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Can knowledge transfer within MNCs hurt subsidiary performance? The role of subsidiary entrepreneurial culture and capabilities

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ABSTRACT

This study extends the literature on knowledge transfer in MNCs by exploring how two sources of knowledge transfers, one from headquarters and the second from other peer subsidiaries, influence a focal subsidiary's capabilities and performance. Drawing on the tenet of the resource-based and dynamic capabilities perspectives, and using data from 167 foreign subsidiaries in China, we find that both sources of knowledge transfers positively influence a focal subsidiary's capabilities, albeit at different rates. Our results further show that although a focal subsidiary's entrepreneurial culture strengthens the effect of headquarters knowledge transfer on its capabilities, it weakens the impact of peer subsidiary knowledge transfer on capabilities. These results suggest that a focal subsidiary's entrepreneurial culture serves as a double-edged sword when it comes to knowledge transfer within its MNC network. This study provides key implications for management in terms of the mechanisms and processes (i.e., entrepreneurial culture and capabilities) that drive or hinder the efficacy of knowledge transfer from headquarters and peer subsidiaries on a focal subsidiary's performance.

1. Introduction

Is knowledge transfer within a multinational corporation (MNC) always good for its foreign subsidiaries? While knowledge that includes a set of skills and knowhow pertaining to technology, marketing, and other business functions has long been documented as a major source of competitive advantage (e.g., Grant, 1996; Teece, 2004), investigating the impact of knowledge transfer within a MNC poses two challenges. First, although much research has been done on knowledge transfer within joint ventures and other strategic alliances (Inkpen & Tsang, 2005; Si, Ahlstrom & Huo, 2001; Si & Bruton, 1999), there is limited theoretical development and empirical evidence on the performance implications of both headquarters knowledge transfer and peer subsidiary knowledge transfer. Because knowledge is closely related to both context and practice (Hong & Nguyen, 2009; Kostova & Roth, 2002), knowledge transferred to a focal subsidiary from its headquarters and peer subsidiaries may yield different meanings and relevance to the focal subsidiary. Nevertheless, previous research tends to study these two critical sources of knowledge transfers independently and assesses their performance implications separately, which could prevent the development of a more comprehensive framework and strategy for MNCs.

Second, assuming foreign subsidiaries simply as passive learners or order-takers is no longer appropriate. Given foreign subsidiaries are progressively more independent from their headquarters (Gammelgaard, McDonald, Stephan, Tüselmann, & Dörrenbächer, 2012; Wang, Luo, Lu, Sun, & Maksimov, 2014), there is an inadequate understanding of how the subsidiaries' organizational cultures and internal capabilities may influence the effects of these two different sources of knowledge transfers on the foreign subsidiaries' performance.

Focusing on these challenges and the shortcomings of previous research, we draw on the resource-based view of the firm (Barney, 1986, 1991) along with the dynamic capabilities perspective (Teece, Pisano, & Shuen, 1997; Teece, 2009) to extend the literature on MNC knowledge transfer. In particular, we develop a conceptual model and use data collected from 167 foreign subsidiaries located in China to test our hypotheses. We chose China because foreign subsidiaries are often required to develop their own strategies in response to significant local differences (Lee, 2010; Luo, 2003; Wang, Tong, Chen, & Kim, 2009), making this strategic research site appropriate for this test.

The contributions of this study rest in two important areas. First, we suggest a need for making a distinction between headquarters knowledge transfer and peer subsidiary knowledge

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transfer to better understand their multiple roles. Mixed results on whether knowledge transfer from headquarters or peer subsidiaries improves a focal subsidiary performance remain, with some showing no effects (Luo, 2003) while others provide positive results (Keupp, Palmié, & Gassmann, 2011; Tran, Mahnke, & Ambos, 2010). In response to such mixed findings, we examine these two different sources of knowledge transfers separately in a single study and compare their individual and relative importance in the creation of superior firm performance. This improved classification provides a finer grained analysis of the key topic of knowledge transfer to the subsidiaries (Ahlstrom, 2010; Christensen & Carlile, 2009). This finding is important as transferring knowledge from different sources involves costs; hence, it is imperative for a MNC to understand which source of knowledge transfer is more crucial to the success of a focal subsidiary.

In addition, knowledge transfer even within the same MNC network is considered external resources not necessarily compatible to a focal subsidiary's culture and capabilities. Given the current and rising importance of subsidiaries in foreign markets, coupled with the central role of knowledge transfer within a MNC, an examination of the direct and indirect influences of different sources of knowledge transfers and entrepreneurial culture on a foreign subsidiary's capabilities and performance is in order. We thus contribute to theory and practice by identifying key mechanisms and processes that facilitate knowledge transfer and subsidiary performance.

2. Theoretical background

According to the resource-based view (Barney, 1986, 1991) and the dynamic capabilities perspective (Teece et al., 1997; Teece, 2009), it is not sufficient for a firm to sustain its competitive advantage by simply having resources. Rather, resources (such as knowledge) have to be transformed into certain capabilities in order for the firm to successfully compete against its rivals. Further, in terms of a firm's internal resources, organizational culture is particularly crucial (Ahlstrom, Chen & Yeh, 2010; Schein, 2010). Organizational theory holds that a firm's culture is a ubiquitous social system that affects the choice of a particular strategic outcome and the means through which such an outcome is achieved (Yarbrough, Morgan, & Vorhies, 2011). Surprisingly, research on MNC knowledge transfer involving the influence of organizational culture is scant. Subsidiaries attach a relatively high priority to their own cultures, which may separate them from their peers and even their headquarters. Although the role of organizational culture and its impact on firm performance has been acknowledged (e.g., Wei, Samiee, & Lee 2014), the MNC knowledge management literature has not addressed the underlying process by which an organizational culture affects the efficacy of knowledge transfer from external sources.

Informed by the resource based view of the firm (Barney, 1986, 1991) and the dynamic capabilities perspective (Teece et al., 1997; Teece, 2009), this study argues that knowledge residing in headquarters and peer subsidiaries is a form of external resource being transferred to a focal subsidiary and its efficacy can be affected by the subsidiary's internal culture, entrepreneurial culture in specific. The interactions between external resources and an internal culture add complexity to the focal subsidiary in prioritizing and developing its capabilities, which in turn affect its performance.

2.1. MNC knowledge transfer

In the MNC literature, knowledge transfer has been a critical construct in understanding how various units within a MNC such as the headquarters and its subsidiaries can learn and increase knowledge bases to improve efficiency, flexibility, and global integration (Ghoshal & Bartlett, 1988; Gupta & Govindarajan, 1991). The knowledge-based perspective treats knowledge as an important strategic resource that separates firms from competition (Grant, 1996; Teece, 2004). Knowledge is a set of skills and information acquired through learning or experience, which demonstrates the understanding of a particular subject. Extant research has classified knowledge in different ways such as technological knowledge and marketing knowledge (Fang, Wade, Delios, & Beamish, 2007; Fang, Wade, Delios, & Beamish, 2013), procedural knowledge and coordinative knowledge (Lee & MacMillan, 2008), tacit knowledge and explicit knowledge (Szulanski, 1996), among others. In other words, knowledge can be categorized or defined based on a particular field or characteristics. In this study, we follow previous research (Monteiro, Arvidsson, & Birkinshaw, 2008) to treat knowledge in a wider scope that contains knowhow and skills of different business functions ranging from manufacturing, technology, and product design to sales and marketing.

Typically, a focal subsidiary can receive knowledge from two different sources in its MNC network, i.e., headquarters and peer subsidiaries. Headquarters knowledge transfer represents a set of knowhow and skills moving from a MNC's headquarters to a focal subsidiary, which can be referred to as top-down vertical knowledge transfer (Ciabuschi, Dellestrand, & Kappen, 2011). Peer subsidiary knowledge transfer, on the other hand, represents a form of horizontal knowledge that moves from one subsidiary to another (Ciabuschi et al., 2011). Because of the potential differences in local market conditions, from a focal subsidiary's standpoint, knowledge moving from its headquarters versus peer subsidiaries is likely to carry different implications. Thus, the distinctions between the two sources of knowledge transfers are critical and yet, inadequately addressed in the literature.

2.2. Entrepreneurial culture

While knowledge obtained from other units can be regarded as resources residing outside of a focal subsidiary, the subsidiary's own culture can be viewed as an internal resource. Specifically, an organizational culture consists of a system of shared values and operating beliefs within a firm and is considered the social glue that bonds the firm together (e.g. Lau, Tse, & Zhou, 2002). Firms assign a high priority to their organizational cultures and therefore it is not surprising to see that organizational culture can be a critical source of competitive advantage (Wei et al., 2014).

Organizational culture is also a permeating social system within a firm that influences its choice of strategic outcome and the means through which such an outcome is achieved (Quinn, 1988; Yarbrough et al., 2011). In other words, a firm's culture helps guide it to develop means, such as capabilities (Schein, 2010; Teece, 2009), which in turn help it to build and sustain its competitiveness and superior performance (Christensen & Raynor, 2003).

Entrepreneurial culture represents a firm's orientation toward experimenting with new alternatives or approaches by exploring new resources, innovating, and creating new products (Ireland, Kuratko, & Morris, 2006; Wei, O'Neill, Lee, & Zhou, 2012). Previous research shows that entrepreneurial culture is generally positively related to performance outcomes (e.g., Wei et al., 2012). Nonetheless, how a focal subsidiary's entrepreneurial culture may interact with external knowledge and whether better and superior outcomes could result from entrepreneurial culture remains untested. Clearly, from a foreign subsidiary's perspective, its own entrepreneurial culture provides resources for it to assimilate and absorb knowledge from other sources as well as