

Knowledge Flows in MNEs and the Role of HRM

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Abstract This chapter examines knowledge flows in MNEs and reviews relevant literature from the last decade to analyse how the field has developed. It specifically focuses on two key constructs from the international business literature—namely knowledge transfer and absorptive capacity—and links them to the HRM literature. It shows that HRM practices aligned with organisational goals related to knowledge assimilation and sharing are important organisational means enabling MNEs to shape employees' abilities, motivation and opportunities and to create a culture of knowledge sharing among their organisational members.

Knowledge Flows Within MNEs and the Role of HRM

Introduction

In turbulent and dynamic business environments, knowledge creation and learning lies at the core of sustainable competitive advantage [1]. Knowledge has been identified as the most important resource in the knowledge-based economy. Multinational enterprises MNEs have the potential to tap into knowledge in a variety of geographic, sociocultural and institutional contexts that, if shared effectively across boundaries, can provide them with knowledge not so easily accessible to their competitors. Indeed, Kogut and Zander [2] argued that an MNC could be viewed as a social community that creates, transfers and integrates knowledge across its different locations. However, in order to create value, knowledge must flow through an organisation. Although this process is prone to many difficulties arising in the internal and external environments, there has been little research on the various organisational mechanisms that can facilitate and help to overcome barriers to effective knowledge flows [3–5].

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Mere exposure to knowledge, on its own, is not enough; the capacity to absorb and utilise knowledge is what changes knowledge into value. This ability, referred to as absorptive capacity [6], has been suggested as the most critical determinant of organisational knowledge flows [3, 7, 8]. Indeed, absorptive capacity has emerged as a useful concept for explaining variance among organisations in their learning and knowledge sharing capabilities [9, 10]. Although there is an ongoing debate on the very nature of this construct [5], scholars agree that insufficient attention has been paid to its organisational antecedents, including HRM practices. So far, however, absorptive capacity has been largely suggested as a by-product of firm's R&D activities, thus leaving the role of various organisational mechanisms neglected. Lewin et al. [11] notes that "with very few exceptions, the specific organisational routines and processes that constitute absorptive capabilities remain a black box".

A greater understanding of knowledge-related phenomena requires a focus on individuals [12, 13]. There is no organisational level of absorptive capacity without individual absorptive capacity [5]. In other words, absorptive capacity, despite being a firm-level construct, "will depend on the absorptive capacities of its individual members" [6]. Firms' ability to create new knowledge and utilise it results from the collective ability of organisational members to learn, create and apply knowledge [14–15]. Thus, it can be said that absorptive capacity has its foundation rooted in individuals' cognition, motivation and actions. Puzzlingly, however, despite acknowledging a critical role of individuals in knowledge creation and utilisation, they have been largely absent in discussions of absorptive capacity [5, 16].

One of the primary means by which organisations can influence the abilities and behaviours of individuals is through its HRM system [17–21]. Building on that assumption, it can be expected that HRM practices play an important role in developing individual and organisational absorptive capacities [5, 6, 22]. Essentially, all HRM processes and practices, such as recruitment, training, job design, performance feedback, career development, and the like, are fundamental aspects facilitating learning, building and developing knowledge stocks as well as facilitating knowledge flows [23]. However, applying knowledge-based perspectives in the HRM field is still in its infancy. Most research still does not explicitly consider the HRM role in influencing knowledge processes.

Following the recent calls to consider HRM when exploring more in-depth absorptive capacity and knowledge flows [5, 24–26], we examine systematically how HRM practices aimed at supporting knowledge-intensive work influence knowledge flows in organisation through their impact on absorptive capacity. We explicate further the concept of absorptive capacity for knowledge flows in organisation by considering the role of employee abilities, motivation and opportunities. Secondly, we examine the impact of HRM systems aimed at enhancing employees' abilities, motivation and opportunities to identify practices that facilitate development of absorptive capacity and thus knowledge flows. Figure 1 shows our conceptual framework.

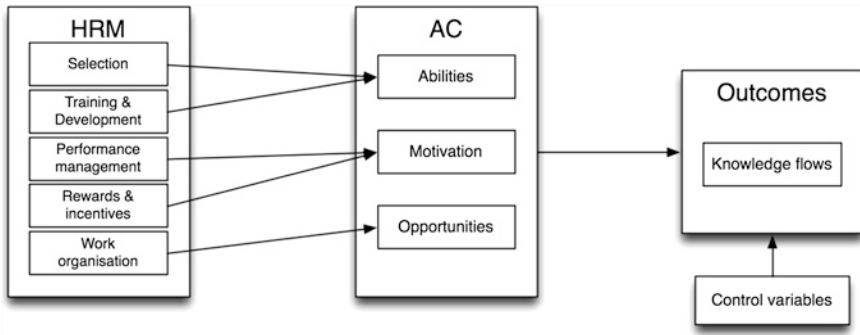


Fig. 1 Proposed conceptual framework

Following this brief introduction, we successively review the most significant literature on knowledge flows in MNEs and its determinants. This chapter focuses on the facilitating role of human resource management practices in knowledge flows in multinational enterprises. We review the literature that identifies specific HRM practices that enhance employees’ abilities, motivation and opportunities for knowledge assimilation and sharing, viewed here as individual-level antecedents of absorptive capacity that result in improved organisational knowledge flows.

Knowledge Flows in MNCs and Its Determinants

In the era of the knowledge economy, organisational knowledge is a dominant source of sustainable competitive advantage. Compared to domestic firms, MNEs have the unique advantage of utilising knowledge generated in various national locations. However, benefiting from this possibility is determined by their ability to transfer knowledge between dispersed organisational units. Not surprisingly, then, the issue of transferring valuable knowledge from one part of the organisation to another has been and remains an important area of enquiry in a number of different management different fields [27].

Knowledge transfer refers to a process through which organisations, units, teams or individuals exchange and are influenced by the experience and knowledge of others [1, 3]. Knowledge transfer is a complex process because (1) knowledge resides in organisational members, tools and tasks, and (2) much knowledge in organisations is tacit or hard to articulate. Argote and Ingram [1] It involves several stages starting from identifying the knowledge, actual process of transferring knowledge and its final utilisation by receiving unit [8]. Fundamental issue in knowledge transfer is the extent to which the receiving unit acquires potentially

useful knowledge that can be efficiently utilised [39]. Transfer of organisational knowledge (i.e. routine or best practices) can be observed through changes in the knowledge or performance of recipient units [7]. Knowledge transfer is not a random process; organisations institute diverse mechanisms to facilitate the transfer such as personnel movement [28, 29] or technology [30]. Various factors can affect knowledge flows in organisations. Prior literature has categorised the determinants of knowledge flows into characteristics of knowledge, characteristics of the actors involved and characteristics of the relationship between sender and recipient [25].

Knowledge characteristics. A considerable amount of research has focused on the content and various attributes of knowledge being transferred as an important predictor of knowledge transfer. The tacit/explicit knowledge continuum has been studied most extensively [2, 31]. At the one end of continuum is the tacit knowledge, embedded in values, actions, practices and behaviour, therefore often complex, ambiguous and subjective and on the other, the explicit knowledge, which is more easily codified and recorded [31]. Knowledge ambiguity, which refers to inherent uncertainty of knowledge components and sources, is another important antecedent of knowledge transfer [32, 33]. While the knowledge tacitness, ambiguity, specificity and complexity contributes to protecting it from being easily imitated by competitors, at the same time, it constitutes a barrier to efficient knowledge transfer within organisations [8, 34].

Actors' characteristics. Age, size, structure, autonomy, capabilities and motivation are among some of the actor characteristics studied in the literature. There are mixed and inconclusive findings with, e.g. a recent extensive meta-analysis showing lack of influence of age and decentralization on organisational knowledge transfer [3]. Out of a potential variety of recipient capabilities, absorptive capacity has emerged as the most critical determinant of knowledge transfer [3, 7, 35]. Absorptive capacity refers to the ability to recognise, assimilate and apply new external knowledge, and it significantly increases the amount of knowledge learned across units within firms [6, 16, 36]. Lack of ability to absorb knowledge is shown to be a major impediment to internal knowledge transfers [29]. The role of absorptive capacity will be discussed in greater length below.

Network characteristics. Various attributes of relations between actors have been found to play a crucial role in facilitating knowledge exchange. The literature examined three main dimensions of network relations: structural (number of relations, position in network), relational (tie strength, trust, norms, expectations, commitment, identification with other actors) and cognitive (shared vision and systems, distance) [3, 33]. Out of this group of characteristics, trust has been shown to be the most significant for knowledge transfer. Trust reflects the belief that a partner will fulfil their obligations in the relationship [37] and increases willingness to help other actors in understanding new external knowledge [9]. Attributes promoting common ground among actors such as shared vision and similar values make it easier for the receiving unit to understand and evaluate the potential advantages stemming from the adoption of certain practices [15]. On the other hand, there has been mixed evidence in relation to the differences between actors stemming from cultural or institutional factors. Some argued that distance

may hinder knowledge transfer due to difficulties emerging from lack of understanding of norms and values [10, 33], whereas others have demonstrated that it may have a positive impact on knowledge transfer [38].

Absorptive Capacity as a Key Determinant of Knowledge Flows

In the seminal work by Cohen and Levinthal [6], absorptive capacity was viewed as the “ability of the firm to recognise the value of new external information, assimilate it and apply it to commercial ends”. Authors argued that this ability has strong path dependency on firm’s prior knowledge and investment in R&D. The concept was further developed by Zahra and George [36], who defined it as a set of dynamic capabilities that underline the processes identified by Cohen and Levinthal. In addition, Zahra and George put forward the notion of potential and realised absorptive capacity based on the argument that knowledge first needs to be acquired and assimilated before it can be transformed and exploited. Lane and colleagues [48], on the other hand, have suggested a process approach to absorptive capacity and define it as revolving around three sequential learning processes: (1) exploratory learning for recognising and understanding potentially valuable knowledge, (2) transformative learning for assimilating knowledge, and (3) exploitative learning for using assimilated knowledge to create new knowledge and commercial outputs.

However, firms’ ability to create new knowledge and utilise it results from the collective ability of organisational members to create, learn, share and apply knowledge [2, 14, 15]. In other words, absorptive capacity, despite being a firm-level construct, “will depend on the absorptive capacities of its individual members” [6]. Nevertheless, despite general agreement on the critical role of individuals in knowledge processes, they have been largely absent in discussions of absorptive capacity [5, 37]. It has been argued that a greater understanding of knowledge-related phenomena requires a focus on individuals as foundations of absorptive capacity. This should be rooted in individuals’ cognition, motivation and actions [13, 12]. A step towards bringing the neglected role of individuals in knowledge absorption and utilisation has been taken by Minbaeva and her colleagues [39]. Building on behavioural literature, these authors put forward the notion that ability itself is insufficient and needs to be complemented by motivation for the knowledge absorption to take place. In fact, they argued that without motivation even high abilities to absorb knowledge might have a limited effect.

Abilities, motivation and opportunity have been recognised as the building blocks of any action [40–41]. Ability refers to the knowledge, skills and experience needed to perform a task. Motivation refers to the willingness of a person to exert efforts to perform the task. Opportunity consists of the range of resources appropriate to the context that enables the individual to take action [40]. According to the behavioural perspective, to achieve any kind of high

performance, the ability, motivation and opportunity need to be present and their combination will ultimately determine any behaviour [41]. To illustrate, if ability is low, but motivation and opportunity are high, the individual may take action, but likely wrong or inappropriate action; if ability and motivation are high, but opportunity is low, the individual may take action, but it will be limited and ineffective; if motivation is low, the individual will be unlikely to take action even if they have strong abilities and opportunities to do so. If one of the constituents is missing, then the performance is impaired or even impossible.

Research on knowledge processes in organisations recognises the role of abilities, motivation and opportunities as important for explaining the creation and transfer of knowledge [42]. “Just as successful individual performance depends on an individual’s ability, motivation and opportunities to perform, successful knowledge management also depends on ability, motivation and opportunity” [43]. The contentious issue is, however, whether KSA’s, motivation and opportunities should be treated as integral parts of absorptive capacity or rather as separate constructs. This debate is again bedevilled by the confusion of individual and organisational capacities. Some authors have challenged the idea of motivation as a constituent of firm absorptive capacity [26]. Others have treated motivation and communication channels, which can be linked to opportunities, as separate constructs [7]. Nevertheless, Minbaeva et al. [13] state that “although individual absorptive capacity should mirror its organisational concept to some extent, certain aspects must focus distinctly on individual factors”. In a similar vein, it could be argued that when examining the distinctly individual factors [6], the micro-foundations of absorptive capacity, ability, motivation and opportunity cannot be disentangled as they are inextricably linked and synergistically reinforce each other. Therefore, for effective knowledge absorption, employees need to have the abilities, but also the right motivation and opportunities to assimilate and share knowledge. Subsequently, employees’ abilities, motivation and opportunities for knowledge assimilation and sharing will enhance organisational knowledge flows, whereas low employee ability, motivation or opportunities for knowledge absorption may constitute barriers to effective knowledge transfer.

In the following part, we review the literature that identifies specific HRM practices that enhance employees’ abilities, motivation and opportunities for knowledge assimilation and sharing viewed here as individual-level antecedents of absorptive capacity that result in improved organisational knowledge flows.

The Role of HRM in Fostering Organisational Knowledge Flows

An influential strand in the strategic human resource management research has demonstrated that managerial practices can drive various organisational outcomes such as financial performance [44–49] as well as employee-related outcomes such as skills, motivation, attitudes and behaviours [17–21]. It is argued that aligning HRM systems with organisational strategy can elicit employee behaviours that

will contribute to the achievement of organisational objectives [50]. For example, it has been found that HRM system that promoted a safety climate reduced injury incidences [51]; HRM systems that encouraged service quality were associated with greater service performance [52]; and HRM systems aimed at facilitating knowledge-intensive teamwork increased knowledge assimilation and sharing among teams [53]. Thus, HRM systems, by influencing employee-related attributes in a desired direction, have a potential to contribute positively to the attainment of strategic organisational outcomes.

Supporting organisational learning and other knowledge processes has been identified as a key strategic tasks facing HRM [54, 55]. Recent studies have confirmed a positive impact of HRM systems on knowledge sharing, knowledge management or organisational ambidexterity [56–58]. Managerial systems have also been suggested as mechanisms through which organisations can facilitate development of absorptive capacities [22, 39]. This suggestion, despite its potential to shed light on the mechanisms enhancing organisational knowledge flows, has not been taken much further in the literature [5]. Therefore, more work is needed to uncover the underlying mechanisms by which HRM practices influence the development of knowledge [23].

Minbaeva et al. [13] pointed out that our understanding of how HRM affects organisational outcomes, including absorptive capacity and knowledge flows, should be rooted in understanding how such practices influence employees' ability, motivation and opportunity. Similar point made Kelloway and Barling [42] who suggest that organisations should focus how to manage owners of knowledge rather than managing knowledge and will be successful in that to the extent they increase employees' abilities, motivation and opportunities. Indeed, it had previously been shown that enhancing employees' motivation and abilities through extensive use of HRM practices such as training, performance assessment, merit-based promotion, performance-based compensation and internal communication has a positive impact on organisational knowledge flows [39]. However, Song [26] argued that although various general HRM practices may enhance overall employee' abilities and motivation, they rarely relate directly to intra-organisational knowledge transfer, further implying that scholars should examine HRM practices specifically designed to facilitate knowledge activities.

A promising framework for advancing our understanding of specific HRM systems that support knowledge processes in organisation is offered by Chuang et al. [53]. These authors demonstrated that the HRM systems strategically aimed at eliciting knowledge assimilation and sharing, which are discretionary behaviours, have the potential to develop a range of skills needed to acquire and utilise new knowledge. Further, by providing adequate incentives and inducements, strategically aligned HRM practices can bring into line employee goals with organisational goals related to knowledge sharing and thus reduce the power of power forces and overcome the natural tendencies of individuals to hoard knowledge. Then, HRM practices can also create a context that gives employees the opportunities for better knowledge assimilation and sharing [53]. In the following part, we examine in greater detail HRM practices that affect employees' abilities, motivation and opportunities to absorb and share knowledge.

Ability Enhancing HRM: Selection, Training and Development

The primary objective of staffing is the acquisition of needed skills, whereas training is aimed at the continuous development of collective knowledge and ability levels. In order to ensure that employees have the knowledge, skills and abilities needed to perform knowledge-intensive work, careful selection procedures, in addition to evaluating professional knowledge, need to evaluate attributes that have been found to be critical for learning or knowledge sharing as many of individual characteristics are not easy moulded by HRM practices [59]. Also, selection criteria that identify whether individuals share organisational values are important. Since much organisational learning takes place in the context of social interaction, verifying abilities such as teamwork have been recognised to be critical [58]. The teamwork skills, in tandem with interpersonal abilities, increase the likelihood that person will be able to tap into the knowledge of other organisational members. Further, in the dynamic and uncertain environments, typical for knowledge-intensive industries, adaptation skills that enable individuals to respond effectively to constant changes are important for continuous learning and thus need to be tested in the selection process [58].

Effective selection practices combined with well-designed training enable a continuous upgrading of employees' skills that foster knowledge absorption and utilisation [63]. Traditional training that delivers ready-to-use knowledge or develops very narrow set of skills again may not be sufficient. Rather, training practices that improve wider abilities to respond to a dynamic environment as well as promote learning from others may be better suited for supporting knowledge processes [53]. So training that helps build strong relationships among employees, enhances internalisation of organisational values, norms and shared cognitive schemas, will promote further knowledge assimilation and sharing [58, 60].

Motivation Enhancing HRM: Performance Management and Reward Systems

Acquiring and developing employees' skills for knowledge assimilation and sharing is one thing, but directing those skills towards the achievement of organisational goals related to knowledge outcomes is equally important. It has been argued that compensation and performance assessment are the primary means of directing and encouraging employees' actions towards organisational objectives [61]. Systems linking pay and incentive plans to performance communicate desired behaviours and thus may facilitate attainment of knowledge goals [62, 63]. Incentive systems based on group and organisational performance may help to align individuals' objectives with team goals, thus fostering the sense of common purpose and cooperation that is essential for learning and knowledge sharing [64].

In contrast, rewards linked solely to individual performance may elicit competition among employees, and employees operating on the theory that “knowledge is power” may become disinclined to share knowledge. Still, there are contradictory findings in relation to rewarding knowledge sharing. Some argued that when learning and sharing of new ideas are rewarded, it may facilitate knowledge flows through organisation [53, 65], whereas others suggest that rewarding intrinsically motivated discretionary behaviours including knowledge sharing rather has the opposite effect [66].

Performance assessment also provides an opportunity to communicate to employees the organisation’s vision and give feedback in relation to their behaviours. Performance assessment that makes employees accountable for building relations with others in order to obtain information and knowledge, for creating open and safe climate in their team will likely foster knowledge transfer [53, 56, 59]. It has been demonstrated that performance appraisals that have a developmental rather than a solely performance focus can increase learning motivation [58].

Opportunity Enhancing HRM: Work Organisation

Another critical issue is creating a context where employees with the needed skills and motivation can engage in learning and other knowledge processes. Acquiring and sharing knowledge are not solitary, but social activities [15, 31], so designing work that provides opportunities for frequent interactions and collaboration encourages learning and has the potential to increase knowledge flows. For example, job rotation and cross-functional interfaces give opportunities to connect with others as well as exposure to new knowledge and tasks. It helps individuals to refine their current knowledge, broaden their expertise and develop multiple perspectives when solving problems, thus enhancing employees’ abilities in assimilating diverse knowledge [67]. Designing jobs to foster social integration through use of cross-functional project teams mediates the relationship between perceived organisational commitment to knowledge sharing and actual knowledge exchange [68]. Other mechanisms such as international assignments, knowledge-exchange events and communities of practice create opportunities for learning and knowledge sharing among employees [28, 53]. Even social events that encourage contact and relationship building among individuals develop social capital, facilitating knowledge flows [56].

HRM and Outcomes

Although some HRM practices may exert a direct influence on employees’ ability, motivation or opportunity to assimilate and share knowledge, the effects may be more complex. Since it is difficult to isolate the effect of single practices in the

HRM system on various outcomes, the majority of HRM research has examined the impact of the whole system. The underlying assumption is that internally consistent and mutually reinforcing bundles of HRM practices will have a stronger effect than individual practices [69]. However, using a single index, additive approach to HRM system assumes that all elements are equivalent, interchangeable and have the same effect on studied outcomes [50]. This assumption has been recently challenged. Some scholars have pointed that different sets of HRM practices may impact the same outcome in a heterogeneous way [70, 61].

Further, the majority of HRM studies have assumed a positive complementarity in the system of HRM practices [61]. However, it is possible that some managerial practices when applied simultaneously may reduce the effect of others—i.e. have so-called crowding out effects. For instance, practices targeted at increasing the extrinsic motivation may have a negative effect on the intrinsic motivation [71] or practices designed to enhance opportunities for engaging in knowledge sharing, such as job rotation, may decrease motivation [13]. Therefore, in addition to examining the combined effect of the whole system, it is important to consider the distinct effects of the various components of HRM system on studied outcomes [70].

Another fundamental issue in the relation to HRM practices and knowledge-related outcomes is the role of context. The impact of HRM on abilities, motivation and opportunities of the individuals involved in knowledge assimilation and sharing will be moderated by context. HRM scholars have repeatedly underscored the importance of taking context into account in the research as findings from one context may not hold true in another [72–76]. Despite the importance of contextual boundary conditions and contingencies impacting effectiveness of HRM practices designed to achieve organisational goals, HRM issues have been largely unexplored in most underdeveloped, emerging or transitioning economies [77]. Thus, the challenges that MNCs face related to managing people in such countries are not well understood [78]. Empirical evidence demonstrates that cultural and institutional differences between countries result in different HRM practices being more effective in different contexts [79, 80]. Since not all practices have the same effect in all environments, it might be expected that the link between HRM practice and absorptive capacity and knowledge flow likewise will be idiosyncratically influenced by various contextual factors. Because of the rising significance of developing and transitioning economies, with for the first time ever in 2012 higher proportion of FDI, i.e. 60 % going to these countries [81], the role of context deserves careful consideration.

Summary and Conclusions

The primary reason for the very existence of MNCs, according to the knowledge-based view of the firm, is that they are better mechanism for sharing and transferring knowledge than external markets [7, 2]. MNCs, despite having the possibility of tapping into diverse knowledge, vary greatly in the extent to which they

utilise this opportunity. A significant part of variation in knowledge process can be ascribed to variation in employed HRM practices [23].

Although HRM systems are inextricably linked to knowledge processes, certain strategic outcomes such as knowledge transfer, organisational learning, innovation or development of dynamic capabilities have been rather neglected in the examination of the relationship between HRM and outcomes [22]. Further research into how absorptive capacities are linked to HRM will enhance our understanding of how HRM can contribute to various strategic outcomes. We have attempted to contribute to the discussion on organisational antecedents of absorptive capacity by exploring the facilitating role of HRM practices.

Another important issue is the role of context in the link between HRM practices and knowledge-related outcomes. This is a call not just for more research into the less-explored countries beyond the WEIRD ones—the western, educated, industrialised, rich and democratic countries [82]—in HRM and in knowledge transfer, though both are needed, but also for research that explores the two and compares the way that the relationship operates between contexts.

Our model and our discussion suggest a series of research propositions that could usefully be explored in further research:

- Proposition: *The interaction between employees' abilities, motivation and opportunities for knowledge assimilation and sharing will be positively related to organizational knowledge flows.*
- Proposition: *There will be a positive link between the use of HRM system promoting knowledge-intensive work and employees' abilities, motivation and opportunities for knowledge acquisition and sharing.*
- Proposition: *The relation between HRM system and absorptive capacity will be moderated by contextual factors.*
- Proposition: *Selection and training aimed at enhancing knowledge-intensive work will be positively related to employees' abilities for knowledge acquisition and sharing.*
- Proposition: *The performance management and rewards system aimed at enhancing knowledge-intensive work will be positively related to employees' motivation to acquire and share knowledge.*
- Proposition: *The work organisation practices aimed at enhancing knowledge-intensive work will be positively linked to employees' opportunities to acquire and share knowledge.*
- Proposition: *Selection and training aimed at enhancing knowledge-intensive work will be positively related to employees' motivation for knowledge acquisition and sharing.*
- Proposition: *Selection and training aimed at enhancing knowledge-intensive work will be positively related to employees' opportunities for knowledge acquisition and sharing.*
- Proposition: *The performance management and rewards system aimed at enhancing knowledge-intensive work will be positively related to employees' abilities to acquire and share knowledge.*

- Proposition: *The performance management and rewards system aimed at enhancing knowledge-intensive work will be positively related to employees' opportunity to acquire and share knowledge.*
- Proposition: *The work organisation practices aimed at enhancing knowledge-intensive work will be positively linked to employees' abilities to acquire and share knowledge.*
- Proposition: *The work organisation practices aimed at enhancing knowledge-intensive work will be positively linked to employees' motivation to acquire and share knowledge.*

Our aim in this study was to contribute to a better understanding of absorptive capacity and knowledge flows by examining less studied organisational antecedents of these phenomena. When managerial practices are designed with a specific goal to enhance employee' abilities, motivation and opportunities for knowledge absorption and utilisation they potentially enhance intra-organisational knowledge flows.

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