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Exploring the role of internationalization knowledge in fostering strategic renewal: A dynamic capabilities perspective

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A B S T R A C T

Internationalization knowledge (IK) is important to successfully enter and develop competitive strategies abroad. Yet, how IK is advanced and improved across the multinational enterprise (MNE), and how this contributes to the MNE's strategic renewal is less understood. This analysis is based on an in-depth case study of Microsoft International to explore how IK is advanced, improved, and integrated across the enterprise. Our findings suggest that IK plays a critical role in fostering strategic renewal of an MNE. More specifically, sensing, seizing, and transforming capabilities jointly provide the necessary basis that enable IK to facilitate strategic renewal. We contribute to the literature by (1) explicating three categories of IK and their hierarchical relationship; (2) reveal how three distinct capabilities required by MNEs capture and integrate the three categories of IK across the enterprise; and, (3) offering that strategic renewal is triggered by routines based on the development and integration of IK.

1. Introduction

Concerned primarily with the multinational enterprise's (MNE's) international market performance, international business (IB) literature provides the scholar and practitioner with studies related to internationalization and the MNE's knowledge to successfully accomplish this process (Fletcher, Harris, & Glenn, 2013; Johanson and Vahlne, 1977, 1990). Referred to as internationalization knowledge (IK), the knowledge gained in internationalization is viewed as an enabler for an MNE; a crucial means to successfully leverage its existing capabilities across new geographic markets and, thus, to create and capture value. Thus, IK serves as a fundamental basis for understanding internationalization theory (Johanson and Vahlne, 2009; Johanson & Vahlne, 2009). Eriksson, Johanson, Majkgard, and Sharma (1997) define IK as "experiential knowledge of a firm's capability and resources to engage in international operations" (p. 343). This knowledge is the "firm-specific way of going international" (Eriksson et al., 1997, p. 345) that results from experience accumulated across all foreign-operated markets (Blomstermo, Eriksson, Linstead, & Sharma, 2004; Fletcher et al., 2013). IK is critical to MNEs for at least two reasons. First, it shapes the internationalization strategy of the firm as knowledge is gained and integrated "as a consequence of learning both a firm's capabilities and foreign market's needs" (Eriksson et al., 1997; Eriksson et al., 1997, p. 353). Second, it can alter the content and process of an MNE's internationalization strategy to enhance its long-term prospects (*i.e.*, strategic renewal) (Agarwal and Helfat, 2009; Agarwal & Helfat, 2009).

Despite recognizing the importance of IK to the internationalization and subsequent success of MNEs, few studies investigate how IK is developed and integrated across the enterprise, and how IK is used in the process of strategic renewal. Previous research focuses on knowledge differences across countries in terms of culture, institutions, development, or decision-making processes that create a parent liability of foreignness and outsidership in local markets (Johanson & Vahlne, 2009; Kogut & Zander, 2003). Thus, IK represents a multifaceted amalgamation of knowledge types in the international space and plays a critical role in the process of successfully entering and operating new foreign markets (Eriksson et al., 1997; Fletcher et al., 2013). However, understanding how IK is developed and integrated across the enterprise remains under-researched.

Moreover, the IB literature suggests that internationalization contributes to both value creation and capability expansion abroad. In this vein, internationalization is consistent with a firm's "need to encompass multinationality" for sustained competitive advantage over time (Teece, 2014, p. 23; see also Doz et al., 2001; Lessard et al., 2013). Yet, this literature rarely considers the role of IK explicitly in the process of shaping internationalization strategy in terms of both content and process. There is evidence that firms learn to explore and capture opportunities (Bingham and Eisenhardt, 2011) and that, for instance, the location choice decision enhances responsiveness to global opportunities with the experience the firm gains (Davidson, 1980). However, a gap in understanding remains regarding how IK is developed and integrated across an enterprise to alter internationalization strategy in terms of content and process, or in other words, strategic renewal.

Our investigation aims to fill this gap and extend the literature on IK by investigating three related and important questions: (1) how IK is advanced and improved through internationalization efforts; and (2) how new knowledge is captured and integrated into the existing IK resource base; and (3) the role of IK in fostering strategic renewal in an MNE. To address our related questions, we adopt a dynamic capabilities perspective in order to understand how IK is developed and integrated across the MNE. Dynamic capabilities describe the processes and routines that enable a firm to renew, adapt, or reconfigure its resource base in response to dynamism in the external environment (Davis, Eisenhardt, & Bingham, 2009; Pablo, Reay, Dewald, & Casebeer, 2007; Teece, Pisano, & Shuen, 1997; Valhne & Johanson, 2013; Zhou & Li, 2010). From this perspective, IK is a unique resource (Fletcher et al., 2013; Valhne and Johanson, 2013) that, through dynamic capabilities, can be developed and integrated to strengthen or maintain the MNE's competitiveness across markets (Teece et al., 1997). Thus, a dynamic capabilities perspective might be useful when investigating IK because it provides insight into the MNE's ability "to be prescient and sense opportunities and threats" (Teece, 2014, p. 18) and strategically renew by "creating, extending or modifying its resource base" (Helfat et al., 2007, p. 7).

To explore our related research questions, we adopt an instrumental in-depth case study approach. A case study approach is appropriate because it enables us to explore IK and strategic renewal within a particular context bounded by time and space, thus offering in-depth, contextualized insight (Creswell, 2012; Stake 1995). By studying the phenomenon in a single case study, knowledge discovery may occur by focusing on the lenses of experienced individuals in a bounded context. In this study, we use interviews with senior managers involved with internationalization decision-making and international strategy formulation at Microsoft International (MSI), the international market headquarters of Microsoft Corporation. MSI is an appropriate and desirable setting for this research for multiple reasons. First, MSI operates in the technology sector, which is highly dynamic, and at times, volatile (Cannone and Ughetto, 2014; Davis et al., 2009). Thus, MSI must continually search for ways to create, extend, or modify its IK resource base to strategically renew and by extension and as noted in prior literature, underpin its competitiveness through competitive advantage. Second, MSI has a history of internationalization. This history provides an avenue "for understanding the origins of capabilities" (Teece, 2012, p. 1398) in light of strategic renewal required to remain dynamic in this ever-changing market sector. Third, MSI is an industry leader and one of the most internationalized corporations in the world. Thus, it allows for understanding the role of IK in differentiating MSI "from competitors [to] provide competitive advantage" (Wilcox King and Zeithaml, 2003, p. 764).

Our study offers several contributions to IB research. First, we contribute to the IK literature by explicating three categories of IK: localization knowledge, market entry knowledge, and international enterprise knowledge (Fletcher et al., 2013). We extend this literature by revealing how these categories of IK are improved and advanced in MNEs, and also elucidate a hierarchical relationship among the three categories of knowledge. We find that building localization knowledge and market entry knowledge serves to advance and improve international enterprise knowledge. Second, our findings support existing research that highlights the role of capabilities to knowledge integration (Grant, 1996). We contribute to the literature by suggesting that three

distinct capabilities are required by MNEs to integrate the three categories of IK developed in the process of internationalization. Third, we demonstrate the role of the IK-specific capabilities in fostering strategic renewal in an MNE. Our findings suggest that both incremental and discontinuous renewal can be triggered by the creation of routines based on the development and integration of international enterprise knowledge. IK-specific capabilities are therefore “high-level routines (or collection of routines)” that confer a “set of decision options for producing significant output of a particular type” (Winter, 2003, p. 991); in this case, decisions related to strategic renewal.

2. Internationalization knowledge, dynamic capabilities, and strategic renewal

Internationalization knowledge can be defined as “general knowledge about how to engage in international operations” (Fletcher et al., 2013, 49). IK has three central components (Fletcher et al., 2013). First, it is firm-specific. IK is developed within an MNE given its past experiences with internationalization based on its existing routines, processes, and resource base (Teece, 2012). Second, IK is a specific form of organizational knowledge. Whereas organizational knowledge is defined as “all the tacit and explicit knowledge that individuals possess about products, systems and processes...routines, culture and know-how” (Bryant, 2003, p. 33), IK represents the firm-specific tacit and explicit knowledge particular to the MNE’s internationalization efforts as evidenced in products, systems, processes, routines, culture, and know-how. Third, IK emerges from knowledge acquired and transferred between headquarters and international locations. Thus, an MNE’s ability to integrate IK represents a fundamental organizational capability (Grant, 1996).

IK may be a critical input to strategic renewal in MNEs (Verbeke et al., 2007). Broadly, strategic renewal is defined as “the process, content, and outcome of refreshment or replacement of attributes of an organization that have the potential to substantially affect its long-term prospects” (Agarwal and Helfat, 2009; Agarwal & Helfat, 2009, p. 282). Strategic renewal can be both discontinuous (representing a rather large or abrupt change to strategy content or implementation) and incremental (representing a continuous effort to shift or alter strategy content or implementation). In either case, injections of IK in both tacit and explicit knowledge can help the MNE uncover new knowledge (Crossan and Berdrow, 2003; Crossan & Berdrow, 2003) and make improvements or adjustments to the existing internationalization strategy in an effort to increase long-term prospects and future success.

2.1. Three categories of IK

Recent advancements in the IK literature suggest three categories of IK: (1) localization knowledge, (2) market entry knowledge, and (3) international enterprise knowledge. Localization knowledge describes the knowledge MNEs need to compete in foreign markets (Fletcher et al., 2013) and is important to the development of local strategies that yield a competitive position (Eriksson et al., 1997; Prashantham & Young, 2011). Localization knowledge enables MNEs to “source competitive knowledge, evaluate necessary and available capabilities to develop competitive strategies, and

implement appropriate competitive and/or collaborative strategies in new territories” (Fletcher et al., 2013, p. 51). Localization knowledge is critical for MNEs to understand local market conditions (Cui et al., 2005; Cui, Griffith, & Cavusgil, 2005), match the MNE’s capabilities to these conditions, build a local business network, and apply this knowledge to other similar market locations (Roth et al., 2009; Roth, Jayachandran, Dakhli, & Colton, 2009).

Previous research describes a pattern of knowledge flows in MNEs: (1) subsidiary to parent; (2) location to subsidiary; and (3) subsidiary to location, and indicates that flows from subsidiary to parent require “particularly strong and unique local competencies or by particularly strong company-specific networking capabilities” (Mudambi and Navarra, 2004; Mudambi & Navarra, 2004, p. 388). This transfer of knowledge is important because it serves as “a realistic and perhaps even necessary ‘stepping stone’ in the evolution of the multinational” (Zhou & Frost, 2003, p. 4) and its development of competitive advantage (Ambos et al., 2006; Ambos, Ambos, & Schlegelmilch, 2006). Although existing research aids in our understanding of how localization knowledge supports the MNE in matching its internationalization strategy to the local environment (*i.e.*, (2) and (3) above), it does little to advance our understanding of how localization knowledge is improved or advanced to aid in the MNE’s internationalization strategy across multiple geographies (*i.e.*, (1) above). Further, little is known of how MNEs integrate the localization knowledge into the MNE’s IK resource base to alter the content or process of the MNE’s internationalization strategy, or strategically renewal (Mudambi & Navarra, 2004; Riviere & Suder, 2016). Thus, the ability of the MNE to integrate its localization knowledge into the IK resource base and across the MNE represents a dynamic capability that may be critical for the MNE’s strategic renewal.

Market entry knowledge is defined as the knowledge used by MNEs to develop and implement market entry strategies in geographic markets (Fletcher et al., 2013; Prashantham & Young, 2011). Market entry knowledge allows MNEs to reduce costs associated with entering into new markets (Knight and Liesch, 2002; Knight & Liesch, 2002), reduce perceived uncertainty effects (Hilmersson and Hans, 2012; Hilmersson & Hans, 2012), and aid an MNE in the choice of entry mode (Fletcher et al., 2013). Indeed, previous research indicates a positive relationship between international experience (gained from market entry knowledge) and performance through the choice of entry mode (Brouthers et al., 2008). Thus, MNEs tend to perpetuate entry strategies that worked in the past (Haleblian et al., 2006), further solidifying existing market entry knowledge.

Although previous research aids in our understanding of how market entry knowledge is further solidified in MNEs, it does little to advance our understanding of how MNEs capture new knowledge from advancements and improvements made to market entry strategies. For example, an MNE may learn that, when lacking access to distribution channels and when local partners are difficult to obtain and hard to assess in terms of output performance, a shared equity entry mode is the most appropriate strategy, and will adjust its future market entry strategy when faced with a similar circumstance in the future (Hennart, 2009). This represents the acquisition (or transfer) of market entry knowledge based on firm-specific experiences with internationalization that are integrated into the IK resource base, and alter the content and process of the

MNE's internationalization strategy (*i.e.*, strategic renewal). Although the existing literature suggests this process of knowledge integration and strategic renewal occurs, it provides little insight of *how* IK is captured and integrated.

International enterprise knowledge represents the third category of IK and is defined as knowledge about how to manage internationally dispersed operations (Prashantham and Young, 2011), divergent partnership behaviors, or spatially distant internal relationships (Fletcher et al., 2013). International enterprise knowledge is critical for the MNE to solve international challenges through managerial or structural initiatives and create and implement processes and procedures for managing operations across geographies (Fletcher et al., 2013; Meyer et al., 2011). Indeed, international enterprise knowledge is critical for MNEs to coordinate resources across geographies and capture experiences shared between individuals and units in differing territories (Lee et al., 2008).

Table 1
A Summary of IK as a Resource of MNEs and how it can Foster Strategic Renewal.

IK category	Described as a resource	Remaining questions
Localization Knowledge	The knowledge MNEs need to compete in foreign markets by developing local strategies that yield a competitive advantage.	How is localization knowledge captured and integrated from subsidiary to parent so that new localization knowledge shapes the content and process of the MNE's internationalization strategy (<i>i.e.</i> , strategic renewal)?
Market Entry Knowledge	The knowledge that is used by MNEs to develop and implement market entry strategies in geographic markets.	How is market entry knowledge captured and integrated so that reformulations about market entry shape the content and process of internationalization strategy (<i>i.e.</i> , strategic renewal)?
International Enterprise Knowledge	The knowledge about how to manage internationally dispersed operations, divergent partnership behaviors, or spatially distant internal relationships.	How is international enterprise knowledge captured and integrated so that coordination processes facilitate knowledge sharing and integration, and how this shapes the content and process of the MNE's internationalization strategy (<i>i.e.</i> , strategic renewal)?

International enterprise knowledge is thought to support MNE change processes across geographies (Fletcher et al., 2013; Sapienza, Autio, George, & Zahra, 2006) through coordination of limited resources and shared experiences (Bingham & Einsenhardt, 2011). The experiences are codified and shared between both established and new territories to inform the MNE's overall understanding of challenges across markets, insights into structuring and managing from varying local contexts, and best practices for coordination and sharing of information (Fletcher et al., 2013; Harris and Glenn, 2013). Although existing research points to international enterprise knowledge as essential for internationalization strategy implementation, questions remain regarding how the coordination processes facilitate knowledge sharing and integration, and how this might shape the content and process of the MNE's internationalization strategy (*i.e.*, strategic renewal).

Table 1 summarizes our current understanding of IK as a resource for MNEs, and extends this logic to point to the missing link between this important resource and how it can foster strategic renewal. The next section describes our empirical effort of an instrumental, in-depth case study of a large MNE and utilizes insights gained from this effort to extend our understanding of IK and strategic renewal in this context.

3. **Research methodology**

3.1. **Research site**

The site of investigation for this research is MSI, the international division of Microsoft Corporation. Microsoft Corporation (Microsoft) is a large US multinational information technology (IT) organization. Created in 1972, Microsoft engages in developing, licensing, and supporting a range of software products and services including operating systems for personal computers, server applications for distributed computing environments, productivity applications, business solution applications, software development tools, cloud-based solutions, video games, and online advertising. MSI originated in 1978 when Microsoft first expanded abroad. MSI coordinates and organizes Microsoft's operations across five continents (North America, Latin America, Europe, Asia, and Africa), including offices in more than 120 countries. Fig. 1 represents the growth of MSI's internationalization efforts in terms of sales from 1985 to 2013.

The reason for selecting MSI for this research is threefold. First, MSI operates in a highly innovative industry in which recognizing opportunities, increasing knowledge, deploying capabilities, and being able to appropriate returns are central to both competitive advantage and internationalization, both of which are intertwined. Second, MSI has a relatively long history and is in an advanced stage of its internationalization strategy. Thus, MSI has experienced, and continues to experience, strategic renewal (Lessard et al., 2013). Third, large dominant firms, such as MSI, may be subject to inertia and path dependence. Examples such as Nokia and Kodak represent the difficulty faced by large, established firms to strategically renew. As shown in Fig. 1 above, MSI's sales have continued to increase since 1985, demonstrating both internationalization and, potentially, strategic renewal.

3.2. **Methodological approach**

To research this phenomenon, we adopted an instrumental case study approach. The case study approach centers on in-depth exploration of a "bounded system" of a case using multiple sources of information rich in context (Creswell, 2013). In case study research, context is central to understanding the phenomenon in question, and provides a limit for investigation. An instrumental case study is "bounded by time and activity" (Creswell, 2012, p. 14), allowing for an in-depth understanding of a particular instance that may not be obtained otherwise and that delivers crucial evidence for further theory building (Stake, 1995).

Consistent with the purpose of this study, we focus on how IK was developed and integrated at MSI, and its role in strategic renewal. Following Yin (2009), case study research is most appropriate for "how" and "why" questions. At MSI, strategic renewal occurs when new opportunities are capitalized upon, activating new or redirected business avenues for the MNE. The level of analysis is MSI; the unit of analysis is IK.

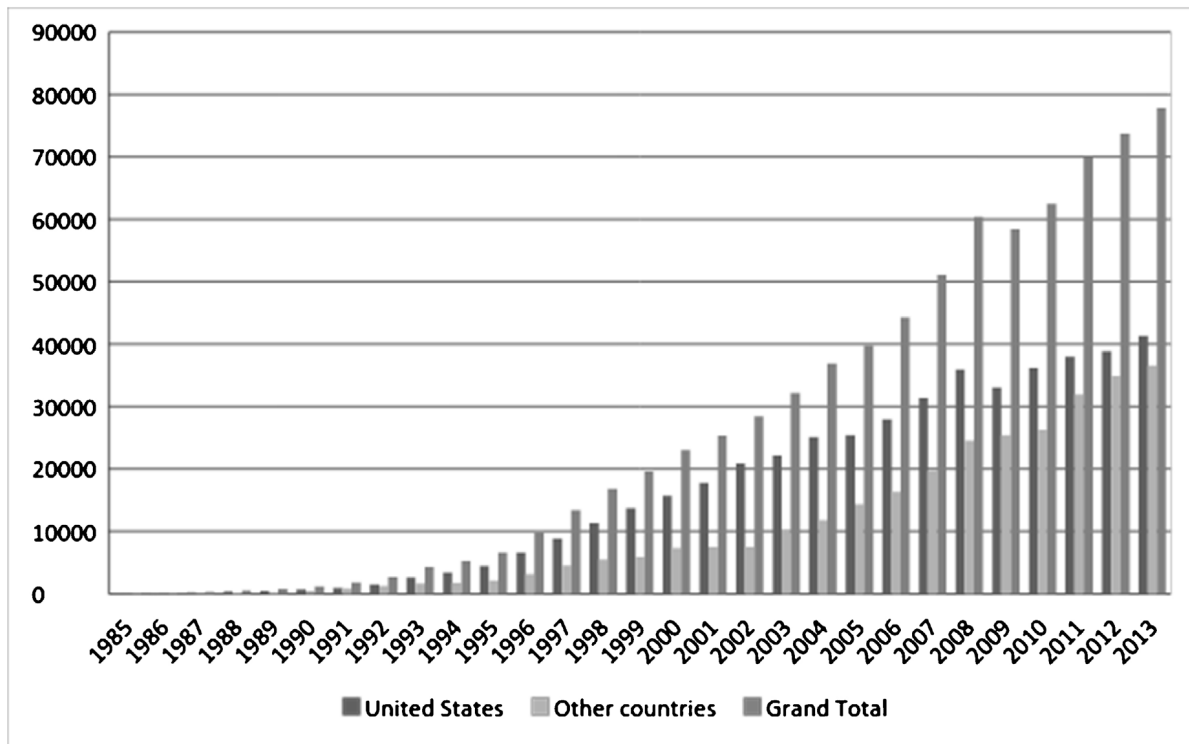


Fig. 1. Growth of MSI's Internationalization Efforts (Sales), 1985–2013 – Source: Compustat – WRDS.

3.3. Data collection

3.3.1. Interviews

The primary data source consisted of 11 semi-structured interviews with open-ended questions, conducted over the course of one year. Data collection for an in-depth case study utilizes “purposeful selection” in which participants are selected to “best help the researcher understand the problem and the research question” (Creswell, 2012, p. 189). Given our focus on IK and strategic renewal, selecting participants that could speak to how IK is strategically built, integrated, and used for transformation (*i.e.*, renewal) was critical to our research. To this end, we recruited executives to participate in our research that had been with MSI for more than one year. Our sample of MSI executives included: international division leaders from each of the five continents in which MSI operates; the president of the international division; the vice-president of the international division; the head of international business strategy and an individual that reports directly to this person; the vice-president and associate general counsel for legal and corporate affairs; and the head of MSI's country managers. The number of participants for this study is relatively typical of studies inquiring into strategic processes of the firm, *e.g.*, reconfigurations to the resource base and strategic renewal (Awate, Larsen, & Mudambi, 2015; Eisenhardt, 1989; Hodgkinson & Wright, 2002).

Despite the international nature of our participants, all interviews were conducted in English, one-on-one with the first author, and lasted between 30 and 60 min. Given

the geographic dispersion of our participant pool, four interviews were held face-to-face, with the remainder conducted by phone. Despite the inability to observe nonverbal cues, telephone interviews do have several advantages (Holt, 2011). For example, Stephens (2007) advocates that telephone interviews can be more time efficient and therefore increases the response rate. This was especially true for our study, in which over half of our sample would have been unable to participate in the research because of geographic constraints. Additionally, Harvey (2011) argues that, when the interviewee base is composed of a restrained number of elites (as in the case of this research), telephone interviewing allows for insights from executives who may be unable to meet in person due to scheduling limitations.

We utilized semi-structured interviews (Kvale, 1996) in order to allow for a degree of flexibility in answering the questions as well as refinement of the questions during the interview (Harris, 2000; Yin, 2009). As evidenced by the interview questions, inductive techniques were utilized in which broad, open-ended questions were asked of participants followed up by probing questions to minimize bias in questioning and subsequent reporting. The same open-ended questions were asked in all interviews. The questions were short, clear, used simple language, and were adapted to business terminology when necessary (Harris, 2000). Examples of questions include, "How does MSI perceive international opportunities?" and "How does MSI benefit from international opportunities around the world?"

For all our main questions we followed up with simple, probing questions such as "why?", "how?", and "can you give us an example?" These questions allowed us to probe deeper into how IK was improved, advanced, and integrated in the IK resource base at MSI from the perspective of knowledgeable informants. The probing questions were based on the answers of the participants, such as "Could you tell more (with an example maybe) about the role of the countries' subsidiaries in this (referring to various international opportunities just mentioned)?" and "Could you give us an example of the mechanism that you and your team use (or you know other teams to use), for [the decision mentioned by the interviewee in the previous question]." We ended each interview with a direct question related to building knowledge (Bingham and Eisenhardt, 2011): "In a phrase, what have you learned during the internationalization process (one main takeaway) that helps MSI better leverage internationalization in the firm's continuous renewal?" We also asked participants to point out important aspects that we were potentially missing in the interview discussion, *i.e.*, "Given our discussion, is there anything that you think is important for us to understand but that we did not touch upon?" At the conclusion of each interview, we asked the participants to identify other individuals that may hold important information through personal experiences or may have archival data of interest to this study. The interviews were recorded and transcribed within 48 h of the interview along with notes by the first author regarding the main points that emerged from the interview. The names of subjects were subsequently replaced with letters to ensure anonymity. When necessary, member checking was employed (Creswell, 2013) in the form of follow-up emails sent to participants for clarification.

3.3.2. **Archival data**

We relied on archival data as a secondary data source for our research. The

archival data were used for two purposes. First, the archival data provided us with historical and contextual information about MSI and its internationalization efforts. These data were useful in providing us with both quantitative and qualitative evidence of MSI's internationalization strategy and its historical performance. We utilized archival data, together with the information gathered from interviews, to draw a map of MSI's internationalization over time. Second, these data were used to triangulate our findings. The archival data helped "to build a coherent justification for themes" that emerged during the research, which added "to the validity of the study" (Creswell, 2012, p. 201).

We collected archival data from three sources. First, we were provided with several internal documents by MSI that reflected its internationalization history (including locations and dates), a more general business history timeline of MSI, and historical data of MSI revenues and growth. The data provided to us included internal documents about internationalization, global employment, and global innovation efforts. Second, we downloaded the historical sales data (1985–2013) of MSI from Compustat. We were particularly interested in the total sales, sales by region, and sales by business line data. Following the qualitative approach to this study, these data were not quantitatively analyzed, but rather provided contextual understanding of efforts by MSI to internationalize. Third, we searched Factiva for press articles between 1985 and 2013 discussing MSI's internationalization efforts. These press articles were collected from news outlets with global reach such as Financial Times, Businessweek, The Wall Street Journal, and Reuters News, as well as domestic news outlets such as The Wall Street Journal Europe and Asia Editions (Europe; Asia), Pakistan Press International (Pakistan), The Jakarta Post (India), and South China Morning Post (China). This effort resulted in 158 press articles and 237 pages of text.

4. Data analysis

During the data analysis, we transitioned between the data and the literature to refine the logic of the emergent themes and generate a final interpretation grounded in the data and the literature (Wolcott, 1994). Coding of the data was conducted in a manner consistent with open, axial, and selective coding as detailed by Strauss and Corbin, 1998 and Gioia et al., 2013. During the open coding stage, initial codes were very detailed and frequently captured participants' comments *in vivo* (Strauss and Corbin, 1998). Open coding was done in the margins of the transcripts. We identified 22 *in vivo*, open codes (using the interviewee's words) that captured the development and integration of internationalization knowledge in MSI (Wolcott, 1994).

Following this detailed coding; we transferred the coding structure into qualitative data processing software to extend the analysis (NVivo, Version 7). We clustered similar open codes together into related categories. This process corresponds to axial coding in grounded theory approaches (Strauss and Corbin, 1998). When two or more informants brought up the same ideas, we considered this shared understanding (Bingham & Einsenhardt, 2011; Crossan, Lane, & White, 1999). For example, most of our respondents referred to local government as an opportunity but also as integral to the competitive landscape. We grouped those open codes together as a second-order, axial code describing the host country government's agenda. Thus, we collapsed the 22 open codes into 12 axial codes.

The final coding procedure—selective coding—oriented the collection of axial codes around central categories (Strauss and Corbin, 1998). For example, one of the categories of IK is localization knowledge, which is used to understand local market conditions (Cui et al., 2005). Thus, the axial codes that described MSI’s ability to understand local market conditions were grouped together as advancing and improving localization knowledge (selective code). This resulted in six aggregate themes that were consistent with the existing IK literature but also uncovered new understanding of IK and strategic renewal (Creswell, 2013; Glaser & Strauss, 1967).

5. Findings

Our findings indicate that advancements and improvements in each of the IK categories shaped the internationalization strategy (*i.e.*, fueled strategic renewal) of MSI. Table 2 illustrates how each of these three IK categories of were advanced or improved through MSI’s inter- nationalization efforts. These advancements and improvements were specific to each category of IK and helped develop the IK resource base. However, development of the IK resource base was not enough to foster strategic renewal at MSI. MSI employed three distinct capabilities to capture and integrate the advancements and improvements of each of the IK categories into the IK resource base, and served as the basis for strategic renewal. As illustrated in Table 2, sensing, seizing, and transforming capabilities were necessary to capture and integrate new knowledge into the IK knowledge base. These three capabilities fostered strategic renewal at MSI by shaping the creation of routines that served not only to integrate new knowledge, but also as benchmarks that, when ineffective, indicated that strategic renewal was needed at MSI. In the following paragraphs we discuss how each of the three IK categories was advanced or improved, the capability developed to capture and integrate this knowledge into the IK resource base, and how each capability—and especially the transforming capability—served to foster strategic renewal at MSI.

5.1 *Advancing and improving localization knowledge*

As indicated above, localization knowledge is critical for MNEs to develop local strategies that yield a competitive position in foreign markets. Localization knowledge captures information about the local market—from institutional factors to the competitive landscape—that helps the MNE assess its potential for competitive advantage in this market. This sourcing of knowledge about the potential of the markets was of particular importance to MSI, given the high frequency it came up in discussion. Our findings indicate that knowledge about the market’s potential, rather than risk and cost-oriented approaches, advanced and improved the localization knowledge. This focus on potential was indicated to us by one of our participants: “this model is tailored to different opportunities and also, of course, to the long term potential. So if you look at the geography we hope for a long-term potential.”

In advancing and improving the localization knowledge by focusing on potential, managers at MSI concentrated on two facets of the local market: institutional factors—including the government’s agenda, and the availability and potential of local youth. Both of these factors were critical to localization knowledge to assess the MNE’s long-

term potential in the market. The local market government's agenda included the government's long-term priorities and was critical to MSI's assess of the market's potential but also the future competitive advantage of operating in the market. Managers at MSI advanced and improved knowledge about the government's agenda by focusing on its key priorities:

(M): We try to understand what are the key priorities for the government, for the country, and typically that means for the government. Is it education? Is it employment? Is it education as a mean for young people to get employed? Is it research? Is it child-safety? Is it privacy? Is it, is it, is it?

Table 2
Second order themes and aggregate theoretical dimensions with supporting evidence.

How IK Resource Base is Developed	Supporting Evidence	Capability Necessary to Reconfigure the IK Resource Base for Strategic Renewal
Advancing and Improving localization knowledge of...	<p>the host country government's agenda the availability and potential of local youth</p> <p>the potential capabilities of local firms</p> <p>local innovation systems and potential (knowledge reservoirs)</p> <p>the local entrepreneurial environment</p>	Reading the local market's potential (sensing)
Advancing and Improving market entry knowledge through...	<p>a global talent management program</p> <p>a co-development agenda with the local government</p>	Building and broadening relationships in the local market (seizing)
a local research network not mean that we don't take on opportunities to do indigenous a business-level network of local partnerships	<p>innovation; we do it through these Microsoft innovation centers." "That's how we try investing all of our time. Many of these companies grow to be good partners of ours and we work jointly with them to serve the market, the client, in the marketplace."</p>	Core R & D will continue to be in just few places, but it does
Advancing and Improving international enterprise knowledge through...	<p>collaborative innovation, decision making, and knowledge evaluation</p> <p>management mobility and socialization</p> <p>cross-functional and cross- country joint interpretation of information</p>	Creating routines across the enterprise (transforming)

MSI was also interested in advancing and improving localization knowledge in

terms of the availability and potential of local youth. The availability of high-potential local youth strengthened MSI's overall competitive advantage because, as indicated to us by a manager, there is a shortage of talented and skilled workers that work in technology. This is consistent with the work of Farndale, Scullion, and Sparrow (2010) regarding the globalization of talent management. By sourcing this talent across markets, MSI may be in a better competitive position globally. The increased demand for highly skilled talent along with an insufficient supply to meet this demand was tackled by assessing the potential of foreign markets. As such, MSI ascertained how to deal with this shortage within the internationalization process:

(C): We have the same problem in the US: we use talent faster than the universities produce students. So we have to be in other markets. [...] We certainly look in many cases in markets, not necessarily markets that we are opening brand new, but markets outside the US as very important sources a few different kind of talents.

In addition to building localization knowledge by assessing institutional factors, MSI also focused on the competitive landscape. The competitive landscape encompassed knowledge about how to maintain a competitive advantage in the local market in the long-term. This was at least partially dependent on the potential capabilities of local firms and the local entrepreneurial environment, and the existing and potential local innovation systems (knowledge reservoirs). The potential capabilities of local firms and the local entrepreneurial environment underlie the potential for partnerships so that localization knowledge can be advanced and improved now and in the future:

(C). [...] we are looking for employees to do R & D, we also started by investing in a small number of companies in these markets [referring to certain countries] by acquiring them. Across all of those we invested in core engineering talent that also had entrepreneurial skills.

With the focus on innovation, entrepreneurial efforts often contributed to knowledge generation, and thus were a focus for the development of localization knowledge at MSI:

(E): The economical expansion is a question of intention of youth to create their own jobs, to create their start-up company and so on, and that's an important element to consider. Because this is when you (referring to local start-ups) want to build the systems and the software it goes with to help your company grow and expand. Then you also see that the start-ups have the brightest ideas, and so on and so forth.

Also critical to the local market's landscape for MSI was the existing and potential local innovation systems (knowledge reservoirs). If MSI could tap into these knowledge reservoirs, it was better able to develop and maintain competitive advantage in the local market, but also develop localization knowledge in the future. As indicated by one manager:

(E): And some geographies have focused [on] their universities and their education systems more to the areas that we are interested, than others. And therefore, you will see that we probably invest heavily or more heavily in those kinds of countries than other places for their innovation potential.

The ability to distinguish avenues for innovation potential added to MSI's localization knowledge. This view is supported by studies that examine the role of a country's specialization in different innovation areas (Alcacer and Chung, 2007; Alcacer

& Chung, 2007) and the opportunity to tap into global knowledge reservoirs (Kafourous et al., 2012). This requires MNEs, such as MSI, to identify the unique innovation that occurs in a local market:

(A): For example, if you are in France, France is very strong in health. Since some of our innovation is in the health area it is clear that we are going to get closer with some of the laboratories that are working in France. If you go to Bulgaria, Romania, etc., they are very strong in mathematics or IT.

5.1.1. Sensing capabilities to integrate localization knowledge for strategic renewal

As indicated above, MSI worked to advance and improve its localization knowledge in an effort to develop its IK resource base. However, this knowledge can only be capitalized on by MSI if the localization knowledge is captured and integrated into its existing IK resource base. Sensing capabilities, or “scanning, creation, learning, and interpretive activity” (Teece, 2007, p. 1322), integrated new localization knowledge into existing IK and were critical for strategic renewal at MSI. Localization knowledge was developed through scanning, but it was integrated into MSI’s IK resource base through interpretive activity. That is, MSI used sensing capabilities to scan for and uncover opportunities in new markets, and interpret this information to create knowledge about which opportunities to pursue. This scanning and interpretation was critical for MSI to strategically renew—refreshing and/or replacing existing IK in an effort to improve MSI’s competitive advantage and long-term prospects (Agarwal and Helfat, 2009, p. 282).

Managers at MSI developed an ability to “read” a geographic market’s potential during the process of internationalization. The ability to read the market potential was developed over time through the routines established at MSI to assess geographic markets, the knowledge gained from these routines, and the unique deployment of resources at MSI to assess market potential (e.g., some markets required several visits to the market, others required more analytic approaches, etc.). Looking at local trends, mapping the local market, considering local innovation systems and local innovation focus, the local youth development and the market entrepreneurial attitude all constitute sensing capabilities that contributed to the IK resource base and fostered strategic renewal at MSI. The managers’ ability to read a market for its potential represents a sensing capability that goes beyond scanning the environment for opportunities. This represents a uniquely developed routine that is critical to strategic renewal at MSI’s because it not only develops the IK resource base (by advancing and improving localization knowledge), but also enables MSI to integrate this knowledge and—based on the knowledge gained—foster incremental or discontinuous strategic renewal of MSI. As such, we propose:

Proposition 1a: Localization knowledge is improved and advanced from information regarding the potential of the local market’s institutional factors and the competitive landscape.

Proposition 1b: Sensing capabilities enable managers to read the

local market's potential and capture and integrate localization knowledge with the existing IK resource base, which can foster strategic renewal.

5.2. *Advancing and improving market entry knowledge*

As described above, market entry knowledge is used by MNEs to develop and implement market entry strategies in geographic markets (Fletcher et al., 2013; Prashantham and Young, 2011). Market entry knowledge encapsulates information about what makes market entry successful. The managers at MSI indicated that relationships were instrumental in the success of market entry. As such, they discussed relationships that were directly related to the effectiveness and success of MSI's market entry strategies—including creating a global talent management program and a co-development agenda with the local government—as well as relationships that were indirectly related to the effectiveness and success of MSI's market entry strategies—including supporting a local research network and a business-level network of local partnerships. MSI worked with multiple constituents to gain knowledge about market entry efforts:

(H): We have an explicit, proactive policy... we have grants...we work with governments, universities to generate incentives...This is good for the ecosystem; it is good for the country, for the community, for our business, for everybody. That's how we try investing all of our time.

Relationships that were directly related to the effectiveness and success of MSI's market entry strategies (direct relationships) were critical to improving and advancing market entry knowledge because they enabled MSI to develop knowledge about the local market so that it could tailor its market entry strategies and further develop its IK resource base. One of the ways that MSI advanced and improved its market entry knowledge was through relationships developed in its global talent management program. The purpose of this program was to not only recruit and retain talented employees in the increasingly competitive landscape (Collings and Scullion, 2008; Farndale et al., 2010), but also source knowledge about varying local markets so that the knowledge could be used to tailor market entry strategies. MSI recruited, integrated, and extended its human resources through market mapping and employer branding, as the work of Farndale et al. (2010) suggests and as described by one of our participants: (H): And when I talk about local presence I am not talking about deploying American resources in this part of the world. I am talking about a strategy of hiring, retaining and developing. I am talking about local talents, people that know the communities, the culture, and the customs of the countries... So, it is fundamental, to have a strong presence, that, for the most part, it is made of locals that are carefully identified, selected and trained.

Working with local governments was necessary for MSI to success- fully operate in any market. Political resources played a critical role in managing institutional environments and broadening the relationship with the government to co-develop with the market. Frynas, Mellahi, and Geoffrey (2006) define political resources as “any firm attributes, assets, human resources, or any other resources that allow the firm to use the political process to improve its efficiency and profitability” (p. 324). Consistent with

this view, we found that MSI worked continuously to broaden its relationship with the host country government to advance and improve knowledge about its market entry efforts:

(M): So we look into it and then we try to have a conversation with the government about the way we can help it with its agenda. A more long-term answer [for the strategic benefit] is: the healthier the country is, the healthier the business in the country. The more short-term agenda is... if you align well with government agenda, the government will be more keen to use our technologies for their needs.

In addition to direct relationships, MSI fostered indirect relationships that were related to the effectiveness and success of MSI's market entry strategies, such as supporting a local research network and building a business-level network of local partnerships. In the case of the local research network, it served two purposes for MSI. First, it aided MSI in developing local talent that could be further used to build relationships through its global talent management program. Second, it enabled MSI to develop research about the effectiveness of its market entry strategy for the local market, and use that knowledge to redirect its efforts if needed. As indicated by one of our informants, a local research network creates relationships not only within the local market, but with other markets as well: "If you think of Cambridge, UK, this is a key location because a lot of European research labs look at interaction with Cambridge, UK." For MSI, these local research networks served to advance and improve market entry knowledge, but also to create relationships within and beyond the local borders.

MSI also created a business-level network of local partnerships. The purpose of its relationship with the local business community was to expand its business locally and regionally to increase its ability to seize opportunities. The ability to uncover opportunities given, on one hand, the local market's idiosyncrasies, and on the other hand, the desire to enter and grow its presence in the market, was approached by broadening relationships through a network of local partnerships. These partnerships enabled MSI to grow its presence once entered into a market, and alter its strategy based on knowledge gained through the network:

(L): We are mostly employing local people in each country, and we are relying on the partner network to help us scale our business; [much] of our revenue is now going through the partners worldwide and in every country, so, and we are working with big partners, small partners...

5.2.1. *Seizing capabilities to integrate market entry knowledge for strategic renewal*

As indicated above, MSI worked to advance or improve its market entry knowledge in an effort to develop its IK resource base; however, this knowledge must be captured and integrated for strategic renewal of MSI to occur. Seizing capabilities integrated new market entry knowledge to existing IK, and were critical in fostering strategic renewal at MSI. Seizing capabilities are described as "new products, processes, or services...[and] investments in development and commercialization activity" (Teece, 2007, p. 1326). Market entry knowledge was advanced and improved by MSI's investments in building relationships through a global talent management

program and a local research network, and broadening relationships through a co-development agenda with the local government and a business-level network of local partnerships. These efforts enabled MSI to advance and improve knowledge on how best to enter markets with appropriate products, processes, and services, but also redirect its development and commercialization activity as needed.

During the process of internationalization, MSI managers developed an ability to build and broaden relationships, which described MSI's seizing capabilities. The ability to build and broaden relationships enabled MSI to "[address] opportunities involving maintaining and improving technological competences and complementary assets and then, when the opportunity is ripe, [invest] heavily in the particular technologies and designs most likely to achieve marketplace acceptance" (Teece, 2007, p. 1326). The seizing capability integrated the knowledge gained through these relationships to support, complement, or refine the existing IK resource base (*i.e.*, strategic renewal, improving MSI's existing internationalization strategy).

Thus, we extend the existing understanding of market entry knowledge as critical to the MNE's development and implementation of market entry strategies across geographic markets (Fletcher et al., 2013; Prashantham and Young, 2011) by suggesting the important role of relationships to advance and improve market entry knowledge. MSI's efforts to build and broaden relationships within the local market represent its seizing capability, which was critical to integrate this new market entry knowledge to the existing IK resource base. This process of integration *via* the seizing capability affords refreshment or replacement of the existing IK resource base and MSI's internationalization strategy—thus, critical to strategic renewal.

Therefore, we propose:

Proposition 2a: Market entry knowledge is advanced and improved by relationships directly and indirectly related to the MNE's operations in the local market.

Proposition 2b: Seizing capabilities enable managers to build and broaden relationships in the local market and capture and integrate market entry knowledge with the existing IK resource base to foster strategic renewal.

5.3. ***Advancing and improving international enterprise knowledge***

As indicated above, international enterprise knowledge is critical to MNEs to manage internationally dispersed operations (Prashantham and Young, 2011), divergent partnership behaviors, or spatially distant internal relationships (Fletcher et al., 2013). International enterprise knowledge accrued in different markets and through different investments is mobilized to drive the organization's transformation decisions. As Meyer et al., 2011 suggest, once knowledge is accessed in various markets, it is then transferred through the firm network, but the transfer is not straightforward as knowledge is usually sticky. To combat this stickiness, MSI advances and improves its international enterprise knowledge through formal and informal knowledge transfer processes. Formal processes for knowledge transfer include opportunities within MSI for collaborative innovation, decision-making, and knowledge evaluation as well as processes for knowledge sharing in the cross-border acquisition or alliance process. Informal processes for knowledge transfer include management mobility and

socialization as well as cross-functional and cross-country knowledge sharing practices. Together, formal and informal processes aid knowledge transfer across the entire enterprise, so that localization knowledge and market entry knowledge advancements or improvements are captured and integrated across the MNE.

In terms of formal processes for knowledge transfer, MSI creates opportunities for collaborative innovation, decision-making, and knowledge evaluation. The knowledge shared in these instances advances and improves the international enterprise knowledge as it synthesizes the localization knowledge and market entry knowledge:

[H]: There is a process that we review every quarter, in which the field, the subsidiaries identify market trends, competitors, programs, technologies, customers' requirements, etc. We feed that information into the company. [...] and of course we have a competitive group within MSI that regularly, every month, review markets trends, competitors' trends and try to extract from that nascent opportunities, best practices and overall market trends.

This formal knowledge transfer allows individuals across the enterprise to share localization knowledge and market entry knowledge in a forum so that the information can be codified (through meeting minutes or summaries). These efforts help capture knowledge gained across the enterprise, but also aid in decision-making in units that were not involved when the initial localization or market entry knowledge advancements or improvements were gained, but could use that knowledge in their own operations:

(M): There are the people who do sales, marketing and services. Then, there are people doing R & D that are also, in some cases distributed but they are really separately part of the business. The moment that they come together is the moment of the "National Plan". Because often, this small R & D groups (i.e., in Serbia) creates also good links with people in technical universities and so the R & D group and the subsidiary group, let's say the marketing group, play together with the government agenda, especially in the room for education.

In addition to the formal processes for knowledge transfer, the continuous flow of knowledge through informal processes also enables MSI "to develop unique capabilities in the management of the issue that enable them [here, MSI] to achieve unique, possible sustainable competitive advantages" (Meyer et al., 2011, p. 247). Managers at MSI realize that knowledge transfer is critical to the MNE's competitive advantage, and as shared by one of our informants: "Because strategies are never created in a vacuum...neither can the strategy be completely developed in a single country, or in a single geography context, it is all about feedback loops." Promoting opportunities for informal processes of knowledge transfer was critical to MSI's competitive advantage, and a factor acknowledged or experienced by most all of our informants.

One way in which MSI developed informal processes for knowledge transfer was through management mobility and socialization. Managers at MSI often moved within and across geographies, taking with them the localization knowledge and market entry knowledge gained in previous positions. These movements were not spurious or unexpected. MSI has a robust management mobility program to promote informal processes of knowledge transfer through cross-fertilization. This cross-fertilization advanced or improved the international enterprise knowledge. The robustness of the

program and its purpose was shared with us by one of our informants:

[S]: And we have quite a lot of programs in place to move people around, to bring them together virtually or to actually have them working in different parts of the world [...] to share various learning experiences, to put in place communities to share learning. So there are a lot of things that we do to strengthen our learning and the sharing across various geographies. That is fundamental to our success.

Like other MNEs, MSI uses socialization and relational approaches, rather than centralized and hierarchical approaches, to knowledge transfer (Andersson et al., 2005). This informal process for knowledge transfer moves managers across functions and even across the globe, sharing localization knowledge and market knowledge with counter-parts in an effort to advance and improve the international enterprise knowledge. These cross-functional and cross-country meetings are designed so that differing viewpoints and experiences come together to address the same internationalization issue from differing perspectives. One of our informants walked us through what one of these meetings looks like at MSI:

[H]: Product group executives travel across the world, and when they do so, we make sure that they meet, connect with local leaders of universities, research centers, state of the art companies, and by doing that, they gather information that helps them realize what's happening [...] Similarly, regional executives, we go to our product groups at least once a year and meet with the product groups and give them feedback on what we have heard, what we have seen, what the customers are asking for, what the professors are telling us, so that this is also a feedback mechanism.

5.3.1. *Transforming capabilities to integrate international enterprise knowledge for strategic renewal*

As indicated above, international enterprise knowledge encompasses not only the funneling of new or modified localization knowledge and market entry knowledge; it also describes the MNE's efforts to transfer this knowledge across the enterprise. Transforming capabilities capture these funneling and transferring efforts, which foster strategic renewal at MSI. Transforming capabilities describe "the ability to recombine and to reconfigure assets and organizational structures as the enterprise grows, and as markets and technologies change" (Teece, 2007, p. 1335). International enterprise knowledge was improved and advanced through formal and informal processes of knowledge transfer. These advancements and improvements in international enterprise knowledge represent knowledge re-combinations and reconfigurations to the IK resource base. That is, MSI used transforming capabilities to recombine and reconfigure processes and structures that collect and disseminate IK throughout the enterprise. Our findings indicate that, although formal and informal knowledge transfer processes were critical to advancing and improving international enterprise knowledge, the creation of routines was fundamental to capturing and integrating this knowledge across the enterprise for strategic renewal. Routines were created through informal and formal processes of knowledge transfer. That is, improvements or advancements in international enterprise knowledge either solidified existing routines (if the knowledge gained supported the existing IK resource base, e.g. refreshed routines, Agarwal & Helfat, 2009) or created new routines (if the knowledge gained was new to the existing IK resource base, e.g. replaced routines, Agarwal & Helfat, 2009). Routines functioned

not only to integrate knowledge across MSI, but also served as benchmarks. Small advancements or improvements from localization knowledge or market entry knowledge developed the IK resource base. When these developments slightly altered routines, incremental strategic renewal occurred by adapting the routine “gradually or in (semi-continuous) steps” (Teece, 2007, p. 1335) so that new knowledge could be integrated. However, advancements or improvements in localization knowledge or market entry knowledge also served to radically develop the IK resource base. When these developments prevented routines from continuing or being effective, discontinuous strategic renewal modified the routine through “an entirely different set of structures or procedures” (Teece, 2007, p. 1335) for integration of new knowledge. Given these insights, we propose:

Proposition 3a: International enterprise knowledge is advanced or improved from development of localization knowledge or market entry knowledge and is transferred across the enterprise through formal and informal processes of knowledge transfer.

Proposition 3b: Transforming capabilities enable managers to create routines to capture and integrate international enterprise knowledge with the existing IK resource base, which fosters strategic renewal.

6. Discussion

Recent findings in IB research show that internationalization is a path-dependent process of opportunity development and international venture activities (Chandra, Styles, & Wilkinson, 2012; Valhne & Johanson, 2013). Such entrepreneurial, proactive approaches to internationalization invite a re-thinking of the role of IK in internationalization, including how it is developed and integrated across the enterprise. Given the dynamism of the global marketplace (Davis et al., 2009), greater understanding of IK uncovers how it shapes competitive advantage and strategic renewal in dynamic environments and across diverse geographic markets. Such link between IK and strategic renewal builds on managerial competency to creatively search for opportunities across markets in an effort to build knowledge that shapes internationalization efforts (Pandza and Thorpe, 2009).

Eriksson et al. (1997) suggest that during internationalization, MNEs should develop structures and routines compatible with their capabilities and internal resources in order to lead the search for experiential knowledge about foreign markets and institutions. While this view depicts all types of activity abroad, a narrower view of IK has emerged to describe the ways in which MNEs build and integrate knowledge from existing internationalization efforts. Our findings echo the sentiment of Lessard et al. (2013) that knowledge creation and integration are essential for successful competitive positioning. We extend the literature on IK by investigating (1) how IK is advanced and improved through internationalization efforts, (2) how new knowledge is captured and integrated into the existing IK resource base, and (3) the role of IK in shaping strategic renewal for competitive positioning. To this end, our finding makes three key contributions to the IK and IB literatures, which we discuss below.

6.1. *The hierarchical relationship among the three categories of IK*

We contribute to the IK literature by explicating three categories of IK: localization knowledge, market entry knowledge, and international enterprise knowledge (Fletcher et al., 2013). Although previous research has differentiated among these three IK categories, it does not explicate how they are advanced and improved in MNEs, and how they relate to one another. We extend this literature in at least two ways. First, we uncover how each category of IK is uniquely improved and advanced in MNEs. Localization knowledge is advanced and improved through information gained about the local market, including institutional factors and the competitive landscape. Information gained regarding institutional factors and the competitive landscape help the MNE assess its competitive advantage as it considers the market's potential. Market entry knowledge is advanced and improved through information gained about what makes market entry successful. The managers at MSI indicated that both direct and indirect relationships were instrumental to the success of market entry, and thus the development of market entry knowledge. International enterprise knowledge is advanced and improved through formal and informal knowledge transfer processes. Together, formal and informal processes aid with knowledge sharing across the enterprise so that localization knowledge and market entry knowledge advancements or improvements can be captured and shared.

Second, our findings depict a hierarchical relationship among the three categories of IK. Whereas previous research identifies three categories of IK, we extend this understanding by demonstrating how the three IK categories intersect to develop the IK resource base. We find that advancements and improvements of localization knowledge and market entry knowledge serve to advance and improve international enterprise knowledge. Because international enterprise knowledge describes efforts to manage internationally dispersed operations, divergent partnership behaviors, or spatially distant internal relationships, information about the local market (localization knowledge) and how to successfully enter the market (market entry knowledge) funnel into international enterprise knowledge (how to manage multiple, at times divergent, markets and relationships).

6.2. *Sensing, seizing, and transforming categories to build the IK resource base*

Our findings support existing research that highlights the role of capabilities to knowledge integration in MNEs (Grant, 1996). We contribute to the literature by suggesting that three distinct capabilities are required by MNEs to integrate the three IK categories developed in the process of internationalization. For MNEs, the challenge resides in operating across multiple geographies. Thus, knowledge gained in one geographic market is not necessarily captured and readily integrated across the enterprise. Our findings suggest that MSI developed capabilities to ensure integration of knowledge, and that each capability was specific to the type of IK being advanced or improved.

Sensing capabilities were essential to MSI's efforts to scan for and uncover opportunities in new markets and interpret this information to create knowledge about which opportunities to pursue. In our research, this capability manifested through the ability of managers to "read" a geographic market's potential. Although previous research points to the importance of assessing market potential (Aharoni, 1966;

Robertson & Wood, 2001), it does so without acknowledging that this could represent a critical capability of the MNE. The ability to transition between what is known (the existing IK knowledge base) and what is new (advancements or improvements to localization knowledge) enables the MNE to “read between the lines” and assess the market and its potential given the MNE’s portfolio of geographic markets.

Seizing capabilities described MSI’s investments to build and broaden relationships. In doing so, MSI was able to advance and improve its market entry knowledge, but perhaps more importantly, capture and integrate that knowledge to build new relationships and broaden existing ones. Thus, our findings support a more relational approach to developing the knowledge base (Andersson et al., 2005). This view goes beyond the traditional understanding that strong ties should be created and nurtured between headquarters and subsidiaries in order to facilitate knowledge development. Instead, it suggests that, in addition to the subsidiary-headquarter relationship, knowledge can also be advanced and improved by building and broadening relationships with stakeholders in local markets.

Finally, transforming capabilities helped MSI capture and integrate localization and market entry knowledge gained across the enterprise in an effort to maintain fitness with its many local environments. The transforming capability provides an “adjusting mechanism” for the MNE, enabling it to “evolve and co-evolve with the business environment” (Katkalo et al., 2010, p. 1178). We extend our understanding of this capability by showing how it triggered resource recombinations and reconfigurations, which promoted the development of routines. Routines helped MSI develop its internationalization strategy content and process by (not only) integrating knowledge across the enterprise, but also serving as benchmarks that, if ineffective, fostered strategic renewal. In concert, these three capabilities captured and integrated knowledge about local markets, market entry, and structures and processes across the enterprise that aided MSI in both incremental and discontinuous strategic renewal.

6.3. *The role of the IK-specific capabilities in fostering strategic renewal*

Our study brings evidence that the overall knowledge accrued within the internationalization process is important for developing organizational routines that allow for strategic renewal. We contribute to the literature by demonstrating the role of the IK-specific capabilities in fostering strategic renewal. Our findings suggest that both incremental and discontinuous renewal can be promoted by the creation of routines based on advancements and improvements to international enterprise knowledge. Routines were created through informal and formal processes of knowledge transfer. Our findings demonstrate the role of routines in signaling to MSI that strategic renewal was needed. When developments to the IK resource base were small, routines were only slightly altered, indicating that incremental strategic renewal, or small adaptation to the internationalization strategy, was needed. However, substantial developments to the IK resource base made existing routines obsolete. This triggered discontinuous strategic renewal or large shifts in the internationalization strategy of the MNE, as discussed by our participants. Thus, our study contributes to the literature by extending our understanding of routines as both integral to knowledge capture and integration, but also as benchmarks that can signal the need for strategic renewal.

7. Conclusion, limitations and further research

In conclusion, our study offers that the content and process of an MNE's internationalization strategy is shaped, in part, by advancements and improvements to the IK resource base. We find the three categories of IK—localization knowledge, market entry knowledge, international enterprise knowledge—are advanced and improved idiosyncratically, but that a relationship exists among the three IK categories: This relationship serves to develop the IK resource base in the MNE. Further, we illustrate how the different capabilities of sensing, seizing, and transforming, uniquely match to each of the three IK categories, and serve to capture and integrate IK knowledge advancements and improvements, which can foster strategic renewal. Overall, our findings take an in-depth look into IK—how it is advanced and improved, how it is captured and integrated into the IK resource base, and how that serves to foster strategic renewal.

Though this study is based on a single, in-depth case study, it does offer unique insights into IK. We set a foundation, through this case analysis, for the transposition of our findings to further qualitative and quantitative inquiries that will enhance our understanding of strategic renewal in MNEs. Thus, we suggest that future research could adopt a multiple case study approach to look for replication of the findings, but also extend them in ways that compare and contrast the development of the IK resource base, and how that fosters renewal. Additionally, quantitative investigations that address the contingencies related to when strategic renewal occurs as related to IK, or perhaps how strategic renewal occurs between and within the headquarters-subsidiary relationships will enhance our understanding of IK and strategic renewal.

On this basis, we call for more research into this taxonomy of IK, given its great potential for IB literature, testing it across methodological approaches, industry sectors, within a range of MNE sizes and origins, and home and host markets and internationalization stages, to refine this approach further. Capitalizing on global-reach operations, IK helps MNEs strategize and manage global operations with two goals interlocked: exploiting existing capabilities and creating new ones. By engaging in IK-driven strategic renewal, the MNE can dynamically develop and maintain competitive advantage.

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