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## A resource-based analysis of realized knowledge relatedness in diversified firms

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## ABSTRACT

The competitiveness of related diversified firms depends upon their ability to exploit knowledge relatedness by using the internal knowledge transfer processes within the organizational network. However, most existing studies deal with *potential* knowledge relatedness at the *corporate* level, rather than focusing on *realized* knowledge flows among divisions at the *business unit* level. Little is consequently known about the very essence of related diversifiers, i.e., the management of knowledge flows within the corporate knowledge network. This study therefore attempts to bridge this research gap by distinguishing four knowledge roles within related firms and analyzing their relative performance outcomes. Based on a sample of 116 product divisions, results indicate that divisions playing a knowledge provider role outperform those that not play that role, thus signaling unique resource endowments in the formers. On the contrary, those divisions which plays a knowledge receiving role do not benefit from the internal accumulation of resources.

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## 1. Introduction

The increasing relevance of knowledge resources as regards firms remaining competitive in the global economy signifies that the sharing and transference of knowledge across and within firms' boundaries have attracted more and more interest from researchers and practitioners (van Wijk, Jansen, & Lyles Marjorie, 2008; Kumar & Ganesh, 2009; Ribièrè & Walter, 2013). The external transfer of knowledge across firm boundaries is best exemplified by mergers and acquisitions (Azan & Sutter, 2010) and strategic alliances (Khamseh & Jolly, 2014), whereas the internal transfer of knowledge has been extensively studied in multinational corporations (Gooderham, 2007).

The internal transfer of knowledge is particularly vital for related diversified firms, since the exploitation of knowledge relatedness is the cornerstone of this corporate-level diversification strategy (Breschi, Lissoni, & Malerba, 2003; Kor & Leblebici, 2005). Although many empirical studies analyze knowledge relatedness in multi-business firms (Lemelin, 1982; Markides & Williamson, 1994; Robins & Wiersema, 1995; Farjoun, 1998; Breschi et al., 2003; Tanriverdi & Venkatraman, 2005; Miller, 2006; Miller, Fern, & Cardinal, 2007; Neffke & Henning, 2013; Shin & Shin, 2013), an empirical examination of knowledge transfer within multi-business firms is lacking in literature with only a handful of exceptions (Villalero, 2013, 2014, 2015). This research gap is the consequence of a long-standing tradition in diversification studies according to which synergies are assumed to be realized rather than ascertaining whether or not they are actually realized (Davis & Thomas,

1993). These studies consequently assess the *potential* knowledge relatedness within a business portfolio, whereas the *realized* knowledge relatedness obtained via the cross-business unit transfer of knowledge is overlooked (Bausch & Pils, 2009).

Potential knowledge relatedness is usually captured by assessing the similarities between resource profiles throughout the SIC-based industries in which diversified firms are involved (Sambharya, 2000). However, the fact that externally-defined industries rely on common resources does not guarantee that the diversified firms that are active in those industries will pursue such inter-industry linkages internally (Pehrsson, 2006a). Diversified firms actually exploit the common resources within their industry portfolios in as much as the divisions into which they are organized are involved in knowledge exchange within the corporate network (Tsai, 2001). The intra-network knowledge flows are therefore a reliable indicator of the diversified firms' efforts to mobilize knowledge relatedness in actual terms. Rather than observing the *corporation* as whole, the study of realized knowledge relatedness imposes the need to adopt a fine-grained perspective based on the *business unit* level as the unit of analysis (Hauschild & Knyphausen-Aufseß, 2013).

Overall knowledge flows are not only informative of the corporate-wide efforts as regards benefiting from resource similarities within the industry portfolio, but their directionality also reveals the resource base of the divisions and, specifically, whether such resources are valuable, rare, inimitable and difficult to substitute (VRIN) as requested by the resource-based view of the firm (RBV) (Barney, 1991; Lin & Wu, 2014). Within the corporate knowledge network, divisions may participate in knowledge exchanges in which they either provide the rest of the corporation with knowledge or receive of knowledge from the rest

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of the corporation (Tanriverdi & Venkatraman, 2005). Becoming knowledge provider points to focal division's efforts at leveraging unique resource endowments; whereas becoming knowledge receiver is a sign that the focal division seeks to improve its resource base and uncovers efforts at accumulating resources. Put in other terms, the position of a concrete division as a knowledge provider or receiver is a reliable indicator of the underlying resource base on which that division is operating and the ensuing leveraging or accumulating intentions. Rather than assessing the potential value derived from the divisions' resource bases in an abstract manner as has been widely criticized when assessing the empirical studies on the RBV (Newbert, 2007; Kraaijenbrink, Spender, & Groen Aard, 2010), the *knowledge role* that divisions occupy within the corporate network is an actual, realized, behavior-based indicator of the divisions' resource bases as suggested in recent research on diversification strategy (Nath, Nachiappan, & Ramanathan, 2010; Hauschild & Knyphausen-Aufseß, 2013).

The present study fills the aforementioned research gaps by addressing realized knowledge relatedness at the business unit level. It does so using the concept of knowledge role as a resource-based indicator of the presence of VRIN resources within related diversified firms and the efforts at leveraging or accumulating such resources. In particular, the study analyzes the patterns and performance implications of knowledge flows among 116 product divisions in large Spanish firms with a related corporate strategy. Divisions are classified into four groups, starting from the extent to which the division is a user of knowledge from the rest of the corporation and the extent to which the division provides the rest of the corporation with such knowledge (Gupta & Govindarajan, 1991). Consistent with resource-based considerations, the results indicate that the divisions that play a knowledge provider role outperform those that do not play that knowledge role within the related firm, which supports the notion that knowledge outflows are a sign of having unique *resource endowments*. Consistent also with theoretically-derived expectations, the divisions that takes a knowledge receiver role do not outperform those that do not take that role, thus downplaying the allegedly benefits derived from internal *resource accumulation* processes.

The study contributes to existent literature by advancing the first empirical examination of *realized* knowledge flows in related firms at the *business unit* level, extending the classification of *knowledge roles* with theoretically-grounded, resource-based performance implications, shedding light on the performance consequences of knowledge transfer within firms, and providing an elaborated empirical test of the RBV within the context of diversification strategy.

## 2. Knowledge flows and related diversification

Research on related diversification has been focused on the similarities in resources throughout the industries in which related diversified firms participate, thus capturing potential knowledge relatedness in a somewhat imperfect manner (Pehrsson, 2006a). These types of studies have two shortcomings. First, they do not observe whether potential relatedness is actually pursued within the firm in the form of inter-unit exchanges, and second, they do not address the issue of whether the common resources within the industries' portfolios are indeed valuable, or are simply ordinary resources (Hauschild & Knyphausen-Aufseß, 2013).

The observation of actual knowledge flows within related diversified firms provides the opportunity to overcome these limitations by revealing the value of the resource bases and capturing realized knowledge relatedness. This study therefore presents a more analytical approach to related diversification that takes the corporate network of divisions as the starting point. A RBV is then used to show how knowledge flows within the corporate network reflect the underlying resource base on which divisions operate. A testable hypothesis is subsequently derived, which is based on the connection between knowledge flows, resource bases and division performance.

### 2.1. A network approach to diversification

Diversified corporations are internal markets in which transactions among business units or divisions occur in three key dimensions: capital flows, product flows and knowledge flows (Liebeskind, 2000). Certain divisions within the business portfolio of the diversified firm provide other receiving divisions with capital, products and knowledge with the purpose of obtaining synergies that may not otherwise be achieved (Teece, 1980, 1982).

This conceptualization of the diversified firm as a network of capital, product and knowledge flows is consistent with various theories regarding corporate strategy, such as transaction cost economics (Williamson, 1985), the resource-based view (Barney, 1991), the knowledge-based view (Grant, 1996) and the dynamic capabilities perspective (Teece, Pisano, & Shuen, 1997). Transaction cost economics was originally applied in order to analyze product flows in vertically-integrated firms, and it has also been applied to the study of capital flows in conglomerates (Hill, 1988). The resource-based view is useful when dealing with corporate diversification, and implies the use of the underlying resources that support product flows, which are technological resources (Robins & Wiersema, 1995), human resources (Farjoun, 1998) or other resources (Markides & Williamson, 1994). The knowledge-based view highlights the problems involved in organizing knowledge flows within diversified corporations (Szulanski, 1996; Kodama, 2006), whereas the dynamic capabilities perspective explains the path-dependent development of knowledge in the context of corporate diversification (Teece, Rumelt, Dosi, & Winter, 1994; Valvano & Vannoni, 2003; Piscitello, 2004).

The network approach to business diversification is not only consistent with theory, but also captures key differences among generic corporate strategies (Fig. 1). Let us, for example, consider the Rumelt (1974) classification into dominant, related and unrelated firms. Within the framework adopted in this work, unrelated firms would be characterized by capital flows originating from harvest divisions to build divisions (Staglianò, La Rocca, & La Rocca, 2014), dominant firms would be characterized by product flows from downstream divisions to upstream divisions (Raudszus, Schiereck, & Trillig, 2014), and related firms would be characterized by knowledge flows from successful divisions to other related divisions (Hauschild & Knyphausen-Aufseß, 2013).

This conceptualization of diversified firms has been empirically applied in order to study both capital flows (Govindarajan & Gupta, 1985; Gupta & Govindarajan, 1986) and product flows (Govindarajan & Fisher, 1990), but no analysis of knowledge flows exists. This is an interesting research opportunity, since the best-performing related strategy is largely based on knowledge flows among divisions (Tanriverdi & Venkatraman, 2005; Kodama, 2006). Moreover, knowledge flows within multinational corporations have been investigated (Gupta & Govindarajan, 2000; Foss & Pedersen, 2002; Schulz, 2003), which allows this research on geographical diversity to be applied to the study of product diversity (Gupta & Govindarajan, 1991; Ellis, 2000). From here on, this article focuses on knowledge flow patterns in related diversified firms according to a RBV.

### 2.2. Knowledge flows and resource base

In a resource-based framework, the internal transference of knowledge enables the mobility of core competences within the firm (Fang, Wade, Delios, & Beamish Paul, 2007). The existent empirical studies adopt a macro-analytic approach according to which no distinction is made between knowledge inflows and knowledge outflows, and the knowledge provider or knowledge receiver roles of business units are consequently not considered. The principal point of this study is that the divisions' knowledge provider role within the corporate network reveals the underlying resource base on which those divisions operate.

In related diversified firms, each division is a user of knowledge from the rest of the corporation in addition to providing the rest of the

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