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# A Missing Operationalization: Entrepreneurial Competencies in Multinational Enterprise Subsidiaries

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We seek to provide a comprehensive operationalization of firm-specific variables that constitute multinational enterprise subsidiary entrepreneurial competencies. Towards this objective, we bring together notions from the fields of entrepreneurship and international business. Drawing on an empirical study of 260 subsidiaries located in the UK, we propose a comprehensive set of scales encompassing innovativeness, risk-taking, proactiveness, learning, intra-multinational networking, extra-multinational networking and autonomy; which capture distinct subsidiary entrepreneurial competencies at the subsidiary level. Research and managerial implications are discussed.

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## Introduction

A source of competitive advantage for contemporary multinational enterprises (MNEs) is their ability to leverage distinct competencies of internationally dispersed subsidiaries. Much research under the modern stream of subsidiary development has focused on the different roles that subsidiaries can play within the MNE system, drawing on subsidiary-specific competencies (Rugman et al., 2011). Despite the existence of many studies espousing this heterarchical subsidiary-focused approach, there is still no clear understanding as to the development of distinctive competencies at the subsidiary level (Young and Tavares, 2004; Birkinshaw et al., 2005; Dimitratos and Jones, 2005). Despite its significance, the notion of subsidiary entrepreneurship, in terms of competencies that could contribute both to subsidiary- and MNE-level development, has largely been neglected in the relevant literature (Rugman and Verbeke, 2001; Paterson and Brock, 2002; Boojihawon et al., 2007). In order to advance research into the field of MNE subsidiary, we require robust constructs that would capture entrepreneurial competencies of those affiliates (cf. Brown et al., 2001; Dimitratos et al., 2012). In this article, we seek to provide such an operationalization of MNE subsidiary entrepreneurial competencies, which is still missing from the literature.

In spite of the importance of international entrepreneurship as a major stream of research, and the generally acknowledged presence of entrepreneurship in large and established organizations (Ahuja and Lampert, 2001; Rugman and Verbeke, 2001), study of MNEs and their subsidiaries in the international entrepreneurship field has received limited consideration (Young et al., 2003; Boojihawon et al., 2007). As subsidiaries pursue local opportunities likely to be exploited by the entire multinational system (Birkinshaw, 1997), subsidiary entrepreneurship may be beneficial not only for the individual subsidiary, but also for the entire MNE (Bartlett and Ghoshal, 1989; McEvily and Zaheer, 1999; Birkinshaw and Hood, 2001).

Which are the competencies of an entrepreneurial MNE subsidiary? Birkinshaw and his colleagues (Birkinshaw, 1997, 1999; Birkinshaw et al., 1998; Ambos et al., 2010) offer interesting insights into this theme through their work on subsidiary entrepreneurial initiative. Among others, these scholars find subsidiary initiative to be promoted by high levels of distinctive subsidiary competencies, and suppressed by high levels of decision centralization (Birkinshaw et al., 1998; Birkinshaw, 1999). In addition, only when subsidiaries evoke headquarters attention are they able to enhance their influence through initiatives (Ambos et al., 2010). Our study concurs with observations (Birkinshaw, 1997; Wright, 1999; Dess et al., 2003) suggesting that the subsidiary entrepreneurship theme deserves further investigation. It specifically seeks to address this gap through providing insights into entrepreneurship in the MNE subsidiary, and more specifically, into the subsidiary's distinctive entrepreneurial competencies by drawing on a literature review of studies in the fields of entrepreneurship and international business.

Instead of solely considering the three dimensions of innovativeness, risk taking, and proactiveness vis-à-vis competitors that studies have typically used to capture entrepreneurship (e.g., Covin and Slevin, 1991) and international entrepreneurship (e.g., McDougall and Oviatt, 2000), this article seeks to provide a holistic view of entrepreneurial subsidiary competencies. Analytically,

it seeks to identify MNE subsidiary-specific competencies and capture entrepreneurship as firm-level behaviour. Towards this objective, we provide evidence from a large-scale study on 260 MNE subsidiaries based in the UK. The research objective of this study is to identify and test a comprehensive set of scales that form distinct subsidiary entrepreneurial competencies through a factor analysis of the different constructs that have been proposed in the literature as depicting firm-level entrepreneurship. The findings of this analysis bring into light the multi-dimensional nature of the subsidiary entrepreneurship construct.

The remainder of this article is structured as follows. The next section develops the background to subsidiary entrepreneurial competencies based on the entrepreneurship and international business literatures. Then, the research methodology is discussed. Afterwards, the results and discussion from the data analysis follow. The implications for theory and management are reported in the final section.

## Research background

Drawing upon internalization theory, Buckley and Casson (2009) develop the notion of the “global factory”, within a global systems view of international business, with MNEs fine slicing their value adding activities regionally or globally. However, Rugman and Verbeke (2001) argue convincingly that this does not imply that each subsidiary performs a single well-defined role within the MNE; and, there is ample evidence of the perspective of the MNE as a differentiated network of dispersed operations, with a configuration of capabilities and competencies that cannot be controlled fully through hierarchical decisions taken by parent headquarters. This is clearly shown in the work of Narula and colleagues on R&D in a range of science- and technology-based sectors (Narula, 2002; Criscuolo and Narula, 2007; Narula and Santangelo, 2009). In a related vein, Birkinshaw and Pedersen (2009) support the notion that the subsidiary is a valid unit of analysis in its own right, and hence, it should be possible to unbundle resources and capabilities between the subsidiary and the MNE.

Cantwell and Mudambi (2005) distinguish between competence-exploiting subsidiaries and competence-creating subsidiaries (see also, Hedlund, 1986; Gupta and Govindarajan, 2000); and, Rugman and Verbeke (2001) define the characteristics of these competencies in terms of subsidiary specific advantages generated as a result of the affiliate’s autonomous activities. Rugman and Verbeke (2001) define subsidiary-specific advantages as idiosyncratic strengths developed by host country managers building upon host country specific advantages; and, Rugman et al. (2011) argue that these advantages result from a) combining knowledge transferred from the network with newly created knowledge; b) autonomous subsidiary roles; and, c) subsidiary knowledge embedded in idiosyncratic host country locations.

The current study extends Rugman and Verbeke’s (2001) work by introducing a specific form of subsidiary specific advantages, namely that of entrepreneurial competencies. These competencies can accommodate the entrepreneurial activities of the MNE internationally (Zahra, 2005). In MNEs, these competencies may include global vision and entrepreneurial multinational enterprise networking (Boojihawon et al., 2007); and, are purported to generate value to the stakeholders of the firm (Birkinshaw, 1997).

Following a dynamic capabilities perspective, entrepreneurial competencies in the present research are perceived to be the combination of activities and processes, which allow the firm to exploit opportunities and generate value (cf. Prahalad and Hamel, 1990; Stevenson and Jarillo, 1990; Teece et al., 1997). McDougall et al. (1994) and Autio et al. (2000) explain how firms can exploit their unique entrepreneurial competencies to expand into international markets; and Birkinshaw (2000, p. 8) develops the notion of subsidiary entrepreneurial initiative that refers to the “proactive and deliberate pursuit of a new business opportunity by a subsidiary company” designed to develop the subsidiary’s value-added scope (Birkinshaw et al., 1998).

MNE subsidiaries are distinctive from independent firms because of their status as “affiliates”, and hence, are subject to the ultimate control of their parent firms. Thus, their cross-border relationships with their parent corporation and other subsidiaries create very distinctive opportunities and challenges in developing entrepreneurial competencies. This is especially pertinent to the competencies of intra-MNE networking and autonomy, which as shown following, are unique to subsidiaries as opposed to independent firms. In addition, however, cross-border, intra-MNE relationships present greater complexities and challenges in the area of learning for MNE affiliates as opposed to independent firms.

Table 1 shows how different conceptualizations in the international business literature relate to the theme of subsidiary entrepreneurship. The emerging major aspects linked to subsidiary entrepreneurship encompass the MNE subsidiary activities, hence are linked to MNE affiliates rather than independent firms. These aspects of Table 1 were identified through an examination of the literature in the entrepreneurship and international business fields. Specifically, after researching relevant aspects of the entrepreneurship literature, the review of international business literature offered us insights on which of these variables can be salient to MNE subsidiary activities. This analysis rendered a content-analysis summary table (cf. Miles and Huberman, 1994), and Table 1 represents a refined version of it.

Entrepreneurial competencies derive from an entrepreneurial firm’s strategic orientation. Such an orientation is also linked to the exercise of entrepreneurial judgment in decision-making (Casson, 1982, 2005; Casson and Godley, 2007). This notion of “entrepreneurial orientation” comprises three distinct attitudinal dimensions, namely, innovativeness, risk-taking and proactiveness. The literature on entrepreneurial orientation is very extensive, having been referenced in 256 scholarly journal articles by the end of 2010. It is deemed by many scholars to be an aspect of corporate entrepreneurship (Covin and Lumpkin, 2011). Lumpkin and Dess (1996, p. 136) further distinguish between “entrepreneurship” and “entrepreneurial orientation”: “the essential act of entrepreneurship is new entry”; while “an entrepreneurial orientation refers to the processes, practices and decision-making activities that lead to a new entry.” This conceptualization of entrepreneurial orientation is thus compatible with the definition of entrepreneurial competencies as applied in this article. Entrepreneurial

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