



Reverse knowledge transfer in emerging market multinationals: The Indian context



Smitha R. Nair^a, Mehmet Demirbag^{b,*}, Kamel Mellahi^c

^a Management School, University of Sheffield, 9 Mappin Street, Sheffield, S1 4DT, United Kingdom

^b Strathclyde Business School, University of Strathclyde, 199 Cathedral Street, Glasgow, G4 0QU, United Kingdom

^c Warwick Business School, University of Warwick, Coventry, United Kingdom

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ABSTRACT

This study examines knowledge acquisitions of Indian multinationals via overseas mergers and acquisitions. Specifically, the paper examines the effects of the perceived subsidiary capability, parent absorptive capacity, and the relevance of the target knowledge on reverse knowledge transfer. Using firm level data from a survey of Indian multinationals (with overseas acquisitions), we find that perceived subsidiary capability, knowledge relevance, and absorptive capacity positively influence reverse knowledge transfer. The results also highlight the moderating role of knowledge relevance and the mediating effects of absorptive capacity.

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1. Introduction

Transferring knowledge to the headquarter represents a major objective of emerging markets multinational enterprises (EM-MNEs¹) while setting up subsidiaries, especially in developed countries (Luo & Tung, 2007). Surprisingly however, few studies have explicitly focussed on reverse knowledge transfer (RKT)—knowledge flow from the subsidiary to the parent (Ambos, Ambos, & Schlegelmilch, 2006), especially within EM-MNEs. Thus, recently scholars have called for more research on RKT in EM-MNEs (c.f. Mudambi, Piscitello, & Rabbiosi, 2014; Rabbiosi & Santangelo, 2013). In contrast to the ‘forward diffusion’ (Thite, Wilkinson, & Shah, 2012) of knowledge in the context of multinationals from the developed world (DMNEs), the ‘reverse diffusion’ is more pertinent to EM-MNEs owing to their latecomer disadvantages and their constant attempts to overcome these disadvantages. These disadvantages and other liabilities associated with their home countries (Demirbag, Sahadev, & Mellahi, 2010; Mellahi, Demirbag, Cavusgil, & Wade, 2010) prompt these latecomers to fall back on strategic alliances, JVs (Joint Ventures) and M&As (Mergers and

Acquisitions) even with their global competitors (Bonaglia, Goldstein, & Mathews, 2007; Luo & Tung, 2007; Mathews, 2006) as a means of catching up rapidly and acquiring the vital competitive advantage required in global markets. Given the relevance of the catching up strategies displayed by EM-MNEs that could be attributed largely to RKT, and the lack of studies pertaining to RKT in the EM (emerging market) context, it is important to explore the same in EM-MNEs.

In this study, we attempt to draw theoretical perspectives from two streams of literature (i) on emerging markets viz. the springboard perspective (Luo & Tung, 2007) and ²Linkage-Leverage-Learning or LLLL framework (Mathews, 2006) and (ii) extant literature on RKT. The extant literature on knowledge flows typically draws from a plethora of theoretical perspectives (Minbaeva, 2007) like knowledge-based view (Grant, 1996), resource-based view (Barney, 1991), organisational learning (Nonaka & Takeuchi, 1995) and dynamic capabilities approach

* Corresponding author. Tel.: +44 1415536004.

E-mail addresses: s.nair@sheffield.ac.uk (S.R. Nair), mehmet.demirbag@strathclyde.ac.uk, demirbag1@gmail.com (M. Demirbag), Kamel.Mellahi@wbs.ac.uk (K. Mellahi).

¹ The term EM-MNEs is used to refer to MNEs from emerging markets and the term EM is used to refer to emerging markets as a whole.

² Linkage – the focus is on how EM-MNEs rely on advantages that it can acquire externally through their international linkages. This is because they are unlikely to find these advantages in their domestic environment but rather in global markets. Leverage – focusses on the resources and their potential (from the linkage) for the EM-MNE in overcoming their disadvantages. Learning – Repeated linkage and leverage has the potential for learning to occur. The focus is on the cumulative benefits from this learning (Mathews, 2006). This framework has been used to account for the global role played by EM-MNEs (which has seen a rise in recent times) in spite of the several disadvantages they have.

(Teece, Pisano, & Shuen, 1997) where the focus is largely on the vital role of knowledge and competencies for a firm. While these perspectives equip scholars with the much needed theoretical lens to explore RKT, the context of this study also warrants consideration of the nascent theoretical perspectives on EM-MNEs to determine the factors that are pertinent in emerging markets. This is because unlike DMNEs, EM-MNEs have a different set of motives and factors to consider when they establish international linkages (Bangara, Freeman, & Schroder, 2012; Madhok & Keyhani, 2012). The springboard perspective (Luo & Tung, 2007) focuses on these differences and further discusses the propensity of EM-MNEs in seeking knowledge and capabilities residing with their more competent overseas subsidiaries, to overcome their own disadvantages and thus expedite their global ambitions. This suggests that EM-MNEs' decision to engage in RKT is largely driven by their desire to springboard and what prompts them to engage in RKT is very closely linked with what would help them springboard. Hence in this study, we focus on subsidiary capability and the relevance of the knowledge (held by subsidiary) as decisive factors that prompt them to engage in RKT and abet their attempts to springboard. In addition, for RKT to materialise, it is also crucial that the receiving parent unit focuses on its absorptive capacity, which reflects its ability to absorb this knowledge. Even though this direct effect has been analysed in prior studies (Ambos et al., 2006), how EM-MNEs develop their absorptive capacity remains largely unexplored. The LLL perspective has been used in this study to identify the factors that could potentially cater to the development of absorptive capacity in EM-MNEs. This perspective explores EM-MNEs' emphasis on cumulative learning when they establish their external linkages. A focussed learning environment with adequate infrastructure could potentially contribute to this cumulative ongoing learning in EM-MNEs, and improve their absorptive capacity. This enhancement of absorptive capacity further improves their attempts at engaging in RKT. One of the contributions from this study is this mediating role of absorptive capacity, which has not been accounted for by prior studies.

The importance of knowledge relevance for RKT has been explored by prior studies in the literature (Yang, Mudambi, & Meyer, 2008), where it was found to be more significant for RKT when compared to conventional knowledge flow. In conventional knowledge flow, the parent's aim is largely confined to transplanting the home-based knowledge in the subsidiary, whereas in RKT, the parent is often involved in a process of searching and siphoning the subsidiary knowledge that is potentially related to what they already possess (Yang et al., 2008). Hence it is crucial that the relevance of this knowledge as perceived by the recipient parent unit is accounted for. For parents to better utilise their absorptive capacity to engage in RKT, they need to appreciate the connectedness of the target knowledge to their operations and business environment. Similarly, even when the knowledge targeted is from a highly competent subsidiary, for the parent to be interested in this knowledge, it needs to recognise the relevance of this knowledge in terms of its implications and potential benefits. Hence the relevance of the target knowledge for the EM-MNE could be very influential in determining the dynamics of RKT in terms of its moderating role on absorptive capacity and subsidiary competence. Although the extant literature has looked at the direct effects of knowledge relevance (Yang et al., 2008), this study makes a vital contribution by exploring this moderating role of knowledge relevance.

The relevance associated with knowledge could potentially have different implications for EM-MNEs when it comes to each of the different knowledge flows such as technological, marketing and general management know-how, which have been considered for this study. Relevance may be more decisive for certain knowledge flows such as marketing know-how when compared

to technological know-how, since it is relatively more location bound and context-specific in nature. Although previous research has looked at the effects of knowledge relevance on RKT (c.f. Yang et al., 2008), it has not considered how the effect of knowledge relevance varies for different types of knowledge flows. An additional contribution of this study is that it explores this differential influence of knowledge relevance on the different types of knowledge flows.

2. Theory and hypothesis development

2.1. Perspectives on EM-MNEs

EM-MNEs have been grabbing the limelight due their accelerated international activities (Buckley et al., 2007; Cuervo-Cazura, 2012; Hennart, 2012; Jormanainen & Koveshnikov, 2012; Luo & Tung, 2007; Mathews, 2006). Building brands, acquiring state-of-the-art technology and organisational capabilities as well as gaining legitimacy and global recognition have been the aspiration of most EM-MNEs (Demirbag, Tatoglu, & Glaister, 2009). Several Indian MNEs are attempting to do the same in a short time span by way of their overseas acquisitions (Bangara et al., 2012; Elango & Pattnaik, 2011; Kedia, Gaffney, & Clampit, 2012). As latecomers to the international scene, EM-MNEs have seen to be resorting to springboarding (Luo & Tung, 2007) and learning from their international linkages (Mathews, 2006). These perspectives stress on the aggressive and risk taking overseas acquisitions of EM-MNEs which is not strictly incremental but is recursive and much focussed on organisational learning. These EM-MNEs are more often seen to be taking a leap of faith when it comes to their international operations especially in the developed markets as they do not have the conventional advantages (reputed brand names, technological know-how, research and organisational capabilities) that many of their advanced competitors have. However, in this process they have also realised that they cannot compete in these markets on cost advantage alone and neither do they have the time nor the resources to build such advanced organisational capabilities from scratch. Hence their overseas ventures were deliberate efforts to rapidly acquire such strategic assets (intangibles) that will lend them the much needed legitimacy and competitive advantage in the global marketplace, which is often referred to as springboarding. These strategic assets are vital for EM-MNEs in competing with their global rivals in international as well as domestic markets. The LLL framework further draws our attention the significance of learning attached to the international linkages of EM-MNEs (Mathews, 2006). This cumulative learning materialises from repeatedly leveraging the resources from their international linkages. RKT thus plays a significant role in enhancing the ownership advantages of EM-MNEs by way of this cumulative learning from their overseas subsidiaries. Drawing from these theoretical frameworks viz. springboard perspective (Luo & Tung, 2007) and LLL framework (Mathews, 2006), it is evident that 'reverse diffusion' or RKT is likely to be more prominent in EM-MNEs than in DMNEs. In the context of EM-MNEs, Indian MNEs have been one of the active acquirers (viz. Tata, Reliance, Infosys, and Birla) with a dominant presence in the developed markets (Sethi, 2009). Further, 78% of the Indian acquirers cite "learning new or advanced technology from the acquired company" as the top three reasons for their overseas acquisitions (Kale, 2009). Hence this study attempts to explore RKT in the context of Indian MNEs.

2.2. Reverse knowledge transfer and EM-MNEs

While a vast share of the extant literature is focussed on conventional knowledge flows, the attention conferred on RKT is

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