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Reverse knowledge transfer and subsidiary power

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ABSTRACT

Rather than looking at the more typical inter-company level adopted in most B2B marketing, this study investigates how a subsidiary gains power within the context of the multinational corporation. Building on network theory and dependence theory, two approaches well-known in the B2B marketing literature, this study aims to test empirically the impact of reverse knowledge transfer, knowledge transfer from a subsidiary to headquarters, on subsidiary influence and autonomy. The survey-based data from 183 subsidiaries located in the UK suggests that reverse knowledge transfer significantly enhances the relative influence of the subsidiary within the broader multinational corporation. Moreover, we find that this association is (a) stronger when the level of internal embeddedness is high and (b) weaker when the level of external embeddedness is high. Finally, our results indicate that a higher level of subsidiary autonomy only occurs in conjunction with internally embedded reverse knowledge transfer.

1. Introduction

Recent contributions on multinational corporations indicate that subsidiaries differ in terms of their scope of knowledge development and contribution to the whole corporation (Bartlett & Ghoshal, 1988; Birkinshaw, 1997; Frost, Birkinshaw, & Ensign, 2002). There also exists further anecdotal evidence of subsidiaries that use these differences to compete with each other, not only to increase their degree of freedom, but also to influence the functions and strategy of the multinational corporation (Ambos, Andersson, & Birkinshaw, 2010; Mudambi & Navarra, 2004). Therefore, the concept of the subsidiary power is important for advancing our understanding of how multinational corporation strategy and structure are evolved and developed.

There has been increasing scholarly interest on subsidiary power in which some important issues have been investigated: internal and external network characteristics (Andersson, Forsgren, & Holm, 2002), knowledge-based activities such as knowledge development and reverse knowledge transfer (Ciabuschi, Dellestrand, & Kappen, 2012; Mudambi & Navarra, 2004), the level of attention from headquarters (Ambos et al., 2010), and the degree of dependence on the subsidiary's competencies (Mudambi, Pedersen, & Andersson, 2014). However, a systematic review of these contributions suggests limits to existing knowledge, which this article directly addresses. First, while the literature on subsidiary power indicates that a subsidiary can gain more influence if it engages in the process of reverse knowledge transfer (Najafi-Tavani, Giroud, & Andersson, 2014), surprisingly, it is not clear whether transferring knowledge to headquarters can also increase a subsidiary's ability to pursue its own goals. To address this limitation, we focus on both autonomy and influence as two dimensions of subsidiary power. We argue that autonomy and influence are two orthogonal needs of subsidiaries through which a subsidiary may employ its knowledge resources not only to achieve more freedom in pursuing its own goals but also to influence multinational corporation strategy (Ambos et al., 2010). Our article thereby adds to this strand of research by examining two subsidiary power dimensions (autonomy and influence) in conjunction with reverse knowledge transfer.

Second, building on the network and dependency theory, one may expect that the extent of subsidiary embeddedness with its internal and external actors may impact its position within the whole corporation. The underlying idea is that such relationships may represent strategic resources on which the multinational corporation may rely (Andersson, Forsgren, & Holm, 2007). While theory suggests that internal and external embeddedness can impact subsidiary power, prior studies have not, to our knowledge, provided empirical support for the association in the context of reverse knowledge transfer. To fill this gap, our study investigates the interaction effects of internal and external embeddedness on the association between reverse knowledge transfer and power (influence and autonomy). We are interested in finding out whether different levels of internal and external embeddedness can influence the relationship between reverse knowledge transfer and the subsidiary's power base (influence and autonomy).

The rest of the article is organised as follows. After explaining the theoretical background, we develop the related hypotheses regarding the direct effects of reverse knowledge transfer on subsidiary autonomy

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and influence. We also present a number of hypotheses regarding the moderating impacts of internal and external embeddedness on the relationship between reverse knowledge transfer and subsidiary autonomy and influence. The research methodology, including sample, measurements, and validity of measures, is then explained. We conclude by presenting our results and providing a discussion of the key findings and their relevance to current managerial issues.

2. Theoretical background

The research on multinational corporations indicates a significant change in the role of subsidiaries from implementers of headquarters instructions to the creators of competitive advantages (Cantwell & Mudambi, 2005; Chang, Cheng, & Wu, 2012; Rugman & Verbeke, 2001). While subsidiaries are legally owned by the headquarters, given the large size of many multinational corporations and the large geographical distances often involved, it is reasonable to assume that headquarters are not in full control of their subsidiaries' actions. Therefore, subsidiaries can be considered as semi-autonomous units that not only have their own independent goals (Ambos et al., 2010) but also, are interested in exercising power within the multinational corporation (Mudambi & Navarra, 2004).

To explain subsidiary power, a number of studies have tried to understand how a subsidiary's ability to develop new knowledge enhances subsidiary power base within the multinational corporations (Andersson et al., 2007; Mudambi & Navarra, 2004). However, it has been shown that subsidiary knowledge resources are not enough for achieving power within the multinational corporation (Mudambi & Navarra, 2004). To gain power, a subsidiary should showcase their competencies, or in other words attract headquarters' attention, through engaging in the process of reverse knowledge transfer (Najafi-Tavani et al., 2014).

In addition to subsidiary knowledge-based activities, other determinants of the extent of subsidiary power are based on characteristics of subsidiary relationships with either its internal or external environments (Andersson et al., 2002; Birkinshaw & Hood, 1998). Amongst various relational characteristics, the importance of embeddedness for the subsidiary's power base has been consistently highlighted by earlier studies (Andersson et al., 2007; Ciabuschi, Holm, & Martín Martín, 2014). Building on network theory, it is expected that embedded relationships increase subsidiaries' accessibility to external strategic resources, and enable them to tap into opportunities residing in their local environment on which the multinational corporation may depend. This dependency then enables a subsidiary to ask for certain advantages (e.g. autonomy and resource allocations) from its headquarters (Auh & Merlo, 2012).

The impact of the internal embeddedness (that is the embeddedness between a subsidiary and its headquarters) on subsidiary power has also been highlighted by the earlier studies (Ciabuschi et al., 2014). Relational characteristics matter, since the only way for subsidiaries to attain headquarters' attentions, and thus gain power, is through developing internal embeddedness (Yamin & Andersson, 2011). This is because subsidiary knowledge resources are often tacit and difficult to be recognized and internationally exchanged (Lane & Lubatkin, 1998; Szulanski, 1996). Through facilitating the absorptive capacity of the headquarters, internal embeddedness has substantial impact on the extent to which subsidiary strategic resources (e.g. knowledge resources and external embeddedness) can serve as platforms for gaining power (Najafi-Tavani et al., 2014).

Building on resource dependency theory and the network perspective, and combining the key contributions of earlier studies, we investigate the direct impact of reverse knowledge transfer and the indirect impact of internal embeddedness and external embeddedness on the extent of subsidiary power within the multinational corporation. We consider subsidiary power as a multidimensional construct comprising autonomy (that is a subsidiary's ability to shape its destiny without intervention from headquarters) and influence (the ability to impact the strategic future of the entire corporation) (Ambos et al., 2010). While these two dimensions represent two somewhat conflicting needs of subsidiaries, their inclusion is likely to provide a more comprehensive overview of the subsidiary's power base.

3. Hypotheses development

3.1. Reverse knowledge transfer

The international business literature has consistently emphasized subsidiary knowledge-based activities as being a platform for the development of subsidiary power (Andersson et al., 2007; Mudambi & Navarra, 2004). In the subsidiary power literature, knowledge-based activities often refer to either knowledge development or reverse knowledge transfer. The latter can be defined as the transfer of knowledge from a subsidiary to its headquarters (Najafi-Tavani, Giroud, & Sinkovics, 2012b). We argue that subsidiaries cannot gain power only through engaging in knowledge development, but that they also need to engage in reverse knowledge transfer. This process can increase subsidiaries' power in two ways. First, it has been shown that frequent transfer of knowledge legitimizes subsidiary competencies that serve as a source of power for a subsidiary (Schulz, 2001). Second, subsidiaries' knowledge resources are mainly tacit in nature since they are not only locally specific, but also reside in the subsidiaries' organizational practices and employees' experiences and skills. The size of many multinational corporations makes it impossible for headquarters to fully identify and appreciate the value of their subsidiaries' knowledge resources. Yet, it has been noted that headquarters' attention and recognition of subsidiary capabilities are directly linked to subsidiary power (Ambos et al., 2010). Therefore, through engaging in reverse knowledge transfer, subsidiaries' capabilities become more and more visible to headquarters, which can then boost subsidiary power.

For these reasons, we argue that subsidiary power is directly linked to the extent of reverse knowledge transfer. Subsidiaries can use their power either to resist headquarters control and thus gain more autonomy, or to influence the strategic decisions of the whole corporation. As shown in Fig. 1, we therefore suggest that:

Hypothesis 1. The greater the extent of reverse knowledge transfer, the greater the level of subsidiary influence within the multinational corporation.

Hypothesis 2. The greater the extent of reverse knowledge transfer, the greater the level of subsidiary autonomy within the multinational corporation.

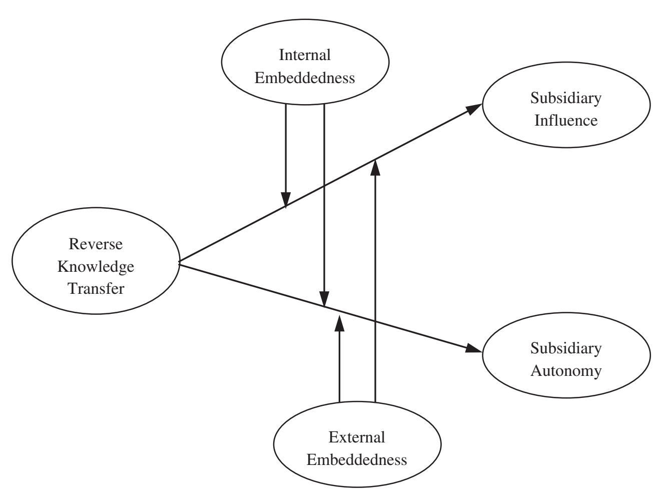

Fig. 1. Conceptual model.