

# Influential Factors on Reverse Knowledge Transfers in Multinational Organizations


**Rita Marques Castro**

*University of Aveiro, Portugal*

**Sara Pandeirada Neves**

*University of Aveiro, Portugal*

**António Carrizo Moreira**

 <https://orcid.org/0000-0002-6613-8796>

*University of Aveiro, Portugal*

## INTRODUCTION

Knowledge plays a pivotal role in the competitiveness of firms as both a resource in itself – which is rare, firm-specific, and difficult to imitate or substitute – and an integrating factor that makes other intangible resources and capabilities unique, especially in dynamic environments.

Knowledge has also a social dimension within firms. Hence it is important that firms develop a positive culture so that the utilization of individual's knowledge can be used and thereby makes firms compete favorably in the market. As such, firms need not only to develop a better knowledge base, but also need to manage knowledge better. For that, firms need to develop a teamwork effort so that the utilization of knowledge is useful for the firm (Omerzel & Gulev, 2011).

Globalization has turned organizations into highly complex and competitive environments where information and knowledge are the main sources of sustainable competitive advantage (Nonaka & Takeuchi, 1995; Teece, Pisano, & Shuen, 1997). With the globalization of the economy, the internationalization of the firms has become an increasingly important activity for their growth and survival (Dicken, 2015; Moreira, 2009). Although there are numerous theories that explain how firms internationalize, knowledge is almost taken for granted in most of them (Ribau, Moreira, & Raposo, 2015). Moreover, very few scholars address the importance of knowledge as a competitive advantage for multinationals to compete (Moreira, 2009; Ribau et al., 2015).

Multinational organizations need to be seen as global knowledge transfer systems where multiple knowledge flows happen simultaneously every minute between headquarters and local clusters, headquarter and subsidiaries and also among subsidiaries. Furthermore, in order to improve international positioning, these organizations must deal with and try to take advantage from different temporal, cultural, linguistic and spatial contexts (Demarest, 1997; Spender & Grant, 1996). Knowledge transfer involves sharing, filtering and presenting knowledge. This process is successful when the knowledge receiver changes its behaviour or performance, due to the knowledge sender's transfer (Argote & Ingram, 2000).

On one hand, headquarters (thereby written HQs) are irreplaceable sources of new knowledge for the subsidiaries, since they possess valuable intangible assets and capabilities, which might be used by the subsidiaries in their local markets. However, on the other hand, the local knowledge created and transferred from the foreign subsidiaries to the headquarters has proved to be very beneficial to the

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productivity and local performance of the multinational, improving the formulation of global strategies, facilitating the access to external resources and supporting both research and development (R&D) and new products development activities leading to productivity gains to the multinational (Ghoshal, 1986; Ishihara & Zolkiewski, 2017).

Subsidiaries can contribute to the overall multinational knowledge with local expertise and market intelligence. The expertise concerns input, productivity and output processes. Whereas market and business intelligence refer to information about clients, competitors and suppliers, representing the most valuable knowledge to the firm but least transferred one (Ambos, Ambos, & Schlegelmilch, 2006; Gupta & Govindarajan, 1991). Although there are numerous researches on the importance of several types of knowledge flows within multinationals (e.g. Crespo, Griffith, & Lages, 2014; Yang, Mudambi, & Meyer, 2008), the aim of this chapter is to deepen the literature specifically on reverse knowledge transfers in which knowledge flows from the subsidiary (the sender) to the HQs (the receiver) that receives, absorbs and applies it to obtain and exploit global competitive advantage.

This chapter seeks to explore the main key success factors that influence Reverse Knowledge Transfers (RKTs) within multinational corporations (hence referred as MNCs). The chapter categorizes those knowledge transfers within four main groups: subsidiary's characteristics; knowledge characteristics; relationships between HQs and subsidiary; and the central outcomes of these knowledge flows to the organization.

This chapter is divided in four sections. After this introduction that comprises the first section, background information is presented in section two. Section three addresses the main focus of the chapter: the four main groups of RKT. Section four presents the solutions and recommendations. Section five addresses the future research directions. Finally, section six presents the main conclusions.

## BACKGROUND

As stated before, knowledge is considered the main source of companies' competitive advantage (Nonaka & Takeuchi, 1995; Teece et al., 1997). Since MNCs are divided into several agencies, they must handle knowledge transfers in different directions, such as conventional or vertical transfers (from HQs to subsidiaries), lateral or horizontal transfers (between subsidiaries) and reverse transfers or RKT (from subsidiaries to HQs). The latter, while being extremely valuable in transferring knowledge and underpinning the MNC's strategy, faces several obstacles to succeed.

This chapter's contribution can be divided in terms of RKT factors into four main groups: characteristics of subsidiaries, characteristics of knowledge, characteristics of the relationship between HQs and subsidiaries, and outcomes of RKT. The first group, which is one of the most explored topics in literature, is the subsidiaries' characteristics, namely the influence subsidiaries have under the strategy development, the internal and external embeddedness of these divisions, the subsidiary's country of origin, as well as the entry mode chosen to initiate the commercial relations in the given country.

The characteristics of the knowledge itself are very relevant to explain the RKT, specifically in terms of relevance, explicitness and complexity (Crespo et al., 2014; Ishihara & Zolkiewski, 2017; Yang et al., 2008).

The relationship between subsidiary and HQs is an extremely interesting area, although difficult to exploit and sometimes achieving contradictory results. It explores aspects such as the ability to disseminate and absorb knowledge, human resources practices and the control and coordination mechanisms adopted in each subsidiary.

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