

The role of knowledge in the internationalization process: A research study from the Czech Republic

Šárka Zapletalová¹, Andrea Bencsik²

¹Moravian University College, Department of Management and Marketing, Olomouc, Czech Republic

²Szechenyi Istvan University, Management and Marketing Department, Győr, Hungary; Selye J. University, Management Department, Komarno, Slovakia

Email address:

szapletalova@hotmail.com (Š. Zapletalová), bencsik.andrea@yahoo.com (A. Bencsik)

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Abstract: The knowledge plays in the process of the internationalization of entrepreneurial activities key role. The lack of such knowledge is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad. The objective of this paper is to present an overview of the role of the knowledge for internationalization process of the selected Czech firms. The internationalization of the entrepreneurial subjects has been researched using the method of questioning. Company age and international experience are significant factors influencing the knowledge of foreign markets in Czech companies. Based on the results of analysis the influence of knowledge level on the internationalization process of Czech companies is minimal.

Keywords: Knowledge, Internationalization, General Knowledge, Market knowledge, Technological Knowledge

1. Introduction

The transition process of the Hungarian and the Czech economy, including its involvement in international exchange, and the developing globalization process mean that Hungarian and Czech companies have rapidly begun to internationalize their activities. One of the main reasons of the interest of companies to expand to foreign markets nowadays is a limited market size of Hungary and the Czech Republic and, consequently, the increasing competition in the domestic market. The knowledge is critical for a sustainable process of internationalization. It is not only important for lateral expansion into new markets, but also for the successful growth of the business in foreign markets in which they are already operating and the effective management of these businesses as emerging multinational enterprises. The paper focuses on the market knowledge. By market knowledge we mean information about markets and operations in those markets. The problems of knowledge in the process of the internationalization of entrepreneurial activities have seen a considerable interest among a number of significant economists such as Johanson [5,6,7], Andersen [1], Ruzzier [12] and Lopez [9] who have fundamentally contributed to the

rethinking of the concept of internationalization theory.

The objective of this paper is to present an overview of the role of the knowledge in the internationalization process of the selected Czech companies. The paper is organized into three parts. The first part presents the role and importance of knowledge in the internationalization process. The second part of the paper will present the results based on the surveyed Czech entrepreneurial subjects. And the last section provides conclusions and discusses important implications.

2. Theoretical Background

Changes in the company and its environment expose new problems and opportunities. The entrance of a company on the market itself allows for a significant opportunity, so long as said company possesses the proper readiness which grants it the chance to develop entrepreneurial activities (business) in the international markets. To take advantage of the opportunities requires sufficient preparation and information about the specifics and particularities of the market. The internationalization of entrepreneurial activities is represented

by geographic expansion of entrepreneurial activities cross national borders [9]. Issues such as the development of international activities, and factors favoring or disfavoring internationalization have been studied for both large, as well as small and medium enterprises.

2.1. Importance of Knowledge

To initiation of a successful internationalization process is necessary to create suitable conditions of tangible nature and intangible nature. To the conditions of tangible nature we can assign particularly adequate financial resources. The conditions of intangible nature include knowledge of target foreign markets and experience of managers. The knowledge plays in the process of the internationalization of entrepreneurial activities key role. Knowledge contributes to increased competitiveness of entrepreneurial subjects. Knowledge plays a significant role both in the deciding on international entrepreneurial activities so in the realization process of entrepreneurial activities on foreign markets.

According to Johansson [5] developing knowledge is fundamental to company's internationalization. The lack of knowledge due to differences between countries with regard to, for example language and culture, is an important obstacle to decision making connected with the development of international operations. The knowledge exists and can be found.

2.2. Knowledge and Their Classifications

Very generally, the knowledge "relates to present and future demand and supply, to competition and to channels for distribution, to payment conditions and the transferability of money, and those things vary from country to country and from time to time." [3]

2.2.1. Content of Knowledge

Previous international researches had identified three types of knowledge to be most relevant for the internationalization of companies: technological knowledge, market knowledge and internationalization (general) knowledge [4].

Technological knowledge uses companies to develop and adapt products for new markets and to avoid stagnation in existing markets [2]. Technological knowledge is specific to each company, but it is not country specific. The importance of a company's technological knowledge in providing company specific advantages that are transferable across borders.

The market knowledge is knowledge about characteristics of the specific national market – its business climate, cultural patterns, structure of the market system, and most importantly, characteristics of the individual customer companies and their personnel. A lack of market knowledge results in uncertainty and risks in internationalization. Market-specific knowledge can be gained mainly through experience in the market, whereas knowledge of the operation can often be transferred from one country to another country. Market knowledge accumulates with increased commitment in specific markets. It concerns institutional knowledge (knowledge of

government, institutional frameworks, rules and norms, knowledge of local conditions and opportunities) and business knowledge (knowledge of resources, capabilities and market behavior of suppliers, competitors and local clients and their customers). Market knowledge is country and market specific, but it is not company specific.

Internationalization (general) knowledge concerns marketing methods and common characteristics of certain types of customers, irrespective of their geographical location. Internationalization knowledge is not country specific, because it is concerned with principles for operating in international markets in general. It is company specific knowledge that has to be integrated internally and coordinated with the company's other resources to be useful. Internationalization knowledge helps lateral internationalization into new geographic markets by aiding their strategic market entry decisions.

2.2.2. Knowledge Sources

Some knowledge is easy to acquire. It can be learned by reading written material produced by the partner-objective knowledge. Some knowledge can only be learned from doing-experiential knowledge [10].

A classification of knowledge which is useful for us is based on the way in which knowledge is acquired [10]. "One type, objective knowledge, can be taught; the other, experience or experiential knowledge, can only be learned through personal experience. With experiential knowledge, emphasis is placed on the change in the services the human resources can supply which arises from their activity"; and "... experience itself can never be transmitted, it produces a change – frequently a subtle change – in individuals and cannot be separated from them." This experiential knowledge is the critical kind of knowledge in the present context. It is critical because it cannot be so easily acquired as objective knowledge. In domestic operations, we can to a large extent rely on lifelong basic experiences to which we can add the specific experience of individuals, organizations and markets. In foreign operations, however, we have no such basic experiential knowledge to start with. It must be gained successively during the operations in the country.

Objective knowledge is easily obtained through training or can be acquired from data sources such as market research, government statistics, bank bulletins or company reports [11]. Experiential knowledge cannot easily be acquired, taught, or transferred international experiential knowledge is acquired from the experience of operating in overseas markets.

Companies acquire some of their knowledge through their own first hand, direct experience. This can be a result of intentional systematic efforts. Experience provides knowledge about networks in foreign markets and informs companies how they can acquire, adapt and integrate knowledge from networks.

Indirect experience, referred to as second-hand experience by Huber [8] is knowledge that is needed but which has not been learned directly. Huber identifies two ways of acquiring it: vicariously and grafting. In vicarious knowledge

acquisition, companies learn from the experience of others, or through licensing, strategic alliances or corporate intelligence. Grafting involves hiring people or acquiring business units.

Companies can acquire knowledge from published and other objective sources by searching, which involves scanning its external environment and conducting focused search for new information [4]. Internal knowledge has been overlooked in much previous research, perhaps because it might be assumed that knowledge already resident within the company does not have to be acquired. Much of this knowledge is experiential, but some can be objective, thus both internal staff and systems can be important sources of objective information.

In order to fulfill the aim of this study the following hypotheses were suggested:

- *Hypothesis 1:* The knowledge of foreign markets is influenced by the number of years of the international management experience.
- *Hypothesis 2:* The knowledge of foreign markets is influenced by the age of the company.
- *Hypothesis 3:* The knowledge of foreign markets is influenced by the size of the company.
- *Hypothesis 4:* The knowledge of foreign markets is influenced by business activities.
- *Hypothesis 5:* The knowledge of foreign markets influences the choice of the entry mode at the first international entry.
- *Hypothesis 6:* The knowledge of foreign markets influences the choice of the target foreign market at the first international entry.
- *Hypothesis 7:* The knowledge of foreign markets influences the timing of first international entry.

3. Methodology

This study presents selected findings of the empirical research that focused on the internationalization process of Czech companies. The research was carried out in the Czech Republic between March 2013 and April 2013.

The internationalization of entrepreneurial subjects has been researched with the method of oral questioning and the main instrument was a questionnaire. In order to ensure a representative sample, the questionnaire was submitted to the selected top managers and directors of enterprises. The instrument used in the survey was a structured questionnaire containing 16 questions of varying degree of complexity relating to the area internationalization (entry mode in the first entry to foreign markets, the rationale behind the first foreign market entry, international experience of the firm's management staff, knowledge level of foreign markets etc.). In some questions, particularly those related to entry mode choice and market choice, simple and complex scales were used, mostly the Likert-type scale ranging from 1 – 5. In addition to the interview questions the questionnaire also

included 5 questions related to the company background itself (the type of a business sector, the contemporary size of company measured by the number of employees and the level of revenue, the company size at the initial stage of foreign market entry, the year of company foundation, and the year of the first foreign market entry).

3.1. Sample

The companies under research were selected with the method of non-probability purposive sampling, or more precisely on the basis of assumption and occasional selection. The companies included in the study have already started their internationalization operations, they are incorporated in the Czech Republic and all of them are private companies. The research then covered 400 companies. A total of 297 valid questionnaires were collected, which provided a response rate of 74 %. There was a wide range of industries that participated in the research: in the sample there were 54 % of companies representing manufacturing and 46 % of service companies. The companies differed as to their size assessed by the number of employees so that 53 % of the sample consists of small companies, 29 % medium ones and large ones 18 %.

3.2. Variables

This exploratory study is based on the information from two groups of variables. The first group was related to the internationalization process. The group was investigated with the help of these measures: the target foreign markets penetrated at their first foreign entry (hereinafter referred to as foreign market); the number of years between the founding of the company and the first foreign market entry (hereinafter referred to as timing of entry); the level of knowledge of the target foreign market (hereinafter referred to as knowledge level); and the number of years of international management experience at the first foreign market entry (hereinafter referred to as international experience).

The second group of variables measured effects of company characteristics: the company size at the first foreign market entry (hereinafter referred to as the company size); the company age at the first foreign market entry (hereinafter referred to as the company age); and the branch of business activity (hereinafter referred to as business activity).

4. Results and Discussion

The research subsumes a two-stage analytical method. The first stage includes Categorical data analysis and ANOVA analysis. The second stage draws on factor analyses. The analysis began by examining the correlation between variables. All variables were screened to reveal their distribution through Pearson correlation coefficients.

The hypotheses 1 – 6 were tested through categorical data analysis; Table 1 presents the results of the analysis.

Table 1. Categorical Data Analysis for Hypotheses 1 – 6

	Pearson Chi-Square Value	Cramer's Value	Asym. Sign.
International experience	60.933	0.320	0.018
Company age	95.568	0.401	0.002
Company size	165.807	0.528	0.490
Business activity	2.683	0.067	0.612
Entry mode	106.820	0.424	0.255
Foreign market	52.295	0.297	0.385

Source: personal research

Hypothesis 1 assumes that the knowledge of foreign markets is influenced by the number years of the international management experience. This hypothesis has been confirmed: the strength of this relationship is medium ($V = 0.320$). Hypothesis 2 assumes that the knowledge of foreign markets is influenced by the age of the company. This hypothesis has been confirmed: the strength of this relationship is medium ($V = 0.401$). In Hypothesis 3 it was assumed that the knowledge of foreign markets is influenced by the size of the company: this hypothesis is not supported. Hypothesis 4 assumes that the

knowledge of foreign markets is influenced by the type of business activities: this hypothesis is not supported. Hypothesis 5 assumes that the knowledge of foreign markets influences the choice of entry mode at the first international entry. This hypothesis is not supported. Hypothesis 6 assumes that the knowledge of foreign markets influences the choice of choice of the target foreign market at the first international entry. This hypothesis is not supported.

The hypothesis 7 was tested through ANOVA analysis; Table 2 presents the results of the analysis.

Table 2. ANOVA analysis for Hypothesis 7

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	87.24	2	43.62	0.290	0.749
Within Groups	44274.24	294	150.59		
Total	44361.48	296			

Source: personal research

Hypothesis 7 assumes that the knowledge of foreign markets influences the timing of first international entry: this hypothesis is not supported.

Furthermore, the factor analysis has been carried out due to the specification of factors affecting the choice of entry mode (draws on 25 specified criteria) and the choice of target foreign market (draws on 15 specified criteria). The criteria are based on information offered due to personal communication with selected experts from business and universities and on the basis of previous researches. Respondents expressed their opinion (both for choice of entry mode and the choice of the target foreign market) for the importance of each criterion by using the five-point Likert Scale (5 = strongly agree to 1 = strongly disagree). The reliability of measurements was acceptable in both cases.

Choice of the entry mode: the total reliability reached the value of $\alpha = 0.865$, standardized item $\alpha = 0.865$ and item “knowledge and information about the target foreign market” $\alpha = 0.859$. The item “knowledge and information about the target foreign market” has been rated as the third most important from the total 25 items (average value of the item 4.31; the total average value was 3.81).

Choice of the target foreign market: the total reliability reached the value of $\alpha = 0.799$, standardized item $\alpha = 0.803$ and item “knowledge and information about the target foreign market” $\alpha = 0.786$. The item “knowledge and information about the target foreign market” has been rated as the second most important from the total 15 items (average value of the item 4.25; the total average value was 4.06).

The results show that most companies (62%) in the Czech

Republic have average level of foreign market knowledge. The 7% of Czech companies have minimum knowledge (or any knowledge) of foreign markets. And the 31% the Czech companies have knowledge of foreign markets above the average.

5. Conclusion

Internationalization is a phenomenon that has been intensively researched over the last few decades from a variety of viewpoints and by a number of significant economists. According to Lopez et al. [9] studying the internationalization in small, open economies (such as the Czech Republic) should be of growing interest because, given the limited potential of the local market, incentives to internationalize should be strong. The entrance and activities of entrepreneurial subjects on the markets can be complicated owing to a number of factors that are given by the environment on one hand and the position and situation of the entrepreneurial subject itself on the other hand. Factors that significantly contribute to and influence the process of entering international markets are the target foreign market knowledge. Establishment and performance of a certain kind of operation or activity in a country require general knowledge, market knowledge and technological knowledge. On the basis of objective market knowledge it is possible to formulate only theoretical opportunities; experiential knowledge makes it possible to perceive “concrete” opportunities.

Company age and international experience are significant factors influencing the knowledge of foreign markets in Czech

companies. Based on the results of categorical data analysis and ANOVA analyses the influence of knowledge level on the internationalization process of Czech companies is minimal. These findings are in contrast with the results of relevant research studies according to which these influences are treated as critical factors for success on foreign markets.

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