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Innovative Knowledge Transfer Patterns of Group-Affiliated Companies: The effects on the Performance of Foreign Subsidiaries

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ABSTRACT

The objectives of this paper are to determine the patterns of innovative knowledge transfer strategies of globalized group-affiliated companies (GACs) from emerging markets and to assess the effects of these patterns on the performance of foreign subsidiaries. The sample are comprised of 52 Korean business groups, called *chaebols*, which consist of 181 parent firms and their 1,068 foreign subsidiaries as of the end of 2009. In the study, we employ the perspectives of organizational learning and internal resource-based theories of the organization, and the results are assessed based on cluster and post-hoc regression analyses. The authors identify five distinct groups of innovative knowledge transfer patterns, i.e., 1) small inactivator, 2) hyperactive transferor, 3) laissez faire exploiter, 4) hands-on exchange avoider, and 5) moderate researcher. Our cluster and post-hoc regression analyses support the main hypotheses, i.e., 1) *there will be differences in patterns of innovative knowledge transfer strategies of globalized GACs within* chaebols; and 2) *these differences will influence the performance of foreign subsidiaries.* Our contribution to the extant literature is to fill the vacuum that exists in the current empirical studies on 1) a positive vs. negative balance of exploratory and exploitative innovative knowledge exchanges among GACs within a business group and 2) the phenomenal patterns of innovative knowledge transfer and their effects on the performance of foreign subsidiaries in the context of emerging market GACs. Therefore, our analyses advance the research in the area of innovative knowledge management in the context of the emerging market business groups.

1. Introduction

As multinational corporations (MNCs) from emerging markets have increasingly gained prominence in the global economic arena, so too has global competition intensified along with the pace of the transition in innovative technological knowledge (Aulakh and Kotabe, 2008; Chittoor et al., 2008; Hill and Mudambi, 2010). In particular, the cut-throat competition that has been triggered by MNCs from emerging markets has strengthened over the last two decades. Researchers who have studied emerging market phenomena to date have tried to identify the main characteristics behind these leapfrogging leaders from emerging markets (Chang and Hong, 2000; Guillén, 2000; Mudambi, 2011). Their conclusions were that almost all of these leapfrogging leaders were comprised of certain forms of group-affiliated companies (GACs) and that they commonly used their innovative knowledge transfer within their

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network to overcome competition against conventional MNCs. These many successful GACs are based on business groups (BGs), such as Chinese *qiye jituans* (e.g., Haier), Indian BGs (e.g., Tata), and Korean *chaebols* (e.g., Samsung), whose headquarters reside in late-industrializing countries that are historically, culturally and geographically distinct from advanced economies (Amsden and Hikino, 1994).

The extant literature suggests that empirical studies that examine knowledge management within MNCs are in the limelight at the present time (e.g., Dellestrand and Kappen, 2011; Lamin and Dunlap, 2011; Pérez-Nordtvedt et al., 2010). However, even though some studies have focused on the issues that MNCs face from emerging markets, we still do not know much about how emerging market business groups (EMBGs) mobilize their knowledge resources across GACs internationally to undertake pioneering innovations. Compared to advanced economies, emerging markets are often cited as suffering market imperfections, and thus EMBGs have a propensity to evolve in response to the market imperfections in products and information (Leff, 1979). In particular, due to technology constraints in the home markets, the primary source for knowledge was foreign technology, which sheds light on the capability to learn from external information, embed it into organizational know-how, and then share it throughout an organization's diversified networks. Thus, managers in the EMBGs have a significant need for a useful model of knowledge management that can offer guidance for internal intangible resource sharing within EMBGs. Further, for an EMBG, an effective balance between exploratory and exploitative technological knowledge resource sharing among peer GACs is especially critical, because additional characteristics of EMBGs reside in the fact that they operate in an extremely wide range of unrelated industries (according to Chang and Hong (2000), unlike EMBGs, conventional MNCs generally focus on specialized and related industries). As an example, the businesses of Samsung range from sugar refining, broadcasting, life insurance, real estate, and aerospace to electronics. In this vein, the success of EMBGs significantly depends on how they appropriately manage their proprietary knowledge to exploit and explore each different business environment and also knowledge sharing among affiliates (Amsden and Hikino, 1994; Lee et al., 2010).

Korean *chaebols* are typical EMBGs, comprising GACs, and they are the leaders of EMBGs (e.g., Samsung, LG, and Hyundai Motor) that have achieved remarkable success globally, even challenging conventional MNCs that are based in developed economies (Chang and Hong, 2000; Guillén, 2000; Kim et al., 2010). However, we need to keep in mind the fact that compared to conventional MNCs, their prosperous history is relatively short, which indicates that it is worthwhile to examine how they manage their knowledge resource reservoirs to maintain their notable success in this competitive era. In this vein, we will attempt to make theoretical contributions to current knowledge by developing a new model that highlights the unique facets of EMBGs and characterizes GACs as an input to the performance of subsidiaries.

In order to explore the nature and patterns of technological innovative knowledge transfer strategies of globalized GACs within EMBGs and their impact on the performance of foreign subsidiaries, we suggest two research questions, i.e., 1) *Will there be differences in the patterns of innovative knowledge transfer strategies of globalized GACs within chaebols*?; and 2) *Will these differences influence the performance of foreign subsidiaries*?

By using the theoretical lenses of organizational learning and internal resource-based theories of the organization, this study will fill these gaps by conducting an empirical investigation of the association between the nature and patterns of technological innovative knowledge transfer and the performance of EMBGs' foreign subsidiaries based on a sample of 52 Korean business groups, called *chaebols*, and their 181 parent firms and 1,068 foreign subsidiaries as of the end of 2009.

In the remainder of the article, we introduce the concepts of intra-group innovative knowledge exchanges, i.e., exploratory and exploitative innovative knowledge exchanges, and subsidiaries' innovative knowledge-transfer dependence on their headquarters (HQ) vs. their innovative knowledge autonomy within the EMBGs and delineate them as identified through the literature. Then, we outline the method of the study and the empirical results of cluster analyses, and, in addition, we provide a hypothesized interpretation of profiles and illustrate the post-hoc regression analyses. Finally, we conclude with a discussion of the findings of the study and directions for future research.

2. Theoretical background

2.1. The difference between conventional MNCs and EMBGs

Historically, the primary root of the business expansion styles of leading conventional MNCs stems from their proprietary core technology, which they exploit in related industries (Chandler, 1990). Siemens and Du Pont are perhaps good examples for this statement. Although they are large conglomerates, these MNCs do not pursue diversified industrial groups, but their growth strategy is based on specialized product lines and multidivisional enterprises (Amsden and Hikino, 1994). This is a logical phenomenon for firms from advanced economies because conventional MNCs already have large domestic markets which facilitate satisfactory gains within certain business sectors and they are also trailblazers of globalization. According to Ravenscraft and Scherer (1987), in the process of globalization, the growth achieved by U.S. conglomerates (as a proxy for conventional MNCs) was based on expansion through acquisition in the same industrial background. In order to efficiently control geographically dispersed subsidiaries, managerial attention of U.S. conglomerates were usually concentrated on financial expertise. Under these circumstances, their operating units could also develop their own production capabilities independently and separately. These capabilities could create sharable knowledge for future related diversification (Nangia, 1972).

In contrast, business environments for BGs in emerging markets were not favorable to adopt the same strategy, in that due to relatively under-developed economic status, their internal markets were too small to attain sufficient profits, which forced them to choose a diversification strategy, moving broadly into different industries that are technologically unrelated (Carney and