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# HRM practices affecting extrinsic and intrinsic motivation of knowledge receivers and their effect on intra-MNC knowledge transfer

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## ABSTRACT

This paper explores why and how human resource management (HRM) matters for knowledge transfer within multinational corporations. It is built on the premise that there are certain HRM practices influencing extrinsic and intrinsic motivation of knowledge receivers. It is found that complementarity among HRM practices exists but does not always have a positive effect on knowledge transfer. Three hypotheses derived from these arguments are tested on data from 92 subsidiaries of Danish multinational corporations located in 11 countries.

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## 1. Introduction

Previous research has found that multinational corporations (MNCs) can institute various organizational policies and practices to overcome barriers associated with knowledge transfer determinants, thereby facilitating internal knowledge transfer (e.g. Persson, 2006). In particular, it has been suggested that human resource management (HRM) practices could influence the degree of intra-MNC knowledge transfer if the HRM practices employed are aimed at enhancing the capacity of organizational members to contribute to knowledge-related organizational goals (Minbaeva, Pedersen, Bjorkman, Fey, & Park, 2003; Pucik, 1988; Tsang, 1999). Overall, there is a shared assumption that a non-negligible part of the observed variation in the degree of knowledge transfer can be ascribed to variation in the employment of HRM practices.

However, more work needs to be done to explain theoretically *why* and *how* HRM and knowledge transfer are linked. While there have been extensive discussions concerning the implications of management and governance of knowledge for theory building in other fields of management research (e.g. Grandori & Kogut, 2002; Osterloh & Frey, 2000), this has not been the case in the HRM field. HRM scholars themselves have acknowledged the fact that the field of HRM lacks the view of knowledge as an organizationally shared, accessible, and transferable resource that needs to be managed (Wright, Dunford, & Snell, 2001, p. 714). Nonetheless, given its concern with the identification, development, deployment, and rewarding of human capital (knowledge embodied in humans) and its services, the HRM field seems to address directly the issues of governance and knowledge management (Foss, 2007).

Despite an increasing interest in the subject, it is surprising how little empirical research has actually been conducted on the topic (Foss & Pedersen, 2002). The existing empirical work has been criticized for focusing exclusively on the

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individual HRM practices and their isolated effect (Laursen & Foss, 2003). That could be a serious limitation since HRM is defined as “a set of distinct but *interrelated* activities, functions, and processes that are directed at attracting, developing and maintaining (or disposing of) a firm’s human resources” (Lado & Wilson, 1994, p. 701; emphasis added). Therefore, it has been suggested that future research should consider the complementary effect of HRM practices on the degree of knowledge transfer. To advance the field, it was recommended that the groups of HRM practices should be identified *theoretically*, rather than by relying on statistical techniques such as factor and cluster analysis (Guest, 1997). In this regard, literature points to the possibility of expanding the framework linking HRM practices and knowledge transfer by introducing individual-level mediating variables. Those variables are “the very outcomes that seem to have originally guided the construction of HR practice items” (Gerhart, 2005, p. 183) and individual-level variables explaining organizational-level knowledge processes (Argote, McEvily, & Reagans, 2003).

This paper considers the motivation of knowledge receivers (a subsidiary’s employees) as a mediating variable that helps explain why and how HRM practices affect intra-MNC knowledge transfer. I have chosen to focus on motivation because despite a general consensus among theoretical and conceptual researchers that a strong willingness on behalf of knowledge receivers to absorb new knowledge increases the likelihood of successful knowledge transfer (e.g. Argote et al., 2003), empirical studies on the role of employees’ motivation in knowledge transfer have reported mixed results. It is suggested that using a more nuanced measure of motivation would enable researchers to develop unique insights into how HRM practices affect motivation of knowledge receivers and ultimately knowledge transfer. Towards this goal, the existing literature on motivation of knowledge receivers and knowledge transfer is reviewed and the differences between extrinsic and intrinsic motivation are introduced. Then it is argued that there are certain HRM practices that influence the extrinsic and intrinsic motivation of knowledge receivers. The degree of knowledge transfer to the subsidiary could be managed (or governed, see Foss, 2007) via the application of those HRM practices. Three hypotheses considering the individual and system effects of HRM practices are put forward and tested on the dataset of 92 subsidiaries of Danish-based MNCs located in 11 countries. At the end of the paper, the results are discussed and future research perspectives are presented.

## 2. Theoretical background

It has been argued that the competitive advantage that MNCs enjoy over national firms is contingent on the MNCs’ ability to exploit knowledge internally across organizational units. A common theme in this line of research is that MNCs can develop knowledge in one location and then exploit it in other locations, requiring an internal transfer of knowledge. Notwithstanding the significant progress made towards understanding the process of knowledge transfer within MNCs (for a review, see Minbaeva, 2007), there are several areas that have been bypassed. For instance, until recently, intra-MNC knowledge transfer has seldom been treated endogenously (Foss & Pedersen, 2002). Yet, without clear indications as to how the intra-MNC knowledge transfer process could be managed, managers are none the wiser in being informed that knowledge transfer is conducive to competitive advantage.

One significant theoretical development in regard to comprehending how internal knowledge transfer could be influenced and directed is the emerging knowledge governance approach (KGA; Foss, 2007; Grandori, 2001). It focuses on the interplay between knowledge-based contingency factors and organizational routines such as reward systems, coordination mechanisms, and standard operating procedures. According to the KGA, an organizational attempt to positively influence knowledge transfer should begin with the employment of formal organizational mechanisms, because these (in contrast to informal organizational mechanisms) are levers that are directly available to managers. As Foss (2007) explains, formal organizational mechanisms are deployed in the belief that influencing the conditions of individual actions in a certain manner will lead employees to make those decisions that when aggregated lead to favorable organizational outcomes (e.g. knowledge transfer).

In this paper, I consider HRM practices to be formal organizational mechanisms, which managers could employ to facilitate intra-MNC knowledge transfer. To identify the mechanisms, the KGA asserts the need to build micro-foundations grounded in individual action for organizational knowledge-based phenomena (Felin & Foss, 2005). Towards this goal, in the following, motivation of knowledge receivers is considered the individual-level mediating variable explaining why and how HRM and knowledge transfer are linked.

### 2.1. Motivation of knowledge receivers and knowledge transfer

Szulanski (1996, p. 28) argues that “the movement of knowledge within the organization is a distinct experience, not a gradual process of dissemination, and depends on the characteristics of everyone involved.” Therefore, the degree of internal knowledge transfer depends on various factors, among which the motivation of knowledge receivers has attracted considerable attention (e.g. Gupta & Govindarajan, 2000; Szulanski, 1996). However, as pointed out earlier, empirical studies on the role of employees’ motivation in knowledge transfer have reported mixed results. For example, Szulanski (1996) defined a knowledge receiver’s lack of motivation as a general reluctance to accept knowledge from the outside. However, this was not supported by the results of the study, which showed that motivational factors were superseded by (among other things) the ability of knowledge receivers. In contrast, Gupta and Govindarajan (2000) found that knowledge transfer from headquarters (HQ) to the focal subsidiary is higher when the subsidiary’s motivational disposition to acquire

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