The Paradox of Employee Retention for Knowledge Transfer

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Abstract

Employee retention is widely held to positively influence an organisation’s knowledge transfer outcomes. This positive relationship is most clearly recognised through the impact that employee retention has on increasing a firm’s level of the knowledge transfer antecedent, absorptive capacity, thereby increasing the potential value of the stocks of knowledge within the organisation. However, the knowledge transfer process requires more than merely the existence of valuable knowledge stocks. Ultimately, for individual knowledge to become collective or organisational, it must flow through a transfer mechanism. Such mechanisms exist in two forms, Information Communication Technology (ICTs) or social systems. To date, while the link between retention and absorptive capacity has become almost axiomatic, there has been little interest towards the impact of retention on knowledge flows. This paper seeks to address this lacuna by examining and reporting the effect of employee retention on knowledge transfer mechanisms in the international hotel sector.

Key words: employee retention; knowledge transfer; international hotels; human resource management
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Introduction

There is an extensive body of literature dedicated to understanding the global assets and resources of the contemporary multinational enterprise (MNE), much of which has been driven by the field of strategic management (Argote & Ingram, 2000). Here, the emphasis is on knowledge, with Davis, Subrahmanian and Westerberg (2005, p. 102), suggesting an emerging consensus that knowledge is “perhaps the most important source of sustainable competitive advantage in an increasingly turbulent global business environment”. Lippman and Rumelt (1982), adopting a “resource-based view”, attributed the competitive advantage of a firm to its unique knowledge. Indeed, within the “resource-based view” of the firm (e.g., Conner & Prahalad, 1996; Nahapiet & Ghoshal, 1998), knowledge is considered to be the most important resource, where “distinct knowledge should give the firm a competitive advantage” (Chakravarthy, McEvily, Doz & Rau, 2006, p. 306).

Nonaka (1991) argued that when faced with shifting markets and “rapid product obsolescence”, the organisation’s capability for embodying new knowledge in products and services is critical. Prahalad and Hamel (1990), Kogut and Zander (1992) and Spender (1996) are united in the view that the organisation’s knowledge capabilities are the main source of its competitive advantage, while Davenport and Prusak (1998), Drucker (1993), Hansen et al. (1999), van den Hoof and Ridder (2004), and Simon (1996) view the management of knowledge as one of the most important challenges facing today’s organisations and managers. Over the past 20 years we have witnessed an increasing interest in not only how to adequately manage the organisations knowledge stocks but also how to gain SCA through the exploitation of the knowledge through its transfer.

During this time a number of research areas have emerged, demonstrating interest in both the knowledge stocks and the knowledge flows. In response to the latter, research is categorised into three key areas. The knowledge ‘sender’ for example Gupta and Govindarajan (2000), the knowledge ‘receivers’ Lyles and Salk (1996) and the mechanisms through which knowledge is
transferred throughout the organisation. Initially, “value from knowledge was conceptualized as a linear sequence” (Almeida & Phene, 2004, p. 848), whereby knowledge was created by headquarters and then disseminated throughout the organisation for exploitation by the subsidiaries. This process can be viewed as largely consistent with the more traditional ethnocentric view of the MNE (Perlmutter, 1969).

The more recent interest emphasises the role of the subsidiary in the MNE knowledge creation process (Almeida & Phene, 2004; Birkinshaw & Hood, 2000; Dunning, 1994; Malnight, 1995; Porter, 1990). Birkinshaw and Hood (2000), suggest that while subsidiaries may continue to exploit knowledge from headquarters, they simultaneously engage in knowledge generation or augmentation independently of headquarters (Cohen & Levinthal, 1990; March, 1991). Therefore, we see increasing recognition of the importance of the role of the subsidiary as a “potential source of MNE wide strengths” (Foss and Pedersen, 2002), and the requirement to “plug into and take advantage of local centres of competence and provide these locations with knowledge inflows from other parts of their multinational network” (Mudambi, 2002, p. 2). This has led researchers to emphasise “direct lateral mechanisms between subsidiaries” (Moore & Birkshaw, 1998, p. 51). In response to the suggestion that facilitation of knowledge from different sources is a fundamental function of the contemporary MNE (Kogut and Zander (1992) and that those firms with a greater opportunity to access knowledge are those with extensive knowledge resources in the network Gulati 1999), research has shifted to focus on the linkages between the subsidiaries themselves (Nohria and Ghoshal 1997, p.4)

This research considers knowledge transfer from the role of the subsidiary and in particular examines the role of employee retention in this process. The context is the 4/5 star hotel sector and the research process considers the operations of a number of hotels located on the east coast of Australia who are all part of a MNE. The key research questions are:

Does retention affect the utility of knowledge sharing mechanisms? In order to gauge a relationship the following questions are posed:

What if any effect does retention have on knowledge transfer processes?
What if any is the effect of retention on the transfer of knowledge through ICT mechanisms?

What is the effect of retention on the transfer of knowledge through the social mechanism?

A review of the key literature follows, in particular there is an emphasis on knowledge transfer mechanisms, the research methods are outlined and this is followed by an analysis of the findings and a discussion of the implications.

**Literature Review**

One of the most accepted theories aiding our understanding of knowledge transfer within organisations is the theory of Absorptive Capacity. First introduced by Cohen and Levinthal in 1990, the theory of Absorptive Capacity rests on the assumptions that in order for knowledge to transfer it must be ‘recognised’ as important, ‘assimilated’ and finally ‘applied’ in a way that meets commercial ends. Thus, absorptive capacity is identified as an antecedent of knowledge transfer.

Drawing from the cognitive and behavioural sciences, Cohen and Levinthal (1990) further state that the realisation of absorptive capacity rests with the individuals ‘ability’ to acquire, recall and use knowledge to organisational ends thereby transforming knowledge from individual to organisational. Further, the authors claim that such ability is directly influenced by the level of pre-existing knowledge of the individual.

It is on this last assumption that the authors argue that the firm’s levels of absorptive capacity are affected by its ability to retain staff. It is argued that “a critical component of the requisite absorptive capacity for certain types of information, such as those associated with product and process innovation, is often firm-specific and therefore cannot be bought and quickly integrated into the firm” (1990, p. 135). Here, prior related knowledge derives from prior organisational learning through experience and a shared language. “As a consequence, such critical complementary knowledge is acquired only through experience within the firm” (Winter, 1982, as cited in Cohen & Levinthal, 1990, p. 135). As such, for an organisation to realise absorptive capacity, it must retain a pool of internal staff familiar with the firm’s “idiosyncratic needs” (for
example, see Lee & Allen, 1982). Szulanski (1996, p. 31) agrees with this theme arguing that absorptive capacity is largely a “function of the pre-existing stock of knowledge … which will manifest in the ability to value, assimilate and apply the knowledge …”. Cohen and Levinthal (1990, p. 132) further claim that the “firm’s absorptive capacity depends on the individuals who stand at the ... interface between subunits within the firm”. In other words for an organisation to achieve knowledge transfer outcomes they must retain key employees who are or will become the knowledge gatekeepers. That is, retention increases the firms idiosyncratic knowledge stock which by implication increases the firms overall absorptive capacity. This means that when long term employees are knowledge gatekeepers the firms potential absorptive capacity is increased.

While the theory of absorptive capacity has provided the foundation for further study, much of which strongly supports the original thesis (for example, Lyles and Salk 1996; Szulanski 1996; Gupta and Govindarajan 2000), the role of retention appears to have become almost axiomatic to the model. That is, it is seldom made explicit in empirical research design but rather has become implied as belonging to knowledge transfer through absorptive capacity. Even more recently, when retention is explicitly considered, it is often limited to understanding knowledge sharing motivation (for example Gagne 2009; Minbaeva, Foss and Snell (2009; Swart & Kinnie 2010; Minbaeva, Makela & Rabbiosi 2012).

Retention is viewed as a critical component to increase a firm’s potential absorptive capacity and by implication knowledge transfer outcomes. This paper however is focussed on exploring potential links between retention and the actual process of transfer. Therefore the following section will provide a background discussion on knowledge transfer mechanisms. Driving the discussion are two distinct views, the system theoretical view and the pragmatic view. The first, identified by Coyne (1997) as the “system theoretical view”, or content perspective (Cohen 1998) suggests that “essential knowledge is contained in the information content, and the subjective, inter-subjective, and spatial aspects are largely ignored” (Davis et al., 2005, p. 103). Here, knowledge is viewed as a market commodity, explicitly focused and contained in documents and databases, readily transferred through electronic means. Within this perspective, the “leveraging”
of knowledge is seen as being achieved “through the development of shared databases and knowledge warehouses” (Hayes & Walsham, 2006, p. 55); and therefore research from within the content perspective has taken a predominately technical approach focusing on the design of information communication technologies (ICTs). Indeed the association between knowledge management initiatives and ICTs is reflected in Easterby-Smith et al.’s (2000) review that 70% of knowledge management publications (until that time) had focused on the design of such technology. Newell et al., 2009, claim that this acceptance of ICTs as a knowledge transfer device is recognised as constituting a prominent technical approach to knowledge management. Such recognition provides reasoning for Holste and Fields’ (2010) estimation that organisational investment in technology to assist analysis, storage and retrieval of knowledge has reached just under a trillion dollars annually.

The second perspective, championed by Dretske (1981), “acknowledges the importance of subjective factors … and their links to actions as well as the relatively tacit dimension of knowledge” (as cited in Davis et al., 1998, p. 103). Davis et al. (1998, p. 103) refer to this perspective as the “pragmatic view”. This view focuses on tacit knowledge, driven by communities rather than the market, and transferred through socialization practices (Cohen, 1998; Davis et al., 2005). While the literature regarding socialization mechanisms for knowledge transfer is vast, two key models appear to be the most widely supported. These are commonly referred to as “communities” or “networks”.

Communities have been depicted in a number of forms depending on the level of social interaction. For example, “virtual communities” (Jones, 1995; Komito, 1998) have no face-to-face interaction but are based around the use of technology (Von Krogh, 2006). “Communities of Interest” are based on shared interests with sporadic social interaction (for example, see Hagel & Armstrong, 1997). “Micro-communities” have emergent collective identities, and are “ideal for sharing tacit knowledge” (Von Krogh, 2006). Of the many identified, however, “communities of practice” (CoPs) appear to have attracted the most attention. While CoPs may form informally, Scarso, Bolisani & Salvador, (2009, p 432) claim that many global corporations have begun to
consciously develop such groupings in formal recognition of the need to manage knowledge within the communities.

The second socialisation mechanism given prominence in the knowledge transfer literature is ‘networks’. Similar to CoPs, networks are recognised as taking a number of forms, including: 
*externally constructed*, originating from economics and institutional economics; 
*internally constructed*, considered to have originated from management of international business; and 
*socially constructed*, originating from sociology and anthropology (Van Wijk, Van Den Bosch & Volberda, 2006, p. 428). Similar to CoPs, a network has shared identity, norms and values. There can be, however, significant differences between the two. For example, unlike CoPs whose basic unit is “groups”, a network connects individuals. Moreover, the network structure can be: *open or closed*, able to grow through the establishment of personal “ties” and “trust” between members; or 
*limited in growth*, as a result of “ties” and “trust” between members (Newell et al., 2009).

Clearly the above discussion identifies a number of facts for further consideration. First, that a firm’s levels of absorptive capacity is more likely to shift from potential to realized when those that stand at the interface between organisational units are staff that through retention are familiar with the firm’s needs. This therefore places retention as an antecedent of knowledge transfer. Additionally however it is identified that in order that the firm gain advantage from that knowledge it must transfer through one of two primary transfer mechanisms to become organisational knowledge.

**Method**

The research is qualitative and uses a complex single case study approach. The case study organisation, Emencorp (pseudonym) was selected due to size, in terms of number of countries of operation and number of sites in Australia. It is a mature organisation and has operations in over 100 countries globally. As a hotel chain, it has a number of brands which service different market segments from budget style accommodation through to the 5 star luxury market. Three of the organisation’s brands operating in the mid-scale, upper-scale and luxury markets were identified as suitable for this research.
Not unlike other organisations remaining competitive in the global hospitality sector, Emencorp has witnessed a somewhat tumultuous recent past in terms of merger and acquisition activity. Olsen and Merna (1993, p. 89) claim that “it seemed that there was almost a corporate footrace to see who could join forces with whom”. This became a key driver in the overall trend for MNEs to switch from “independently owned and operated hotels... to the creation of major hotel chains” (ILO, 2001, p. 47) that were recognised by their ability to “create and sustain a competitive advantage” (Go & Pine, 1995, p. 25) through innovation and in creating a major change in ownership patterns (Barge, 1993, p. 123).

Initially, data collection consisted of 32 semi-structured and unstructured interviews with HR supervisors and managers, site managers and regional managers and directors from 15 sites. The breakdown of interview participants by role was: Regional Managers/ Directors, 7; Site HR Managers/Supervisors, 13; General Managers, 12. In order to answer the research questions proposed in this paper however, a further process of selection was undertaken based on the interviewee’s length of tenure with the organisation. As a result of this genuine requirement, only data from interviewees with over 15 years experience with the organisation and its predecessors in Australia were included in the final analysis. Therefore for the purpose of this paper, the final breakdown is: Regional Managers, 2; General Managers, 7.

In addition to interviews, organisational documents were examined in order to ensure that data was verified through a process of triangulation.

Using NVivo 8 qualitative analysis software raw data was initially sorted into concepts and categories. Each interview was audiotaped and transcribed, a process which generated large amounts of unstructured data. NVivo 8 was used as an aid to assist the management of the data (an off-the-shelf software package designed for qualitative analysis). Each transcribed interview was uploaded into the program and it was from here that the coding process began. Initially, as part of the open coding technique, interview transcripts were reviewed and data transferred into “free nodes”, which are useful when the researcher is uncertain where the data fits into the overall project (Punch, 1998, p. 290).
Knowledge Transfer at Emencorp

Within Emencorp knowledge is transferred through both social systems and designated ICT systems. The social systems are identified as both formal and informal, although there is an overwhelming preference for social networks that are established and maintained at an informal level. While both integrative and interactive (see Zack 1999) ICT mechanisms exist in Emencorp for knowledge exchange, emphasis here is on the integrative system, designed and implemented in the mid 2000’s as a response to the recognised need for the sharing of innovative knowledge between subsidiaries.

The first indication of a retention based effect on knowledge sharing was identified within the social systems for knowledge transfer. Here it appears that the longer term retention has solidified peer group networks that developed either prior to or during the merger and acquisition activity in the previous decade. For example:

*If I knew the GM I would phone them and ask what they are doing… I’ve been with the organisation for 23 years so there are friendships there and we have a chat and pick up ideas we might implement.* (GSM1).

*So my network is people who were my closer peer group for a long time and I’m comfortable with them I’m a bit naughty I need to talk to people more but it doesn’t come naturally to me* (GSM6).

While respondents spoke about the informality of the networks, the following respondent provided additional understanding of the network in terms of actual knowledge transfer.

*We are the only hotel doing this (identifies idea) and I wouldn’t say that we are protecting it but I wouldn’t say that we were passing on the idea. I’d say we’ve shared it and while we haven’t maliciously sat down and said we wouldn’t share we just haven’t broadcast it to the wider community. I’ve been around for a while and if I had an idea I wanted to bounce off someone I would bounce it off someone I know rather than someone I don’t. That’s a security thing – you’re much less comfortable*
with someone you don’t know and you never know what the hell the person is…if you
send someone an email with an idea and you’re just shooting the breeze you certainly
don’t want someone you don’t know forwarding it on to the world or someone you
don’t want to have it. Most of us set up our networks based on who we know. There’s
mutual respect and it’s just a comfort thing (GSM4).

Clearly, the correlation between length of tenure and the creation of personal networks is
established. As the above suggests this is most exemplified through the existence of exclusivity in
informal networks as a result of longer term retention.

The second effect identified concerns the extent to which traditional operating styles and values
remain existent in the contemporary organisation. That is, where inconsistencies are found
between the current organisational values and those of the long term employees. For example,

To put it into context in the hotel industry there are two types of players, there are
those hotels and managers that are part of a global or regional organisation that
have strategy and tool kits sort of collectively gathered and then influenced out, then
the other side is you have independents general managers that don’t want to take on
board tool kits they try to sort of to run it like it is their hotel and if they’ve been there
too long that can happen (GSM2).

Here, the link between length of tenure and the latter description is identified in the following;

Tradition. It’s old school. A lot of us grew up in a time where the GM was king of his
castle. Some people are too focussed on being hoteliers rather than business
managers. (GSM6).

Clearly again, past values are held responsible for the attitudes creating barriers although unlike
the social network example where friendship networks remained existent to the exclusion of
others, here the former tradition of autonomy continues to create barriers.
It's like the old king on an island republic rather than premier of the commonwealth states and a lot of our GMs are still grappling with I'm not the king of the island republic any more (RSM1).

This is of particular interest where the retained staff are now in a knowledge gate keeping position as was the case with the integrative ICT system. That is, many of those long tenured staff, as identified above were now in the position of hotel GM. When the integrative system was first introduced, access was limited to the position of GM and above and there was a direct link between use of the system and the GMs performance. That is in order to pass their annual performance appraisal they must have added two ideas to the system and implemented two ideas from the system into their hotels thereby forcing the GMs to share ideas with the wider organisational community.

Although appearances suggested that the GMs accepted the directive, evidence collected from the longer tenured employees identified a trend, suggesting that the requirement to share knowledge through the ICT system was not well received. For example,

I wasn't a big fan of the link with KPOs because you would get to mid-November and you felt: oh gosh! I haven't added two ideas, so you would get on The Knowledge Library and it was potentially a gun pointed at your head (GSM3).

Other views however identified an undercurrent of antipathy toward the system

We were mandated through our KPOs, so would that influence me to share? Yes, it would, but it turned into a dog’s breakfast. Everyone’s throwing in ideas just to tick the box. (GSM6).

And some that may have resulted in sabotage. For example,

The link with KPOs might have influenced me to share... But would it be good data going into it? We proved it wouldn’t, so they had to scrap it and start again [be]cause they were silly ideas and now it’s no longer linked to our KPOs (GSM6).

Discussion
The effect of employee retention on knowledge sharing in Emencorp can be identified as paradoxical. For example, on the one hand Emencorp’s longer term commitment to staff retention suggests maintenance or development of the firm’s levels of absorptive capacity. This is most clearly demonstrated by the number of longer term employees retained through the organisation's period of change. Additionally this is in line with Cohen and Leventhal’s (1990) claim that absorptive capacity may be increased where a pool of staff familiar with the firm’s idiosyncratic needs is retained. Analysis suggests that in Emencorp retention has been crucial for the formation of social relationships and for the formation of informal knowledge sharing networks (made most obvious through comments on length of tenure and on knowing people).

On the other hand, retention while providing the opportunity for “knowing” relationships to form, in Emencorp has resulted in the creation of a “closed” network that excludes GMs who were not part of the organisation prior to 2000s. Therefore, a paradox is created whereby retention simultaneously provides both an antecedent to knowledge transfer yet limits the extent by which individual knowledge becomes organisational.

This example demonstrates both contrasts and consistencies with the literature. It provides agreement with the argument put forth by Granovetter (1973) that strong tie networks built on trust remain tightly closed to those whom, in this case, do not share the history of the organisation. Consequently, while knowledge sharing behaviour is exhibited within the network and therefore a proportion of individual knowledge becomes somewhat collective, the closed nature of the network retards the opportunity for that knowledge to become organisational. As a result this research argues that the force (that is, retention) enhancing the firm’s absorptive capacity or ability simultaneously inhibits the motivation to share knowledge.

While retention increases a firm’s potential absorptive capacity, this does not necessarily become realized absorptive capacity especially where traditional or past values prevail. In Emencorp, retention of employees through a period of change, that also required a dramatic shift in operation styles and values again exhibited a paradox whereby valuable knowledge was retained at the cost of limited transfer as traditional values prevail.
Conclusion and Implications

The above examples identify an alternative perspective on the role of retention to knowledge transfer. That is, while retention may be widely regarded as necessary to increase a firm’s levels of absorptive capacity, it is evident here that retention may be responsible for limiting actual knowledge flows. This is particularly so when the longer term employees reach a level within the organisation where they have become knowledge gatekeepers either at the inter subsidiary or the wider organisation level.

At this early level of analysis practical implications are identified:

1. closed networks are found where members share the common bond of ‘retention’. Under these conditions, whilst knowledge will still flow between subsidiaries, it will be confined to those sites where GMs share the common identity.

2. long term employee retention increases the likelihood of retention of traditional or redundant work cultures. In this case, the traditional work system has been retained by those who are now in a position of knowledge gatekeeper, both through the social and ICT systems. It is here that a paradox is identified as while retention allows the firm to retain a pool of organisational knowledge it is the mobilisation of that knowledge that provides the firm with a competitive advantage.

Therefore while retention of staff is clearly positive for potential knowledge transfer within organisations, the link between knowledge gatekeepers and longer tenured employees must be further considered. This research is exploratory and preliminary. It is limited in its scope and coverage but it does offer some insights around the relationship between employee retention and knowledge transfer.
Reference List


