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The Impact of Entry Mode on Outward Knowledge Transfer in MNCs: International Greenfield Investments and Acquisitions

The multinational corporation (MNC) possesses an eclectic body of corporate knowledge that resides in its geographically dispersed

foreign subsidiaries. This presents the MNC with one of its most important potential competitive advantages but simultaneously it poses the challenge of leveraging knowledge across borders in order to realise this advantage. Locally created subsidiary knowledge can be exploited at a global level by transferring knowledge within the MNC.

When establishing new operations in foreign markets the MNC must determine the entry mode through which it establishes a new subsidiary. Knowledge transfer may not be the decisive factor when making the entry mode decision concerning a certain subsidiary. However, the entry mode decision may have an impact on subsequent outward knowledge transfer from that subsidiary to other units of the MNC.

This study sets out to examine the interplay between outward knowledge transfer and entry mode in foreign subsidiaries of MNCs. Our focus is on knowledge transfer from subsidiaries established either through acquisition or as greenfield investments. We argue that outward knowledge transfer is likely to be greater from acquired subsidiaries rather than from greenfield subsidiaries. Furthermore, we also explore how the length of time that a subsidiary has been a part of the MNC impacts outward knowledge transfer.

The empirical part of our study is based on a sample of 159 subsidiaries of Western MNCs located in Finland and China. In line with our expectations, our results imply that acquisitions may enable greater outward transfer to the rest of the MNC than greenfield investments. Regarding the time aspect we found that outward knowledge transfer from subsidiaries increases over time irrespective of the entry mode. In conclusion, our study shows that when making the entry mode decision MNCs should

also consider the implications of this choice on outward knowledge transfer. ■

