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International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Full length article

How foreign knowledge spillovers by returnee managers occur at domestic firms: An institutional theory perspective

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ARTICLE INFO

Keywords:

Foreign knowledge spillovers
Absorption barriers
Knowledge grafting
Returnee managers
Institutional theory
Boundary spanners
China
Qualitative study

ABSTRACT

Instead of treating the spillover process as a black box, this paper conducts a qualitative study of foreign knowledge spillovers by returnee managers at Chinese firms. Unlike mainstream spillover studies which adopt economics approaches, this paper uses an institutional theory perspective and regards returnee managers as boundary spanners. Results show that returnee managers' boundary-spanning activities in the form of social interaction, including building relationships with colleagues and transforming their identities from outsiders to insiders, help gain legitimacy for their new roles. Their boundary-spanning activities in the form of grafting foreign knowledge, including understanding existing knowledge resources, introducing foreign knowledge to colleagues, and integrating foreign knowledge with domestic firms, help gain legitimacy for foreign knowledge. Foreign knowledge' contributions in new product development at product, process, and cultural perspective levels reinforce its institutionalization at domestic firms. Absorptive barriers include domestic firms' administrative heritage and returnee managers' arduous relationship with others.

1. Introduction

Returnee managers are those who pursued academic degrees and had experiences at multinational enterprises (MNEs) in developed countries before returning to work at domestic firms in their home countries (Chen, Tan, & Jean, 2016). They represent an important channel for knowledge spillovers from MNEs, and their foreign knowledge contributes to domestic firms in areas of internationalization strategies (Cui, Li, Meyer, & Li, 2015), corporate governance practices (Lee & Roberts, 2015), and regulatory compliance programs (Cumming, Duan, Hou, & Rees, 2016).

Thanks to its rapid economic growth, China has attracted increasing numbers of returnee managers. In the early 2010s, about half of the three million Chinese leaving for overseas studies in the past three decades have returned to China (South China Morning Post, 2014). However, recent evidence suggests that when transferring foreign knowledge to domestic firms, returnee managers go through tensions and contradictions with their colleagues and firms' strategies (Cui et al., 2015).

Yet, existing econometric studies treat the knowledge spillover process as a black box (Görg & Strobl, 2005), little attention is paid to what happens to returnee managers when they cross organizational boundaries and transfer foreign knowledge from MNEs to domestic firms. To fill this gap, this paper asks the research question: *How do foreign knowledge spillovers by returnee managers occur at domestic firms?*

To address this question, this paper follows Roberts and Beamish (2017: 512) to construe returnee managers as boundary spanners, who are “unique individuals in an organization who relate the internal organization to the external environment.” Kostova (1999: 308) considered the success of transferring organizational practices as “the institutionalization of the practice at the recipient unit,” which means, “a practice achieves a taken-for-granted status at the recipient unit—a status of ‘this is how we do things here.’” Her work suggests that institutional theory is a well-suited theoretical basis for understanding knowledge spillovers. Hence, this paper uses institutional theory to analyze knowledge spillovers. Taken together, foreign knowledge spillovers by returnee managers are conceptualized as returnee managers acting in the role of boundary spanners to institutionalize foreign knowledge at domestic firms.

This article is grounded in a qualitative study. Locke (2001) suggested that qualitative methods are useful for capturing a newly emerging yet underexplored phenomenon, which, in this study, is foreign knowledge spillovers by returnee managers. Further, drawing on rich qualitative data, the inductive approach allows for an in-depth investigation of the complex and dynamic nature of the knowledge spillover process, which is less accessible through quantitative data and analysis (Eisenhardt, 1989).

Based on the findings of sixteen returnee managers at eight Chinese automobile companies, this paper contributes to research on knowledge spillovers and returnee managers. First, Eapen (2012: 246) once

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<https://doi.org/10.1016/j.ibusrev.2017.10.011>

Received 27 July 2016; Received in revised form 30 October 2017; Accepted 30 October 2017
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criticized the extant study for holding “an under-socialized view of spillovers.” In contrary, this paper uses an institutional theory perspective to investigate foreign knowledge spillovers. Second, instead of treating the knowledge spillover process as a black box (Görg & Strobl, 2005), this paper offers insights into this process, in which returnee managers act as boundary spanners to institutionalize foreign knowledge at domestic firms.

Third, rather than quantitatively assessing their contributions as previous studies do, this article widens the understanding of their contributions, which range from the tangible to the intangible in the areas of new product development. Finally, this article complements the notion of absorptive capacity in the extant literature (e.g., Roberts & Beamish, 2017) by providing a rare glimpse into absorptive barriers.

2. Literature review

The author began by searching the extant literature for concepts related to returnee managers' activities in the foreign knowledge spillover process. Given the research question of this paper, it was decided to review existing theory and research on knowledge spillovers, boundary spanners, and institutional theory.

2.1. Returnees managers as boundary spanners for foreign knowledge spillovers

Knowledge spillovers are “knowledge spread without a contractual relationship” (Meyer, 2004: 260), representing “informal flows of... knowledge” (Perri & Peruffo, 2016: 3). Knowledge resources include information, technologies, practices, and know-how (Grant, 1996), and the extent to which domestic firms could gain from knowledge spillovers depends on their absorptive capacity (Roberts & Beamish, 2017). Spillover research is “characterized largely by economic arguments” (Eapen, 2012: 246), attempting to link MNEs' investment level to domestic firms' productivity change. Channels for knowledge spillovers include competition effects, demonstration effects, common business linkages, and employee turnover (Spencer, 2008).

Employee turnover in the form of returnee managers is widely recognized as an effective channel for spillovers from MNEs to domestic firms (Fu, Houb, & Sanfilippoc, 2017). Econometric evidence shows that returnee managers have superior capabilities, deliver higher productivity, and receive a wage premium (Hakkala & Sembenelli, 2012). Following Roberts and Beamish (2017), this study conceives of returnee managers as boundary spanners. Returnee managers' access to foreign knowledge across organizational boundaries can help domestic firms go beyond local search for technology, because “spanning interfirm boundaries naturally leads to spanning more technological boundaries” (Rosenkopf & Nerkar, 2001: 288). Yet, how returnee managers act as boundary spanners and transfer spillovers from MNEs to domestic firms is little known, “due to the lack of detailed firm level information on the presence of returnees in Chinese companies” (Fu et al., 2017: 580). This is unfortunate, since it is increasingly common that returnee managers are employed for higher-ranking positions at domestic firms (Chen et al., 2016).

2.2. Institutionalizing foreign knowledge at domestic firms

This study, building on the work of Greenwood, Oliver, Sahlin, and Suddaby (2008: 29), which “examines how the organization might be treated as an institutional context for understanding intraorganizational behavior,” extends institutional theory to the intraorganizational level. In keeping with Zilber (2002: 237), who regarded ‘institutionalization as an interplay between actors, actions, and meanings,’ this study examines returnee managers' institutionalizing foreign knowledge as the interplay between returnee managers, their boundary-spanning activities, and the meanings they create for foreign knowledge. Foreign knowledge is institutionalized at domestic firms, when it manifests

“relatively self-activating social processes’ (Jepperson, 1991: 145) and reaches ‘a reality-like status’ (Zilber, 2002: 234).

Large, complex organizations with formal structures and procedures to achieve specific goals, such as domestic firms in this study, can be viewed as institutions (Elsbach, 2002). Domestic firms as institutions are an enduring system of values and meanings (Zilber, 2002), which are imposed upon individuals by regulatory, cognitive, and normative conventions (Scott, 2005). Knowledge resources of domestic firms are “infused with value beyond the technical requirements at hand” (Selznick, 1957: 17), and firm decision-making about knowledge resources is “habitual, unreflective, and embedded in norms and traditions” (Oliver, 1997: 701). As domestic firms tend to “perpetuate institutionalized structures and behaviors” (Oliver, 1997: 700), the attempts to institutionalize foreign knowledge may lead to institutional contradictions (Seo & Creed, 2002) with the vested interests and existing social relationships.

Gaining legitimacy for foreign knowledge establishes the basis for institutionalizing foreign knowledge at domestic firms. Legitimacy is defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 579); and a lack of legitimacy is perceived as a liability (Schmidt & Sofka, 2009). To gain legitimacy, foreign knowledge needs to create congruence with domestic firms' values, meanings, and expectations to make it comprehensible and understandable (Meyer & Rowan, 1977).

2.3. Social interaction

Domestic firms and MNEs have different or even incompatible meaning systems, due to the institutional distance between the two. Institutional distance refers to “the difference... between the regulatory, cognitive, and normative” dimensions of two organizations (Kostova & Zaheer, 1999: 71). Though the notion of institutional distance is usually employed at the national level, this article, following Ahmadjian's (2016: 13) idea that “national institutional systems shape the strategy, structure, and fundamental assumptions of firms,” applies this notion to the organizational level.

Acting as boundary spanners to enter unfamiliar organizations, returnee managers have little or no knowledge about meaning systems of domestic firms, and thus may inadvertently conduct behaviors not aligned with regulatory, cognitive, and normative dimensions of domestic firms. As a result, they would undermine the legitimacy of their new roles and suffer from liability of newness (Krackhardt, 1996).

One of the ways in which returnee managers could enhance legitimacy for their new roles is to get involved in social interaction with colleagues, because collectively shared meaning systems of an institution are created and maintained through social interaction (Scott, 2005). The literature on boundary spanning also suggests that the effectiveness of boundary spanners is contingent on their social interaction with individuals in other organizations, which have ‘different world view’ (Birkinshaw, Ambos, & Bouquet, 2017: 441) and speak “idiosyncratic language” (Tushman & Scanlan, 1981: 290). Once getting to know meaning systems, returnee managers can conduct socially appropriate behaviors to gain approval and legitimacy for new roles.

However, due to the institutional distance between MNEs and domestic firms, the taken-for-granted assumptions and norms in social interaction at domestic firms may be difficult for returnee managers to comply (Xu & Shenkar, 2002). For example, social interaction at Chinese firms emphasizes guanxi, which involves dynamic reciprocity and attention to personal events in each other's private life, while social interaction at MNEs favors maintaining arms-length, formal, and contract-based relationships in the workplace (Ahmadjian, 2016). Returnee managers, influenced by norms and values of MNEs in foreign countries for years, may prefer to evoke formal rules rather than to build personal relationships with others (Lin, Lu, Liu, & Zhang, 2016). Yet, acting as

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