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The dynamics of experiential learning: Microprocesses and adaptation in a professional service INV

Thorsten Bunz^{a,*}, Lucrezia Casulli^b, Marian V Jones^c, Andreas Bausch^a

^aStrategic and International Management, Justus Liebig University, Licher Strasse 62, 35394 Giessen, Germany

^bHunter Centre for Entrepreneurship, University of Strathclyde Business School, 199 Cathedral Street, Glasgow, G4 0QU, Scotland, UK

^cInternational Enterprise, Sheffield University Management School, Conduit Road, Sheffield, S10 1FL, England, UK

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ABSTRACT

In international new ventures (INVs), experiential learning happens in quick succession and across a wide number of diverse contexts. Yet, we lack an empirical understanding of the microprocesses through which INVs learn and adapt in their foreign expansion. Understanding those microprocesses is important because timely adaptation can save the venture time and resources, thus promoting sustainable growth. In this study, we investigate the dynamics of experiential learning and adaptation in the internationalisation process of an INV in the professional service sector. Findings from our study illustrate that the firm applies deliberate experiential learning by developing, revising, and finalising criteria for important dimensions in the international growth process, and adapts its internationalisation practices accordingly. We further show that deliberate experiential learning is predicated on an actively and closely monitored learning process, involving critical evaluation, adjustment of criteria, and acceptance of affordable mistakes, as opposed to learning by default.

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1. Introduction

International new ventures (INVs) enter foreign markets early and increase their international expansion rapidly (McDougall, Oviatt, & Shrader, 2003; Oviatt & McDougall, 1994). For INVs, the internationalisation process precipitates experiential learning in quick succession and across a wide number of diverse contexts. This offers an opportunity to implement learning from new streams of experience (Reuber & Fischer, 1997), which is vital to the INV's further sustainable international growth (Jones & Casulli, 2014; Prashantham & Young, 2011; Sapienza, Autio, George, & Zahra, 2006).

As well as an opportunity, rapid internationalisation presents a challenge to the firm's ability to learn and adapt quickly. Internationalisation is often a nonlinear process (Bell, McNaughton, & Young, 2001; Jones, 1999; Vissak & Francioni, 2013), and may include aborted efforts, multiple attempts to enter a market, and unplanned endeavours (Crick & Spence, 2005; Welch & Welch, 2009). The literature does not yet fully appreciate that a firm may make a number of false starts before establishing sustainable internationalisation practices. Despite the initial interest in this

topic, resulting in promising conceptual work, the dynamics of experiential learning during the INV's internationalisation are not well understood empirically and warrant further research (e.g., Casillas et al., 2009; Jones & Casulli, 2014; De Clercq, Sapienza, Yavuz, & Zhou, 2012; Prashantham & Young, 2011; Sleuwaegen & Onkelinx, 2014). Understanding those dynamics is important because setbacks are costly for the firm in terms of time spent, resources allocated, and the opportunity costs of pursuing other markets. Hence, a lack of appreciation of those dynamics may result in a poor understanding of the complexity of internationalisation, resulting in faulty academic and managerial implications.

In this study, we theorise on the dynamics of experiential learning and adaptation in the INV's internationalisation process through an in-depth exploratory study. We note that the nature of experiential learning from the ongoing internationalisation process and the subsequent adaptation of firm practices are inextricably linked to the empirical context under investigation. What is learnt and adapted, by whom, and for what purpose is likely to vary across different contexts (Welter, 2011; Zahra, 2007; Zahra & Wright, 2011).

In internationalisation, key differences exist between service and manufacturing firms (Bell, Crick, & Young, 2004; Erramilli & Rao, 1993). For this reason, we select the empirical context of a professional service firm (PSF) to start building a contextualised, nuanced appreciation of the dynamics for experiential learning

* Corresponding author.

E-mail address: thorsten.bunz@wirtschaft.uni-giessen.de.

and adaptation in the internationalisation process (cf. Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). The professional service sector is characterised by both low investments in fixed assets (Ball, Lindsay, & Rose, 2008; Boojihawon, 2007; Von Nordenflycht, 2010) and reliance on a highly-qualified workforce (Abdelzaher, 2012; Pinnington & Sandberg, 2014), both of which affect an INV's internationalisation. Low investments in fixed assets result in the fact that relocating activities in light of volatile environments is easier as these decisions are not affected by commitment constraints (Pla-Barber, Sanchez-Peinado, & Madhok, 2010). In other words, the sequence of the firm's behaviour during the internationalisation process can be considered a direct manifestation of its learning and adaptation, making this a suitable setting for investigation. Dependence on a highly-qualified workforce means that the professional activities depend on individuals with specific knowledge and competencies (Pinnington & Sandberg, 2014), and that specific competences have to be assigned to the specific demands of professional services (Greenwood, Li, Prakash, & Deephouse, 2005). Given this focal role of human capital in PSFs and the increasing complexity in selecting suitable personnel for cross-border assignments (e.g., Fish, Bhanugopan, & Cugin, 2011), we can presume that part of the experiential learning in the internationalisation process is about the requirement for human capital. Whilst at the macro level it is reasonable to assume that INVs in the PSFs sector learn through experience about how to select their staff, at the micro level we do not know what this process of experiential learning entails. Hence we ask: *How does an INV in the professional service sector learn, and adapt its human capital requirements during its internationalisation?*

We adopt an exploratory, qualitative methodology and purposefully select a single empirical setting (Ghauri, 2004; Patton, 1990; Siggelkow, 2007) that is fully representative of INVs in the professional service sector. That is, our case firm has internationally experienced founders with a global vision (McDougall, Shane, & Oviatt, 1994; Madsen & Servais, 1997; Reuber & Fischer, 1997) and internationalisation is rapid and extends across multiple regions globally (Coviello, McDougall, & Oviatt, 2011). This combination of factors is rare, and in such cases a single setting can have great potential for a nuanced exploration of context-specific practices that scholars can then pattern match to other contexts in the process of developing theory (Weick, 1995; Welch et al., 2011).

Our exploratory study shows how the PSF iterates through several phases involving developing, revising, and finalising its criteria for human capital requirements, which ultimately inform the adaptation of internationalisation practices. This paper offers a detailed picture of the microprocesses of experiential learning, involving establishing criteria against which situations are evaluated, taking stock frequently, being prepared to take action as well as being prepared to make mistakes and replace practices shown not to be viable. We also contribute to the PSF literature by illustrating the specific human capital requirements during the internationalisation process.

2. Theoretical background

2.1. Experiential knowledge and learning in INVs

INVs are known for having the attitude and managerial experience to enter markets across different global regions soon after inception (Coviello et al., 2011; McDougall et al., 1994; Oviatt & McDougall, 2005). Their expansion, however, is not necessarily sustainable as these firms may leverage their resources too optimistically (Sapienza et al., 2006). To this end, INVs rely on their ability to learn from their experiences and adapt their practices in the internationalisation process (Casillas et al., 2009; De Clercq

et al., 2012), that is, on their dynamic capability (Sapienza et al., 2006; Weerawardena, Mort, Liesch, & Knight, 2007). INVs offer an opportune setting for investigating experiential learning as ventures are suggested to implement effective learning from new streams of experience (Autio, Sapienza, & Almeida, 2000; Reuber and Fischer, 1997; Sapienza et al., 2006). However, their rapid internationalisation makes them more vulnerable to failure than firms following a slower, incremental internationalisation process (Johanson & Vahlne, 1977, 1990, 2009) where experiential knowledge is accumulated gradually over time (Eriksson, Johanson, Majkgard, & Sharma, 1997).

Previous research focuses on the impact of different domains of existing knowledge for an INV's international growth, such as marketing (Khavul, Peterson, Mullens, & Rasheed, 2010; Ripollés & Blesa, 2012; Zhou, Wu, & Barnes, 2012), networking (Coviello & Munro, 1997; Sharma & Blomstermo, 2003), or entrepreneurial knowledge (Karra, Phillips, & Tracey, 2008). Starting from the stance of existing knowledge as an antecedent to INV's internationalisation, these studies have addressed the processes through which specialised knowledge already possessed is deployed, as opposed to how it develops through the internationalisation process and through learning from the situations encountered (Johanson & Vahlne, 2009; Jones & Coviello, 2005). This is noted by scholars who call for a more dynamic perspective on how the process of experiential learning develops throughout the internationalisation process (Casillas et al., 2009; Prashantham & Young, 2011; Sleuwaegen & Onkelinx, 2014) to ensure the survival of the venture (Sapienza et al., 2006).

Key for the successful internationalisation of INVs is the deployment and development of internationalisation knowledge (e.g., Casillas et al., 2009; Fernhaber, McDougall-Covin, & Shepherd, 2009; Fletcher & Harris, 2012; Freeman, Hutchings, Lazaris, & Zyngier, 2010). Internationalisation knowledge provides the means to manage foreign operations, regardless of any specific market as it represents the firm's way to go international (Eriksson et al., 1997). Once the internationalisation process is underway for the firm, sources of knowledge other than the prior experience of the founder become increasingly important (Fernhaber et al., 2009). In this vein, one important source of new knowledge is experiential knowledge gained through the continuous engagement in foreign operations (Casillas et al., 2009; Fletcher & Harris, 2012). Still, the dynamics through which the firm integrates this experiential knowledge, learns, and adapts its practices have only been considered conceptually (Prashantham & Floyd, 2012), with empirical studies lacking and urgently required (Casillas et al., 2009).

2.2. Professional service firm characteristics and their implications for internationalisation

PSFs provide services that require the mastery of a particular expertise for solving client problems (Von Nordenflycht, 2010; Reihlen & Apel, 2007). These firms constitute a fast growing sector in the globalised economy and research on their internationalisation has recently gained momentum (Morgan & Quack, 2005; Muzio & Faulconbridge, 2013; Reihlen & Apel, 2007). Enabling forces for the internationalisation of PSFs include the ongoing integration of economies worldwide, the deregulation of domestic markets, and the increasing global exposure of multinational corporations, which have a proclivity towards outsourcing (e.g., Di Gregorio, Musteen, & Thomas, 2009; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Lu, Quester, Medlin, & Scholz, 2012).

PSFs differ from other firms in their knowledge intensity, their employment of a professionalised workforce, and their reliance on reputation for competence (Von Nordenflycht, 2010). Knowledge intensity links to the output of PSFs, which is heterogeneous, intangible, complex, and customised to client situations (Cloninger

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