

# Chapter 7

## Knowledge Inflows and Knowledge Creation Capabilities Among MNC Subsidiaries in Malaysia: Human Capital in Host Country as a Moderator

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### **ABSTRACT**

*In a volatile business environment and a global landscape, knowledge creation capability plays an important role in ensuring that MNC subsidiaries stay competitive. In this respect, knowledge inflows from different parts of the MNC knowledge network are vital to a subsidiary's capability to create new knowledge. Briefly, knowledge creation capability refers to the successful implementation of creative ideas within an organization. However, innovation-based competitiveness always starts with creativity that is rooted in individual workers in an organization. The human capital of the organization, therefore, is considered to be one of the main sources of knowledge-based competitive advantage. Therefore, besides knowledge inflows from the MNC network, subsidiaries also need human capital to allow for knowledge flows to be utilized creatively in order to remain competitive.*

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## **INTRODUCTION**

“How can subsidiaries of multinational corporation (MNC) gain sustainable competitive advantage in the host countries that they operate in?” This issue has been a matter of interest among the industry key stakeholders, government bodies, as well as academics. According to the existing literature, the ways in which a firm potentially sustains its competitive advantage can be explained in three (3) different ways. From an industry market-based view (MBV), a firm should concentrate on its competitive analysis. A resource-based view (RBV), on the other hand, focuses on the usage of firm resources. The third perspective is through the knowledge-based view (KBV) that emphasizes knowledge to be the main driver of superior performance in organizations (Wang, 2014).

In the current fast-paced changes in technological advancement and the growth of economies, the knowledge we learn today may not necessarily solve the problems of tomorrow. To compete effectively in this day and age, an organization needs to be alert of the changes and developments of its business environment. It means that as the industrial sector grows in complexity, organizations come under increasing pressure to reconstruct themselves. Knowledge turns into a major asset with regards to competitive advantage from the knowledge-based market perspective. As discussed and acknowledged in previous literatures, knowledge has become a critical driver of the world’s economy today. Drucker (2009), for example, argues that “knowledge has become the key economic resource and the dominant – and perhaps even the only – source of comparative advantage”.

Knowledge refers to information combined with experience, context, interpretation, and reflection. Basically, knowledge is a high value form of information that is ready to apply to decisions and actions (Jarrar, Zairi, & Schiuma, 2010). Knowledge is a pivotal part for today’s knowledge-based companies. The performance of an organization depends on the knowledge the organization can acquire and utilize (Andreeva & Kianto, 2012). Organizations must have the technological and organizational capability to adapt to the current knowledge to ensure greater opportunity to react against and overcoming the growing complexity of the current market requirements. Globalization has caused rapid knowledge changes, which forces firms to constantly develop and innovate their technological capabilities, while also ensuring minimization of costs in order to maximise profits. In short, knowledge is key in an organization’s pursuit for competitive advantage. An organization increases its opportunity to produce better value-added products and services and enhance business growth through a rapid and effective process of generating knowledge (Subramaniam & Youndt, 2005). Business success depends on how quickly and effectively knowledge is exchanged.

On the other hand, KBV of a company recognizes the capability of leveraging and managing knowledge in the organization. Subsidiaries of a MNC are usually

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