

How Smart Firms Power Global Knowledge Acquisitions Through Socialization Mechanisms: Evidence from Malaysian Foreign Subsidiaries

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ARTICLE INFO

ABSTRACT

Article History:	<i>This concept paper extends research on knowledge transfer based on the network and resource base. It claims smart firms can accelerate their stock of strategic knowledge by employing an efficient socialization process and gaining competitive advantages. Nonetheless, exploiting the knowledge in the corporate network is not straightforward. The transition of substantial strategic resources within a business must be acquired and used efficiently. Using the socialization process thus significantly reduces the barriers to best practices or strategic knowledge transfer. This paper presents a theoretical model explaining acquiring knowledge through socialization. Nevertheless, this paper demonstrates that without socialization mechanisms, subsidiary-headquarters embeddedness could adversely affect.</i> KEYWORDS: Socialization mechanism, Subsidiary-headquarters embeddedness, Strategic resources, Knowledge flow, Competitive advantages
Received : 20 June 2023	
Revised : July 2023	
Accepted : 5 July 2023	
Publication : July 31, 2023	
DOI : 10.47742/ijbssr.v4n7p1	
 https://creativecommons.org/licenses/by/4.0/	
ISSN: 2709-2143	

I. INTRODUCTION

In recent years, subsidiary knowledge flow has grown considerably in MNCs, and theory development has occurred through empirical work (2020; Michailova & Mustaffa, 2012; Williams & Lee, 2016). Nevertheless, basic assumptions for knowledge flow research provide major variants that provide various definitions of the relevance to contemporary knowledge flow study. Many researchers concentrate on the flow of knowledge from the source or receiver and emphasize both vertical inflow and outflow (J. Y. Lee et al., 2020; J. Y. Lee & MacMillan, 2008; Yang, Mudambi, & Meyer, 2008). At the same time, others focus on horizontal in-and outflows (Cassiman & Valentini, 2016; W. Tsai, 2002; Zhao & Luo, 2005). However, vertical knowledge flow means subsidiaries obtain knowledge from the headquarters.

On the other hand, horizontal knowledge flow adheres to knowledge transfer from subsidiaries to sister subsidiaries. In

addition to knowledge flow, study researchers primarily emphasize the direction of flow, either inflow or outflow, and, most importantly, knowledge inflow from headquarters to subsidiaries or sister subsidiaries (Kostova & Roth, 2002; Lai, Lui, & Tsang, 2016).

Moreover, Asakawa et al. (2010) research the inward or outward flow of knowledge crucial to innovation. Besides earlier studies, knowledge outflows to headquarters or sister subsidiaries are consistently highlighted (Fey & Furu, 2008). A recent study shows that knowledge inflow and outflow complement each other in terms of open innovation or success, and knowledge flow intensity increases as one type of flow increases (Cassiman & Valentini, 2016). Nonetheless, the vertical and horizontal knowledge outflow and its effect have been less studied in many cases (Cassiman & Valentini, 2016; Gupta & Govindarajan, 2000; Noorderhaven & Harzing, 2009). Moreover, Gupta and Govindarajan's (2000) studies are quantitative, while Hong &

Nguyen's qualitative approach (2009) and Inkpen & Tsang's conceptual approach (2005) illustrate vertical and horizontal in and outflows. Much work has been completed, but it elucidates vertical or horizontal in-and outflows.

Nevertheless, little work has been done on the knowledge outflow relative to inflows and outflow of knowledge, which is necessary to conduct empirical or theoretical studies (Gaur Ajai, Ma, & Ge, 2019; Michailova & Mustaffa, 2012). Previous research describes a dual flow of knowledge between the subsidiary and headquarters by which knowledge inflows from headquarters to the subsidiary and knowledge outflows are directed from the subsidiary to sister subsidiaries (Daniel, 2010; Gupta & Govindarajan, 1991; Mudambi, Oliva, & Thomas, 2009). Therefore, it is proposed that the flow of knowledge occurs through headquarters to the subsidiary, and knowledge outflow is directed between subsidiaries and sister subsidiaries.

Nevertheless, this study also highlighted the strategic roles of subsidiaries; however, they fail to address knowledge acquisition through which subsidiaries are interlinked with the external environment. Nevertheless, the latter study highlighted the tendency of knowledge flow from headquarters to subsidiary or subsidiary to headquarters (Gupta & Govindarajan, 2000). These directional knowledge flows refer to exchanging or sharing the knowledge between headquarters and subsidiaries, besides the external knowledge acquisition or flow aligned with subsidiaries with external network alliance. To be competitive in the market, external ties are most significant, and a subsidiary with its external environment needs to be addressed (Ferraris, Santoro, & Scuotto, 2018; J. Wang, Liu, & Li, 2009). While the existing literature is narrowly focused on the group, which is internally associated, and its consequences, both ways of knowledge flow and its impact on subsidiaries are still to be investigated empirically or theoretically. Current accounts typically fail to measure the beneficial impact of knowledge outflow in MNEs and subsidiaries.

Given the defined gap relating to subsidiary performance, this research intends to highlight the factor associated with knowledge inflow and outflow. Subsidiary knowledge flow is internally dependent and is believed to have much more impact on external network capacity in which external knowledge flows, unlike internal knowledge flows, which give the firm a competitive edge (Robert M Grant, 1996; G. Wang, Liu, & Liu, 2019), and the ability to take independent performance-effect decision (Phene & Almeida, 2008). Studies showed that the knowledge source perception of recipients affects the knowledge flow process, and a higher degree of knowledge flow influences subsidiary efficiency (F. Monteiro & Birkinshaw, 2017; L. F. Monteiro, Arvidsson, & Birkinshaw, 2008). Existing research helps to start understanding what happens while knowledge inflow and outflow positively influence firm performance but leaves unanswered the most important questions about what determines the effectiveness of subsidiary performance. Research on subsidiary performance is not somewhat limited, but the work to date is quite fragmented in exploring socialization strategies that influence the subsidiary-headquarters embeddedness and subsidiary performance. This

study seeks to classify the current literature grounded in knowledge flow and subsidiary performance in the Malaysian context. Knowledge flow study is minimal, and further research on theoretical and empirical needs to explore how socialization mechanisms influence significantly.

II. LITERATURE REVIEW

Research on knowledge flow in organizations began through research on technology transfer (Garud & Nayyar, 1994; Teece, 1977). After that, the idea of technology transfer becomes predominant. Later technology transfer shifted to "knowledge transfer" or "knowledge flow." However, in the early 1990s, the idea of tacit knowledge introduced by Kogut and Zandar (1992) and Nonaka and Takeuchi (1995) implies that knowledge resides within the firm boundary and provides competitiveness, which is supported by the resource-based view (Jay B. Barney, 2001). Later the definition of tacit knowledge subsequently shifts to knowledge. Illustrate Polany's (1966) notion of learning something more than we can claim. Then there is a notion that a broad tacit knowledge space can exist behind, which we may explain explicitly. Thus, the consequence of the knowledge flow that exists across the border may be perplexing as has been observed so far. Based on the group of researchers highlighted the function of the "tacit aspect" of knowledge that may be difficult to transfer cross-border (A. W. Harzing, Pudelko, & Sebastian Reiche, 2016). The concept of tacit is related to ambiguity or stickiness of knowledge that is difficult to transfer across the border. An effective communication channel may reduce the stickiness of knowledge that so far increases the flow of knowledge across the border.

Besides, Gupta and Govindarajan's (1991) study shows MNCs as the transaction network comprising capital and knowledge flows. Considering the network of relationships, knowledge flow is especially significant for transnational MNEs; however, little knowledge about knowledge flow management either domestically or internationally. Considering Gupta and Govindarajan's (1991) study categorized dual types of knowledge flow, the degree to which subsidiaries participate in knowledge transfer, and second, whether subsidiaries are knowledge providers or recipients.

Recent advances in cross-border knowledge transfer view the idea of social capital as a collective social network (Inkpen & Tsang, 2016; Sanchez-Famoso, Maseda, Iturralde, Danes, & Aparicio, 2020; W. Tsai, 2000). Social capital enhances creativity in Research and development (R&D) projects (Chen, Chang, & Hung, 2008; F.-S. Tsai & Hsu, 2019). Another research examines how network effects change in collectivist and individualistic contexts (Rooks, Klyver, & Sserwanga, 2016; Sözbilir, 2018). However, Villena, Revilla, and Choi (2011) contextualized social capital that contributes to or hinders value creation in buyer-supplier relationships. Another trend focuses on technology and R&D-related research concentrating on technological growth (Achcaoucaou, Miravittles, & León-Darder, 2017; Athreye, Batsakis, & Singh, 2016). Besides, many depend on marketing-related knowledge (Schlegelmilch & Chini, 2003; Simonin, 1999). The research's new trend focuses on the global performance management system (Maley & Moeller, 2014;

Richards, Yeoh, Chong, & Popovič, 2019). However, a recent study shows that Cross-border knowledge transfer and Innovation (Jandhyala & Phene, 2015), subsidiary knowledge development through social capital theory (Dubos, 2017).

1. Knowledge inheritance through Socialization

Previous studies have shown that intra-firm knowledge exchange is encouraged by socialization mechanisms (Gupta & Govindarajan, 2000; Khan, Shenkar, & Lew, 2015). This form of knowledge, however, is tacit, as it is based on familiarity and routine by employees and can be exchanged in different ways through repeated interaction (Margaret L. Sheng, Hartmann, Chen, & Chen, 2015). The socialization process promotes knowledge creation and development through the embedded ties between subsidiaries and the headquarters and accelerates knowledge transfer (Corte, D'Andrea, & Del Gaudio, 2017; Özsoy & Gençtürk, 2003). Ultimately, this research shows that the socialization mechanism greatly benefits in maintaining embedded relations between subsidiaries and HQ and significantly contributes to the study of knowledge flow.

In particular, subsidiaries and HQ embeddedness are related to mutual adaptation and relationships (Andersson, Forsgren, & Holm, 2001; Ferraris et al., 2018), which improves knowledge flow and subsidiary efficiency as a result of strategic resources accumulated from external and internal sources (R. P. Lee, 2010). As a way of promoting cooperation, it also encourages the creation of transfer knowledge and strengthens embedded relationships (W. Tsai & Ghoshal, 1998). This study shows that the subsidiary's success is primarily linked to the flow of knowledge of subsidiaries and the determinants for developing subsidiaries' knowledge. The result indicates that subsidiary performance is better if the flow of reverse knowledge is reliable. Socialization mechanisms not only strengthen the relationship between subsidiaries and headquarters, but they also serve as powerful predictors of subsidiary knowledge flow. Socialization mechanisms such as internal activities, corporate training, and typical corporate culture may minimize the barriers between subsidiaries and headquarters or different network organizational units. Therefore, trust-building phenomena are growing among the networked members of the MNEs (Smale et al., 2015). Thus, subsidiary and HQ managers use more integrated socialization mechanisms for formal and informal knowledge exchange (Schulz, 2003). In this situation, the subsidiary manager has further chances to express his view with the HQ manager. Therefore, leads to closer relations between various units. The socialization process will consequently serve as a safeguard and may reduce the obstacle to knowledge exchange (Decreton, Nell, & Stea, 2019). It is assumed that a firm possesses various types of resources, and knowledge has nevertheless been rated among the most significant, and competitive advantages can be extracted from resources residing in the inter-firm relations network (Robert M. Grant, 1991; Margaret L. Sheng, 2019). Superior performance at an inter-organizational level results from firms' specific resources within the firm boundary (Jay B. Barney, Ketchen Jr, & Wright, 2011). Therefore, it is based on two fundamental assumptions: one is heterogeneous resource distribution among firms, and two is flawlessly useful.

The knowledge transferred between units within the MNE study is essential for the MNE study. Research on knowledge transfer and its range of organizational features uses socialization processes to promote knowledge transfer and networking knowledge (Hansen, 2002). Besides, the close connections between global and local counterparts through network links associate with higher knowledge flow (Li, Easterby-Smith, Lyles, & Clark, 2016). Thus, it is expected that socialization or a participatory environment between subsidiaries and headquarters strengthens both the knowledge flow at its subsidiary level and its knowledge development. However, this knowledge exchange typically depends on particular individuals or teams in the organization, and both the HQ and subsidiaries are critical assets for individuals and groups.

2. Role of the Subsidiary Manager on Socialization

The research identified that the subsidiary manager's proactive behavior could substantially affect the subsidiary of MNEs (Nuruzzaman, Gaur, & Sambharya, 2019). However, this approach will be futile if the headquarters manager refuses to share knowledge informally or formally. Therefore, new ideas or innovations can emerge late, and the competitor may utilize knowledge for faster improvement. The detrimental effects of a headquarters presence can be reduced by socialization (Decreton et al., 2019). The headquarters involved may also increase subsidiary initiatives, add value, strategic capabilities, and knowledge of subsidiary-driven companies related to the other parts of MNEs (Decreton et al., 2019; Dellestrand & Kappen, 2012; Nell, Decreton, & Ambos, 2016). In addition, the research highlighted the effect of R&D management on implementing several socialization mechanisms, including frequent communication among different R&D units utilizing long-term training and short-term visits (Athreye et al., 2016; Mendez, 2003). Intra-corporate social interaction and cooperation between units are capable of boosting knowledge transfer within the MNE, based on social capital (Gooderham, Minbaeva, & Pedersen, 2011; Gupta & Govindarajan, 2000; Williams & Lee, 2016). The subsidiaries with a technically skilled workforce in the host location are associated with R&D and use local knowledge rather than the internal knowledge sources within the MNE (Athreye et al., 2016).

3. Relationship ties between Subsidiaries and Headquarters through Embeddedness

The notion of the business network by which it connects with various clusters is interconnected through the corporate network (Laumann, Galaskiewicz, & Marsden, 1978). From this viewpoint, MNE could be structured as a communication or network channel in which subsidiaries, sister subsidiaries, and external alliances maintain ties with MNE and improve business relations. In addition to a business network derived through social interaction, Nahapiet and Ghoshal (1998) describe the summary of existing and perceived knowledge embedded in, accessible through it all, and generated from either a channel of the individual or collective relationships. The business partnership resulting from network members' business relationships and actual and perceived resources are available through embedded network relationships. Thus, the business

connection is most significant to achieve through embedded relations. They can also reduce the costs of sharing resources by adopting each other's activities (Pouwels & Koster, 2017; Zajac & Olsen, 1993).

Subsidiaries are associated with external partners that offer essential knowledge of competitive advantages. Research has shown that new knowledge from outside organizations improves the development of the subsidiary's product, process, and innovation (Andersson, Forsgren, & Holm, 2002, 2015). This allows externally embedded subsidiaries to contribute to MNE's knowledge base (Zhang, Cantwell, & Jiang, 2014). Therefore, internal or subsidiary-headquarters embeddedness denotes the relationship with its intra-MNE network. Subsidiaries may obtain strategic knowledge from the parent and respond quickly to host-country issues (Luo, 2003). Subsidiary-

headquarters embeddedness thus offers subsidiaries a learning potential and can be the primary source of competitive advantages (Oehmichen & Puck, 2016; Samiee, 2008). Nevertheless, subsidiaries must efficiently handle external embedding in a global network to optimize knowledge flows (Pu & Soh, 2018). Embeddedness involves bridging HQ, subsidiaries, and local partners to strengthen the relationship and knowledge flow (Ciabuschi, Holm, & Martín, 2014).

III. The framework and hypotheses of the research

Based on extant literature and the underlying theory, this research will examine factors influencing subsidiary-headquarters embeddedness, increase knowledge flow, and improve the subsidiary's performance. The relationship between the constructs below is shown in Figure 1 below.

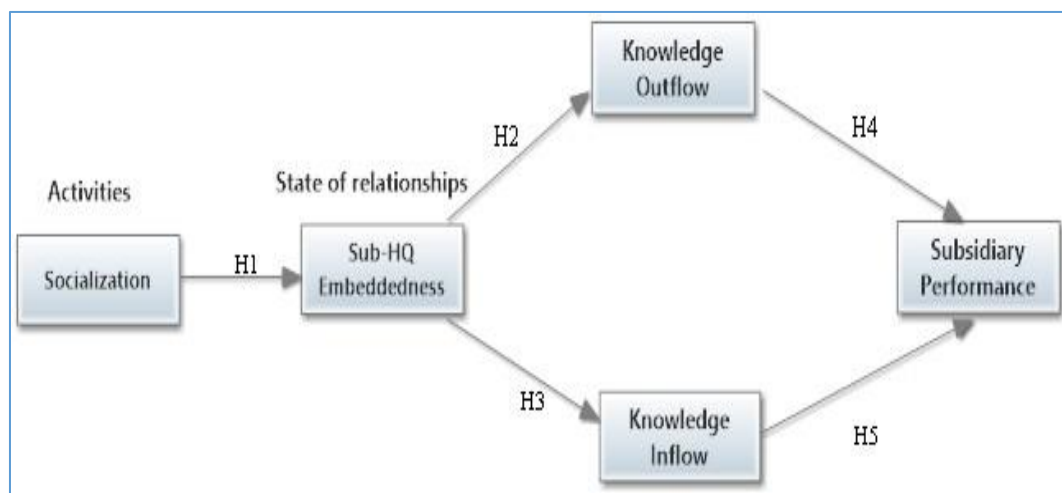


Figure 1: Socialization mechanism and subsidiary performance.

The business network literature describes embeddedness as a strong tie between headquarters and subsidiaries and strong networking with external partners in creating new knowledge and development processes (Andersson et al., 2015). However, a previous study indicates that external embeddedness is the critical source of external knowledge that offers MNE competitive advantages (Andersson et al., 2001). Several mechanisms promote the inclusion and integration of knowledge management facilities, including direct authority, social interplay, planning, and execution (Ambos, Ambos, & Schlegelmilch, 2006; Gupta & Govindarajan, 2000). The socialization mechanism requires cross-border joint training programs, the interaction between the subsidiary and the headquarters manager, and the subsidiary manager's visit to headquarters, and vice versa (A.-W. Harzing & Noorderhaven, 2006). The likelihood of exchanging non-codified or tacit knowledge can increase through a socialization mechanism through informal communication, particularly face-to-face interaction (Noorderhaven & Harzing, 2009; Wu, Lee, & Pham, 2019). However, the recent study by Foss and Pedersen (2019) and Najafi-Tavani et al. (2012) shows social interaction has been influenced to capture tacit knowledge in the professional service-based firm. The same study by Najafi-Tavani, Giroud, and Sinkovics (2012) shows that face-to-face interaction is linked to high social control. Secure connection as a form of regular cooperation among network partners and rich media,

such as informal communication, face-to-face contact, and coordination, offset the transmission losses (Liu, Lo, & Dai, 2018; W. Tsai & Ghoshal, 1998). Although the earlier study shows that the socialization mechanism is the strong foundation for capturing tacit knowledge, little is known about the effect on subsidiary-headquarters embeddedness. It is predicted that the accumulation of tacit knowledge leads to the formation of group knowledge. Thus, the proposition is formulated:

Proposition 1: The more the socialization mechanism is employed, the more the subsidiary-headquarters embeddedness.

(a) Subsidiaries-headquarters embeddedness

Previous studies showed that a subsidiary adds considerably to the knowledge base as it has strategic ties with all network members, including sister subsidiaries (Zhao & Luo, 2005). Furthermore, subsidiary-headquarters embeddedness also reinforces inter-firm interactions and network alliances (J. Y. Lee & MacMillan, 2008). Within the network order, subsidiaries must strategically position themselves to retain relations, both headquarters, parent, as well as other sister subsidiaries. A recent study shows that subsidiary and headquarters embeddedness allow extensive support. Internally embedded relationships provide comprehensive support and resources in the form of a knowledge exchange channel within the MNE (Andersson et al., 2015, 2002) provides knowledge exchange channels within the MNE network. Therefore, it is assumed that subsidiary-

headquarters embeddedness is assumed to make subsidiaries relevant in the context of MNEs. The recent study illustrated the relevance of subsidiaries with the external network, which can create and develop knowledge in the MNE and strengthen ties with the headquarters (Nell et al., 2016; Sumelius & Sarala, 2008). Therefore, this research aims to assess the effect of knowledge flow and investigate the influence of subsidiary-headquarters embeddedness that enhances knowledge inflow and outflow in the subsidiary. It is therefore predicted that subsidiary-headquarters embeddedness increases the knowledge inflow and outflow in subsidiaries. The following proposition is then constructed:

Proposition 2: the more subsidiary-headquarters embeddedness, the more knowledge inflow at the subsidiary level.

Proposition 3: Subsidiary-HQ embeddedness positively affects knowledge outflow.

(b) Impact of Knowledge Inflow and Outflow in Subsidiary Performance

Previous research has explored various types of knowledge that affect intra-MNE knowledge flows. Bartlett and Ghoshal (2002) define the MNE network as the unit-by-unit transaction resources, the product, and knowledge. While Gupta and Govindarajan (1991) emphasize knowledge flow, the exchange of knowledge between subsidiaries and MNEs is defined as the transfer of experiences or the competitive interest of external market knowledge. The same paper defines a method of knowledge flow between subsidiaries and headquarters. Gupta and Govindarajan (1991) identify four functional positions dependent on the dual flow between the subsidiary and headquarters. These are named global innovator, detecting high outflows and low inflows; integrated player signifies high outflows and high inflows; implementer with low outflows and high inflows; and local innovator, low outflows and low inflows. However, global innovators and integrated players have related positions. If the subsidiary acts as a source of knowledge, it is a global innovator, and an integrated player generates knowledge for usage by other subsidiaries. Besides, the implementer function division produces little knowledge but depends on knowledge inflow from other subsidiaries, headquarters, or parent firms. In the local innovator, know-how knowledge may be developed to build knowledge for host country marketing.

The research, regarded as limited studies, two-way interaction between subsidiary and headquarters, demonstrated the impact of knowledge transfer and success (J. Y. Lee & MacMillan, 2008). Little is understood that knowledge flows from subsidiary to MNE often contribute to innovation success. Therefore, hypothesizing that:

Proposition 4: The more Knowledge inflow, the more subsidiary performance resulted

Proposition 5: The more knowledge outflow, the more subsidiary efficiency is observed.

IV. Conclusion

The study indicates that the expatriate manager offers valuable knowledge and useful information by linking headquarters, enabling foreign subsidiaries to perform better. It is suggested that subsidiary managers efficiently organize and interact with other MNE networks to acquire new knowledge and compete with other firms. Therefore, networking with other units of MNCs is essential for subsidiaries. This study will examine what is ultimately linked with a subsidiary's performance by the factor associated with knowledge inflow and outflow. It is predicted that socialization's impact is greater in strengthening subsidiary and headquarters embeddedness and firm to provide a competitive edge (Robert M Grant, 1996; Singh & Hong, 2017). However, knowledge inflow may secure the embeddedness between the subsidiary and headquarters, and knowledge outflow possibly increases independent decisions to be more innovative further, and at the same time, the willingness of knowledge sharing phenomenon increases (Ferraris et al., 2018; Phene & Almeida, 2008).

This paper aims to contribute to knowledge management, emphasizing cross-border knowledge transfer by examining the effect of inherited knowledge generated or exchanged through foreign subsidiaries' socialization mechanism and strategy. External and internal knowledge is essential. However, external knowledge may be the rare and non-duplicable knowledge that could be exchanged via MNE's network. Research expects that subsidiaries may increase profit by leveraging knowledge assets across borders, but this knowledge may not be equally valuable to subsidiaries or headquarters. Technological, administrative, and strategic skills are required to support subsidiaries.

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