it refers to knowledge of the business or competitive environment in a place in a particular market. However, internationalization knowledge refers to the experiential knowledge of the firm's capability and resources to engage in international operations (Eriksson et al.,1997). So far as Institutional knowledge is concerned, it refers to 'experiential knowledge of government, institutional framework, rules, norms, and values' (Eriksson et al., 1997). Firms may acquire institutional knowledge through exposure to the institutional environment of a given country. The literature analysis shows how the implementation of tacit or experiential knowledge influence firm's financial performance and organizational performance. The Born global firms are required to use the experiential knowledge for the international expansion.

5. INFLUENCE OF EXTERNAL AND INTERNAL ENVIRONMENT

According to Luis Alfonso(2015) external environment indicates the institutions and the business environment to which the firms are exposed and has a little control to alter the conditions. On the other hand, the internal environment indicates the activities the firm performs with the aim of enhancing its absorptive capacity and

knowledge transfer within and across units. At the cross road of internal and external environment, the firms take strategic decision to expand their presence in the international market and to enhance their business or institutional knowledge. So, the firms need to develop a mechanism and a process with which they will be capable of increase their exposure to tacit knowledge, absorb it and transfer it within and across the organization to gain a sustainable competitive advantage.

6.CONCLUSION

In conclusion, it can be said that the born global firms need an experiential knowledge management strategy to cope with new challenges in internationalization in the digital goods economy. The paper analyzed the new phenomenon in international business. A growing number of new technology based born global digital startups are coming into existence with distinctive features and building the infrastructure and applications for the new Web 3.0(Zalan,2018). The factors of internationalization related to experiential knowledge are extremely useful for the successful internationalization of born global firms like Uber,Air BnB, TikTok,Bla Bla Bla Car, Deliveroo etc. There is a positive relationship between tacit knowledge and firm's internationalization. Therefore, the further research into this matter would help to develop new knowledge management concepts in the internationalization context. Eventually, the findings of the research would help the born global firms to formulate their effective international expansion and knowledge management strategy and encourage the researchers to focus interest more on internationalization process of global born firms. Therefore, it is suggested that tracing the evolution of knowledge management and unconventional organizational forms could be a high priority in this era of digital goods economy.

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