Regional Headquarters as Entrepreneurial "Knowledge-hub" of Transnational SMEs – A Business Model Perspective

Abstract: *This study aims to identify the pivotal role of RHQ in TNCs' small world networks in the transfer of knowledge. It is proposed that being in hierarchical position, these RHQs identify different type of knowledge, i.e., tacit as well as explicit, in order to transfer (up-stream and downstream) knowledge within TNC's small world network or from external (idiosyncratic) network to HQ. This paper proposes an exploratory study based on deductive approach to study innovative business models of regional headquarters (RHQ) of transnational corporations (TNC) in Germany. The research is explanatory in the sense it explores relationships between different constructs. The research is expected to extend our knowledge about RHQs performing entrepreneurial functions for interorganizational knowledge transfer within and across networks to create and capture value.*

Introduction

Based on Freiling and Laudien, (2012/a/b), Freiling and Lütke Schelhowe (2014), Freiling (2008), Freiling and Schmidt (2012), Bartlett and Ghoshal (1999), Timmers (1998), Chesbrough (2006), this research proposal presents an important inter-disciplinary approach of addressing research gaps in the domain of entrepreneurial functions and innovative business models of transnational corporations (TNC). The core research question of this proposal is: *how does RHQ perform entrepreneurially for inter-organizational knowledge transfer to create and capture value within network of TNC in Germany*.

The research proposal is based on a core research model which consists of absorptive capacity, entrepreneurial functions, knowledge sharing and searching, strengths of inter-organizational relationships and value creation and value capture. The notion of innovative business models is introduced in this research proposal through two constructs, namely value

creation and value capture. The core research model is based on broader aspects of entrepreneurship functions of RHQs, innovative business models of RHQ, organizational competences, inter-organizational knowledge transfer and inter-organizational relationships.

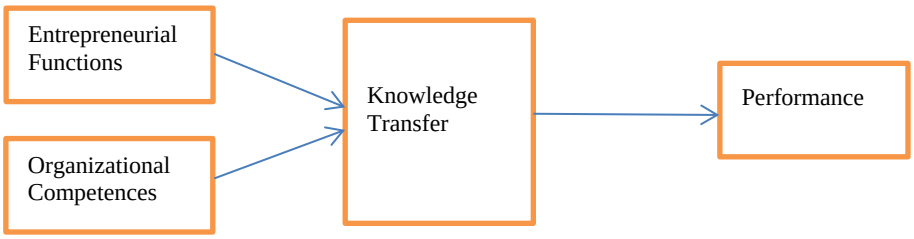
Research Objectives

This is a multi-purpose research proposal. Following are different research objectives of this proposal:

1. To understand the role of inter-organizational knowledge transfer by RHQ within and across network in the context of value creation and value capture.
2. To understand the notion of RHQ performing entrepreneurial functions for inter-organizational knowledge transfer within network for value creation and value capture.
3. To understand the impact of organizational competences for inter-organizational knowledge transfer within network for value creation and value capture.

Based on above research objectives and extending research model of Freiling (2008) of entrepreneurial functions and performance, following is the core research model of this research proposal.

Figure 1
Core research model innovative business models of entrepreneurial RHQs



According to this model, organizational competences and entrepreneurial functions fuel knowledge transfer activities of RHQ and may enhance their financial as well as organizational performance. The performance can be measured in terms of value creation and value capture which are also two constructs of innovative business models.

State of the Art

Transnational firms are a specific type of international companies that are particularly challenged by the unification of divided labor. These firms possess "heterarchical" structures based on independence of their 'country-of-origin' and globally integrated value added processes. This provides them with a high level of flexibility.

The 'TNC as network' notion suggests that TNCs are internally a network and at the same time part of inter-organizational networks (Freiling and Laudien 2013). TNC consists of network of subsidiary units dispersed geographically in different countries of the world. The network consists of different subsidiary units, regional headquarters (RHQ) and other stakeholders constituting idiosyncratic networks. Regional headquarters (RHQ) are administrative units of TNC that are hierarchically located between headquarters and other subsidiary units in the network. Assumed as "knowledge hubs" in highly decentralized networks of participants, RHQ play a central role in structuring and guiding the process of knowledge transfer in the TNC internal and external network.

Value creation and value capture are two important functions of "open business models", the term coined by Chesbrough (2006). A business model creates value by defining as series of

value chain activities that will yield a new product or service with value being added throughout the value chain. On the other hand, business model captures value by establishing a unique asset, resource or position within value chain where the firm enjoys a competitive advantage. The open business model concept is mainly associated with IP and innovation management of mostly technology firms, however, here we intend to borrow this definition to increase our understanding of organizational performance in activity, asset or resource perspective. A general description of "value chain" states "profit margin" as an outcome of all underlying activities from raw material through to the final customer. Thus, in our research proposal, all activities associated with knowledge acquisition, assimilation and exploitation leads towards value creation – that is generating yields in terms of sales or return on investment. On the other hand, the notion of "value capture" purported by Chesbrough (2006) can be linked with establishing unique assets, resources or position of RHQ through performing knowledge transfer activities as a "knowledge-hub". This value capture notion of RHQ can be articulated in terms of organizational learning (as an asset), fostering relationships (with knowledge sources) and competitive advantage (position as RHQ).

Review of existing academic literature suggests that RHQs have potentials to perform entrepreneurial functions due to their organizational competences and formal and informal governance structure. Based on these competences and governance structures, their ability to search and share different types of knowledge is greatly enhanced, hence, creating and capturing value within their network. In the field of strategy and entrepreneurship, researchers have found that entrepreneurship orientation has a positive impact on performance (Freiling and Lütke Schelhowe 2014; Lumpkin and Dess 1996; Rauch, Wiklund, Lumpkin, and, Frese 2009) where

most of studies found empirical support for this proposition (Zahra and Covin 1995; Jantunen, Puumalainen, Saarenketo, and Kyläheiko 2005; Wiklund and Shepherd 2005; Keh, Nguyen, and Ng 2007; De Clercq, Dimov, and Thongpapanln 2010, Dimitratos, Lioukas, and Carter 2004). Henceforth, the paper employs the entrepreneurship concept of Freiling and Lütke Schelhowe (2014) as – contrary to the Lumpkin and Dess (1996) conceptualization – is not only of explorative but also of exploitative nature – which is relevant to address the nature of RHQ as knowledge hubs.

The entrepreneurial orientation (EO) has emerged as a major construct in entrepreneurship literature when it comes to understanding entrepreneurial processes. It reflects how a firm operates in value creation regardless of what entrepreneurial activities (such as new market entry) it undertakes (Lumpkin and Dess, 1996). EO in terms of Freiling (2008) and Freiling and Lütke Schelhowe (2014) consists of four different functions. The innovation function explains how start-up firms emerge and how established firms renew themselves to stay ahead of competition in terms of product, process, and organizational or business model innovations. The risks associated with innovation function of newly established firms are addressed by second function of EO which is the risk management function. It includes identifying and evaluating potential risks, taking appropriate risks and safeguarding against them in case of need. Both of these functions relate firms' performance in explorative perspective. Once established, firms strive to achieve sustainable positions. The third EO function is internal coordination which has two objectives; first, setting up and orchestrating efficient value-added processes as well as allocating available resources, second, activities enabling and motivating employees to fully unfold their capacities. The fourth EO function is arbitrage which focuses

transactions in the market(s) — and therefore external affairs in connection with bargaining. All these four function constitute a cohesive whole perspective of EO. In sum, EO explains not only performance of the organization in terms of enhancing sales and generating profit (Freiling and Lütke Schelhowe 2014), i.e., value creation, they also have some potential links with the activities concerning identifying new ways of searching knowledge (Shenkar and Li 1999) acquisition and transferring information and knowledge. Thus, it is feasible to link EO functions with firms' value creating and value capture activities.

Our research proposal addresses this issue. Based on Freiling (2008) research model of EO and organizational performance, we propose that knowledge transfer activities performed by RHQ as a "knowledge-hub" in the context of EO functions can enhance performance in terms of financial as well organizational performance. Since financial performance is concerned with sales and return on investment which is also related with EO functions, therefore, knowledge transfer activities in the perspective of EO functions can affect organizational performance.

Another area which explains "knowledge-hub" perspective of RHQ for value creation and value capturing is absorptive capacity. Zahra and George (2002:185) define ACAP "as a dynamic capability pertaining to knowledge creation and utilization that enhances a firms' ability to gain and sustain a competitive advantage". These capabilities are embedded in organizational processes and directed towards organizational change and evolution. Zahra and George (2002) suggest that ACAP exists as two sub-sets – potential absorptive capacity (PACAP) consists of knowledge acquisition and assimilation capabilities, whereas realized absorptive capacity (RACAP) consists of knowledge transformation and exploitation. Various researchers explore the notion of ACAP of firms with different theoretical perspectives aiming at different outcomes.

These researchers concluded that ACAP is an integral to organizational performance as it enables firms to acquire new knowledge based on its existing knowledge and innovate and enhance organizational learning. Thus, the operationalization of knowledge transfer activities of RHQ as a “knowledge hub” can be explained in terms of PACAP and RACAP.

Inter-organizational knowledge transfer is a well-established domain in management research field. It is a well-established fact that organizational flexibility promotes the knowledge transfer process by encouraging openness of organization members to new stimuli from the outside, by promoting collaboration and exchanges of information within the organization (Fiol and Lyles 1985). International expansion promotes organizational learning, which facilitates the evolution of competences that help firms to achieve competitiveness (Freiling and Schmidt 2012). Simply defining, knowledge transfer is a process through which one unit is affected by the experience of the other (Argote and Ingram 2000). According to cognitive science definition, knowledge is an abstract concept that is consciously or unconsciously built through interpretation of set of information acquired through experience and mediation (Albino, Garavelli, and Schiuma 1999). Thus, knowledge transfer depends upon actors involved in transfer, the context where interaction takes place, the content transferred between actors and the media by which transfer is carried out. These four elements represents framework of knowledge transfer process which was developed and tested by Albino, Garavelli, and Schiuma (1999). It was proposed to analyze how a leader firm of an industrial district can modify the knowledge nature and adopt different types of supply relationship to increase the effectiveness of knowledge transfer. In our research proposal, we propose two knowledge transfer activities, namely, *knowledge search* and *knowledge sharing*. Knowledge search refers to identifying potential sources of different types of

knowledge based on prior knowledge base of RHQ. Knowledge sharing refers to assimilating and exploiting acquired knowledge into output to create and capture value within and across network. Here the notion of "across network" means sharing knowledge with HQ. Review of literature reveals that organizational competences (Freiling and Laudien 2012b, Freiling and Laudien 2013) and entrepreneurial functions (Freiling and Lütke Schelhowe 2014) have strong linkages with knowledge sharing and knowledge searching activities within networks.

Research Propositions

Based on the above discussion, the main research question of this research proposal states: how RHQ as "knowledge-hub" create and capture value within and across network through inter-organizational knowledge transfer? Based on this research question, we propose four other research questions or in other words, three sets of research propositions in the following manner:

Q1. How do entrepreneurial functions performed by RHQ enhance RHQ capabilities to capture value within network through knowledge searching and sharing?

- *P1a. Entrepreneurial functions (Arbitrage) played by RHQ positively affect its business model in terms of value capture.*
- *P1b. Entrepreneurial functions (Innovation) positively affect searching of required knowledge within network.*
- *P1c. Entrepreneurial functions (Coordination) positively affect sharing of required knowledge within network.*
- *P1d. Entrepreneurial functions (Risk Management) positively affect sharing of required knowledge with HQ.*

Q2. How do organizational competences (here: absorptive capacity) of RHQ affect knowledge searching and knowledge sharing activities within and across network to create and capture value?

- *P2a. An increase in potential absorptive capacity of RHQ positively affects knowledge searching activities within network.*
- *P2b. An increase in realized absorptive capacity of RHQ positively affects knowledge sharing activities within network.*

Q3. What is impact of knowledge transfer on innovative business models of RHQ in terms of value creation and value capture?

- *P3a. Knowledge searching activities of RHQ have positive impact on business model innovation in terms of value creation.*
- *P3b. Knowledge searching activities of RHQ have positive impact on business model innovation in terms of value capture.*
- *P3c. Knowledge sharing activities of RHQ have positive impact on business model innovation in terms of value creation.*
- *P3d. Knowledge sharing activities of RHQ have positive impact on business model innovation in terms of value capture.*

Research methodology

In order to present a generalized approach, it seems important to mainly develop a quantitative survey approach towards achieving the desired objectives. This research will be built on a deductive procedure where propositions would be developed based on prior research and management theory. These propositions will undergo a first reality check through questionnaire survey. A data set of transnational organizations with their regional headquarters in Germany will be selected from publically available data sources like national - German Hoppenstedt database, or regional database portals – innovation portal Bremen or Bremen Clusters. The proposed research project will be divided into five (05) research steps including of literature

review, development of theoretical constructs, development of causal models and developing survey questionnaires, administering survey questionnaire and collecting response, preparing data for analysis, analysis of data, and conclusions.

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