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Managerial learning from social capital during internationalization

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ABSTRACT

This study explores managerial learning from social capital during internationalization. Its two research questions are these: (1) how different managers perceive, interpret, and respond to foreign-market institutions, and (2) how connections, relations, and cognition enhance managerial learning. Using an interpretive approach, the study analyzes patterns of internationalization and strategic decision-making in four contrasting Norwegian case companies that internationalize to the Russian oil and gas market. The findings show that the managers of the case companies hold similar perceptions about foreign-market institutions, but that they interpret and respond to those institutions from various levels of learning, resulting in different enactment on institutions. Managers learning at a "higher" level adapt patterns and decisions to ensure institutional conformity, while those at a "lower" level makes minor adjustments in patterns and behavior only when necessary and therefore maintain institutional conflict. Further, the findings show that all three dimensions of social capital have a vital role in enhancing managerial learning, but that the various forms that the dimensions can appear as, affects the learning process. Furthermore, the findings show that managers who share cognitive frame of reference with few embedded relationships are better equipped to interpret and respond to institutions. This study contributes fresh insight about managerial enactment on foreign-market institutions, and reconciles our understanding about social capital as embraced by the structural, relational, and cognitive dimensions. This study also contributes to a greater understanding about how the three dimensions of social capital ought to be formed to enhance managerial learning.

1. Introduction

Recent research about companies' internationalization process—-specifically, when managers face ambiguity and dissonance because of unfamiliar foreign-market institutions—has emphasized the relevance of managerial learning about institutions from one's social capital (e.g., Collins & Hitt, 2006; Dhanaraj, Lyles, & Steensma, 2004; Griffith, Zeybek, & O`Brien, 2001; Hau & Evangelista, 2007; Shi, Sun, Pinkham, & Peng, 2014). Here, "learning" deals with how managers acquire and assimilate knowledge about foreign-market institutions, as well as how managers perceive, interpret, and respond to institutions (Daft & Weick, 1984; Fiol, 1994; Huber, 1991). According to normative theory, this learning process can occur at a high or low level (Fiol & Lyles, 1985; Hedberg, 1981). At a "lower level," managers have no intention of making changes in their familiar behavior to confirm to expectations of institutions in the foreign market, and therefore maintain institutional conflict. At a "higher level," managers make profound changes in their behavior to expectations of foreign-market institutions, and therefore ensure institutional conformity.

Accordingly, many scholars have studied how the managerial learning process unfolds during internationalization to foreign markets with unfamiliar institutions and how social capital can foster learning (Lindstrand, Melèn, & Nordman, 2011; Nahapiet & Ghoshal, 1998; Presutti, Boari, & Fratocchi, 2007).

"Social capital" speaks to all resources, including knowledge about foreign-market institutions and insight about appropriate patterns of internationalization and strategic decision-making, that can be gained through rich social networking with relations in the foreign market and a shared cognitive frame of reference with these relations. Building on an early conceptualization of social capital by Nahapiet and Ghoshal (1998), scholars have created a growing literature about how managers invest in the structural, relational, and cognitive dimensions of social capital, and in what form these dimensions should appear to enhance learning during internationalization (Lindstrand, Melèn, & Nordman, 2011; Presutti et al., 2007). But within this literature, many scholars tend to focus on only two of the three dimensions. For instance, whereas some scholars have studied just the structural and relational dimensions (Moran, 2005; Koka & Prescott, 2002; Rowley, Behrens, & Krackhardt, 2000; Yli-Renko, Autio & Tontti, 2002), others have studied just the relational and cognitive ones (Coeurderoy, Cowling, Licht, & Murray, 2012; Eriksson & Chetty, 2003; Lane, Salk & Lyles, 2001).

The literature also offers us inconsistent findings about how the

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three dimensions of social capital ought to be formed to foster learning. There is no consensus yet on whether managers ought to build connections in the foreign market with links to governing bodies and authorities, or whether they ought instead to build bridges or bonds with key business managers in the foreign market to enhance learning (Jansson & Sandberg, 2008; Sanberg, 2014; Shi et al., 2014). Further, there is conflicting evidence as to whether learning is enhanced through arms-length relations or, instead, through embedded relationships with the managers' connections in the foreign market (Dhanaraj et al., 2004; Griffith et al., 2001; Hau & Evangelista, 2007). Finally, the studies also disagree as to whether managers ought to ensure cognitive resonance toward foreign-market institutions, where managers' interpretation and response to institutions are in line with the cognitive frame of reference of their connections in the foreign market (Minbaeva, Pedersen, Bjôrkman, Fey, & Park, 2002; Zahra & Hayton, 2008; Wu & Voss, 2015). Or whether managers can maintain cognitive dissonance, so that their interpretation and response toward institutions are rooted in their familiar cognitive frame of reference embedded in their home market.

Given all this inconsistency, there is a need to reconcile a proper conceptualization of the three dimensions of social capital, and also to clarify the appropriate forms of those dimensions so as to best foster managerial learning during internationalization (Adler & Kwon, 2002; Koka & Prescott, 2002).

Studies on this topic have also mainly addressed how managers acquire and assimilate knowledge about foreign-market institutions, but provide few insights into exactly how they interpret and respond to that knowledge. Therefore, we need to enhance our understanding of how knowledge turns into active learning—that is, when managers actually change patterns of internationalization and adapt strategic decisions to ensure institutional conformity (Dimitratos, Plakoyiannaki, Thanos, & Förbom, 2014; Engelhard & Nägele, 2003; Hau & Evangelista, 2007; Mu, Gnyawali, & Hatfield, 2007; Saka-Helmhout, 2007).

I aim here to provide a better understanding of how the managerial learning process unfolds during internationalization when challenged by foreign-market institutions and how managers' investment in social capital can enhance learning. More specifically, I will explore two research questions: (1) how different managers perceive, interpret, and respond to foreign-market institutions, and (2) how connections, relations, and cognition enhance managerial learning. My analysis is based on two theoretical perspectives. First, I investigate the managerial learning process by analyzing how different managers perceive, interpret, and respond (Daft & Weick, 1984; Fiol, 1994; Hedberg, 1981; Huber, 1991) to foreign-market institutions, and whether this learning process occurs at a "higher" or "lower" level of learning as this directs different enactment toward foreign institutions (Hedberg, 1981; Fiol & Lyles, 1985). Second, I investigate how social capital can foster learning by analyzing how the constellation of the structural (Burt, 1992; Granovetter, 1973; Gittell & Vidal, 1998), relational (Polanyi, 1966; Powell, 1990; Ussi, 1997), and cognitive (Berger & Luckmann, 1966; Bruner, 1991; Bruner, 1998; Pondy & Mitroff, 1979) dimensions of social capital has been formed, as this directs different opportunities for learning about foreign-market institutions (Burt, 1992; Granovetter, 1992; Nahapiet & Ghoshal, 1998; Putnam, 1995).

Using an interpretive approach, I have studied managerial learning from social capital in four contrasting cases. Each case focuses, in turn, on the internationalization process lead by a manager of some Norwegian company that invests in the Russian market. Thus, investigating managers that faces all the challenges of dealing with unfamiliar institutions and business culture, with their dauntingly alien norms (Bourmistrov & Mineev, 2010; Ghauri & Holstius, 1996; Hilmersson & Jansson, 2012; Katsioloudes & Isichenko, 2007). What these four cases have in common is that each is a Norwegian supply company that has established a foreign subsidiary in the Russian oil and gas market.

Overall, my findings contribute to the research literature on managerial learning from social capital during internationalization (Lindstrand, Melèn, & Nordman 2011; Nahapiet & Ghoshal, 1998; Presutti et al., 2007). Specifically, I offer fresh insight into managerial enactment on perceptions on foreign-market institutions, for previous studies mainly focus on how managers acquire knowledge about institutions, meanwhile largely ignoring how they interpret and respond to the knowledge they have acquired. Second, I reconcile an understanding about social capital as consisting of the structural, relational, and cognitive dimensions, as most previous studies focus on only two of these dimensions. Third, I further develop our understanding of what forms these three dimensions ought to appear to enhance managerial learning during internationalization, as previous studies offer divergent findings about appropriate forms of the dimensions.

In what follows, I will offer a conceptual framework about organizational learning during internationalization and how learning can occur from all three dimensions of social capital. I will then lay out my research methodology, followed by empirical findings that are presented in the form of descriptive narratives. Next, I will discuss my findings as they relate to the state of knowledge in the research literature. Finally, I will draw some conclusions from my main findings and outline some limitations of my study.

2. Theoretical background

The various beliefs and assumptions about prevailing regulative, normative, and cultural institutions in a market guide accepted principles for behavior (Scott, 2003). Institutional logic about accepted behavior is rooted in a market's history of culture, politics, and economy. As the history of markets differs, there are multiple logics about appropriate behavior, depending on the market in focus. When managers internationalize to markets based on different logics, they experience a distance between home and foreign-market institutions (Kostova, 1999; Kostova & Zaheer, 1999; Zaheer & Mosakowski, 1997). The greater the perception of "institutional distance," the more challenges managers encounter in making sense of ambiguity and dissonance about appropriate behavior. Institutional theory assumes that managers need to adapt and conform to the institutional context of a market to survive (DiMaggio & Meyer, 1983; Meyer & Rowan, 1977; Scott, 2003).

Here, I want to discuss how theories about organizational learning can help explain how managers act on perceptions about institutional distance to ensure conformity (Dimitratos et al., 2014; Hau & Evangelista, 2007; Mu et al., 2007), and how managers' social capital can foster learning during internationalization (Lindstrand, Melèn, & Nordman, 2011; Presutti et al., 2007; Yli-Renko, Autio, & Sapienza, 2001).

The theoretical assumptions underpinning this study depart from the idea that institutional logic in a market guides accepted principles of behavior, and that regulative, normative, and cognitive institutions in a market shape appropriate internationalization. When managers encounter unfamiliar foreign-market institutions during internationalization, they experience ambiguity and dissonance in appropriate behavior and patterns of internationalization. It therefore becomes important to learn about foreign-market institutions, to reduce ambiguity and dissonance, and to successfully enter and operate in a market with "distant institutions." But learning becomes challenging because of the unfamiliarity. In addition, I build on the idea that institutions are constructed in a social context, so that managers' connections, relations, and shared cognition in the foreign market can be a source to foster greater learning during institutional distance. Finally, I build on the idea that learning occurs, for better or worse, when managers make changes in behavior—ideally those changes that build institutional conformity toward foreign-market institutions. These theoretical assumptions are further outlined in the following paragraphs to define a theoretical conceptualization and analytical categories.