



The overlooked distinction of multinational enterprise subsidiary learning: Its managerial and entrepreneurial learning modes



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ABSTRACT

The theme concerning modes of learning in multinational subsidiaries is the focus of enquiry in the current study. This theme is closely linked to the issue of how subsidiaries become alert and seize opportunities. Such an investigation is also important for management practice because effective subsidiary learning can render sustainable competitive advantage in the host country. We performed an in-depth case examination on six multinational subsidiaries of a large Finnish firm. We identify two learning modes of multinational subsidiaries that we refer to as managerial and entrepreneurial learning. We find that managerial learning shares characteristics with the systems-structural learning perspective; is facilitated by embeddedness of the subsidiary in the MNE system; and, transferred in the MNE through many conventional and reverse knowledge flows. On the contrary, entrepreneurial learning shares characteristics with the interpretive learning perspective; is facilitated by embeddedness of the subsidiary in the host country; and, transferred in the MNE through relatively fewer reverse knowledge flows. The distinction between these two learning modes and their discrete characteristics enlighten past research that has largely failed to pinpoint the importance of the two modes for MNE subsidiary activities.

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1. Introduction

In this article, we investigate the learning modes of the multinational enterprise (MNE) subsidiary at the host country level. Learning is an inherent function of organizations that are perceived to be cognitive enterprises (Deshpande & Webster, 1989) and “bodies of thought” (Weick, 1979). The possession of asymmetric market learning can provide a source of competitive advantage to the organization concerned (Dickson, 1992). This holds also for the internationalized firm as learning affects considerably its growth and performance (Lord & Ranft, 1999). The learning theme is additionally linked to the issue of entrepreneurial opportunity since “[entrepreneurial] knowledge is the alertness leading to the discovery of opportunities” (Minniti & Bygrave, 2001: p. 7). Cultivation of this knowledge may enhance performance of the internationalized firm (Oviatt & McDougall, 2005).

However, while international entrepreneurship studies have experienced a dramatic increase (Jones, Coviello, & Tang, 2011), the

role of learning in the relevant literature has received relatively minor attention (Oviatt & McDougall, 2005). Few studies in this field provide insights into how firms acquire knowledge regarding foreign customers, partners, institutions and the *modus operandi* of doing business abroad. These scant insights refer mainly to international new ventures, which are those small firms that internationalize their activities from inception. In contrast, our knowledge into how subsidiaries of large MNEs learn in their host markets is very limited. Bartlett and Ghoshal (1989) suggest that the chief justification for the existence of MNEs is to capitalize on and take full advantage of learning in host markets. Nonetheless, it is also acknowledged that learning in MNEs can be inefficient (Gupta & Govindarajan, 1991; Von Hippel, 1994). How learning can feed into the organization in order to be converted into behavior of the internationalized firm is an issue of fundamental interest in international business (Forsgren, 2002).

The organizational learning theory would suggest that MNE subsidiaries in their efforts to act upon opportunities in their host markets may be involved in modes of learning such as exploitation and exploration (March, 1991). But, if this occurs, no considerable effort has been devoted to investigating the characteristics of these modes; and, how they can generate effective learning to the MNE subsidiary. Apart from its value to researchers, this neglected

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theme of dissimilar learning modes in MNE subsidiaries has also considerable managerial importance; inasmuch as subsidiaries that learn better than their competitors regarding the changing host marketplaces are likely to attain a sustainable competitive advantage (Özsoyner & Gençtürk, 2003). Hence, the MNE subsidiary would be able to develop those routines and systems that can provide it with effective learning concerning its host market.

Consequently, there are two research objectives in the current study: first, to examine the learning modes in MNE subsidiaries at the host market level in order to acquire evidence on their features, similarities and differences; and, second, to investigate the facilitating contextual mechanisms of these learning modes. The present research seeks to provide empirical evidence through an in-depth case study of six subsidiaries of a large MNE.

This article is structured as follows. In the second section, we provide a review of learning as this is examined in the studies that investigate MNE subsidiaries in particular; and, in the international entrepreneurship, entrepreneurship and international business fields. In the third section, we discuss the rationale behind the choice of the in-depth case study and related methodological aspects. In the fourth section, we explore the findings of this study linked to the research objectives and advance related propositions. In the concluding section, we provide implications for research and management, and suggest future research directions.

2. Research background

Organizational learning is the experiential production and reproduction of organizational rules, which guide behavioral change (Kieser, Beck, & Tainio, 2001; Levitt & March, 1988). Hence, learning can be viewed to be the ongoing process of acquiring and interpreting information, which leads to creation of new knowledge for the organization (Galunic & Rodan, 1998; Huber, 1991). Organizational learning can be of exploitative or explorative nature (March, 1991). Exploitation seeks to refine and incrementally extend existing competences, technologies and paradigms. Its results are typically positive, proximate and foreseeable. Nonetheless, exploration seeks to experiment with new skills, processes and alternatives. Its returns can be negative, distant and uncertain. In a related vein, Fiol and Lyles (1985) distinguish between lower- and higher-order learning. The former is focused and may be repetition of previous behaviors; but the latter concerns the development of complex rules and the association related to new actions (Chiva & Alegre, 2010).

2.1. MNE subsidiaries and learning

There are some published works that explicitly deal with MNE subsidiary learning. Özsoyner and Gençtürk's (2003) study refers to subsidiary learning at the host market level. These authors argue in favor of two "market-learning capabilities" of subsidiaries in their host countries, notably exploitation and exploration. Özsoyner and Gençtürk (2003) assert that these two capabilities may be affected differently by a wide range of resources associated with the subsidiary, the parent company and the subsidiary-parent relational resources.

There are also other works that identify variables that can facilitate MNE subsidiary learning. In Engelhard and Nägele's (2003) article, the authors identify the sources of learning, deficiencies in management skills and barriers to learning within MNEs operating in Russia. Based on a human resources management approach, the evidence from their research suggests that expatriates and Russian employees may account for different learning obstacles as far as subsidiary activities are concerned. In Gómez's (2004) study, the variables that are likely to ease MNE subsidiary learning are subsidiary-specific factors and host

environmental factors. In Saka-Helmhout's research (2007), these variables are MNE-specific factors, subsidiary-specific factors and the institutional context of the host market. The findings of both these two last works agree in that the environmental context of the host country may support the development of learning practices. Saka-Helmhout (2009, 2011) further stresses the consequential role of human agency in MNE learning. Particularly in her (2011) contribution, Saka-Helmhout shows that management actively participates in two-way knowledge flows between the headquarters and its subsidiaries in a transnational MNE structure.

In accord with the evidence provided by Özsoyner and Gençtürk (2003), the findings of the studies by Engelhard and Nägele (2003), and Saka-Helmhout (2007, 2011) attest to the existence of two learning modes, notably lower- and higher-level learning, which share characteristics with exploitation and exploration, accordingly. Moreover, the findings of these studies indicate that lower- and higher-level learning may not be present in all host countries of MNE subsidiary activities, implying that the specific institutional context of a given host market favors one mode of learning vs. another. On this last point, Saka-Helmhout and Geppert (2011) note that human agency can be affected by institutional dissimilarities between the MNE home and subsidiary host country contexts.

In addition, Schulz (2001) finds that the combination of old knowledge, which is primarily associated with exploitation, intensifies flows of knowledge across MNE subsidiaries; whereas the collection of new knowledge, which is primarily associated with exploration, intensifies flows of knowledge between the parent company and its MNE subsidiaries. Mu, Gnyawali, and Hatfield (2007) report evidence that subsidiary learning is likely to be influenced by both local embeddedness and subsidiary level management team heterogeneity, and entrepreneurial culture. In turn, these factors affect the outflow of knowledge from subsidiaries to the MNE system. Tregaskis (2003) finds that local MNE subsidiary networks generate new knowledge, which mainly concerns exploration. These local subsidiary networks are likely to form the basis of the subsidiary's innovative capabilities within the MNE. Tregaskis, Edwards, Edwards, Ferner, and Marginson (2010) suggest that subsidiaries with transnational social structures are more likely to be engaged in knowledge dissemination within MNEs. In a similar vein, Simonin and Özsoyner (2009a, 2009b) find that internal mechanisms and learning incentives positively affect market knowledge acquisition and dissemination in the subsidiaries, and knowledge transfer to the headquarters. Nonetheless, the notion that subsidiaries can be sources of knowledge for the entire MNE is still under-investigated as the recent literature review by Michailova and Mustafa (2012) suggests.

In short, prior literature on MNE subsidiary learning seemingly backs up the existence of two learning modes that are similar to exploitation and exploration. This literature additionally confirms a cultural specificity aspect of these modes in that their existence and intensity seemingly depend on the characteristics of the host market. Nonetheless, the particular features of the two modes are apparently not examined. Furthermore, our understanding with regard to the associations between learning modes seems non-existent. Therefore, we apparently are lacking evidence into how MNE subsidiaries acquire knowledge and identify opportunities in their host countries.

2.2. International entrepreneurship and learning

There is a dearth of studies associated with learning in the international entrepreneurship field, in which only some insights related to learning aspects of international new ventures are examined (Autio, Sapienza, & Almeida, 2000; Sapienza, DeClercq, &

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