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Knowledge flows in the emerging market MNC: The role of subsidiary HRM practices in Korean MNCs

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ABSTRACT

We develop and test a new model of knowledge flows in the emerging market multinational corporation (MNC) based on the way people are managed in its foreign subsidiaries. Extant literature argues that, to facilitate effective intra-MNC knowledge transfer, subsidiaries need to (a) possess human capital, (b) encourage inter-unit socialization of human capital. However, the impact that a subsidiary's human resource management (HRM) practices have on these relationships remains under-researched, especially for MNCs from emerging markets. Using questionnaire survey data from senior managers of 86 Korean MNC subsidiaries in the UK, France and Germany, we find that different aspects of subsidiary HRM practices exhibit different direct and indirect effects. HRM practices based on formalized procedures weaken the effect of socialization, but strengthen that of human capital, while empowering practices within the subsidiary weaken the effect of human capital, but strengthen the effect of socialization. Overall, establishing a participative climate *within* the subsidiary enhances both knowledge in- and outflows at the level *of* the subsidiary in the emerging market MNC.

1. Introduction

One of the most critical strategic resources available to multinational corporations (MNCs) is the dispersed knowledge of the organization's workforce. The MNC's effectiveness in transferring knowledge internally is a key determinant of competitive advantage and performance (e.g., Björkman, Barner-Rasmussen, & Li, 2004; Gupta & Govindarajan, 2000; Minbaeva, Foss, & Snell, 2009; Minbaeva, Pedersen, Björkman, Fey, & Park, 2003). Knowledge transfer within MNCs, however, is no mean feat. Scholars have pointed out that a subsidiary's ability to learn (absorptive capacity), its willingness to share (disseminative capacity) and the nature of inter-unit relationships (corporate socialization) can all act as impediments to knowledge transfer (Björkman et al., 2004; Gupta & Govindarajan, 2000; Minbaeva et al., 2003; Wang, Tong, & Koh, 2004). Knowledge residing within MNCs is also notoriously 'sticky' (Szulanski, 1996).

An emerging stream of literature addresses the issue of intra-MNC knowledge flows from a 'subsidiary capital' perspective. This suggests that various forms of intangible capital, including human and social impact individuals' motivational disposition to send and receive knowledge (Mäkelä, Björkman, & Ehrnrooth, 2009; Morris, Snell, & Wright, 2006; Wright, Dunford, & Snell, 2001). The arguments for human and social capital are well-established. Subsidiaries those are high in human capital act as providers of knowledge to the rest of the MNC (e.g., Frost, Birkinshaw, & Ensign, 2002). Where subsidiary employees are well-educated and skilled, they are also more able to recognize the value of knowledge and to assimilate and apply it (Minbaeva et al., 2003). From a social capital perspective, intra-corporate socialization and tight coupling between units can boost internal knowledge transfer within the MNC (Gooderham, Minbaeva, & Pedersen, 2011; Gupta & Govindarajan, 2000; Minbaeva et al., 2003). In contrast to human and social capital, a third focus in the literature has been on the organization's human resource management (HRM) practices (Pfeffer, 1994, 1998a), including employment security, selective hiring, decentralization, performance-based compensation, job-related training, reduction of status differences and sharing of corporate information (Pfeffer & Veiga, 1999; Evans & Davis, 2005). These practices engender commitment in employees, reduce employee turnover and boost productivity (Huselid, 1995). Such

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practices have been shown to stimulate knowledge flows within the MNC by improving disseminative and absorptive capacity in overseas subsidiaries (Minbaeva et al., 2003).

Despite these insights, there remains a gap in our understanding of how these various forms of subsidiary capital interact in enabling knowledge to flow into and out of subsidiaries of emerging market MNCs. Firstly, HRM studies of knowledge transfer in developed country MNCs have largely focussed on either knowledge inflows or knowledge outflows, but not both (e.g., Simonin & Özsomer, 2009; Yamao, de Cieri, & Hutchings, 2009). Secondly, the literature also shows a lack of clarity in terms of the principal effect of practices vis-à-vis formalized practices that develop employees vs. empowering practices. Few have examined the effect of a range of HRM practices on knowledge-related phenomenon (Minbaeva, 2005). Thirdly, scholars have shown how knowledge-seeking and 'reverse' knowledge transfer to headquarters are key motives for MNCs from emerging markets to enter developed countries (Hoskisson, Kim, White, & Tihanyi, 2004). Indeed, collecting market information and proximity to customers are principal motives for latecomer Asian MNC investment in western markets (e.g., Poon, Hsu, & Suh, 2006; Wright, Filatotchev, Hoskisson, & Peng, 2005). Nevertheless, there are few studies that provide insight into subsidiary-level determinants of knowledge flows in emerging market MNCs.

We address these gaps in this paper. Firstly, we examine the relationship between human capital in the subsidiary, socialization between subsidiaries, HRM practices and both knowledge inflows *and* outflows. Secondly, we investigate the direct and moderating effects of two different types HRM practices (formalized practices vs. empowering practices) on knowledge inflows and outflows (Huselid, 1995; Pfeffer, 1994, 1998a,b; Pfeffer & Veiga, 1999). Thirdly, we test our model using a questionnaire survey of senior managers in 86 subsidiaries of Korean MNCs located in the United Kingdom, France, and Germany.

The main findings are as follows. Firstly, we observe that human capital, socialization and HRM practices do not have a uniform influence on both knowledge inflows and knowledge outflows. Both human capital and socialization in the subsidiary have a strong direct influence on knowledge outflows only when subsidiary HRM factors are not included in the model. The results for knowledge inflows are less clear. Secondly, the strongest models with the greatest explanatory power are when HRM factors are included. We find that the empowering aspect of a subsidiary's HRM (practices that encourage employee participation and commitment) have the strongest direct impact on knowledge flows. The moderating effect of HRM practices, however, appears to be differentiated. In the presence of formal practices designed to enhance individual task performance, the impact of human capital on both knowledge in- and outflows is enhanced. In the presence of empowering practices designed to engender commitment of individuals, the relationships are reversed: human capital has a negative impact on knowledge outflows while socialization has a positive impact on knowledge outflows.

Our contribution to the literature is threefold. Firstly, we extend models of knowledge flows in the emerging market MNC beyond human capital and social capital logic, exposing the differentiated direct and indirect effects of the subsidiary HRM. This approach lends strong support to those proposing an integrated subsidiary capital view for explaining knowledge dynamics within the MNC and highlights the importance of interaction effects amongst different forms of intangible subsidiary capital. Secondly, we provide insight into the contingencies under which knowledge inflows and knowledge outflows are facilitated in emerging market MNC subsidiaries. Thirdly, we extend theorizing on the MNC as a knowledge network. Our findings suggest that, by encouraging a participative environment locally, the subsidiary organization becomes more integrated into the knowledge repositories of the wider MNC. This augments MNC theory by emphasizing local intervention by HR and subsidiary managers as a way of activating the MNC knowledge network and mobilizing knowledge throughout the MNC.

2. Theory and model development

2.1. Knowledge flows in the MNC

The knowledge-based view treats the firm as a social community in which knowledge is stored and transferred more efficiently on an internal basis than through the external market (Kogut, 2000; Kogut & Zander, 1992). The stock of knowledge developed by a firm acts as its principal source of competitive advantage and the efficiency by which firm knowledge is created and transferred internally can determine the success of the firm vis-à-vis competitors (Gupta & Govindarajan, 2000; Kogut, 2000; Kogut & Zander, 1992; Kostova, 1999). For the MNC, knowledge is distributed internationally amongst a network of dispersed subsidiary units. A growing body of literature has emerged examining the antecedents and consequences of knowledge creation and transfer within such networks (e.g., Jensen & Szulanski, 2004; Minbaeva et al., 2003; Wang et al., 2004). This literature has emphasized how knowledge transfer relates not only to the sending of knowledge from a source to a recipient unit, but also its integration, understanding and application (Cohen & Levinthal, 1990; Hansen, 1999; Szulanski, 1996).

Szulanski (1996) described knowledge transfer as the "exchange of organizational knowledge between a source and a recipient" (Szulanski, 1996: 28) and identified four stages of knowledge transfer: initiation, implementation, ramp-up, and integration. The initiation and implementation stages comprise antecedents leading to a transfer decision and actual knowledge flow to a recipient. Ramp-up and integration relate to knowledge modification and exploitation. Similarly, Davenport and Prusak (1998) defined transfer as "Transmission + Absorption (and Use)". Hansen (1999) also referred to knowledge transfer as "(moving and incorporating) knowledge across organization subunits" (Hansen, 1999: 83). In this view, knowledge has not been transferred unless it has been absorbed. The common notion in these definitions of knowledge transfer is that successful transfer has taken place once the knowledge is utilized by the recipient.

2.2. Baseline hypotheses

Human capital within a subsidiary organization is likely to facilitate knowledge flows for two principal reasons. Firstly, levels of knowledge held by subsidiary employees determine the degree to which they are able to internalize and integrate transferred knowledge (Minbaeva et al., 2003). Subsidiary employees' ability to recognize the value of knowledge and to assimilate and apply it relies heavily on educational background and job related skills, i.e., the level of human capital within the subsidiary (Minbaeva et al., 2003: 589). Secondly, levels of skills and expertise within a subsidiary are associated with knowledge outflows from the subsidiary. A principal reason for this is the need for a developed subsidiary's knowledge by other units of the MNC. Some of the most important types of subsidiaries in terms of human capital are Centres of Excellence (CoEs), highly developed in a specialized area and providing important knowledge to the rest of the MNC (Frost et al., 2002). Specialized subsidiaries, such as those in R&D, also foster their own evolution and development by sharing knowledge with other parts of the MNC (Asakawa, 2001; Frost et al., 2002). Bartlett and Ghoshal (1989) depicted certain subsidiaries as strategic leaders within the MNC, generating new knowledge for