



Resource allocations, knowledge network characteristics and entrepreneurial orientation of multinational corporations

Christopher Williams^{a,*}, Soo Hee Lee^{b,1,2}

^a Strategy and Marketing Section, Amsterdam Business School, Universiteit van Amsterdam, Plantage Muidergracht 12, 1018 TV Amsterdam, The Netherlands

^b Department of Management, Birkbeck College, University of London, Malet Street, London WC1E 7HX, United Kingdom

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ABSTRACT

This paper analyses entrepreneurial orientation (EO) in multinational corporations (MNCs) and develops a new typology of MNC EO based on combining R&D and asset growth investment intensities as orthogonal resource allocations. A cluster analysis of US MNCs on these two dimensions reveals three types of entrepreneurial stance: conservative, aggressive-asset growth and balanced. Internal knowledge network characteristics are shown to vary by stance, with more aggressive stances linked to knowledge governance supportive of the entrepreneurship process. In linking entrepreneurial orientation to the knowledge network of the MNC, this paper identifies factors important to the strategic management and on-going renewal of MNCs. In addition, the vector of R&D investment vs. asset growth investment is an indicator of entrepreneurial aggression and presents a new method of understanding the international strategies of MNCs.

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1. Introduction

Entrepreneurship is a process in which opportunities are identified, evaluated for commercial potential, and exploited in search of economic rent (Oviatt and McDougall, 2005; Shane and Venkataraman, 2000). Schumpeter (1934) took the view that economic development occurs when new combinations are carried out and discontinuous change is brought about as a result of this process. An important perspective that links this entrepreneurial process to the strategies of firms is that of entrepreneurial orientation (EO) (Covin, 1991; Fombrun and Ginsberg, 1990; Lumpkin and Dess, 1996; Miller and Friesen, 1982). According to this view, any firm can be positioned and characterized on a continuum ranging from 'passive' (or conservative) to 'aggressive' (or entrepreneurial). When a firm is 'aggressive', it inherently has the ingredients of innovation, pro-activeness and risk-taking present in its corporate strategy (Lumpkin and Dess, 1996; Wiklund, 1999) and it places a greater emphasis on opportunity identification, evaluation and exploitation than more passive firms.

Multinational corporations (MNCs) enjoy deep pockets that enable them to allocate resources to activities such as in-

house research and development (R&D) and corporate venturing (Burgelman, 1983; Burgelman and Sayles, 1986) as well as acquisitions, mergers, disposals and joint ventures (Hoskisson and Busenitz, 2002; Keil, 2002) on an international basis. This leads to the notion of a two-dimensional view of entrepreneurial orientation in the MNC based on dimensions of long-term technology development and shorter-term asset growth. This constitutes a space of possibilities in which a specific position represents a relative emphasis on attempts to identify, evaluate and exploit new opportunities in terms of both investment *orientation*, as well as an *intensity*, or overall level of 'aggressiveness'. Prior MNC researchers have neglected to open up the entrepreneurial orientation continuum in this way.

Given the importance of MNC entrepreneurship to the global economy and to the development of host countries, we propose a fresh look at entrepreneurial orientation in MNCs as a two dimensional space rather than a continuum, and suggest that organization characteristics matter to positioning in this space. A dominant view that has emerged over recent years treats MNCs as social communities and knowledge repositories that are more efficient at internal knowledge transfer than markets (Gupta and Govindarajan, 2000; Kogut and Zander, 1993). Drawing principally on the knowledge-based view of the MNC (Gupta and Govindarajan, 2000; Kogut and Zander, 1993), and supported by theories of internationalization through incremental market commitment (Johanson and Vahlne, 1977, 1990) and upper-echelons theory (Hambrick and Mason, 1984), we propose that the most salient organizational characteristics to influence MNC entrepreneurial orientation relate to internal

* Corresponding author. Tel.: +31 20 525 7385; fax: +31 20 525 4182.

E-mail addresses: c.williams@uva.nl (C. Williams), s.lee@bbk.ac.uk (S.H. Lee).

¹ Tel.: +44 20 7631 6771; fax: +44 20 7631 6769.

² Visiting at: Graduate School of Culture Technology, KAIST, 373-1, Guseong-dong, Yuseong-gu, Daejeon-si, Korea.

knowledge network and firm governance underpinning the process of entrepreneurship.

The paper is structured as follows. Firstly, a typology of MNC entrepreneurial orientation and a model of the determinants of MNC entrepreneurial intensity are developed (Sections 2 and 3). Secondly, the method used to test these models is described (Section 4). Thirdly, the findings are presented and implications for theory, practice and future research are discussed (Sections 5 and 6). The current research contributes to the field of study of MNC entrepreneurship, as well as to the knowledge-based view of the MNC, by demonstrating how organizational factors conducive to efficient knowledge coordination enable the viability of R&D and asset-growth strategies.

2. Entrepreneurial orientation in MNCs

Entrepreneurship is a process that enables firms to gain economic rents by identifying opportunities, evaluating and selecting the ones with the highest potential, and then putting in place exploitation strategies aimed at commercialization and maximizing value (Oviatt and McDougall, 2005; Shane and Venkataraman, 2000). Firms that emphasize this process as part of their corporate strategies tend to be more associated with innovation, proactiveness and risk-taking than those that do not (Lumpkin and Dess, 1996; Miller, 1983; Wiklund, 1999; Zahra and Covin, 1995). Entrepreneurship in this sense is used by large established firms to create opportunities for growth and competitiveness in much the same way that it can be used by individuals and small firms (Knight, 1997; Meyer and Heppard, 2000; Stopford and Baden-Fuller, 1994; Wiklund, 1999).

The strategic emphasis placed on entrepreneurship by a firm can be assessed in terms of its orientation, or stance, on a passive–aggressive continuum, i.e., in terms of its relative aggressiveness, or entrepreneurial orientation (EO). According to Fombrun and Ginsberg (1990, p. 298): “aggressiveness involves: (1) the *depth* of the resource commitment, and (2) the *riskiness* associated with resource allocations designed to achieve innovation and improve market share”. The decision to be ‘aggressive’ rather than ‘passive’ is a critical component of strategy, as set by the top management team (Hiitt et al., 2001; Knight, 1997). Fombrun and Ginsberg (1990) conducted a longitudinal study of two types of opposing forces (inertial and inductive) on corporate aggressiveness, showing how “differential aggressiveness may explain why some firms move more quickly into new niches and regularly develop first-mover advantages” (Fombrun and Ginsberg, 1990, p. 298). Various authors (e.g., Covin, 1991; Fombrun and Ginsberg, 1990) have related earlier strategic typologies (e.g., Miles and Snow, 1978; Mintzberg, 1978) to corporate aggressiveness as a variable on a notional continuum. Hambrick (1983) empirically tested the Miles and Snow (1978) typology of firm strategy, showing how prospectors, in emphasizing R&D and product development, could be considered more aggressive than defenders.

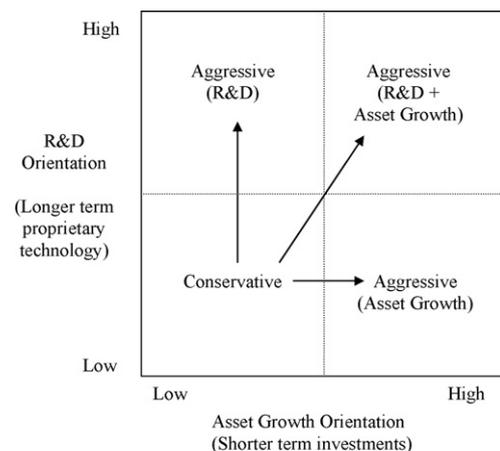
One way of pursuing entrepreneurship in an MNC is by using the international network of resources already under the hierarchical control of the firm. Often labelled Internal Corporate Venturing (ICV) in the literature (e.g., Burgelman, 1983; Burgelman and Sayles, 1986), this requires the allocation of venture managers and sponsors to new opportunities and stresses the importance of large scale entry into, and continued commitment for, new ventures. In Burgelman’s (1983) analysis, a first-line supervisor or group leader in a corporate R&D department was the key individual in the identification of a new business opportunity. Change was brought about because dispersed employees of the firm were encouraged to make discoveries that had commercial potential.

Another way for an MNC to pursue entrepreneurship is for it to exploit its deep pockets in ways that smaller firms cannot.

This means taking advantage of investment opportunities other than internal R&D, and pursuing what Penrose (1959) referred to as the task of “empire-building” entrepreneurs. Examples include acquiring other firms, investing in joint ventures and taking equity stakes in risky ventures, purchasing new equipment to give existing production activities new capability, or indeed the spin-off of units previously set-up as the result of internal venture (Keil, 2002; MacMillan et al., 1986). Collaborating with other firms overseas can act to augment R&D investment as a way of improving international performance (Tomiura, 2007). Acquiring technology is possible because of the external market for technology and may actually make sense in cases where the technology to lower production costs is mature and available (Van Rooij, 2005). Taking advantage of investment opportunities in this way requires the firm to look away from its existing set of assets, resources and capabilities at where it can invest (or divest) to identify new opportunities for growth.

Consequently, the notion of entrepreneurial orientation can be applied in two specific directions in an MNC. The first of these is R&D-specific, emphasizing proprietary technology development over the long-term. The second is a more external direction that emphasizes asset growth through investment in the short-term (Miles and Covin, 2002; Roberts and Berry, 1985). On either dimension, the same generic process of entrepreneurship applies: opportunities may be identified, they need to be evaluated, the most promising ones will be selected for investment and an exploitation strategy will be implemented. Activities in both directions are therefore subject to risk, may take the MNC in new directions and may be pursued ahead of competitors in an aggressive manner in order to win advantage. This two dimensional entrepreneurial orientation space is shown in Fig. 1.

Using the Fombrun and Ginsberg (1990) terminology, *Conservative* MNCs within this typology emphasize a lower resource commitment to developing new opportunities and are more risk averse in how they allocate resources to R&D and asset growth. In this stance, whilst knowledge of new opportunities for possible exploitation is not altogether redundant, it is not as strategically important as it is in more aggressive stances. *Aggressive (R&D)* MNCs will have a greater depth of R&D resource commitment and take on greater risk when allocating resources to the process of opportunity identification, evaluation and exploitation. In this stance, knowledge of new opportunities for exploitation is more likely to be developed using the existing R&D network. *Aggressive (Asset Growth)* MNCs will emphasize a greater resource commitment to external opportunities for gaining competitive advantage



*Arrows denote increasing risk and depth of resource allocation to entrepreneurship

Fig. 1. An MNC entrepreneurial orientation typology based on resource allocations.

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