A Congenital Learning Framework for Assessing the Management and Impact of Intellectual Capital Resources in Young and Internationalizing Asset Management Firms

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Title

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Introduction

While much research has been published on social capital, human capital and intellectual capital in recent decades, certainly since Cyert and March and the work of Coleman, very little has been published on the role of intellectual capital in the young firm within a global expansion context. Even less in the context of a young asset management ('AM') firm. Specific studies have been undertaken with respect to specific industries and in specific countries, but the generality and portability of those findings are very limited, resulting in the studies being less useful than the potential. Furthermore, there are no studies on the organizational management and exploitation of intellectual capital resources for a young AM firm seeking globally expansion.

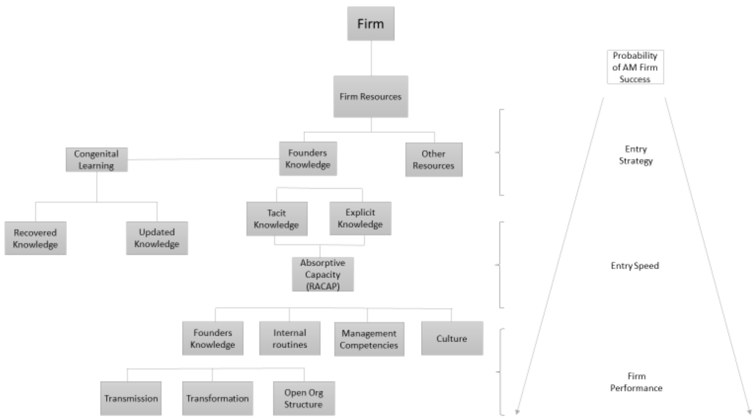
Since financial markets are globalized with respect to investing, client reach and regulatory oversight, asset management firms are almost de facto global businesses from the point of incorporation and mission statement. This is a significant differentiator with respect to firms in other economic sectors. For example, high-technology firms do not have nearly the same legal framework and regulatory oversight that is the burden of a financial services company expanding internationally. In addition, the cost structures and barriers to entry in financial services firms are significantly higher than most other industries. Without significant levels of other resources, a young AM firm that seeks internationalization will need to harness the experience of its key principals. A number of scholars note the importance of this intangible resource of manager experience in the early part of the internationalization process as a firm seeks competitive advantage to overcome the barriers to entry, costs of expanding internationally into new environments, and the business risks involved. Historically, firms have been adept at leveraging tangible resources in the international expansion, however there is compelling evidence that leveraging intangible resources represent a more sustainable source of advantage. This is primarily because such resources are difficult to replicate (Knight & Cavusgil, 2004). International knowledge has been designated as a key intangible firm resource leading to internationalization (Reuber & Fischer, 1997).

The knowledge of a founder or key personnel is one of the most important for a young firms success and is the basis of the firms behavior in terms of foreign market selection, market entry approach, and entry speed (Freeman & Cavusgil, 2007; Haveman & Khaire, 2004). Studies have shown that the impact of founder’s knowledge can reach the individual employee, the organization network, and the interorganizational network (Gibb, 1997). Moreover, failure to transfer and transform founder knowledge to the rest of the firm will have a negative impact on internationalization (Shane, Venkataraman, & MacMillan, 1995). Piening and Salge suggest that a key reason why firms fail in internationalization may be a result of the non-absorption of founders knowledge, rather then merely the access to such information (Piening & Salge, 2015). Zahra et al refer to this process as ‘RACAP’ – Realized Absorptive Capacity – and comprises the firm’s arrangements for the integration of existing knowledge and newly acquired knowledge. The firm is also required to have an ability to exploit this RACAP capability through a transformation process that results in better services and performance (Zahra & Hayton, 2008).

In sum, to influence firm performance in the process of internationalization, it must be ‘open’ in the manner in which it structures and combines knowledge to deliver firm value. Focusing on and assessing founder knowledge, and thus congenital learning, is a robust base from which a firm can build new knowledge and structures. In addition, Gibb indicates that the framework of congenital learning is useful in analyzing how knowledge can be absorbed so as to increase performance (Gibb, 1997).

The objective of this paper is to address a primary critical hurdle for asset management entrepreneurs attempting internationalization strategies. That is, how asset management firms can accumulate and leverage off the knowledge and skills of the firms' principals for successful international expansion. The focus of the paper is on congenital learning and extends existing research that focused on the importance of congenital learning for firms, but also presents a study on the interactions between congenital learning, RACAP and international firm performance. The author suggests conceptual hypotheses that analyses the way in which congenital learning impacts RACAP and the extent to which RACAP effects firm success.

Thus, drawing on organizational learning theory, a framework can be suggested that analyzes the effects of congenital learning by the management team's pre-start-up international experience on organizational performance. These conceptual propositions, if tested empirically, could make important theoretical and empirical contributions to the international entrepreneurship and organizational learning body of literature by highlighting some of the factors underlying learning advantages of newness that facilitate the internationalization of young AM firms. The Diagram below presents a theoretical framework of the paper.



The importance of the study is centered around the extent and prevalence of young AM firm failures. That is, levels of firm performance. The ability to harness intellect within a complicated financial services firm, in a global context, is critical for the success of the firm. Indeed, very early on in an AM firm's evolution, the knowledge of the founders is very important. Larger firms that are well entrenched have additional resources and organizational strengths with which they compete.

A further importance of the study lies in the implication that if young AM firms fail to succeed either domestically or in the area of internationalization, which is more often than not the case, the industry will tend toward large oligopolistic actors and structures which has implications, beyond the objectives of this research paper, for both the public and the financial sector globally.

Literature Review

A review of the literature forming the basis of this paper considers three distinct aspects which encompass congenital learning: Intellectual capital, intellectual capital management, and internationalization in the context of young firms. Regarding the latter, there is non-existent research on asset management (AM) firms as young and internationalizing entities, especially in the area of focus - congenital learning. Finally, the author reviews the specific nature of congenital learning and absorption on a young, internationalizing firms.

Intellectual Capital

'Knowledge' has become a critical economic resource and is gradually replacing the dominance of financial and physical capital as the key resource capital in the new global economy (Demediuk, 2002). The geometric expansion of information and data in the transforming global economy has increased the attention to managing knowledge-based assets in firms. Several earlier studies found that a merging of business strategy with the organization's internal capabilities would inevitably result in superior outcomes and objectives attainment (Pitts & Lei, 2003; Sullivan, 1999). An organization's internal capabilities encompasses corporate wide knowledge, skills and the actual activities of the firm. In the new economy, the organization's knowledge-based assets, such as knowledge embedded in the individual and organization as a whole, form the most significant component of an organization's internal capacity and competitive advantage (Reuber & Fischer, 1997). Thus, the performance and success of a firm depends on the extent to which it manages its knowledge-based resources.

Stewart suggests that the current global economy stands on three primary 'pillars': (1) knowledge is a purchasable item, a saleable item, and it is what we 'do'; (2) knowledge-based assets have become critical to a firm; and (3) for a firm to succeed, new management techniques, new technologies and new strategies are required to clarify and organize the knowledge-based assets (Stewart, 2002).

The knowledge embedded in individuals and organizations is broadly regarded as 'intellectual capital' (Demediuk, 2002; Stewart, 2002; Sullivan, 1999). Despite no universal and unequivocal consensus on the precise definition, there is a general and sufficient agreement on the definition. Scholars in the field propose that intellectual capital is comprised of three main parts: human capital, relational capital and organizational capital. Human capital represents personnel knowledge, competency and brain power. Relational capital pertains to the relations with customers, suppliers, distributors and others related parties. Organizational capital refers to the systems, culture, processes and practices of the firm. Prior studies have shown that specific and deliberate human resource practices support the creations of unique competencies and consequently generate competitiveness (Cappelli & Crocker-Hefter, 1996; O'Donnell et al., 2003). More specifically, human resource refers to the accumulated stock of knowledge, skills and abilities of the individuals within the firm (Kamoche & Mueller, 1998), and human resource management tends to increase the value of human capital and the value of expected output, most notably productivity gains. In most of the intellectual capital literature, researchers agree that human capital or employee 'know how' is a part of intellectual capital (Jinini, Dahiyat, & Bontis, 2019; Sveiby, 1997).

Intellectual Capital Management

Johannessen et al posit that intellectual capital is required to operate within an environment of increased upheaval, knowledge requirements and change (Johannessen & Olsen, 2003). In addition, Ulrich suggests three reasons why intellectual capital management is critical in a firm: (1) the demand for knowledge workers in a growing global service-based economy is increasing (entities linked to human capital); (2) the 'first line' of personnel has become increasingly important to customer value (entities linked to networks); and (3) learning and innovation are increasingly important in the new economy (Ulrich, 1998).

The resource-based view suggests that knowledge of organizational competencies is rooted in the organizational resources and in the complementarity between skills and technologies (Mouritsen, Larsen, & Bukh, 2001). But this view does not illustrate how to deploy the resources in order to exploit them (Peppard & Rylander, 2001) (Ambrosini & Bowman, 2001). According to Buller and McEvoy, performance differences across organizations can be attributed to the variance in the organizations' resources and capabilities (Buller & M. McEvoy, 2012). Finney et al argue that resource management is the foundation of sustainable competitive advantage (Finney, Campbell, & Powell, 2005). Unsurprisingly, most of the empirical studies in the resource-based field have found positive direct effects of resources on performance (Hitt, Ireland, Camp, & Sexton, 2001). The value organizations obtain from their intellectual capital is the result of a well-reasoned, well-planned and well-executed set of management initiatives (Harrison & Sullivan, 2000). They also argue that organizations design initiatives in order to ensure that specific forms of value deemed important to the organizations' business strategy are routinely extracted from the organizations' intellectual capital. To date, few scholars have identified the specific steps needed in order to manage intellectual capital more effectively (Buller & M. McEvoy, 2012). Organizations are required to develop distinct intellectual capital management in order to exploit their intellectual capital. Only when intellectual capital management is present, the intellectual capital of the organization can be tapped effectively to support strategy.

Internationalization and Young AM Firms

For young AM firms, the expansion into other global markets is an important and complex decision—internationalization is increasingly a competitive necessity, especially in financial service sectors. However, resource constraints and 'liabilities of newness' exacerbate the challenges and risks involved (Autio, Sapienza, & Almeida, 2000; Oviatt & McDougall, 1994). Even with the cross-border harmonization of laws, rules and regulations, operating in other markets means that existing knowledge and capabilities are often perceived as not applicable, and the firm has to develop new knowledge and capabilities in order to succeed (Sapienza, De Clerq, & Sandberg, 2005). The issue of how firms acquire the knowledge for this endeavor has historically been within the field of internationalization process theory (Johanson & Vahlne, 2003). This implies the use of experiential learning – the slow accumulation of knowledge over time, rather than congenital learning. The problem is that the insights from experiential learning as a sub-field of study offers no predictive value because young firms lack this experience. The implication is that congenital learning, the focus of this paper, is key to young firm performance. Keupp et al refer to the 'black box that remains in international entrepreneurship research and the question of 'why young firms are able to internationalize, i.e., what elements such as ‘strategic management, access to resources, knowledge, and information, firm capabilities, and innovatory advantages that enable entrepreneurial firms to internationalize . . .’ (Keupp & Gassmann, 2009). This is a very specific research gap that can be filled and is discussed further below in the research opportunity and methodology employed sections in this paper.

Congenital Learning and Absorption

Founders or key principals in a firm are important providers of knowledge critical to the organizations start-up phase, and can be regarded as ‘instigators and shapers of organizational strategy’(Reuber & Fischer, 1997). Huber defined this founders knowledge as ‘Congenital Knowledge’(Huber, 1991). Chetty and Campbell-Hunt suggest that founder specific knowledge can open opportunities on a global scale, is an important determinant of international success, and allows for more appropriate decision making (Chetty & Campbell-Hunt, 2004). This paper draws on insights regarding congenital learning as a learning process within the context of internationalization of a young firm. This knowledge based view is a derivative of the resource-based perspective where knowledge is regarded as the most important resource of the firm (Grant, 1996). Grant also posits that the primary source of a firm’s international knowledge lies within the prior international experience of its management team. Hambrick and Mason suggest managers are influenced by their personal history and thus have biases, attitudes, values, aspirations and behaviors based on personal experiences (Hambrick & Manson, 1982). For firms that lack international experience, internationalization can be harnessed by the founders’ knowledge acquired during previous international experiences (Oviatt and McDougall, 1994; Sapienza *et al.*, 2006).

Individuals who have material amounts of time spent overseas, will develop greater familiarity and understanding of the respective international environments. As key personnel, this experience translates into a reservoir of international knowledge. It is thus likely that young firms with greater pools of international knowledge will ultimately pursue higher levels of internationalization and likely to perform better. Such congenital learning should impact a young AM firm's extent of internationalization through two mechanisms (Leonidou, Katsikeas, and Piercy, 1998): (1) perceptions and attitudes, and (2) capabilities and performance. First, the more international experience founders have, the more alert and exposed they will be to opportunities in foreign markets and the less risks they will perceive associated with internationalization. As a result, they are more likely to pursue an internationalization strategy in the first place and to venture out into foreign markets that are more distant geographically (Oviatt & McDougall, 1994). Second, international experience increases the founders' capabilities to formulate and execute their internationalization strategies and, thereby, improves the AM firm's international performance (Reuber & Fischer, 1997).

Empirical evidence largely supports the linkage between the international knowledge held by the management team and firm internationalization in studies of both existing firms and smaller, entrepreneurial ventures (Reuber & Fischer, 1997). Sapienza indicates that literature recognizes the importance of founder's knowledge in firm survival, but harnessing that knowledge is less clear. He further suggests that the congenital learning process is useful as a mechanism because it illustrates how a firm transforms both tacit and explicit founder knowledge into updated and valuable knowledge (Sapienza et al., 2005).

Reuber and Fischer propose that congenital learning influences the firm by determining early internationalization and actually speeds up international market entry (Reuber & Fischer, 1997). Kuemmerle concludes that it increases the likelihood of international expansion (Kuemmerle, 2002). Regarding interactive effects with other learning processes, Fernhaber et al suggest that congenital learning reduces the influence of vicarious learning from partners on internationalization and thus has a compensating effect (Fernhaber, McDougall-Covin, & Shepherd, 2009). A number of studies have pointed to the interconnected effects of congenital learning with other processes. These studies conclude, inter alia, that congenital learning together with social capital, network ties, a general entrepreneurial aptitude, and learning process diversity have a combined effect on internationalization (Chandra, Styles, & Wilkinson, 2009; Gerschewski, Rose, & Lindsay, 2014; Kocak & Abimbola, 2009; Schwens & Kabst, 2009; Yeoh, 2004).

Despite the optimistic research, it has been noted that founders knowledge can also cause a ‘competence trap’ (Leonard, 1992). Other risks include inertia (outdated founders’ knowledge) and negative attitudes towards the knowledge and the structures created to harness them (costs outweigh perceived benefits by personnel) which prevents transmission and transformation.

Absorption of congenital knowledge is critical in small firm performance. The basis of knowledge management structures is the arrangements of combining congenital knowledge and absorptive capacity. Absorptive capacity has been defined as ‘the ability to recognize the value of new information, assimilate it, and apply it to commercial ends’ (Cohen & Levinthal, 1990). Absorptive capacity is determined by the firms exiting internal resources, existing tacit, and explicit knowledge, routines, management competencies and culture (Gray, 2006). Developing the means for knowledge sharing is critical in an effective organization, and this includes both recovered knowledge (transfer and transformation) and update knowledge (new knowledge flowing through open structures within the firms networks) (Wong & Aspinwall, 2004). In summary, absorptive capacity is a process of knowledge accumulation over time combined with the firm’s ability to recognize new knowledge that increases performance.

Two subsets of absorptive capacity have been proposed: potential and realized. Potential absorptive capacity (PACAP) refers to the ability acquire and organize knowledge, while realized absorptive capacity (RACAP) focusses on the firms ability to leverage knowledge and transform it successfully (Zahra & Hayton, 2008). The author focusses on RACAP in this paper and thus the exploitation of knowledge. Managerial support is thus key to this process of exploiting and transforming founder knowledge. It is the managers that implement the knowledge structures within the organization. For this to be effective, concepts of common language, culture, trust and availing oneself of this knowledge are important.

The relationship between congenital learning and RACAP is such that the former should impact the latter in a firm that is operating effectively. Huber suggests that firms that have created a strong learning culture, may also be effective at transferring, transforming and updating knowledge, in addition to adapting behavior to utilize the new knowledge (Huber, 1991). Stated differently, an effective firm acquire information, interpret it comprehensively, and transform it into firm-wide knowledge. This implies that RACAP concerns both individual and organizational change and transformation. Furthermore, it also implies that achieving RACAP requires coordination and cooperation of the entire firm in making congenital learning the initial phase in new knowledge structures. All individuals in the firm are involved, not merely managers, and thus the firm is required to adhere to a general consensus and common language.

Therefore, to strengthen RACAP and influence international frim performance, a young firm must be flexible in its structure to combine congenital knowledge and be effective in updating existing knowledge and creating new knowledge for all personnel. Unlike the work of Bruneel et al that considered international relations as critical, this paper suggests that congenital learning is a critical first step prior to considerations of such relations (Bruneel, Yli-Renko, & Clarysse, 2010).

For a firm to be operationally effective and achieve the desired levels of performance, the congenital learning process needs to be executed. It is suggested that this process is operationalized using three sub-dimensions of congenital learning (1) the transfer of knowledge (transmission via formal and informal meetings), (2) the ability to retain the transferred knowledge (transformation), and modifying behavior (Huber, 1991).

Theoretical Development

This paper has studied the gap in the literature, described above, by utilizing insights from organizational learning theory to create a conceptual framework, for potential future empirical verification, that examines the combined and interacting effects of congenital learning on the extent of internationalization of young firms, few of which will be AM firms given the dearth of information on the sector. The paper analyzes the congenital knowledge that an asset management firm’s principals carry forward from previous international experiences and its effect on the extent and speed of internationalization.

The paper also includes prior international entrepreneurship research that has shown key personnel’s prior experience to impact internationalization by testing whether a start-up team’s congenital knowledge base can compensate for a firm’s lack of direct experience at the early stages of internationalization, and whether this effect diminishes as a firm gains experience (Crick & Jones, 2000; Leonidou, Katsikeas, & OPiercy, 1998).

Hypothesis 1: The greater the congenital learning from the key personnel at the time of international expansion, the greater the degree of internationalization of a young AM firm.

It is clear that founders have knowledge that encompasses experiences and skill over time, when combined can overcome barriers to internationalization. Congenital knowledge provides founders with a greater ability facilitate the acquisition of external knowledge, technological change and production processes (Shane, 2013). Furthermore, congenital knowledge mat also further the acquisition of new knowledge and the ability to service clients more effectively.

Hypothesis 2: The congenital learning process is positively correlated to RACAP.

Autio notes that knowledge of international markets and operational peculiarities are important for the small firm international performance levels (Autio et al., 2000). Johanson et al concur and state that firms need a 'know-how' prior to expanding abroad (Johanson & Vahlne, 2006). This implies that as the extent of knowledge increases, the firm's likelihood of success increases as it can allocate key resources efficiently to achieve success. Zahra et al indicate that RACAP is thus not only a method of transferring new knowledge, but a mechanism for firms to exploit this knowledge (Zahra & Hayton, 2008). RACAP infuses the firm with new ideas, increases firm wide understanding, and increases creativity (Gray, 2006). Johanson et al provide a caveat to the above by stating that international expansion and operations depends on the extent of knowledge that has been accumulated within the firm when it implements RACAP (Johanson & Vahlne, 2006). It is evident from the literature that RACAP is a key process in the internalization process of a small firm and increases the firm performance, or at least the likelihood thereof.

Hypothesis 3: A sufficient degree of RACAP will positively influence the firm's international performance.

There is clearly support for the effects of congenital learning at the early stages of internationalization, but there is little evidence concerning the continuation of this impact once the firm starts accumulating international experience. In the broader management literature, studies have established that a founder's background and a venture's founding strategy have a long-lasting impact on the firm's long-term performance, but that these imprinting effects tend to fade as the firm experiences environmental variation that requires it to adapt and change (Oviatt & McDougall, 1994). Thus, one would expect the level of experiential learning to moderate the effect of congenital learning on internationalization. AM Firms with lower levels of international experience should benefit more from congenital learning than AM firms with higher levels of international experience. The reasons for this are as follows: First, an AM firm's experiential learning is more recent and more accurate than the principals' prestart- up experience. Second, the principals experience has usually taken place in a different context. Finally, there are often inefficiencies and inaccuracies involved with transferring and applying knowledge from prior contexts.

Therefore, it follows that as a young AM firm gains more international experience through operating in foreign markets for an increasing length of time, it will increasingly rely on experiential learning from the AM firm's own activities, and the importance of congenital learning will diminish.

Hypothesis 4: The smaller the extent of a young AM firm's level of experiential learning, the greater the positive relationship is between congenital learning and the extent of internationalization.

Method

The paper focusses on asset management given its intensity of intellectual capital, the global nature of such a firm's environment, the dynamic environment within which they operate which is important for knowledge accumulation, and the high level of failure or lack of growth for such AM firms generally. Thus, to test the above hypotheses on a conceptual basis and to present a framework for analysis, it is proposed that the analysis includes a sample of young AM firms globally, rather than locally or regionally. The criteria for age define the firms as 10 years old or younger, conducting investment activities on behalf of clients and authorised by the FCA and/or SEC, and developing/managing new investment products or services. The paper focus is on young AM firms because: (1) organizational learning is important for the firms' development and growth; (2) key external relationships have been shown to have a significant impact on young firms; and (3) the paper seeks to capture congenital learning effects which may fade over time. Focusing on *young* asset management firms rather than *new* firms, which are typically defined as less than five years old (Hitt et al., 2001), enables examination the effects of experiential learning (which accumulates over time).

The paper focusses on AM firms from multiple regions. Clearly by focussing on one region, the sometimes the unobserved heterogeneity among AM firms resulting from variance in environmental conditions is reduced. For example, London is a financial centre globally and the AM firms are very concentrated in a square mile area and subject to the same regulatory environment. However, the generalization and portability of findings in organizational studies is one of the primary critiques in this field of study. Thus, this paper will forego the benefits of heterogeneity to harness the potential generalizations that may flow from the conclusions.

To identify the sample, the FCA and SEC databases would be used to identify asset management firms that qualify for the study. Over a period of a couple of months, the CEO's or executive directors would be surveyed on the basis that they are most informed about the history, performance and processes of the AM firm, particularly regarding internationalization. The author proposes that these key personnel are contacted by telephone prior to sending survey questionnaires to assist in increasing the response rate. It is anticipated that the response rate will be between 15% and 15% given the executive management level of individuals surveyed. The study will use a single response design and as a result will also implement the controls necessary for common method issues. The survey will consist of questions that will not explicitly refer to international performance resulting from congenital learning or RACAP so as to avoid respondents attention to the relationships being studied. The questions will appear as a broader management culture, internal network ties, and transfer of knowledge for succession purposes.

Regarding the measures and consistent with the relevant extant literature, the author conceptualizes the degree of internationalization considering both the scale and scope of international revenues (Fernhaber, Gilbert, & McDougall, 2008). To add a layer of complexity, the analysis ascribes a weight to the revenues by the geographic distance of each foreign region. Distance is used as a proxy for potential impediments to the free-flow of knowledge. The study attempts to determine the extent and inter-relationship of the independent variables of congenital and RACAP learning on the performance of a young AM firm.

The questionnaire will consist of 20 questions sub-divided in the following manner: 8 questions based on congenital learning; 8 questions considering RACAP; and 4 questions on firm performance. A seven-point Likert scale will be deployed. Congenital learning will be analyses from three perspectives: knowledge transfer, knowledge transformation, and the extent to which the organization is ‘open’. RACAP will be measured utilising factors deemed important by Zahra et al and consider both transformation (capability of firms to recognise appropriate knowledge) and exploitation (harnessing new knowledge). Finally, performance is measured in four ways: increased international revenue, international product development, international client retention and client satisfaction. These constructs are presented in Appendix 1.

The dependent variable in this study is the extent of internationalization, operationalized as a firm’s foreign revenues weighted by the geographic distance of the foreign markets. Following, but materially altering, the categorization approach of Sapienza, De Clercq, and Sandberg (2005), the paper allocates regions a weight that illustrates the geographic distance from the domestic market of the respective AM firm: a weight of 1 is assigned to local regions/countries, 2 to adjoining markets or under the same regulatory framework, 3 to another continent, and 4 to the rest of the world. London is used as the base market. For each region where an AM firm had realized revenues, the author multiplies the revenues (measured in USD for benchmark reasons) generated in that region with the index weight described above. The total of the weighted revenue data represents the extent of internationalization of the AM firm.

The dependent variable encompasses the outcomes of internationalization in terms of both scale and scope (Fernhaber, Gilbert, and McDougall,2008). The author uses a secondary data source to validate the dependent variable. The control variables used to ensure the consistency of the sample to achieve the objectives of the study are: firm size at incorporation; initial capital (non-regulatory capital); current age of the firm; tenure of firm principals; and senior personnel additions. Descriptive and correlation statistics would be generated from a linear regression to ensure validity and reliability of the sample.

Contribution and Limitations

The paper, in conceptual form, contributes to the literature in two primary ways: First, in developing and designing a testing framework for a research model grounded in organizational learning theory but analyzing the effects of congenital learning and RACAP on the performance of a young internationalizing AM firm. The paper may also provide a deeper understanding of how learning takes place in an international context for such an AM firm. In so doing, the paper attempted to extend prior research that has suggested that young firms possess learning advantages of newness (Autio et al., 2000; Sapienza et al., 2006). These advantages refer to a young firms' ability to increase the knowledge and capabilities needed for internationalization, unhindered by the restrictions of previously developed routines and habits, but also without the benefits of accumulated international experience (such as higher absorptive capacity (Sapienza et al., 2005) or an increased level of commitment to internationalization (Johanson & Vahlne, 2003). The paper suggests, conceptually, that the ability to utilize congenital learning sources and RACAP may be a key factor underlying learning advantages of newness— that by drawing on congenital learning and RACAP to substitute for a lack of firm-level international experience and other resources, young AM firms can take advantage of the absence of constraining routines while compensating for their limited experiential knowledge base. Second, the author expects the study to confirm the relationship between founder knowledge and knowledge structures for AM firms, as it does with other firms in other industries. Third, one would anticipate confirming the proposition of previous studies that the internationalization of young AM firms is positively influenced by new knowledge structures. Fourth, the author expects the results to confirm the notion that an ‘open’ organizational architecture is required to harness the benefits of transferring and transforming congenital knowledge to generate firm performance. The existence and transforming of knowledge are not sufficient but must be accompanied by dissemination. The sponsorship by managers of the knowledge dissemination through the organization’s architecture is key for the harnessing of RACAP.

In addition to the above, there are two primary implications in practice for asset management entrepreneurs. Firstly, congenital knowledge is critical for young AM firm internationalization and the development of a competitive advantage. Second, it is likely that without the initial momentum generated by the advantages of congenital learning, other forms and benefits of experiential and interorganizational learning will not be harnessed effectively to sustain competitiveness for the young AM firm.

The limitations of the study concern the focus of the study and the specific financial services firm selected. The focus has been primarily on congenital learning given the importance of the intellectual capital and prior experience of the founding key personnel of the AM firm. There are many other forms of learning related ‘constructs’ that one could consider that are associated with organizational learning in the context of this paper. Huber refers to this as the ‘breadth’ of organizational learning (Huber, 1991). Secondly, this paper focuses on young AM firms, and does not suggest that the results can be generalized to other firms. While young AM firms have a similar dependence on intellectual capital of the founding members as other firms in other sectors, further study is required in this area.

Future Research

A further study using the method developed here should include cases from different areas of the financial sector to corroborate the results in additional contexts, and possibly continue to extend the model. Such areas could include wealth management, financial product distribution companies, independent financial advisors and asset management companies of varying sizes. Research may uncover differences and similarities between these entities. It may also help to identify the effects, and their evolution, that financial services companies and products/services may have on internationalization.

Studies should also consider observation in ‘real time’, instead of only retrospective analysis, as was the focus of this paper. Research could also include one or more firms in the young stage, other firms that are in the adolescence of internationalization, and other entities already internationalized. This would allow a deeper examination of the processes and concepts under study.

Lastly, it would be important to understand how learning occurs at the interface between the internationalizing AM firm and other entities, such as vendors providing services to the AM firm. The use of theory on inter-organizational learning would examine these processes and it could investigate how this inter-firm knowledge is shared and used by the AM firm to expand internationally.

Conclusion

This research paper undertakes a conceptual study, in the context of young asset management firms internationalizing, the nature of the relationship between congenital learning and RACAP. The aim is to identify whether RACAP impacts on the young firm's international performance by undertaking an empirical analysis of an appropriate sample of asset management companies that have internationalized. Although conceptual, the author expects the findings to illustrate that in order to create positive attitudes toward internationalization, founders and managers need to generate and support the RACAP process. That is, the prevalence of internal organizational structures that encourage the transformation and exploitation of congenital knowledge is essential for these firms seeking superior international organizational performance.

Moreover, the author also anticipates that the study will highlight drivers of internationalization for young AM firms that create and foster learning processes. Results are expected indicating that transferring and transforming knowledge and the open organizational structure are processes that are simultaneous and interact with each other. Thus, the congenital learning process can foster the following advantages: encourage founders to question their information they possess; whether their approach to new knowledge is applicable; questioning may generate new interpretations of existing knowledge, or elimination of accepted wisdom.

This research proposal and its findings should create a justification for founders, managers and personnel to gather formally and informally to activate congenital knowledge to energize the implementation of knowledge capacities. The findings are likely to be critical in that for a young AM firm to develop, it will rely on the equilibrium between the founder's experience and updated capacities. By implication, failure to update manager congenital knowledge may result in a steady but 'suboptimal' status quo.

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Appendix 1: Study Constructs

CONSTRUCTS
Transfer of Knowledge
TRK_1: Founders interact with Managers at least twice a year and discuss the AM firm,environment and strategy
TRK_2: More than half of personnel interact with founders at least once a year
TRK_3: Other events are planned for managers, personnel and founders at least once a year
Transformation of Knowledge
TMK_1: Founders interact with personnel to solve problems
TMK_2: Founders originate and discuss potential projects and innovations
TMK_3: Managers meet with personnel to discuss founders ideas and views
Organizational Architecture
OA_1: Managers initiate product innovation and projects
OA_2: Managers recognize new information, absorb and disseminate it firmwide
RACAP : Transformation
RAC_1: AM Firm sub-unit meet regularly to discuss trends and developments
RAC_2: AM Firm sub-unit note and record new information
RAC_3: AM Firm sub-unit rapidly recognizes new information and its potential
RAC_4: AM Firm sub-unit regulalrly considers changes in market environment
RACAP : Exploitation
RAC_5: AM Firm sub-unit is very aware what activities fall in that sub-unit
RAC_6: Personnel have a common language on AM firms products/services
RAC_7: Personnel regularly review how to exploit new information
RAC_8: AM Firm sub-unit has clealy defined roles and responsibilities
Performance (International)
IPM_1: International revenues are increasing in recent accounting periods
IPM_2: AM Firms client retention is increasing compared to prior periods
IPM_3: International client satisfaction is high and/or increasing
IPM_4: AM Firms ability to create new products and services for international market