



Entrepreneurial Imagination and a Demand and Supply-side Perspective on the MNE and Cross-border Organization



Geoffrey Jones^a, Christos Pitelis^{b,*}

^a Harvard Business School, Baker Library 175, Boston, MA 02163, USA

^b University of Bath and University of Technology Sydney, Claverton Down, Bath BA2 7AY, United Kingdom

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ABSTRACT

We focus on supply and the under-explored demand-side factors that help explicate cross-border expansion, the Multinational Enterprise (MNE) and organization. We explore how appropriability-informed and legacy-shaped entrepreneurial imagination motivates a process of creation and co-creation of the cross-border business context (such as markets, demand, and supporting infrastructures, including business ecosystems), and when feasible the wider institutional, regulatory and even cultural one, that conventional International Business (IB) literature takes as a datum. This is examined conceptually and by drawing on illustrative case examples. We claim that by focusing on agency, learning, intentionality and demand-side factors, our approach complements, and also challenges extant sometimes static, supply-side, agent-agnostic theories of the MNE and helps appreciate better phenomena such as market, demand and value creation, and co-creation, MNEs without firm specific advantages and born-global firms.

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"Imagination is more important than knowledge. For knowledge is limited to all we now know and understand, while imagination embraces the entire world, and all there ever will be to know and understand."

[Albert Einstein (1931)]

"Apple itself, which Jobs considered his greatest creation, a place where imagination was illustrated, applied and executed..."

[Walter Isaacson (2011)]

In critiquing the role of the multinational enterprise (MNE) in global organization and governance, Stephen Hymer (1972), arguably the father figure of the theory of the MNE and foreign direct investment (FDI), suggested that through what he called a 'correspondence principle', MNEs shape the world to their 'image', creating a hierarchical world order, involving 'superior' and 'inferior' states (a 'core' and a 'hinterland'), and even 'superior' and 'inferior' classes of peoples both within nations and cross-border (Dunning and Pitelis, 2008).

Edith Penrose (1955, 1959/2009), arguably the mother figure of the resource-based view (RBV) of the firm and the MNE, explained firm growth in terms of the concept of 'productive opportunity', defined as the dynamic interaction between the perceived external environment (such as demand and competition), and the internal one (such as resources and capabilities). Drawing on Boulding (1956), Penrose suggested that the perceived 'productive opportunity' of firms was an 'image' in the minds of entrepreneurial

* Corresponding author.

E-mail addresses: gjones@hbs.edu (G. Jones), cnp27@management.bath.ac.uk (C. Pitelis).

managers. That ‘image’, however, was formed in the context of a real-life history-based, path dependent, evolutionary change, shaped by purposive action by economic actors, notably entrepreneurs.

Penrose also observed that “there would seem to be a complementarity between theory and history” (Penrose, 1989:11) and that ‘theory is needed precisely because reality is so complicated’ (ibid). We submit that this observation is accurate, yet limited in that learning as a historico-theoretical process, shapes our very appreciation of reality, hence the ‘productive opportunity’, including the external environment, demand and competition (Pitelis, 2000). We employ such an augmented Penrosean lens in the remainder of this paper, for the case of cross-border expansion by firms and the Multinational Enterprise (MNE), noting that despite her extensive writings on the MNE and FDI, Penrose herself has not endeavored to develop a theory of the MNE (Pitelis, 2011).

In particular, in this paper we pay attention to the actions and strategies that help firms create and co-create new markets, hence demand and potentially appropriable value, and a supporting business environment-ecosystem cross-border, that is the very business context which conventional theory of the MNE and FDI take as given. In line with an extensive literature in organizations and management (see Teece, 2007), we emphasize the role of appropriability, namely the exploitation (value capture potential) of ideas and other advantages, through cross-border activities, and the way in which this motivates/triggers entrepreneurial imagination and actions that create and co-create appropriable value in the first place. In this sense we also answer calls to integrate demand and supply side, as well as value creation and value appropriation/capture approaches (Priem et al., 2012).

Scholarship on the nature of the MNE and entry modalities has for the most part not followed up the interest of contributors such as Penrose, in firm’s path dependent imagining and acting upon opportunities. In part, this reflects the challenges of International Business (IB) scholarship to incorporate entrepreneurship in extant rather static and agent-less theories of the MNE and Foreign Direct Investment (FDI), see Doz (2004). This is despite multiple contributions by Mark Casson. Casson’s search for a theory of information-processing by individual entrepreneurs did not utilize the concept of ‘imagination’, but might have easily done so (Casson, 1982, 1995). Curiously, despite being a pioneer both of the theory of the MNE (Buckley and Casson, 1976) and entrepreneurship (Casson, 1982), he has only occasionally aimed to bring the two together (Casson, 1986). In all, and following the strictures of Zald (1996) and Jones and Khanna (2006), it might be argued that the dominant disciplinary and methodological paradigm in cross-border organization scholarship, could benefit by being more and better informed by history, agency and imagination.

In contrast to the mostly economics-informed theories of the MNE and FDI, works in International Management (IM) scholarship did emphasize the role of entrepreneurial and managerial agency and capabilities in addressing among others the potential tradeoffs between global integration and local adaptation (Bartlett and Ghoshal, 1989), in leveraging subsidiary skills and competences (Hedlund, 1986; Birkinshaw and Hood, 1998; Papanastassiou and Pearce, 2009) and in explicating phenomena such as ‘born global’ firms (Oviatt and McDougall, 1994; Knight and Cavusgil, 2004).

We briefly revisit some major contributions in the next section, and then we build upon their insights in trying to address and take further the Doz challenge. We note that interestingly, the more agency-rich approaches have not been applied to the issue of the nature of the MNE (why MNEs exist to start with), other than in the case of ‘born globals’ (Knight and Cavusgil, 2004). Related to the above, explanation of the role of entrepreneurs and entrepreneurial managers in shaping and indeed co-creating the business (and sometimes the wider socio-politico-economic) context to which Doz (2004) refers has arguably been underexplored. Recently Pitelis and Teece (2010) offered an entrepreneurial theory of the MNE that attributes its nature and essence to market and business ecosystem co-creation dynamic capabilities (DCs) that the authors define as the mother of all DCs. None of the above has considered the role of entrepreneurial imagination in explicating cross-border expansion, the nature of the MNE and cross-border organization, in an integrative way that accounts for demand and supply and value creation and value capture—our aim and scope in this article.

In contrast, in the management and entrepreneurship literature more generally, imagination has often been identified as important. Hamel and Prahalad (1991), for example, argued that ‘corporate imagination’ was the key to innovation. For the case of new ventures, Bhidé (2000), suggested that new venture entrepreneurs “have to use their imaginations to envision what their firms could become along several dimensions, such as the markets they will serve, the tangible and intangible efforts they will acquire, and their organization’s climate and norms” (2000: 296). Cornelissen and Clarke (2010) also focused on new venture creation and legitimization by entrepreneurs. The authors drew on an extensive literature on entrepreneurship (such as Alvarez and Barney, 2007) and cognitive and institutional research on entrepreneurial ‘sensemaking’ (notably Weick, 1995), in order to explain “how entrepreneurs imagine venture opportunities and how they simultaneously develop and legitimize new ventures to exploit such opportunities” (p.554). Research on entrepreneurial cognition has explored how entrepreneurial opportunities are not immediately apparent, but rather need to be perceived and enacted by individuals (Tripsas and Gavetti, 2000). The importance of imagination also features prominently in the literature on entrepreneurial and managerial creativity (Amabile, 1996; Osburn and Mumford, 2006; Tsang, 2015). It is arguable that IB could benefit from cross-fertilization with such views.

While, to a certain extent, cross-border expansion can be regarded as a type of new venture, there are important additional considerations, challenges and themes pertinent to cross-border expansion, which we feel justify a separate focus. Important among these is the role of path dependence-based, but also importantly the managerial intentionality-based (Knight and Cavusgil, 2004) cross-border creation and co-creation of the context, within which theory has been traditionally developed. By context we refer to the business but also the institutional, regulatory and even cultural milieu faced by firms in host countries. While our attention here is mostly on the business context, we recognize and provide illustrative case examples where firms have tried to shape and indeed create and co-create the wider context of their operations. In a brilliant account of the East India Company, Clegg (2016) shows how the extent to which the company has been able to do just that in the case of India.

Another major limitation of extant theory of the MNE and FDI relates to its scant attention to demand-side factors, importantly the very process of the extension, creation and co-creation of new markets, hence demand and appropriable value by MNEs, in its relationship to the supply-side (the main focus of extant theory). Despite a resurgence of demand-side ideas in management

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