

BOOSTED BY FAILURE? ENTREPRENEURIAL INTERNATIONALISATION AS A CYCLICAL LEARNING PROCESS

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Abstract

To understand how entrepreneurial firms learn from failure and how it is reflected in their nonlinear internationalisation process, we conducted a longitudinal multiple-case study of six internationalising SMEs. By using a set of theoretically sampled, purposive cases, we were able to focus on the internationalisation process undertaken by these firms and link the nonlinear internationalisation, experiences of failure and success, and experiential learning both on individual and team level.

We found that nonlinear internationalisation and experiential learning are tightly intertwined processes in entrepreneurial firms. Reciprocal transfer, reflection, analysis, synthesis and internalization of experiential knowledge result in a cyclical, dynamic process where internationalisation and learning continuously feed each other. In this process, particularly ‘near-failures’ resulting in discontinuities are important as they trigger the need to learn and thus fuel the process. Learning from success is not as powerful as positive experiences do not motivate to alter the body of knowledge in the firm. On the contrary, they may inhibit the experiential learning process. Our research also highlights the role of the entrepreneur or entrepreneurial team as important gatekeepers of experiential learning. Their ability to absorb, digest and transfer experiential knowledge within the organisation promotes the positive impacts of learning from failure.

BOOSTED BY FAILURE? ENTREPRENEURIAL INTERNATIONALISATION AS A CYCLICAL LEARNING PROCESS

1. Introduction

Do entrepreneurial firms need to fail to learn? The majority of International Business literature treats failure and success dichotomously as the two ends of a continuum, and pays much less attention to the 'grey area' in between. This study reframes the concept of failure and provides a more nuanced view on its role in the internationalisation of the firm.

We understand internationalization of the firm as a process of predominantly discontinuous change: a sequence of events between which there are periods of stability and instability (cf. Casillas & Acedo, 2013; George & Jones, 2000; Kriz & Welch, 2018). Change is an empirical observation of differences in international activities over time (Hurmerinta et al., 2016; Van de Ven & Poole 1995), and this study develops the internationalization process theory towards an explanation of how and why discontinuities emerge and what are their roles in internationalization. Discontinuity in internationalization refers here to an irregularity or a break of a sequence of a pattern. We acknowledge the fact that discontinuity is a matter of degree, reaching from minor revisions of a strategy to complete turnarounds.

Prior research on discontinuous, nonlinear internationalization has focused on describing the process through critical events (Turner 2012), such as entries (Andersen, Ahmad & Chan, 2014; Vissak & Francioni, 2013), withdrawals and re-entries and providing evidence of the antecedents and consequences of these events (Sousa et al., 2021; Dominguez & Mayrhofer, 2017). This study is a deviation from the mainstream as we focus on providing a conceptual, theory-based explanation to entrepreneurial nonlinear internationalization. With the article by Welch and Welch (2009) being a notable exception, such approaches to the phenomenon are yet rare. Our research is also a response to the calls, which claim that International Business research is biased towards success stories.

We understand nonlinear internationalisation as a process of experiential learning (Kolb, Boyatzis & Mainemelis, 2014). The aspect of learning has been a prevalent element in research on the internationalisation of firms since the seminal Uppsala internationalization model (Johanson & Vahlne, 1977; Fletcher, Harris & Richey, 2021). The early works understood internationalisation as a process during which the firm gradually gained experience, and accumulated knowledge of international business opportunities and transactions through engaging in such activities. However, these studies by default depicted a cycle where positive experiences encouraged companies to increase their international exposure, or less positive experiences resulted in smaller forward steps. The models yet lacked the perspectives of disruption, introduced e.g. by failures that could turn the cycle into a development spiral, upgrading it into a new level, and acknowledging problem-based learning (Schwartz, 2013). They also overlooked the individual level, i.e. how the entrepreneurs operate as gatekeepers within the intersection of internationalization and learning processes (Johanson & Vahlne, 2003; Voudouris, Dimitratos & Salavou, 2011).

In order to understand *how entrepreneurial firms learn from failure and how it is reflected in their nonlinear internationalisation process*, we conducted a multiple-case study with six internationalising SMEs. By using a set of theoretically sampled, purposive cases, we were able to focus on the internationalisation processes undertaken by these firms and link the nonlinear internationalisation, experiences of failure and success, and experiential learning both on individual and team level.

We found that nonlinear internationalisation and experiential learning are tightly intertwined processes in entrepreneurial firms. Reciprocal transfer, reflection, analysis, synthesis and internalization of experiential knowledge result in a cyclical, dynamic process in which internationalisation and learning continuously feed each other. In this process, particularly ‘near-failures’ resulting in discontinuities are important as they trigger the need to learn and thus fuel the process. Our research also highlights the role of the entrepreneur or entrepreneurial team as important gatekeepers of experiential learning. Their ability to absorb, digest and transfer the experiential knowledge within the organisation promotes the positive impacts of learning from failure.

2. Literature review

2.1 Learning and nonlinear internationalisation

Internationalisation process of the firm has been under the loop of International Business scholars already since the late 1960s and the first influential publications date back to the 1970s. The first studies focused on how firms internationalise and concluded that during internationalisation firms undergo a process, which can be divided into identifiable phases or stages (e.g. Bilkey & Tesar, 1977; Cavusgil, 1984). Underlying theories explaining the increasing involvement in international operations included e.g. organisational learning, innovation adoption and decision-making (Johanson & Vahlne, 1977; Reid, 1981; Cavusgil & Godiwalla, 1982). For the early years of internationalisation process research, it was typical that the proposed stage models were tested with empirical data. However, the proposed models suffered from a 'success bias' in a sense that in them internationalisation was a forward-moving, non-reversible and internationalization-outcome-oriented process without any disruptions or discontinuities. Later, International Business scholars have recognised that this is not always the case – in fact, discontinuities are quite common in firm internationalization. (e.g. Bernini et al., 2016).

More recent research has demonstrated that the internationalisation process of a firm consists of alternating epochs of de- and re-internationalisation (Welch & Welch, 2009), and the periods of increasing and decreasing international commitment are visible in the internationalisation of SMEs (Vissak et al., 2020; Dominguez & Mayrhofer, 2017; Freeman et al., 2013; Vissak & Francioni, 2013). These epochs are accompanied by changes in speed: acceleration and deceleration of the internationalisation process are linked to a firm's absorptive capacity and ability to recognise and exploit international opportunities (Johanson & Kalinic, 2016).

Furthermore, prior research indicates that nonlinear internationalisation might be more common among smaller and less experienced, unsuccessful firms (Bernini et al., 2016). However, although the number of studies focusing on nonlinear internationalisation is limited, they highlight the fact that the process is more complex than received theories indicate. The process is composed of fragmental moves, which link exits and re-entries tightly together (Chen et al., 2019). The ‘glue’ in the process seems to be experiential learning, which connects international experience, organisational memory and individual perceptions (Welch & Welch, 2009), and this link has been confirmed in empirical studies both in MNCs (Aguzzoli et al., 2020; Surdu et al., 2019) and SMEs (Vissak et al., 2020; Dominguez & Mayrhofer, 2017; Freeman et al., 2013). However, particularly in the context of SMEs, the process seems to be a very complex one and nonlinear internationalisation can continue for years (Nummela et al., 2020; Vissak & Francioni, 2013).

Scholars interested in nonlinear internationalisation highlight that experiential learning should not be treated uncritically, only as a positive feature of the process. Although it is possible that due to experiential learning firms do not repeat unsuccessful strategies (Surdu et al., 2019), it is also possible that these experiences create international knowledge myopia which disturbs later decision-making (Aguzzoli et al., 2020). Furthermore, accumulated experience may also lead to routines and behaviour which needs to be unlearned and a knowledge base, which later becomes obsolete in another context (Surdu & Narula, 2020). Therefore, when investigating learning in nonlinear internationalisation, scholars should pay attention to different types of learning and the complex process of how experience is accumulated (Surdu et al., 2019, Surdu et al., 2018).

In this process, the capability of firms to learn from their mistakes and overcome past failures are decisive (Dominguez & Mayrhofer, 2017; Welch & Welch, 2009). De-internationalisation as an act is not a sign of failure (Benito 2005), neither is nonlinear internationalisation (Vissak & Francioni, 2013) – both can be strategic choices. We also know that re-internationalising MNCs tend to learn more from their failures than from their successes (Surdu & Narula, 2020; Surdu et al. 2019; Surdu et al., 2018), which indicates that also in the nonlinear internationalisation of SMEs failure experiences can be important.

2.2 Experiential learning in entrepreneurial internationalisation

Organisational and individual-level learning have been used as theoretical lenses in understanding SME internationalisation since the 1970s. According to the early works, a firm incrementally gains experience, and accumulates knowledge of international business opportunities and transactions through engaging in such activities. This is usually perceived as a rational process where economic, managerial and organisational resources are increasingly committed to international activities (e.g., Johanson & Vahlne, 1977). In this process, a central element is the acquisition and absorption of experiential knowledge (Majkgård, 1998). It decreases the experienced uncertainty related to internationalisation and thus boosts willingness to engage in such activities.

Experiential learning is connected to the individual and the activities s/he participates in. Individuals differ in the manner in which they accumulate and absorb knowledge (Holcomb et al., 2009). From the cognitive perspective, people learn as they change their perceptions after surveying and evaluating the outcomes of their actions (Niittymies & Pajunen, 2020). We learn most from new, diversity-based situations and when the object of learning is related to what is already known (an incremental innovation) (Cohen & Levinthal, 1990). Diversity of knowledge enables the individual to make novel associations and linkages, but learning is slower in totally novel domains. On the other hand, an individual's expertise – what s/he knows well – changes only incrementally; i.e. deep previous knowledge may inhibit the absorbency of radically new information, such as radical innovations (Cohen & Levinthal, 1990). Repetition of the same task soon becomes a routine, which inhibits learning due to the strong expectations one might have. Thus, prior experience may also slow down and inhibit learning, and the entrepreneur with fixed routines becomes a prisoner of his/her past (Cooper et al., 1995; Nummela et al., 2016). A routine may provide an automated response to a problem that may not even be recognized as a problem, “since its "solution" is at hand” (Cohen et al., 1996, 11). However, learning does not occur only on the individual level, and in fact, there can be multiple learning processes ongoing simultaneously (Vissak et al., 2020).

Experience or experiential knowledge can be considered as a company resource that becomes useful through extension and reasoning (Jones & Casulli, 2014). The heritage that the firm carries from previous international activities is an important link in nonlinear internationalisation (Welch & Welch, 2009). Experiential knowledge is not only gained through lived experience but individuals and organisations can also learn from others (Eriksson et al., 1997; Ucbasaran et al., 2013), i.e. the source of knowledge can be external to the firms (Johanson & Vahlne, 2009; Forsgren, 2002). Part of the learning can be based on ‘congenital knowledge’ (Huber, 1991), i.e. it has been acquired before internationalisation takes place, and typically accelerates the internationalisation process of the firm (Bruneel et al., 2010). Similarly, vicarious learning – learning from other firms – is known to boost internationalisation (Casillas et al., 2015; Fletcher & Harris, 2012). However, only a small number of studies have focused on the team and individual-level *processes* related to learning in entrepreneurial internationalisation, notable exceptions being the studies by Fletcher et al. (2021) and Pellegrino and McNaughton (2017).

Interestingly, in a recent study Lee et al. (2020) link learning, SME internationalisation and failure. They point out that academic literature has a significant ‘success bias’ as learning is commonly studied as learning from successful experiences, whereas learning from failures has been more or less ignored. Given that learning from failures or mistakes has been identified as a significant element in nonlinear internationalisation, it also deserves our attention.

2.3 The role of failure in entrepreneurial internationalisation

In line with Nummela et al. (2016), this study adopts a broad and relative view to failure; referring to underperformance or an organisation not achieving expected objectives. Instead of viewing failure as the opposite of success, we acknowledge that the degree of failure varies. Particularly, we are interested in ‘near-failures’, i.e. events or epochs during which the organisation is threatened by failure but closely avoids it and manages to recover (Kim et al., 2009; Kim & Miner, 2007). These events may be important triggers for organisational development and renewal but also an important source for organisational learning (Lee et al., 2020; Madsen & Desai, 2010). We also recognise that failure is a relative, subjective experience. Decision-makers respond differently to success and failure (Cyert & March, 1963) and earlier research indicates that entrepreneurs also interpret failure differently (Cardon & McGrath, 1999). What one judges as a failure, another may consider as a minor setback (Dattner & Hogan, 2011). As a result, there is great variation in responses to firm failure (Jenkins et al., 2014). The subjectivity of failure is highlighted by the fact that there is no “typical” failing entrepreneur (Khelil, 2016). Conversely, it is also worth noticing that success is neither a unified, objective concept. Sitkin (1992, 231) argues, “failure is an essential prerequisite for learning and adaptation”. In entrepreneurship literature, failure is commonly accepted as an elementary part of the entrepreneurial process, a temporary state, which provides valuable learning opportunities for entrepreneurs (Cardon et al., 2011; Cope, 2011; Corbett et al., 2007). However, the potential learning advantages of failure have also been questioned (Yamakawa & Cardon, 2015; Coad, 2014; Ucbasaran et al., 2013), especially when compared with the related emotional and financial costs (Jenkins et al., 2014). Furthermore, the link between entrepreneurial failure and learning is heavily debated, and learning from failure is far from self-evident (Shepherd, 2003). Learning from failure seems to be a dynamic phenomenon, during which entrepreneurs increase their ability to learn from experienced failures and alertness to new entrepreneurial opportunities (Boso et al., 2019).

How does learning from failure then happen? It seems that the answer to this question is not so straightforward as the body of knowledge about the effects of entrepreneurial failure is scarce and

fragmented (Klimas et al., 2021). Entrepreneurship literature distinguishes both internal and external sources of failure, i.e. whether the triggers of failure lie within the company and the strategic actions of the entrepreneur, or whether they are outside the control of the entrepreneur – including misfortunes due to unexpected external changes (Cardon et al., 2011; Zacharakis et al., 1999). Learning from failure takes place when the entrepreneurs utilise the information on the causes of failure to revise their knowledge base and change their future behaviour (Klimas et al., 2021). It seems to be an emergent process, not a planned effect of the failure experience (Lin et al., 2019). As in all learning, the absorptive capacity of the entrepreneur sets boundaries to the learning (Cohen & Levinthal, 1990). It is a mentally and emotionally straining exercise as it involves critical reflection, learning about oneself, the venture and its management, and action to move on and pursue new opportunities (Cope, 2011). Interestingly, prior failure experience may provide the entrepreneur better coping resources and psychological capital to deal with renewed failure experiences (Jenkins et al., 2014).

2.4 Synthesis

This study seeks to answer the question *how entrepreneurial firms learn from failure and how it is reflected in their internationalisation process*. Previous research indicates that nonlinear internationalisation and entrepreneurial failure are interlinked but the linkage between the two remains ‘a black box’. The focus of this study thus lies in identifying the link and providing a conceptual, theory-based explanation for it.

In our study, we take into account the degrees of failure but pay particular attention to *near-failures*, i.e. the events that lead to irregularity or disruption of the internationalisation process. In line with Welch and Welch (2009), we consider this resulting ‘time-out’ period from international operations between de- and re-internationalisation as a prerequisite for learning from failures. A recent review of literature (Kafouros et al., 2021) indicates that both the process of how managers learn from failure and how they balance the experiences from the time-out period remain less well understood.

3. Methods

3.1 Research design

Longitudinal case study and time-sensitive theorizing are recommended for studying nonlinear internationalisation processes (Sousa et al., 2021; Trapczynski, 2015; Welch & Paavilainen-Mäntymäki, 2014). To shed light on how entrepreneurial firms learn from failure and how it is reflected in their internationalisation process, we conducted a longitudinal, multiple-case study among six Finnish SMEs (Eisenhardt, 1989). This research strategy allowed us deep and prolonged engagement and ability to follow the phenomenon in its naturalistic context (Olson, 2010; Hassett & Paavilainen-Mäntymäki, 2013). The non-linear internationalization process and the experiential learning process in the case companies were studied over a period of ten years to grasp the causal relationships between and the sequences of internationalization and learning events with the help of real-time and retrospective data, increasing the internal validity of our study (Leonard-Barton, 1990).

This study is a ‘classic case study’ (Dyer & Wilkins, 1991) in the sense that our aim was to provide a rich description of the nonlinear internationalization process of the case companies and related learning. The case study as an approach enabled us to incorporate the internationalization contexts of the firms to the individual and team-level internationalization experiences to operate as rich explanatory evidence for theorizing (Welch et al., 2011). Our in-depth study with its exploratory problem setting required information-rich cases with significant explanatory power. The selected case companies can be considered as critical cases as they permit analytical generalisation but also application to other similar cases (Patton, 2015).

In the case selection, we applied theoretical, purposeful sampling to ensure that the cases would represent different loci of learning within the firms, the individual and the team, and their internationalization processes (Flyvbjerg, 2006). We originally searched for cases that had engaged in internationalization, and during the data collection it emerged that the challenges they had faced during their internationalization efforts actually seemed to feature and play a very central role in how

their businesses turned out. In the original sample we had more than ten longitudinal cases, and from these we chose six based on the following theory-based criteria: (1) they were managed by a solo-entrepreneur or an entrepreneurial team enabling us to observe different learning dynamics, (2) their internationalization trajectory had been nonlinear, (3) they were able to reflect on the prospects and consequences of their internationalization challenges, and (4) they were SMEs. Additionally, they provided us with long-term access that was necessary to obtain the needed process data.

The case companies were located in different parts of Finland and operated in different industries. The companies varied in size from five to 300 employees (including the entrepreneurs) and in terms of the scope of their international operations. What unites these companies was that they have all strived for internationalising their operations and they all had difficulties, originating from different sources and being of different magnitude, in reaching this goal. Table 1 presents the demographics of the case firms.

Table 1. Case demographics

Case	Company age	Employees	Industry	Scope of internationalisation	Top management
A	7*	5	Plastics	Sweden, Germany	Entrepreneur
B	12	14	Metal and engineering	Sweden, Australia, Ireland, the Baltic states	Entrepreneur
C	14	5	Textiles	Germany, Norway	Entrepreneur
D	55	170	Packaging	The Baltic states, Scandinavia	Team of 5
E	17	300**	Analytics	Europe, the U.S., India, Asia	Team of 3
F	15	35	Construction	Central and Eastern Europe, the U.S., Asia	Team of 2

* *The business was closed down seven years after its establishment*

** *At the end of the 10-year data collection period firm E acquired a competitor and grew from 50 to 350 employees “overnight”*

3.2 Data collection and analysis

Multiple sources were used for data collection during the ten-year period of investigation. Data were collected with questionnaires, telephone and face-to-face interviews (altogether over 30 hours of interviews equalling 184 pages of interview transcripts and nearly 150 pages of handwritten notes) and via email correspondence. We also made on-site visits to the companies alongside the interviews during which observational data was collected from e.g. the factory floor. Additionally, brochures and other marketing and publicity material on the firms, annual reports and financial statements, company histories, websites and other documents, such as news clips, were employed as secondary data sources to complement the primary case data.

The main data for the study were collected with theme interviews with the key decision-makers of the case companies. In three of the cases the informants were the entrepreneurs, in three cases members of the entrepreneurial team. The use of a small number of informants, even a single key informant, is quite common when conducting exploratory research among smaller enterprises (see e.g. Kevill et al., 2020; Lindvert et al., 2017; Molecke & Pinkse, 2017) as they are usually the only persons who have a holistic, longitudinal view on the venture and its operations. They are also responsible for the key decisions and future plans of their firm and its internationalization.

The theme interview approach allowed the entrepreneurs to discuss their mistakes and negative experiences freely, and provided them the option to leave out, and to include in the interview issues they wished to reveal to the interviewer (Gubrium & Holstein, 2002; Qu & Dumay, 2011). The interviews were conducted retrospectively in that they enquired about past events regarding mistakes and failures and learning from them. In some instances, where the entrepreneur was willing to discuss what had happened recently, the entrepreneurs were interviewed at several occasions in real-time, following the learning process after the failure had occurred (such practice has been recommended by Fletcher & Plakoyiannaki, 2011). As failures are often delicate and emotional experiences to those

who have experienced them, the interviewees and their firms were guaranteed full anonymity and confidentiality.

When conducting process research, the biggest challenge usually is to identify the starting and ending point of a process (Hassett & Paavilainen-Mäntymäki, 2013). In the case of learning, this is particularly difficult, as it often is challenging for the interviewee to identify the process, and even harder for an external observer to detect it. Learning is also a phenomenon that is easier to approach after a learning event has taken place and one can evaluate the outcomes of it, i.e. that learning actually took place.

All the data were analysed with a theory-driven thematic analysis (Gavin, 2008; Clarke & Braun, 2014), the main focus being on highlighting (1) what were the internationalisation-related aims of the interviewees and their companies; (2) what were the identified challenges and mistakes in pursuing those aims; (3) what reasons and events led to the failure and why; (4) how the situation was turned around or what was learned from it, and (5) how this learning might have taken place during the internationalisation process. Next, we drafted case narratives of the internationalisation and related experiential learning in the six companies (Ghauri, 2004; Sinkovics, Penz & Ghauri, 2008). In this paper, we report two summarized narratives as examples of individual and team-led internationalization and our cross-case analysis.

4. Findings

4.1 Illustrative examples of case narratives

4.1.1 Nonlinear internationalisation – learning from failure (Case C)

The firm was established to produce textiles for interior design and printed fabrics. The sales consisted mainly of direct sales to shops in the furnishing business and to final consumers. The entrepreneur had worked as a secretary in a medium-sized firm in the metal industry for nine years, during which she became familiar with the export "bureaucracy" but she wanted a career change and decided to turn her long-term hobby (drawing) into a new occupation.

The start of exports was *"a rush on something totally unknown"*. The idea emerged when she participated in a meeting organised by an export promotion agency and afterwards a potential export agent – a Finnish-born person living in Germany – proposed to represent the products of the company. *I was surprised. I couldn't say anything, except 'A-ha, I suppose I can think about it'.* A visit to Frankfurt followed and a contract was signed. This was a major step for the firm, as the entrepreneur had no previous export experience. She gradually adopted a new mindset: openness to the world and its opportunities. After all, *"they're just like us, anywhere in the world; you just go and show them what you can do."* Soon the firm participated in its first international trade fair in Germany, after which the first foreign client contacted the entrepreneur and placed an order.

This first delivery raised the need for knowledge related to export routines. She received external advice; this can be considered as an update to her knowledge from previous work. *"We were very excited at the time, but still we felt we had to keep our feet on the ground... we shouldn't devote large sums to issues that would probably not give a return soon enough."* Later the export agent in Germany conducted some market research. The results dispelled the entrepreneur's doubts about her firm's export capability, and exports gradually became an elementary part of the business. However, shortly

the European recession significantly decreased the demand for the firm's products both in Finland and in Germany. Furthermore, the German agent was busy with another dealership and interest rates were high, limiting export investment possibilities. Doors were closing everywhere, wherever the entrepreneur tried, the response was the same: "*not now, thank you*".

At this point, international operations felt like a financial burden, not a survival strategy.

Consequently, the entrepreneur handed the responsibility completely to the export agent. Many of the export projects initiated at that time failed and in general, the period is characterised by de-internationalisation. Plans to export via a Finnish client to Sweden and Norway, were not realised due to the economic recession in Sweden at the time, and to changes in the ownership of a potential client in Norway. The firm became involved in a Christmas exhibition in a Parisian department store and sold their products directly to final consumers. Despite the success of this exhibition, the customer relationship was not maintained. Entry plans related to Austria and Belgium had been abandoned. Suddenly, the entrepreneur received a huge order from Italy. Unfortunately, this proved to be a hoax: there was no real client and the products were never paid but they had to be returned and stored. The entrepreneur also joined other Finnish SMEs in a collaborative export project to St. Petersburg. A Russian (who spoke Finnish) acted as a contact person between clients and suppliers, and was responsible for selling and marketing their products. Despite four years of efforts and a joint store, the project faded away due to discrepancies between the Russian representative and the Finnish SMEs.

Economic recession, changing customer base and low commitment of the German agent caused uncertainty and temporary de-internationalisation of the company. However, gradually the economic situation improved and the German agent put more effort in marketing the products of company C. The future looked brighter and the entrepreneur started looking for an export agent in Norway.

Over time, the entrepreneur has been committed to internationalisation as exports added company credibility in the eyes of both domestic and international customers. Furthermore, the international activities strengthened the entrepreneur's confidence in herself, in her products, and in her export

ability. The success of first exports encouraged the entrepreneur to be more open to the opportunities that foreign markets could offer.

Discontinuities in internationalisation were due to multiple reasons but learning from the failures remained limited. The entrepreneur had narrow knowledge on exports and international markets and the experiential knowledge was always filtered through intermediaries who were either Finns or Finnish-speaking. Besides the export agent, she relied on expertise from public export promoting agencies. As a result, internationalisation did not increase organisational knowledge or capabilities. Instead, the entrepreneur relied on others' knowledge and activities and she deliberately took the role of a bystander. No routines in internationalisation were developed; each activity was unique and handled accordingly. However, the entrepreneur's perception of international markets and cultural differences developed via these failures and she learned to classify countries according to their attractiveness for her business. At the same time, she gradually developed a more international mindset, although some reservations remained. In all, the setbacks have discouraged rather than encouraged the entrepreneur to internationalise her business and thoughts of complete withdrawal from international markets have emerged.

4.1.2 Nonlinear internationalisation – learning from failure (Case D)

Firm D is led by an entrepreneurial team with five members, each of whom have an equal share of the company. It was born in a management buyout (MBO) at which experienced employees of the company acquired the company that specialises in producing food and medical packaging with decades of experience. Thus, the entrepreneurial team had both an established business and good knowledge about the firm, market situation and company resources. However, obtaining this knowledge and getting the firm to its leading market position had a price. *"The MBO deal was a trial for us."* They did preparations quietly in the background and sold the idea to the then owner that it is easiest to sell the firm to them instead of shutting the business down or selling it to a competitor.

During the negotiations, they tried to give a weak impression of themselves so that they would not pose any competitive threat to the former owner.

Firm D had operated internationally for decades, and similar to many Finnish SMEs, its major foreign market had been the Soviet Union (USSR). However, in December 1991, the USSR collapsed, which meant that new markets needed to be found swiftly. The plan was to target the other neighbouring country, Sweden. *"Frankly, our only option was to look to the West at that point."* A newly appointed marketing manager decided to take the firm to a forthright attack against the Swedish market leader to obtain compensatory market share, and no one in the firm objected to this bold, but tempting undertaking. However, once the firm was there, the attack withered away as soon as it started. Firm D representatives noticed that they had neither the capacity, nor the technology to compete in the Swedish market. The products they had been selling to the USSR were not the quality demanded in Sweden, and the capacity of the firm was yet on the level of its previous position as a peripheral subsidiary, not an independent foreign market entrant. The Finnish firm had to retreat inconspicuously and the Swedish rivals did not take the firm very seriously after that. *"The Swedes became quite presumptuous and thought that we do not pose any competition to them after this episode. You should never be too self-assured."*

As years passed, and particularly after the MBO deal, when the firm was able to develop its manufacturing technologies and capacity to a completely new level, and to establish a stable international clientele with a 30% market share in the Scandinavian market, it was time for a re-match. Soon after the MBO, the firm challenged again the Swedish market leader with new technology, which the rival did not yet possess, and with better prices. Despite their earlier fiasco, they did not have much choice than to try again. What they had as their backup and strength was their business plan, which they had developed already for the MBO. *"In the MBO deal our operations were limited to what our earlier owner allowed us to do, so our only chance of survival was to grow with the business we had to the markets our competitor had. We all knew that."*

The firm was able to attract large customers from its Swedish rivals and after winning several big deals, the firm's market share had climbed to 60%. In two years, the company had conquered the Swedish, Norwegian and Danish markets from its biggest Swedish rival. When their original deals were ending with their big customers, the Swedes tried to retaliate. However, *"we were prepared, as we did not want to get the same treatment we gave to them earlier."*

How did the firm overcome its earlier failure, how did it manage to turn the earlier failure into a success, and what happened after the success? When firm D was still a subsidiary of a large European MNE, it was in a neglected and in secondary position in the MNE strategy, waiting for closure. The turning point from this pathway to failure was the radical change in the firm management. The MBO deal was made by "company men" that had witnessed the difficult years and seen the inevitable destiny of the firm, if nothing was changed. In the business plan they made their goals clear and stuck with them. *"This was a worthy exercise for us."*

In the former owner's lead the firm was a mediocre, peripheral player in the market with the only goal of survival. Price competitions had nearly ruined the firm, as it had not had the chance of investing in new technologies and R&D and as it had had to lay off several employees. This, on the other hand, ripened the former owner to quite easily agree to the MBO, as it considered firm D a weak competitor. With loads of hard work, own investment and ability to convince external investors, the entrepreneurial team was able to invest in developing the factory and maintain the former customers. The team worked together, planned the strategies together and drilled their ideas together. The desperate times had taught them that they might not need desperate measures, but rather take full advantage of their scarce resources and leverage their combined experience from the firm, industry, market and competition.

The earlier failure to conquer the Scandinavian market had given a weak image about the firm, which made its rivals a bit arrogant and they did not expect to hear from the firm anymore. Additionally, the price competition that had tested the firm had also affected its rivals. The firm was also very determined in reaching its goals in Scandinavia, as it was the only direction to grow – the Central

European market was already taken by larger competitors, such as the former owner, and the Baltic markets were already in firm D's pocket. These three issues combined with the technological advances the firm had taken made the firm a stronger competitor and helped it to reach its goals. After the success in Scandinavia, the firm did not stand idle and enjoyed its achievements, as a backlash from its rivals was very well expected. Firm D stayed alert, an issue it learned from its competitors that overlooked firm D's chances. Later several competitive moves were made back and forth, but the Scandinavian market had reached a more stable situation and the firm had established its position in the competition.

It was real trial and error learning. Understanding the importance of clear goals and good planning that enjoy the support of all the five owners, and keeping that focus and adhering to that plan, while staying alert and agile, helped firm D to succeed in its internationalization goals. The internationalization operations were delegated, but yet shared and internalized, each team member having a clear role in the process. *"Now, looking in the past, we could have done things differently, better, if we would have known things in advance, but honestly, we did not have much slack to operate differently. Blessing in disguise that we have made it this far."*

4.2 Cross-case analysis

Our cross-case analysis started with comparing the cases in terms of internationalisation propensity, triggers for internationalisation, failures related to internationalisation, experiential learning and the outcomes of discontinuities in internationalisation (see Table 2).

Existing research indicates that prior international experience may influence experiential learning and nonlinear internationalisation. Therefore, we evaluated the *internationalisation propensity* of the companies in terms of what kind of prior knowledge they possessed at the time of internationalisation (classification of types of knowledge in Table 2 is based on Fletcher & Harris, 2012). We found significant variation between the case companies, ranging from case C with almost no prior experience

to case D which possessed extensive and multifaceted prior experience. The cases also demonstrated that prior experience could be a liability: their wide knowledge of technology did not benefit the internationalisation in the cases A and B. On the contrary, it restricted the ability of entrepreneur A to read the market and understand customer needs properly.

Internationalisation of entrepreneurial firms is typically *triggered* by various pull and push factors, and our case companies are no exception. They were drawn to international operations by unsolicited orders and contacts, support from export promotion agencies or arising collaborative opportunities with domestic partners. On the other hand, unfavourable development of the home and host markets and requirements from existing customers impelled them to international operations. Interestingly, in all of the cases the external factors were more significant in encouraging the entrepreneurs to explore international business opportunities.

As expected, the degree of experienced *failures* varied from minor setbacks and misfortunes to ‘near-failures’ and even a fatal failure. Despite repeated attempts, case A never achieved an international breakthrough and eventually was declared bankrupt. In the other cases, the negative experiences were ‘near-failures’ as they led to discontinuity in the internationalisation process but most of them were followed by re-entry to the same market or re-internationalisation to another market. In most cases, the failures were related to lack of market and/or customer knowledge, insufficient network competence and inability to read the market development and adapt accordingly.

Experiential learning from failures facilitated the case companies’ later international operations in many ways. They had learned to prepare and plan for a renewed market entry and how to overcome liability-of-outsidership with the help of local gatekeepers and other network connections.

Furthermore, they understood that successful presence in international markets requires continuous adaptation, uncertainty tolerance and successful management of mutually beneficial partnerships.

The *outcomes of discontinuities* in internationalisation varied case by case. Due to learning from ‘near-failures’ the case companies avoided repeating their mistakes but it also resulted in more notable changes of international operations. For example, the entrepreneur in case B decided to increase the

company's commitment to international operations by introducing joint ventures, company E recruited new complementary competences and company F invested in market intelligence and brand management. Even in the case A the learning outcomes materialised after the bankruptcy as the entrepreneur continued as a consultant to other SMEs, sharing his failure experiences with other entrepreneurs.

Table 2. Experiential learning and nonlinear internationalisation in the case companies

Case	Internationalisation propensity	Triggers for internationalisation	Failures related to internationalisation	Experiential learning	Outcomes
A	Technological knowledge	Innovation Peer support Institutional financial support Expansion of ownership base Economic recession and industries' over-cautious investments	No market breakthrough with the products based on its technology, no continuity of exports after first sales, trials and errors	Increasing knowledge on entry timing Selling products instead of know-how Creating credibility among customers Becoming less reliant on external funding	The firm went bankrupt Opening contact networks and sharing technological knowledge to peers
B	Technological knowledge	Market research Pressures from domestic clients	The first foreign customer closed down Not meeting market requirements	Investing in careful preplanning Accessing local market knowledge	Emphasis on joint ventures and collaboration Strengthening the export propensity

		Finding agents abroad Collaboration with domestic institutions	Passive agents Re-entry to a market Trial and error	Utilisation of business relationships abroad Creating direct collaboration relationships	
C	None	Contact from an export agent Fair abroad Economic recession A false order	Scattered clientele Failure of new export relationship, ending of old export relations Costs of the false order Coordination challenges of a joint export project Trials and errors	Adaptation to international trade Accumulation of cultural knowledge	Dependence on others' activities and language skills
D	Business, market and internationalization knowledge	Collapse of a main (foreign) market MBO Survival with outdated	Unsuccessful first entry followed by immediate de-internationalization, new re-entry, trial and	Team reflection on individual experiences Team commitment, delegation and internalization	Not repeating the same mistakes Staying alert after success Proper preparation

		technology/weak prospects	error in growing market share		
E	Technological and market knowledge	Innovative product technology and design Collaboration with a large domestic partner, piggybacking	False estimates on technology acceptance Bad timing Losing pioneer position Industry collapse	Continuous complementing of know-how Accommodation of environmental unpredictability	Hiring new talents for agility Not compromising creativeness for costs Coping skills Uncertainty tolerance
F	Technological knowledge	Saturation of domestic market Patented innovation, international concept	Fraud by foreign subsidiary CEO Damage to company brand and reputation Inability to find and commit trustworthy partners	Closely-knit co-learning with partners Building up authentic partner relations	Not scattering focus and resources Taking time for background research Brand management

5. Discussion

5.1 Learning from failure – what is learned and from whom?

Both literature and our in-depth cases demonstrate that experiential learning from failures is important to entrepreneurial internationalisation. All the case companies possessed some congenital knowledge, although the amount of internationalization knowledge varied considerably. We could also identify vicarious learning from the experiences of other firms and learning from both positive and negative experiences (Figure 1).

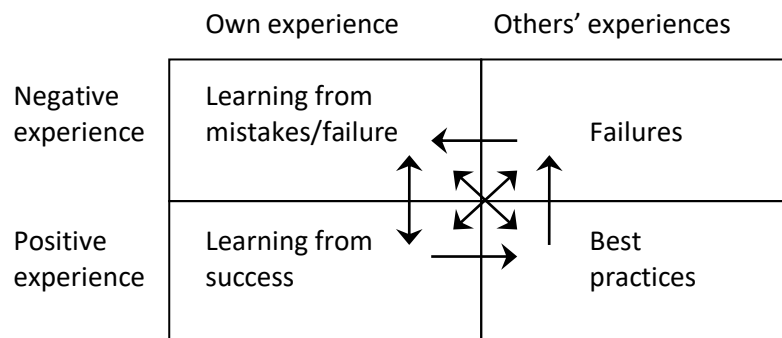


Figure 1. Sources and types of experiences in experiential learning

The entrepreneur of case A learned from his own mistakes: he understood that successful internationalisation required the development of both personal and organisational capabilities. Instead of investing heavily in R&D, sales and nurturing of business relationships required time and resources. Unfortunately, for him the learning came too late - the company was declared bankrupt before achieving its internationalisation related objectives. In a similar way, entrepreneur C learned about cultural differences and business ethics through negative experiences with her Italian and Russian

partners. However, she seemed not to be able to benefit from these experiences, instead they discouraged her to continue international operations in any market. Also entrepreneur B learned from his own mistakes, particularly related to collaboration with foreign partners. However, contrary to case A and C, he was able to self-reflect the negative experiences and apply the learning outcomes in future partnerships.

In our cross-case analysis we noticed a significant difference between the cases led by single entrepreneurs and entrepreneurial teams. While the single entrepreneurs had few possibilities to ponder their experiences with anyone, the entrepreneurial teams discussed, reflected and synthesised their learning and therefore the outcome of the experiential learning did not remain on the individual-level but it was internalised and became a part of the company's knowledge base. The team-led case firms were also able to benefit from vicarious learning both from positive and negative experiences. The top management of company D learned from a strategic failure of a foreign competitor and company F partnered with Nokia and benefited from its successful international expansion. This does not mean that the entrepreneurial teams would not learn from their own mistakes - for example, the entrepreneurs in case F paid a high price for the criminal activities of their Polish partner and were able to utilise this knowledge in later international activities.

Our findings also indicate that the type of collected experience matters. From the viewpoint of internationalisation, negative experiences, such as failures and especially 'near-failures', are more powerful as they trigger a need to learn and refresh operations and routines. This finding is in line with Levinthal and March (1981) who highlight the importance of "motivation to alter knowledge". Then again, positive experiences have such an effect less frequently. In fact, positive experiences may have negative implications, as they may lead to tunnel vision - fear of not changing the 'winning solution' - decreasing push for renewal and increased risk aversion. In the long run, however, experiential learning in entrepreneurial internationalisation consists of a combination of positive and negative experiences.

Furthermore, experiential learning is a cyclical process in which the different types of experiences are combined. One type of experience leads to an opportunity to learn, which can boost another type of experience and learning. Thus, learning from near-failures can result in positive experiences and success and in the end to the creation of best practices. These best practices may be imitated by others but more in-depth learning requires analysis, absorption and reflection of the learned, in most cases leading to refreshed operations.

5.2 Learning from failure – how does it happen?

Nonlinear internationalisation and entrepreneurial failure are interconnected. The critical link in-between are the near-failures which can be labelled as ‘learning events’. Figure 2 offers one illustration of how experiences from internationalization events, such as successes or failures, can impact later company behavior. In the figure, experiences from successes and failures can lead to different consequences depending on how the people in the firms are inclined to learn from them and able to internalize the learned content. If learning takes place and the consequences of experiential learning are internalized to the company, they increase the company's internationalization knowledge base and help to develop the business, thus leading to a learning spiral that supports the company to progress its internationalization. On the other hand, if learning is inhibited, for example by denial of need to learn or dismissal of the event, or the learned content is not internalized and it thus remains unused, the learning spiral is not fuelled and the internationalization experience does not lead to further internationalization.

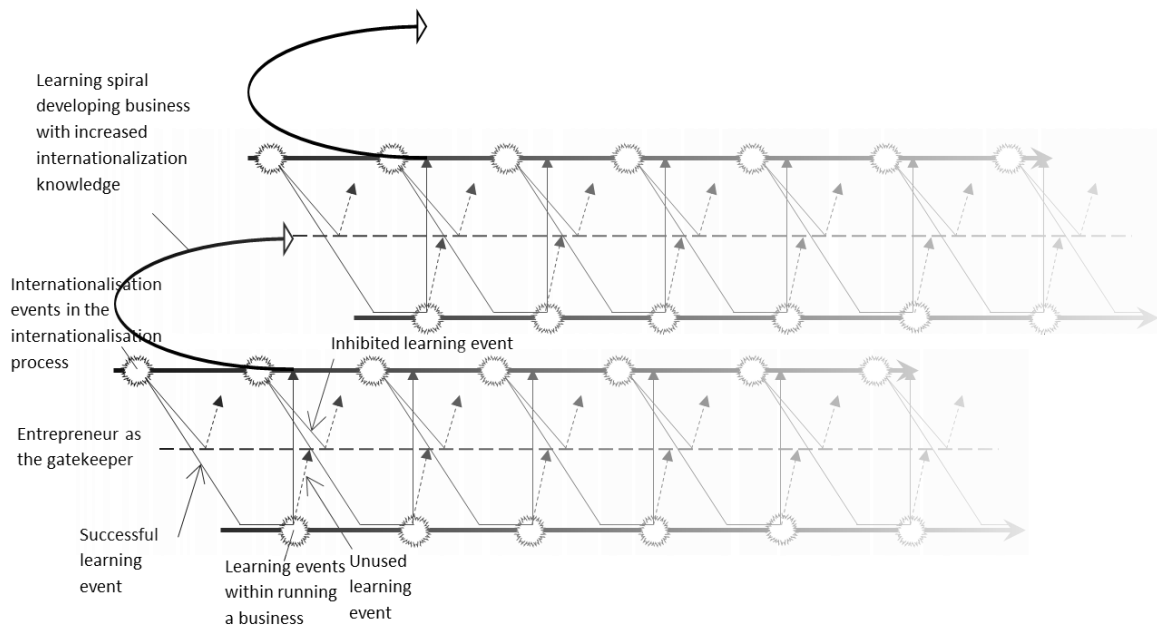


Figure 2. Learning from failure during entrepreneurial internationalisation

The figure also brings forward the entrepreneurs as gatekeepers of learning. Our cases pointed out that there are also barriers to experiential learning from failure. The benefits from failure experiences depend on the decision-makers' personal capabilities, including absorptive capacity and prior knowledge. In case the entrepreneur already had prior related knowledge on international operations, it was easier to add and absorb new knowledge. Again, companies led by a single entrepreneur and an entrepreneurial team differ as the first ones lack 'a reflective bouncing board' for their learning experiences.

The processual nature of Figure 2 stresses also the interconnectedness of the events and the temporal dimension of the process. Learning does not necessarily happen at the time of the critical event but later, when a new event occurs and the gained experience is challenged and re-evaluated. Consequently, learning from failure can be evaluated afterwards based on its impact on the internationalisation process.

6. Conclusions

This study develops the internationalization process theory towards an explanation of how entrepreneurial firms learn from failure and how it is reflected in their internationalisation process. Our aim was to provide a conceptual, theory-based explanation of the phenomenon.

To start with, we want to offer *a more nuanced view of learning from failure in the context of nonlinear entrepreneurial internationalisation*. Learning is a relative concept that can be described through different dimensions, whether the learning is based on positive or negative experiences (Figure 3). When the experience originates from failures or mistakes, the entrepreneur may blame the external events for the misfortune and react quickly to assure the survival and performance of the firm. This kind of activity often has only short-term effects on learning. The same phenomenon may be present, when entrepreneurs ‘blindly’ imitate other companies and their ‘best practice’ strategies without analysing their suitability for their business, or when they copy their own earlier success recipe in other contexts without any updates or modifications. When a firm is in the negative cycle, the need for learning is perceived, but there are no longer resources to dedicate to it, leading the firm to making reactive, fast decisions with minor analytical thinking, just focusing on recovering or surviving. In the optimal case, the entrepreneur and the firm learn from failures in a way which leads to sustainable changes in the company (the arrow in Figure 3). On the other hand, success does not self-evidently result in positive and sustainable changes in behaviour, but may boost false optimism and overconfidence. Further, when the firm is in a positive flow and the business is doing seemingly well, entrepreneurs do not necessarily see any need for learning. Roots of success are mistakenly seen to originate solely from the firm, although more often they result from a good match of internal and external factors. Thus, entrepreneurial businesses should strive for a learning culture in which failures are seen as sources of future success.

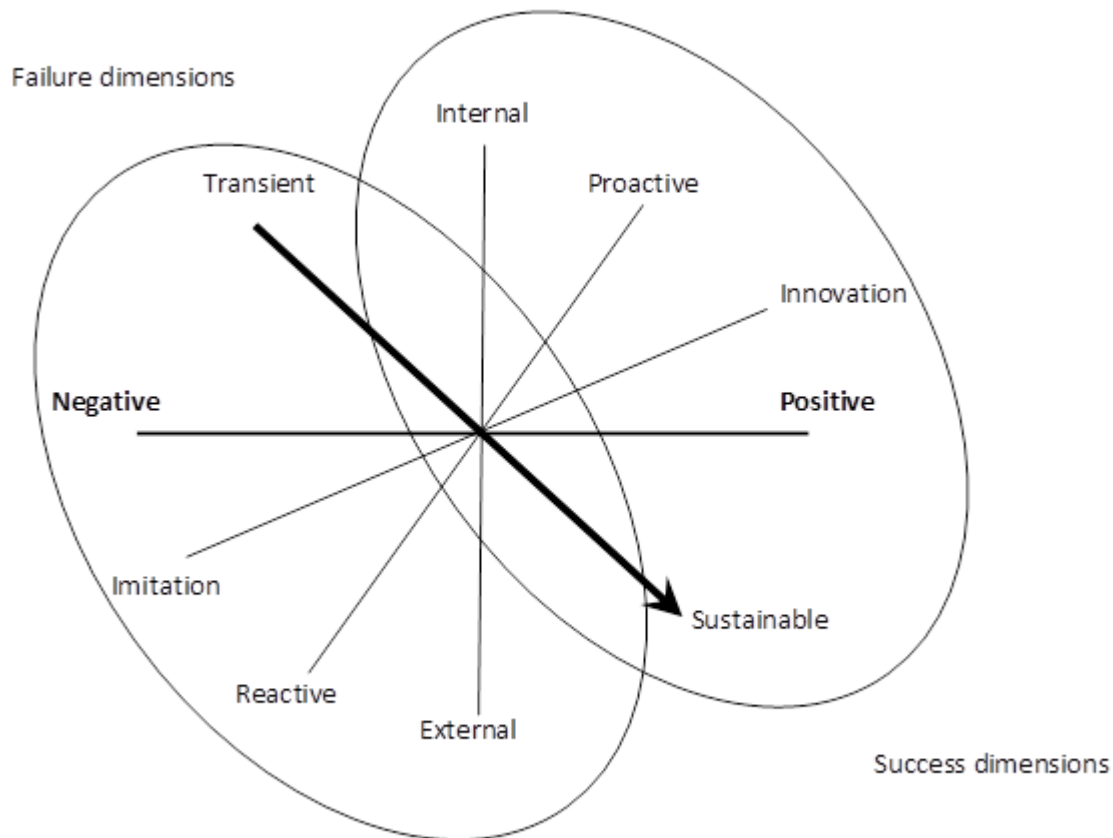


Figure 3. Learning-related dimensions of failure in nonlinear internationalisation

A failure may be a shock for an entrepreneur, and it may take time to analyse the causes and consequences of such an event rationally. Therefore, learning from failures requires an extended time frame and it may continue long after the event. The smaller the enterprise, the more the mistakes are personalised on the entrepreneur themselves. The benefit from the failure experience may sometimes not be transferable to re-entry, but to be used when entering some other market or establishing another business.

Additionally, we suggest a *cyclic dynamic model on the interaction between nonlinear internationalization and experiential learning*, building on the re-internationalization process model by Welch & Welch (2009) and de- and re-internationalization cycles model by Kafouros et al. (2021). In figure 4 the internationalization propensity and discontinuity of internationalization represent epochs, and the exit and re-entry triggers and processes represent events within the internationalization process that operate as the sources and bases of learning. The entrepreneurial experiential learning

process that progresses alongside the nonlinear internationalization process can support the turning of near-failure experiences into learning consequences and internalization of knowledge inputs furthering internationalization. On the other hand, if the learning is not allowed to progress by the individuals and teams, discontinuity remains the status quo of internationalization. The model depicts alternative internationalization pathways of success, near-failure and failure and offers different dynamics explaining them. The model also illustrates feedback loops of experiential learning with features either fuelling or inhibiting the process.

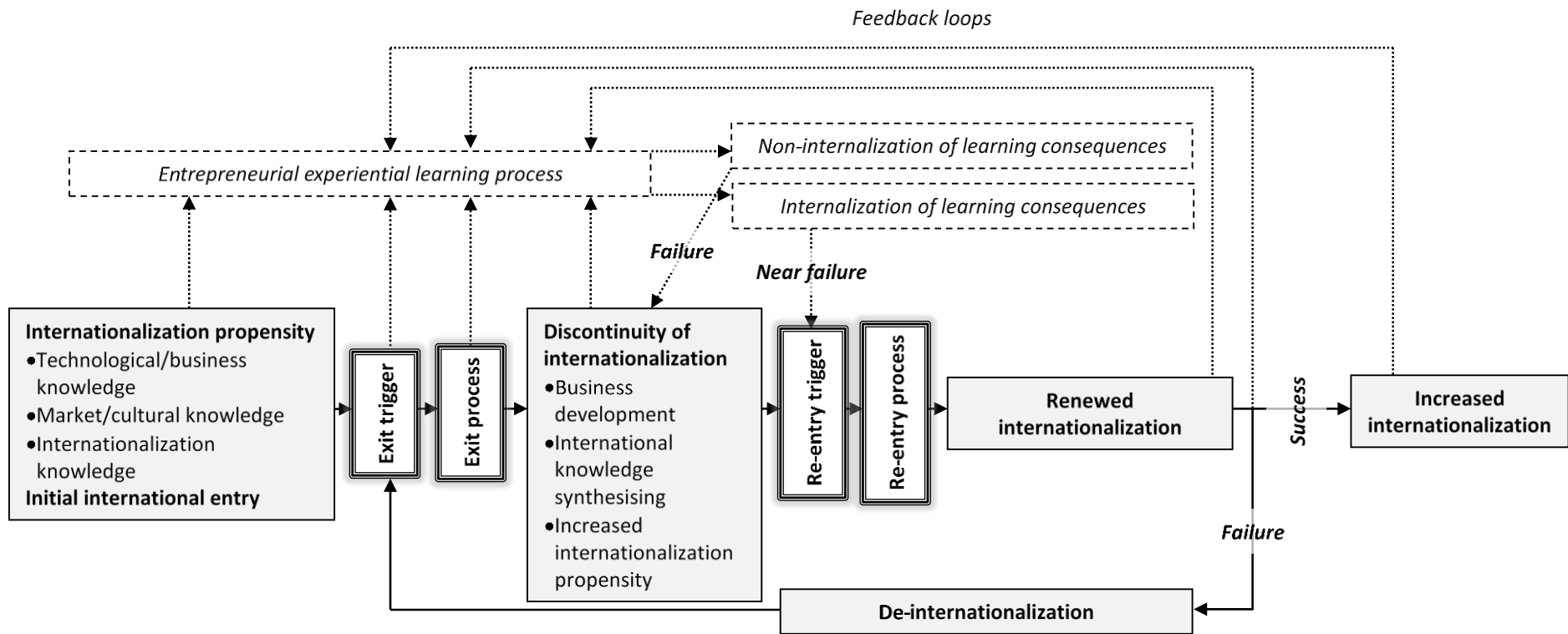


Figure 4. Dynamic model of learning in nonlinear internationalization

Our study offers multiple contributions. To start with, it offers a redefinition of failure in the context of entrepreneurial nonlinear internationalisation. It stresses the significance of ‘near-failures’, i.e. experiences of firms almost failing, and presents them as the main experiential learning in nonlinear internationalisation. Furthermore, building on earlier research on experiential learning in internationalisation, we propose a conceptual, theory-based cyclical model of entrepreneurial nonlinear internationalization which highlights the role of learning from failures. Concluding, our study contributes to International Business with several novel insights (Table 3).

Table 3. Contributions of this study

	<i>Past literature</i>	<i>Insights from our study</i>
<i>Non-linear internationalisation</i>	Mainly event-based description, de-internationalisation & re-internationalisation as separate concepts, models depicting linear progression	”Connecting the dots”, linking the epochs de- and re-internationalisation with a conceptual, theory-based explanation, model depicting a cyclical dynamic with feedback loops
<i>Failure in entrepreneurial internationalisation</i>	Categorical understanding: outcome is either failure or success, failure is typically considered as an exit (the story ends)	We demonstrate that instead of a dichotomy it is a question of continuum; between failure and success exists a grey area: near-failure which is an important explanatory factor for nonlinear internationalisation

<i>Learning in entrepreneurial internationalisation</i>	Earlier research on experiential learning identifies different sources of experience and learning and various types of knowledge, less interest in the learning process – how learning happens	Cyclical learning process, learning from different types of experience, failure-related dimensions of learning, motivation to learn
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