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New venture internationalization as strategic renewal

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Abstract This conceptual paper is concerned with exploratory innovation efforts undertaken by new ventures with a view to achieving internationalization outcomes. The literature appears to overlook the prospect that even in technology-intensive sectors, new ventures may possess, at the outset, a product offering that is not fully conducive for international market entry and yet may detect opportunities for achieving international growth. Thus a two-fold challenge may exist – first, to develop a more suitable offering for international markets and second, to internationalize. A useful way of holistically conceptualizing the phenomenon is as a manifestation of strategic renewal. It is argued that bridging social capital derived through non-redundant ties with dissimilar actors could facilitate strategic renewal. The relational and cognitive dimensions of bridging social capital may be hard to develop but are potentially very important facilitators of this process.

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Introduction

While traditional perspectives tended to depict internationalization as the domain of relatively large established firms, more recent research has found that smaller new ventures recognize and enact opportunities in international markets (Jones and Coviello, 2005; Oviatt and McDougall, 2005). The internationalization of new ventures is often an entrepreneurial strategy i.e. it entails entrepreneurial and strategic behaviour (Lu and Beamish, 2001). A decision to

make a serious foray into international markets on the part of new ventures cannot be taken lightly. New venture internationalization warrants the expenditure of considerable knowledge, time and attention (Dimitratos et al., 2003; Jones, 2001; Kuemmerle, 2005). New ventures, which are generally smaller firms, lack the slack resources of their older (and larger) MNC counterparts (Bell, 1997; Oviatt and McDougall, 1994; Lu and Beamish, 2001).

Notwithstanding the considerable progress made in the international entrepreneurship field, there is scope for making further progress in gaining a more nuanced understanding of the phenomenon of new venture internationalization (Jones and Coviello, 2005; Oviatt and McDougall, 2005). One deficiency in some studies is the treatment of

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internationalization in isolation of technological innovation outcomes. This may be due to the tendency in the international entrepreneurship literature to assume the existence of a suitable product offering that can be exploited in international markets from inception (Oviatt and McDougall, 1994). But the initial product development process may not be closely linked to the venture's internationalization aspirations. Furthermore, as Jones and Coviello (2005) point out, not all product offerings are equally globally mobile. The literature appears to overlook the prospect that even in technology-intensive sectors, new ventures may possess, at the outset, a product offering that is not fully conducive for international market entry and yet may detect opportunities for the achieving international growth. At any rate, prior research does not seem to pay explicit attention to the possibility that opportunity recognition may lead to a two-step process entailing:

- Step 1: Pre-internationalization development of a globally mobile offering.
- Step 2: The actual internationalization process thereafter.

This paper is concerned with how new ventures may achieve knowledge *exploration* (Step 1), as distinct from knowledge *exploitation* (March, 1991), as a precursor to internationalization efforts (Step 2). It is argued here that when new ventures engage in such a two-step process, a useful way of holistically conceptualizing the phenomenon is as a manifestation of *strategic renewal*. Strategic renewal refers to "an evolutionary process associated with promoting, accommodation, and utilizing new knowledge and innovative behaviour in order to bring about change in an organization's . . . product-market domain" (Floyd and Lane, 2000, p. 154). Addressing strategic renewal explicitly within the context of international entrepreneurship is useful in that it highlights the *dual* challenge of innovation (e.g. new product development) and subsequent internationalization. Consistent with the recent thrust in international entrepreneurship research (Dimitratos and Plakoyiannaki, 2003; Jones and Coviello, 2005; Oviatt and McDougall, 2005), scholars suggest that combining knowledge and network theories results in a fruitful lens through which to view strategic renewal (Floyd and Wooldridge, 2000; Prashantham, 2008).

The purpose of the paper is to explain how social capital in an internationalization-seeking new venture's bridging relationship with a dissimilar actor is developed and utilized in achieving strategic renewal in the form of new product development for international markets. Using the case of bridging ties with local MNC subsidiaries, the role of social capital dimensions (structural, relational and cognitive) in aiding the strategic renewal of internationalization-seeking new ventures is conceptualized. This is an important and interesting issue to address because while dissimilar actors (e.g. MNC subsidiaries) are a useful source of novel information, ideas and opportunities, it may be rather difficult for the focal actor (here, internationalization-seeking new ventures) to form ties with them and achieve strategic renewal and interorganizational learning outcomes precisely because of their dissimilarity (Prashantham and Birkinshaw, 2008).

Using a social capital perspective of knowledge creation (Nahapiet and Ghoshal, 1998), the argument is made that social capital associated with bridging ties could facilitate exploratory innovation on the part of new ventures seeking entrepreneurial internationalization. The paper makes various contributions. First, it suggests a broader and more holistic perspective of the international entrepreneurship phenomenon that includes the prospect that certain new ventures will incorporate technological innovation activities as a precursor to international expansion. Put differently, opportunity recognition in international new ventures may be mediated by exploratory innovation. Second, it provides a more nuanced understanding of the role of bridging ties, with respect to three social capital dimensions, in facilitating strategic renewal in internationalization-seeking new ventures. In so doing a valuable source of local yet bridging social capital, viz. ties with MNC subsidiaries, is highlighted. Third, the ideas in the paper shed light on the importance of the relational and cognitive dimensions of social capital in facilitating strategic renewal; structural social capital is necessary but not sufficient to foster strategic renewal.

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'Globally mobile' offerings and new venture internationalization

The leverage and accumulation of knowledge are vital to the success of internationalizing new ventures (Autio et al., 2000; Zahra et al., 2000). The international entrepreneurship literature has especially highlighted the role of technological knowledge that allows the development of globally mobile offerings (Oviatt and McDougall, 1994; Yli-Renko et al., 2002). The notion that new ventures develop new offerings that are relevant across borders, not merely in their domestic market, is consistent with Jones' (2001) observation that for many ventures, their initial internationalization steps involve value chain activities that are not directly related to trade. Furthermore, this resonates with Dimitratos and Plakoyiannaki's (2003, p. 199) conceptualization of entrepreneurial internationalization comprising, among other factors, an international innovation propensity i.e. "the proclivity of the firm to espouse new and creative ideas, products, or processes designed to service foreign markets". The literature however appears to overlook pre-internationalization activities relating to technological innovation (Jones, 2001).

The ability of new ventures to make such globally mobile offerings in the first place relates to their firm-level technological knowledge (Oviatt and McDougall, 1994). Such technological knowledge, in the first instance, may generally be embodied in the expertise of the founding team but over time may be enhanced and dispersed more widely within the new venture through development of business relations both domestically (Yli-Renko et al., 2001) and internationally (Zahra et al., 2000). In a study of Finnish ventures, Autio et al (2000) found that greater the technological knowledge intensity, greater the international growth achieved in terms of revenues over a five-year period. Not only that, technology-based ventures were more likely to imbibe

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