Title - Leveraging intellectual and social capital within multinational companies (MNCs) through expatriate assignments

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ANZAM STREAM 6- Knowledge Management and Intellectual Capital

Profile: Brendan Boyle is a PhD candidate in the Discipline of International Business at the University of Sydney. He is currently conducting a study into knowledge sharing in multinational enterprises through expatriate assignments.
LEVERAGING INTELLECTUAL AND SOCIAL CAPITAL WITHIN MULTINATIONAL COMPANIES (MNCs) THROUGH EXPATRIATE ASSIGNMENTS

ABSTRACT – This paper examines data from in-depth interviews with 21 employees sent on foreign assignments in 14 MNCs to explore the role of expatriates in leveraging intellectual and social capital across the global units of MNCs. In this paper, social capital is considered in the context of the expatriate’s use of knowledge of interpersonal networks within the MNC. This paper demonstrates that expatriates routinely leverage social capital from their previous (home) units and in doing so they also access intellectual capital in the form of employee knowledge from their home unit. Expatriates can access this knowledge more efficiently and effectively than their host unit peers. This is an outcome of the time and access advantages they enjoy through their knowledge of interpersonal networks.

Key words – intellectual capital, social capital, intra-firm knowledge sharing

INTRODUCTION

This paper explores the role of expatriates in leveraging intellectual and social capital across the global units of MNCs. In this paper, social capital is considered in the context of the expatriate’s use of knowledge of interpersonal networks within the MNC. The flow of intellectual capital within these networks is explored by investigating the following research question: “How is knowledge of interpersonal networks utilized during assignments and what is the significance of this in the context of leveraging intellectual and social capital across the units of a MNC?”

This paper provides empirical support for the proposition that expatriate assignments enhances the MNC’s social capital across several dimensions. This paper demonstrates that expatriates leverage their social capital from their previous (home) unit through their knowledge of interpersonal networks and, in doing so, they access intellectual capital, in the form of employee knowledge, more efficiently than their host unit peers. This is an outcome of the time and access advantages they possess through their knowledge of interpersonal networks.
LEVERAGING SOCIAL AND INTELLECTUAL CAPITAL IN MULTINATIONAL COMPANIES

While it is recognized in the international business field that formal structures have a limited capacity in the coordination and integration of the MNC, theories explaining the form and creation of informal approaches need to be developed much further (Kostova et al, 2003). In cognizance of this, Kostova et al (2003) suggest that social capital, defined as the ability of actors to secure benefits by virtue of membership in social networks (Portes, 1998), must be developed throughout the MNC’s global units both in the structural form (i.e. being part of that social network) and the relational form (i.e. the benefits actors receive from being part of that network).

Despite the paucity of empirical studies specifically relating to individual’s social capital in the international business (IB) literature, a number of conceptually paralleled themes have long been of concern to IB scholars. In the discipline of IB the significance of social networks has occurred as a component of a much broader consideration of knowledge as a strategically significant resource of the MNC, with the ability to mobilize and deploy knowledge considered a fundamental strategic imperative (Conner & Prahalad, 1996, Doz, Santos, & Williamson, 2001, Grant, 1996, Kogut & Zander, 1992, Spender, 1996). For example, the IB literature has highlighted how employees sent on expatriate assignments share ‘knowing whom knowledge’ (Defillippi & Arthur, 1994) and the potential benefits of this knowledge sharing for the effective coordination of the MNC. Lindsay, Chadee, Mattsson, Johnston and Millett (2003) demonstrated how internal relationships enable a dynamic interplay between the functional elements of the MNC. They highlight how good relationships enable bi-directional knowledge flows and learning, emphasizing the value of “knowing who” knowledge associated with high levels of networking and relationships. This bi-directional flow demonstrates that this unique category of knowledge is also a means by which other categories of knowledge are mobilized in the MNC. By using “good relationships” to enhance the flow of employee intellectual capital the MNC, in effect, utilizes social capital and networks as an informal mechanism for the coordination and integration of knowledge.
In a similar vain, the international HRM literature has long proclaimed that the flow of expatriate employees to foreign subsidiaries facilitates the sharing of a variety of knowledge types including knowing-whom knowledge, while stressing that coordination and control is a key function of expatriate assignments in MNCs (Harzing, 2001). However, despite this apparent unified thinking across disciplines, there is still limited empirical evidence directly examining the role of assignments in international knowledge transfers, particularly relating to the category of knowledge most closely related to the concept of social capital; ‘knowing whom knowledge’ (Defillippi & Arthur, 1994)

**Expatriate’s Knowledge of Interpersonal Networks and Social Capital**

This paper uses the Nordhaug's (1998) concept of knowledge of interpersonal networks to bridge the conceptual divide between the use of knowing-whom knowledge during assignments and the resulting leveraging of social capital across the subunits of the MNC. Nordhaug (1998) defines knowledge of interpersonal networks as including knowledge of political process and behaviors within networks, and thus requires more than simply being part of a social network. This conceptualization of ‘knowing-whom knowledge’ (Defillippi & Arthur, 1994) represents an amalgamation of insights from social network theory (Baker, 1990; Burt, 1992; Burt, 1997; Lin, 1999) and Nordhaug’s (1998) work-related competence typology. While social network theory emphasizes the benefits of simply being a member of a social network (Portes, 1998), knowledge of interpersonal networks defined in Nordhaug’s (1998) typology emphasizes the utility of intra-organizational knowledge in the broader sense of a managerial competence. The concept of knowledge of interpersonal networks combines a consideration of network membership benefits with the utility of such knowledge. In this paper knowledge of interpersonal networks is defined in line with Nordhaug (1998) as including knowledge of people, political process and behaviors within networks in addition to simply being part of a social network. In this context, knowledge of interpersonal networks may include knowledge of networks where one has limited social capital advantages. The
The concept of knowledge of interpersonal networks used here is clearly broader than, but inclusive of, the relational aspects of social capital.

The role of expatriates in mobilizing knowing-whom knowledge across the MNC is by necessity premised by the proposition that such knowledge is utilized during assignments in the first instance. In support of this, it is proposed that, while some assignments may feature the explicit transfer of technical competencies, the sharing of organization-related knowledge such as knowledge-whom knowledge is a feature of all assignments. Doving & Nordhaug (2002) highlight that organization-related knowledge is connected to the same or similar domains for all employees, rather than the task-specific domains associated with technical knowledge. All employees who work in an organization are, by default, part of a social network and possess some level of knowledge of interpersonal networks through interaction with their colleagues. Therefore, a focus on this knowledge provides a category of knowledge that is common to all employees on assignments, irrespective of the technical functions of their assignment. Moreover, having worked in another unit of the MNC prior to their assignment expatriates are likely to have comparably more access to social networks from outside the host unit. Therefore, one can ask the question - How is knowledge of interpersonal networks utilized during assignments and what is the significance of this in the context of leveraging intellectual and social capital across the units of a MNC?

**Research Methodology**

A non-probability sample was used for this study. Non-probability samples contain individual units of analysis deliberately selected by the researcher to reflect certain features of the sample population (Arber, 2001, Bryman, 2001, Ritchie, Lewis, & Elam, 2003). With this approach, labeled, purposive (Ritchie, Lewis, & Elam, 2003) or criterion based sampling (LeCompte & Preissle, 1993), participating cases, people or settings are chosen with a purpose to represent a type in relation to some pre-determined criteria.

The unit of analysis in this study is conceptualized as a case of an employee on a foreign assignment
within a MNC who satisfies two pre-determined purposive sampling criteria, relating to firm size and length of service. To create this sample, unsolicited research proposals were sent to the human resources department in the subsidiaries of foreign owned MNCs operating in both Australia and Ireland. A total of 21 in-depth interviews were conducted with expatriates. A semi-structured interview was chosen as an appropriate strategy for data collection, as it offered the opportunity of assessing the experiences and views of the actors, and detailed accounts of events within a pre-defined structure (Whipp, 1998).

The data presented in this paper represents assignees’ responses when asked to compare their knowledge of colleagues (contacts, personal networks) in head office (HO), or other parts of this MNC compared with those held by employees in the host unit. They were then asked to discuss if, when and how they used personal networks and contacts, which no local manager in the host unit possessed. By considering the emergent themes across the interview data this paper sought to establish that knowledge of interpersonal networks is shared during assignments and to develop an understanding the significance if this in the context of the leveraging of intellectual and social capital across the MNC.

**DATA ANALYSIS AND FINDINGS**

All interviewees (n=21) reported the frequent utilization of interpersonal networks from previous units during the assignment (referred to as outside networks). The analysis of the interview data on how and when assignees use interpersonal networks during assignments is presented under two parent nodes, which emerge as major themes from the data. The first is The Time Advantage. The second is termed The Access

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1 Firstly, the nature of the knowledge under investigation in this study is such that firm size will increase its relative intensity. For example, in a small to medium sized enterprise (SME) it may be feasible to maintain personal contacts with the majority of employees in the firm to an extent that “knowing whom” knowledge is less of a strategic concern than it would be in a larger firm. Therefore, SMEs or firms of less than 1000 employees were excluded from the sample on the grounds that they would fail to symbolize key features relevant to the study. The second criterion inherent in this study is that the employee sent on assignment has worked in another unit for a period of time prior to this foreign posting so that he/she would have time to develop such knowledge and social capital. There was a necessity that the visiting employee potentially possessed some different knowledge of interpersonal networks and social capital to his/her host-country counterparts. Any period of time in a different unit would provide for some basic level of difference however the selection criteria set in this study was a period of six months service prior to the foreign posting and at least a corresponding six months on assignment to allow for adequate time for such knowledge to be applied.
Advantage. Under this later parent node there are three child nodes (as depicted in Figure 1) labeled transactive memory, motivational disposition to share knowledge and candid access.

Figure 1: Coding of themes from data analysis

KNOWLEDGE OF INTERPERSONAL NETWORKS: THE TIME ADVANTAGE

The most prominent theme emerging from the data on how interpersonal networks in previous units benefit and are utilized by assignees, relates to the comparative speed with which they could access information and knowledge from individuals in other units (n21). Familiarity with networks in the previous unit allowed assignees to streamline the search process and relationships with former colleagues allowed them to circumvent formalities.

The real advantage is the issue of time. Although it may have been possible for others to track down this information no one could have done it as quickly as me (USA Pharmaceuticals Company #1. Expatriate on assignment in Ireland)

The interpersonal connections and associations that assignees bring to their host unit enhance speed of interaction and communication, and this reflects a structural social capital advantage enjoyed through the application of knowledge of personal networks. While the knowledge accessed is not necessarily unavailable to their host unit colleagues, frequent references were made to the speed advantage enjoyed by virtue of their social capital in outside networks and their understanding of where knowledge was located in these networks.
Clearly it shades out a lot of time if for example; I know who I have to go. So clearly being able to utilise that contact list and have the technical & general knowledge makes things incredibly fast, really fast. So I think where it really helps is speed (USA Medical Devices Company. Expatriate #1 on assignment in Ireland).

Although the ability to expedite information from another unit is more valuable in times of crisis, assignees frequently discussed this issue as a general advantage they held over host unit peers. Moreover, some examples from that data illustrated that they sought to exploit this advantage to assist colleagues to get a more rapid response thus leveraging their network membership advantages on behalf of the host unit.

For example when they [host unit colleagues] tell me that they contacted somebody and they are waiting for a reply…I would say “don't call him I'm really good friends with this person down here who would do this for me no problem”. And the same thing happens in five minutes (USA Medical Devices Company. Expatriate #2 on assignment in Ireland).

While the preceding analysis illustrates the relative efficiency of assignees in accessing knowledge held in outside networks, a more fundamental question relates to their relative effectiveness in doing so.

**KNOWLEDGE OF INTERPERSONAL NETWORKS: THE ACCESS ADVANTAGE**

The access to knowledge advantage gained through knowledge of interpersonal networks was driven by three distinct characteristics of how assignees used this knowledge during assignments. The three coding nodes emerging under the theme of access to knowledge advantage labeled, *transactive memory*, *motivational disposition* and *candid access* explain how assignees can effectively access knowledge that is unavailable to their host country peers, highlighting the critical role of knowledge of interpersonal networks in mobilizing employee intellectual capital in the MNC.

*The Access Advantage - Transactive Memory*: Transactive memory theory explains that people in close interpersonal relationships develop a system for encoding, storing and retrieving information from different substantive domains (Wegner, Raymond, & Erber, 1991). This allows people in close interpersonal work relationships to efficiently recall knowledge and locate expertise that is held by others.
Evidence of assignees use of interpersonal networks from this data clearly demonstrates that transactive memory developed through interpersonal work relationships allowed them to retrieve knowledge and locate expertise that was not available to host unit peers.

While transactive memory does demonstrate that assignees possess an ability to pinpoint the location of knowledge with comparative ease (which reflects structural benefits of their social network), the memory of where this knowledge exists is preceded by the consciousness that this knowledge exists at all. This component of transactive memory emerged from the data in reflections such as the following, provided by an US assignee when explaining how he used his knowledge of networks in HQ to assist the European subsidiary with a quality assurance issue in their supply chain.

There is no guarantee that anyone in the Irish plant would have presumed that this knowledge existed and so may not have sought out this information in the first place. (USA Pharmaceuticals Company #1. Expatriate on assignment in Ireland)

Although assignees’ usage of transactive memory is ultimately rooted in their ability to access knowledge consequent to their understanding of where and with whom knowledge exists, this ability should not be solely understood as required, or of value, due to the absence of explicit information in the host unit. The data coded under this theme incorporates the idea that the utility of knowing-whom requires some level of experiential knowledge gained from working with individuals in their previous unit. This again demonstrates key membership and structural benefits of their social networks and does so in the context of accessing intellectual capital held by individuals outside the host unit.

You have to have met somebody and have some sort of mental map of the knowledge and resources of people in the organization and without that… But just sitting in front of the computer and just typing in some key words and searching is not the same (Norway Explosives Devices Company. Australian expatriate on assignment in Norway)

Moreover, interviewees consistently indicated that they value their access advantages.

That is one thing that I have been able to bring here. [For example] on the strategic planning process [for the host unit] I was able to use contacts in two different plants (USA Pharmaceuticals Company #2. Expatriate on assignment in Ireland)
The ability to use this knowledge of interpersonal networks as problems arise through network “ties” highlights the flexibility that is afforded to those who, not only know where knowledge resides, but also have the relational capital strength or “ties” to access it on a just-in-time basis. This relational aspect of assignees’ access to knowledge advantage emerged as an important consideration in terms of the effect it has on this outside agent’s willingness to share knowledge with another unit, if and when they are called to do so. This theme was significant enough to warrant it being coded at a separate child node. The data that demonstrated how relational capital and its components, such as trust, reciprocity, and credibility, were used were coded based on the effect they had on access to knowledge in the outside network. This child code was named individual motivational disposition to share knowledge and explicitly explains the utility of relational capital in accessing employee’s intellectual capital from other units of the MNC.

**The Access Advantage – Individual Motivational Disposition:** Examples in the data where assignees chose to emphasize the significance of relational ties on the level of effort employees in other units were willing to make to share and receive knowledge, are illustrative of this node. Significantly, motivational disposition reflects the access advantages accrued to assignees, not only from membership benefits derived from social capital, but from the most basic affiliations with social networks from their home unit. This may be a characteristic of networks most prevalent in multinational forms of organization due to geographic and cultural distances between units.

Guys [Americans in HQ] are much more likely to see me as an extension of the same company than a stranger with an Irish accent. *(USA Pharmaceuticals Company #1. Expatriate on assignment in Ireland)*

Assignees repeatedly evaluated their knowledge of interpersonal networks on the basis of their ability to get a better or any response from another unit when compared with their host unit peers irrespective of their own assessment of a close affiliation with, or membership of, these networks from their home unit. In fact they warned that maybe it is simply;
...better to think of the difficulties that a company like this [an MNC] faces in trying to convince people in different countries that they are part of one big global company (USA Pharmaceuticals Company #2. Expatriate on assignment in France)

In cases of employees on assignment to culturally distant units, motivational disposition to interact and share knowledge was again effected by more than direct relationships that assignees held within the outside network. This suggests that even a cultural affiliation to interpersonal networks outside the host unit can increase motivational disposition to share knowledge thus providing the expatriate with a comparatively greater stock of social capital to his/her host unit peers.

Because I am French I will, to some extent, have more acceptances and a quicker response ...I would have more affiliation with French people... (French Telecommunications Company. Expatriate on assignment in Australia)

Access advantages as a result of credibility in networks outside the host unit also emerged as a critical success factor in assignees accounts of sharing their interpersonal networks with host unit employees. Significantly, the data goes beyond simply providing information of where, or with whom, knowledge resides. Rather, these examples demonstrate how facilitating host unit employees’ use of the outside network also requires the leveraging of assignees credibility, thus enhancing their contacts motivational disposition to work with and share knowledge with the host unit employees.

I have had to act as a facilitator between the Japanese product specialists who was an Indian expat and the Australian because the Indian expat was not willing to give information to the Australian without my intervention...what I needed to do was provide the confidence that this information could be shared between these two countries....when paranoia creeps inside the organization it can become crippling because you need to share knowledge across cultures and countries if you are going to expand internationally. So if you can’t change that thinking you are going to need an army of expats (Indian IT Company. Expatriate on assignment in Australia)

A final aspect of this willingness and motivation to share knowledge and interact between individuals through the utilization of assignee’s knowledge of interpersonal networks was related to the actual nature of the knowledge that individuals were willing to share between units.
**The Access Advantage – Candid Access:** The intrinsic informality of accessing knowledge based on knowledge of interpersonal networks, and the trust derived from assignees’ familiarity and credibility within social networks, provides examples of distinctively candid access to knowledge held in outside networks. This child node was labeled *candid access* based on data that demonstrates assignees ability to access knowledge from contacts in an open, straightforward manner, without reserve, evasion or the bounds of organizational politics or rhetoric. The examples presented here also illuminate important contextual and tacit characteristics of the knowledge being accessed by assignees, through the combination of their knowledge of where knowledge and expertise resides, and the credibility they hold with experts to access the “real” knowledge in a candid way.

Sometimes the people you need to talk to have knowledge about the nitty-gritty details of a job…there are occasions that engineers, for example, will have a better idea of what works and what doesn’t work. That’s not always what the political answer would be and it’s not always what (this company) wants it to be but the outcome is right. So I guess it’s about being able to get to an honest answer along the way and that usually is what will work best *(Irish Engineering Company. Expatriate on assignment in Saudi Arabia)*

In some cases, assignee understanding that the “real” knowledge may be beyond the scope of formal contacts and/or lost in formality and political correctness is driven by the technical nature of their jobs. However, in organizational contexts where technical knowledge is a key component of the firm’s competitive advantage (evidenced by patent protected process technologies) these assignments are of even greater significance for the effective management of employees’ intellectual capital. In this context, inter-unit interactions of a technical kind are far more effective and efficient mechanisms for sharing knowledge than those that occur higher in the chain of command.

Say I wanted some information on a quality system and I emailed their quality director. What you’ll get is the black and white procedure back and that’s it. When you go to somebody and you get the right contact to the person who’s applying it or heavily involved in it you’ll get the full thing, you’ll get the procedure but you’ll also get “these are the ten bullet points around issues with it or this is how we’ve changed something, we don’t quite do it as it says it there” you’ll get much more informal on the ground how does it actually work and that’s almost the biggest issue around that. If you get the wrong contact and you ask them a particular question you’ll get an answer that, you’ll try to implement and it just won’t work. Whereas you get the right person who’s actually doing it they’ll give you the real down and dirty true information around it, you’ll get the procedure but you’ll also get “this is everything else around it”, So you know that.... the
depth and they’ll give you the honest answer as opposed to the political answer (USA Pharmaceuticals Company #2. Expatriate on assignment in France)

This component of the access advantage reflects the importance of knowledge of interpersonal networks for not only recognizing organizational politics, but also for overcoming its negative effects on knowledge flow in the MNC. The utilization of a combination of political awareness consequent to knowledge of interpersonal networks and tacit knowledge transactive memory systems highlights the complexity of this knowledge of interpersonal networks concept relative to social network theory. Even when assignees were members of a social network positioned relatively senior in the chain of command, their ability to recognize the political bounds on knowledge higher in the social network requires an application of knowledge of interpersonal networks, accounting for politics and behaviors, which would ultimately result in the decision to leverage relational capital from a different source. In light of this, the time and access advantages enjoyed through the application and sharing of knowledge of interpersonal networks include but are broader than the structural and relational components of social networks.

CONCLUSION

This paper provides empirical support for the proposition that sending employees on assignments enhances the MNC’s social capital across several dimensions. This paper also demonstrates that expatriates routinely leverage social capital from their previous (home) units and in doing so they access intellectual capital in the form of employee knowledge from their home unit. Finally, this paper demonstrates why knowledge and membership of interpersonal networks contributes to knowledge flows in MNC’s, ultimately explaining why these relationships matter in the context of the fundamental strategic imperative of mobilising employee intellectual capital across the MNC.
References


