The effect of expatriate knowledge transfer on subsidiaries’ performance: a moderating role of absorptive capacity

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Abstract. This study aims to examine the relationship between motivation and knowledge transfer to the subsidiaries performance and test the role of absorptive capacity as a moderating variable. The research uses quantitative design through questionnaires distribution with 5 Likert scales. The population frame is five-star hotel in Bali province, Indonesia which amounted to 63 units, the sample of research using proportional random sampling is 54 units and determined the distribution of questionnaires to 162 subsidiaries as the unit of analysis. The research model was built using the structural equation model and analyzed with smart pls-3 software. The findings of the study revealed that subsidiaries motivation a significant effect on knowledge transfer, knowledge transfer a significant effect on subsidiaries performance, motivation a significant effect on subsidiaries performance and absorptive capacity moderated the relationship between knowledge transfer and subsidiaries performance. These findings suggest that subsidiaries and process of knowledge transfer through absorptive capacity play an important role, and that they have some impact on the subsidiaries performance.

1. Introduction
Competitive advantages of MNCs have increasingly depended on their unique knowledge which accumulates during their longterm development and effective knowledge transfer between parents and foreign subsidiaries. This is because knowledge is an important asset for the provision of efficient skills so that the network of organizational unit relations in different countries has access to key knowledge (Van Wijk et al., 2008) [1]. According to Yang and Hen (2014) [2] international companies send their expatriates to transfer knowledge because it is vital in improving the performance of subsidiaries.

The results of a study conducted by Cruz et al. (2009) [3] showed that motivation played an important role in improving knowledge transfer. However, it was found that extrinsic motivation had no significant effect but that intrinsic motivation could not be influenced by the organization. Intrinsic motivation plays an important role in the process of knowledge transfer because employees feel the need to learn during the process (Huysman and deWit, 2004) [4] or employees expect a reward, have hope and be useful for themselves. A study by Chang et al. (2012) [5] states that the knowledge transfer by the expatriate significantly affects the performance of subsidiaries. According to Molina (2006) [6] the process of transfer of knowledge will help improve employee performance if done with an easy process and vice versa it is difficult if the process is done by force. On the other hand, the organization is also involved in the creation of appropriate motivation in encouraging employees to follow the knowledge transfer process so as not to hinder the achievement of the vision and mission of the organization in general (Schuller, 2014) [7].

According to Chang et al. (2012) [5] absorptive capacity plays an important role as a moderating
variable for the success of knowledge transfer and performance improvement of the subsidiaries. A study by Nazri et al. (2011) [8] disclosed the important role of the relationship between absorptive capacity and knowledge transfer, whereby to create a good knowledge transfer process required process improvement from absorptive capacity. In the five-star hotel industry in Bali Province, Indonesia, the role of expatriates is very important especially in improving the performance of subsidiaries. According to a study by Peng (2013) [9] the Fortune 500 company lost 31.5 billion dollars per year due to a failure to share knowledge. Another study (Gupta & Govindarajan, 2000) [10] found that 374 international firms in the practice of knowledge transfer between employees in organizations were very low compared to company expectations about the level of knowledge transfer that was believed to be done.

2. Conceptual Framework and Hypothesis

Although the importance of intrinsic and extrinsic motivation has theoretically been explained, there is no study that actually evaluates the difference between the influences of intrinsic and extrinsic motivation on the effect of knowledge transfer behavior (Lin, 2007) [11]. Intrinsic has two important meanings in knowledge transfer: first, respect for the personal process and second, promoting individual participation in the success of knowledge transfer (Lucas and Ogilvie, 2006) [12]. On the other hand, extrinsic motivation is known as an organizational reward to the employees for the work done which serves as a temporary incentive in the practice of exchanging knowledge (Lin, 2007) [11]. Employees who are satisfied with extrinsic motivation will spend more time exchanging knowledge with colleagues (Burgess, 2005) [13]. Nazri et al. (2011) [8] mention that motivation has a significant effect on knowledge transfer. Based on the above account then the hypothesis is formulated as follows.

H1. Motivation has significant effect on knowledge transfer

Mundia and Iravo (2014) [14] state that knowledge transfer will improve skills that impact on employee performance. A study conducted by Ofobruku and Yusuf (2016) [15] found that knowledge transfer has a significant effect on employee performance because it plays an important role as a tool to improve future employee skills as well as strengthening organizational capabilities. Yen and Yen (2016) [16] state that to be able to develop knowledge transfer practice requires suitable knowledge management policies so as to connect organizational learning culture to employees. According to Yang (2008) [17] the effectiveness of knowledge transfer will lead to the productivity and organizational effectiveness, improvement of the technical skills and experience of expatriates to the local workforce. Based on the above exposure then the hypothesis is formulated as follows.

H2. Knowledge transfer has a significant effect on employee performance

Research on employee performance has explained the influential factors. Studies conducted by Hafizia et al. (2011) [18] showed that there were several factors that affected employee performance such as training and development opportunities, work environment, employee relations, job security and company overall policies and procedures for rewarding employees. Of the many influential variables, motivation is the most important variable (Carraher et al., 2006) [19]. According to Mensah and Tawiah (2016) [20] both intrinsic and extrinsic motivations have a significant effect on employee performance. Based on the above exposure then the hypothesis is formulated as follows.

H3. Motivation has a significant effect on employee performance

A study conducted by Minbaeva et al. (2003) [21] found that in multinational companies, knowledge transfer at the individual level has a significant effect on the success of the process if the individual has a good absorptive capacity. An important role of absorptive capacity can be felt when looking at the success of knowledge transfer from two paths, first the knowledge transferred by the expatriate is well received by the subsidiaries and the second knowledge received by the subsidiaries can be integrated into the routine activities and implemented on the organization's operational activities (Chang et al. 2012) [5]. Absorptive capacity will moderate the relationship of knowledge
transfer and employee performance because the knowledge gained from expatriates becomes an integral part of routine activities. Such integration is expected to be a new finding and useful knowledge (Smith et al., 2005) [22]. Based on the above exposure then the hypothesis is formulated as follows.

**H4. Absorptive capacity moderates the knowledge transfer relationship and employee performance.**

![Integrative research model](image)

**Figure 1. Integrative research model**

### 3. Methodology

This research uses quantitative design to test the relationship between research variables. The research data was collected by distributing questionnaires and conducting in-depth interviews to expatriates and local employees to explore information about the research variables. The questionnaire was distributed to 172 local employees and the number of questionnaires returned for analysis was 162 or 94% of the total questionnaires distributed, indicating that the return rate of the questionnaire was very high.

The population in this study constituted all five-star hotels in Bali Province totaling 63 units. The research sample (N = 54 hotels) was drawn using proportional random sampling. From 54 sample frames then 3 employees from each department representing each hotel were selected as the respondents. The respondents were given only one chance to fill in the questionnaire (non replacement). Total respondents were 162 subsidiaries.

### 4. Results and Discussion

The research data were analyzed using SEM PLS-3 second order approach which began by evaluating the structural equation model to evaluate the outer model aimed to examine the validity and reliability of the indicator on the used dimension, and inner model through the bootstrapping resampling process.

#### 4.1 Outer model evaluation

Evaluation of measurement model in this study aimed to assess the indicators of observed variables that reflected a construct or latent variables. The first criterion for measurement of discriminant validity of the reflexive indicator can be seen on cross loading between an indicator and its construct. The second criterion for discriminant validity is to compare the roots of Average Variance Extracted (Root AVE) for each construct with a correlation between constructs with other constructs in the model. The model has sufficient discriminant validity if the AVE Root for each construct is greater than the correlation between the other constructs.

In addition, to construct validity, the reliability test was also conducted using 2 criteria: Cronbach's Alpha and Composite Reliability. This value reflects the reliability of all indicators in the model. The minimum value was 0.7, ideally 0.8 or 0.9. In addition to Cronbach's Alpha, the value of composite reliability was also used which is interpreted the same way as the value of Cronbach's Alpha.
4.2 Evaluation of Measurement Model (inner model) and Hypothesis Testing
After examining the outer model through the test results above then the next step was to test the relationship of variables. The output path coefficient as shown in the table below shows the significance of the influence of each variable by looking at the value of the coefficient parameter (original sample).

| Table 1. Path Coefficient |
|---------------------------|
|                          | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | Standard Error (STERR) | T Statistics (|O/STERR|) |
| Absorptive Cap -> Job P. | 2.218               | 2.085           | 0.277                       | 0.277                   | 7.994           |
| Absorptive Cap -> m.1   | 0.313               | 0.321           | 0.076                       | 0.076                   | 4.098           |
| Knowledge -> Job P.     | 1.995               | 1.820           | 0.322                       | 0.322                   | 6.204           |
| Knowledge -> Y1.1       | 0.680               | 0.682           | 0.032                       | 0.032                   | 21.089          |
| Knowledge * Absorptive Cap -> Job P. | -3.070 | -2.797 | 0.509 | 0.509 | 6.032 |
| Motivation -> Ekstrinstik | 0.943         | 0.943           | 0.009                       | 0.009                   | 103.592         |
| Motivation -> Instrinsik | 0.874         | 0.875           | 0.018                       | 0.018                   | 47.708          |
| Motivation -> Knowledge  | 0.543               | 0.542           | 0.047                       | 0.047                   | 11.437          |

The above table shows the relationship of each variable. The coefficient of the direct path of motivation with knowledge transfer is 11.437 > 1.96 which means significant and hypothesis 1 was accepted, while the coefficient of knowledge transfer relationship with performance is 6.204 > 1.96 which means significant and hypothesis 2 was accepted. Relationship of motivation with performance indicated by the size of the coefficient is 21.089 > 1.96 which is significant and hypothesis 3 was accepted. For variable absorptive capacity between knowledge transfer and performance, the value of T statistics 6.032 > 1.96 which means that absorptive capacity is a moderator variable which moderates the relationship between knowledge transfer and performance. In this study, the role of absorptive capacity weakens the relationship between knowledge transfer and employee performance which could be seen as an important finding in this study.

Figure 2. Direct path result

5. Conclusion
In this research it can be explained that the knowledge transfer process is done in two paths, the first is through antecedent knowledge transfer, that is, motivation. Looking at the results of the analysis, there are important findings that the intrinsic motivation of the coefficient is smaller than the extrinsic which is inconsistent with the results of the study by Merchant et al. (2003) [23]. In this study, the indicator working environment becomes very important in the dimension of subsidiaries motivation (coefficient
67.063) which means that the organization plays an important role in influencing employee motivation to do knowledge transfer (Lin, 2007) [11]. This encourages the role of the organization to provide space and opportunities for employees to collaborate in the exchange of knowledge, to engage in building mechanisms and rules that support and involve the process of routine organizational activities.

In the second path, moderation tests were performed using the absorptive capacity variable given that the transferred knowledge is believed to be influenced by the employee's ability to absorb and transform knowledge into a material supporting performance improvement (Minbaeva et al. 2003) [21]. The result of the analysis shows that absorptive capacity has a significant effect in moderating knowledge transfer relationship and employee performance but it had a negative value (-3.070). This was weakening the knowledge transfer relationship with employee performance. The results of the study did not agree with the results of a study by Chang et al. (2012) [5]. The two paths described above provide insight that building a cohesiveness between latent variables cannot be completely individualized, but it is necessary to have an organizational role both in preparing standard operating procedures, policies and other organizational factors in establishing and supporting knowledge transfer processes both between employees and through the role of expatriates. So the research gap proposed in this research can be met through a more comprehensive integrative research model.

Although the model was built on a structural equation model framework, the study also has some weaknesses so that the results cannot be generalized to all MNCs and the bias effects of the questionnaire answers are still likely to occur especially concerning how employees judge their individual performance. Future research is expected to include leadership variables because one of the dimensions of knowledge transfer (acquisition) has relevance to the role of leaders in providing opportunities, building and supporting knowledge transfer.

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