

THE VALUE OF REVERSE KNOWLEDGE TRANSFER: CASE OF AUSTRIAN BANK IN SLOVAKIA

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ABSTRACT

This research focuses on reverse knowledge transfer from Central Europe to Western Europe by analyzing the contribution of a specific Slovak subsidiary to MNC knowledge. It explores the first digital bank created in Slovakia, its origin, expectations, results, and expertise transmitted from the daughter company to the Austrian headquarters. The paper analyses the situation of Raiffeisen Bank International, headquartered in Vienna, and its digital daughter company ZUNO founded in Slovakia in 2010. It identifies the learnings transferred to the parent in digital banking, marketing, operational, HR, and strategic management. The authors also study subsidiary integration within MNC, alignment of its structure and processes with the parent and conclude that the new knowledge generation was especially valuable in digital banking, at work with new client segments, in implementing new forms of marketing, working with new technologies, creating new structures, and transferring them to the other foreign markets.

Keywords: reverse knowledge transfer; case study; Slovakia; Central Europe; banking industry

DOI: <http://dx.doi.org/10.15549/jeecar.v10i5.1253>

INTRODUCTION

Subsidiaries of multinational corporations around the globe play a pivotal role in developing and transferring knowledge flows within the whole MNC (multinational corporation). The flow of knowledge from the daughter companies back to the headquarters is called 'reverse knowledge transfer' (Frynas & Mellahi, 2005). Knowledge transfer research typically presents knowledge flow from the headquarters to the subsidiaries. It needs to pay more attention to the

reverse flows from developing to developed countries (Liu et al., 2013).

The banking industry offers opportunities to respond to these omissions following the geographic expansion and rapid development in former emerging countries in Central and Eastern Europe (CEE). Countries like Slovakia have already caught up with the industry standards, which raises the possibility that MNCs in developed countries may get knowledge created and accumulated in their local

subsidiaries and utilize it either in central offices or in other daughter companies (Ferencikova & Sestakova, 2014).

The Slovak banking sector has generated multiple valuable learnings related to digital banking and organizational transactions, building subsidiaries, internal structures, and strategic and operational management. We offer insight into the mentioned features through the case study about ZUNO bank that offers several implications, mainly for managerial practice.

This paper aims to analyze the specific contribution of a subsidiary of an international bank in Slovakia to the knowledge base of the parent company. We identify and summarize the digital banking, marketing, operational, HR, and strategic management learnings that were transferred to the parent. We discuss these findings concerning ZUNO's entry mode and management. Our paper addresses the question of subsidiary integration within an MNC, alignment of its structure and processes with the parent company, and new knowledge generation as a contribution to the MNC competence base. We also examine knowledge and learning exchange in both directions conducted by personal contacts.

THEORETICAL BACKGROUND

Literature suggests that the most critical factor influencing knowledge flows between the subsidiary and the parent company is the entry mode reflected in the subsidiary integration in MNC. Greenfield subsidiaries are usually well integrated, their structures are aligned with the ones in MNC, their culture is very similar, and at an early stage, greenfield subsidiaries use knowledge from the parent company that further strengthens their mutual relationship. Greenfield subsidiaries are said to start the business with MNC knowledge and support, and only over time do they embed into an external environment that drives the generation of new knowledge, which can be beneficial for the whole MNC (Najafi-Tavani et al., 2011). Greenfield subsidiaries are assumed to have compatible processes, culture, and language that are essential pre-conditions for knowledge sharing with MNCs (Mudambi et al., 2013). F. M. Borini et al. (2012) recommend that MNCs exploit the skills and experience of the greenfield subsidiaries that are inclined to share knowledge more than the acquired ones.

Greenfield subsidiaries often have managers with a relationship with the parent company, which leads to more intense communication and alignment. Expatriates not only disseminate their own technological and managerial skills to the subsidiary but also facilitate organizational knowledge transfer through their influence on communication and control mechanisms within MNCs. They initially fill the specific position, most often top managers, and further develop local managers to safeguard sustainable alignment with MNC's culture and processes. However, using expatriates is only sometimes beneficial for the subsidiaries as they often need more knowledge about the host country's culture and institutions, exacerbated by language barriers, inhibiting effective adaptation to the local market. (Yang et al., 2008).

Repatriate knowledge transfer often becomes thwarted due to a lack of trust (Kostova, 1999) and low organizational receptivity and support in the headquarters (e.g., Burmeister et al., 2015; Lazarova & Tarique, 2005). In this respect, recent research (Burmeister et al., 2018; Sanchez-Vidal et al., 2018) has started to elucidate factors that can promote a repatriate knowledge transfer, such as repatriates' disseminative capacity and opportunities to engage in knowledge transfer (Froese et al., 2021).

According to Ambos et al. (2006), the key factors determining the headquarters' ability to benefit from reverse knowledge transfer are the subsidiaries' strategic mission, the source country's economic development, and the headquarters' absorptive capacity. The company's efficiency as a knowledge-integrating institution is influenced by the subsidiary's context and capability to process knowledge. The authors also note that more knowledge inflow does not necessarily mean more benefits for the company. It is also crucial that the knowledge inflow gets the necessary attention in the headquarters.

We focused on the relevant literature as Slovakia is a part of the CEE region. Among a few relevant studies, Poór et al. (2018) have investigated the role of knowledge management in human resource management in MNCs in four CEE countries: Hungary, Poland, Romania, and Slovakia. According to the results, knowledge flows from the subsidiary to the parent company are less typical than those from the parent company to the subsidiaries. However, the flows

from the subsidiary to the parent company have increased slightly with time.

Jankowska et al. (2020) gathered information from 231 Poland-based foreign subsidiaries of manufacturing MNCs. The authors have found that the intensity of innovation is correlated with the knowledge transfer from the subsidiary to the headquarters, namely the marketing and managerial knowledge. However, the results also show that the more power the subsidiary has in strategic decision-making, the less eager the subsidiaries are to transfer their know-how in management and marketing to the parent company. Regarding investment mode, greenfield investment makes reverse knowledge transfer more likely. The industry's technological advancement is also significant: the higher the advancement, the less likely the reverse knowledge transfer is.

Yang et al. (2008) investigated conventional knowledge transfer and reversed one in the sample of 105 acquired subsidiaries in three CEE countries: Hungary, Poland, and Lithuania. The authors prove that conventional and reverse knowledge transfers are different. Firstly, relevance and directional context are more critical in reverse transfers than in conventional transfers. Regarding conventional transfers from the parent company to the subsidiary, the headquarters have the authority to request the adoption of the transferred knowledge in the subsidiary. In the case of reverse transfer, the subsidiary must make the parent company interested in the new knowledge and accept its significance.

Dabic and Kiesling (2019) have chosen 131 foreign MNC subsidiaries in Croatia to study the performance implications of knowledge management. According to them, MNCs need to adapt their strategic configuration to match the local market conditions while staying focused on their global strategy simultaneously. Knowledge management is vital to the strategy and should be incorporated into the company structure. In transition economies, the role of knowledge management is even more important because knowledge is critical in their dynamic environment. The authors claim that in transition economies, the employees are rarely used to sharing their knowledge, and managers must create an environment that would motivate the employees to do so.

The first study on the reverse knowledge transfer from Slovakia was conducted by Ferencíková and Hrdličková (Ferencíková & Hrdličková, 2020). According to their study, the daughter companies in CEE have many capabilities to create and implement new practices to innovate products and processes that could be useful for the parent or sister companies.

The Slovak banking sector in this respect has been only partially studied: in a few papers and case studies, it was described as the contributor to the organizational changes, strategic and operational management of the parent companies, learning engine for cultural transition within privatization and acquisition processes in CEE and “a cradle” for young expatriate development (Ferencikova & Pucik, 2004). During the last two decades banking sector in Slovakia was transformed from a rigid, inefficient system into a modern, flexible network of banks able to apply up-to-date banking techniques and skills and provide up-to-date services to their clients (Ferencikova & Sestakova, 2014, Ferencikova, 2020). The knowledge transfer between foreign parents and local subsidiaries is undeniable (Sestakova & Ferencikova, 2015), but studies in the opposite directions still need to be included.

METHODOLOGY

This paper aims to analyze the subsidiary's readiness for knowledge absorption and new knowledge creation, the specific contribution of a subsidiary of an international bank in Slovakia to the knowledge base of the parent company, and the role of expatriates in these processes. We want to provide the answers to the following research questions:

1. Can the local subsidiary absorb knowledge inputs and structural support from the parent to assist its operating attempts in the host market?
2. Can the local firm generate knowledge to enhance MNE operations?
3. Do the assigned managers to the host country help to facilitate communication flow and enhance the impact of experience exchange on the performance of local and parent/foreign branches?

In our study, both empirical and non-empirical methods are applied. The non-empirical approach refers to a literature survey and presents the theoretical background regarding the deployment of local knowledge in the MNCs. The literature review is based on secondary data and reveals the gaps in understanding drivers for knowledge creation & transfer methods from CEE.

The authors have chosen the qualitative case study research method to study the only digital banking case in the country. An explorative case-study design can be selected to succinctly describe the characteristic features of knowledge transfer from a recently emerged market. The cases enlighten the nature of the knowledge exchange process, develop the respective concept, and discover potential problems (Hasan & Zhou, 2015). The case study design was chosen to obtain the necessary data to answer the research questions (Yin, 2004). Due to the limited market and availability of the information, it is impossible to apply another method than the case study. (The authors also assume that this approach can motivate the reader to use this paper as a teaching case study since similar materials from the CEE region are rare in international business literature.)

The data collection method is a face-to-face interview - several in-depth interviews were conducted with ex-ZUNO managers to put together the case study describing the management of ZUNO, which uncovers the importance of local branch integration within MNE through compatible structures, culture, and committed managers, resp—the risk of not having them. The authors addressed the complete Slovak country team of the subsidiary (5 members; out of them, three replied to the questions; two of them did not want to disclose their identity. Therefore, we called them XY and WZ, respectively) plus two board members from the headquarters responsible for this operation (2 managers, 1 of them replied). It took a lot of work to get the answers given the destiny of this subsidiary and relationships among the relevant managers that were, in several cases, anything but not amicable. The interviews were conducted around the research questions with a particular focus on what drives knowledge creation in subsidiaries, why subsidiaries pass on local knowledge, and what mechanisms the subsidiary employs to ensure sending of complex

knowledge to headquarters. Based on the feedback from the participants, the case study was constructed. We also integrated some secondary data from corporate communication or local press, i.e., to form the complex view, we supported the received information in the interview with multiple additional secondary sources from the available publications.

RESULTS AND DISCUSSION – ZUNO CASE STUDY

Beginning of the operations

Raiffeisen Bank International (further as RBI) conducts banking business in Central and Eastern Europe and has its headquarters in Vienna. ZUNO was created in Slovakia as a modern digital bank. The timespan of its operations goes from 2010 to 2017. Slovakia and its capital Bratislava as a market for ZUNO was chosen due to its proximity to Austria and Vienna, the possibility of RBI's managers to commute daily, and due to low-cost and skilled labor. On top of that, the classical subsidiary of RBI in Slovakia, named Tatrabanka, belonged to the most successful ones in RBI's network in CEE.

ZUNO was greenfield operations in 100%-ownership of RBI offering direct online banking via the Internet or mobile phones 24/7. As mentioned, ZUNO's head office was in Vienna. In contrast, ZUNO's main office was established in Bratislava, bundling all shared services and coordinating the set-up and support of future ZUNO branches in other countries. Even though several Senior Managers from RBI were part of the ZUNO Management team, the bank acted independently and substantially differentiated in strategy and culture from its parent company (Arzner, 2017; 2019).

ZUNO was targeting primarily the innovative modern clients who preferred online communication. Initially, its offer was limited to the deposit products: current account, deposit account, termed deposits – each without fees and at competitive interest rates; only the ATM cash withdrawals had a cost to the client. "We have a different approach. We perfectly understand our customers since we used to be in the same shoes. We are aware of what they value most – their time. Therefore, we provide an online service that is transparent and easy. Furthermore, we always provide the top interest rate. Thanks to ZUNO, they have more time for themselves and do not need to worry about their money" (András

Hámori, chairman of ZUNO Board; Sušanka, 2011).

ZUNO's strategy of focusing on the deposit products and young active clients quickly turned out to be too narrow. ZUNO was hit by the development of the international financial situation and the response of Central Banks that translated to the lowering of the interest rates to the historical minimums, setting lower fees for the bank services, including the maximum fee for the card transactions that is split between the card company and the issuing bank. These measurements squeezed revenues within the bank industry overall and hugely affected ZUNO's business case – following the general decline of interest rates, ZUNO's business case lost much of its short- and mid-term competitiveness. Consequently, ZUNO enlarged its product offering by introducing loans, also re-financing, and credit cards that were also progressive – ZUNO was the only bank in Slovakia that allowed its clients to decrease loan payments without fees and via the Internet. Although this product offer was competitive, ZUNO took considerable time and effort to substantially grow its lending portfolio, a process depending on sufficient capital allocation. ZUNO had to compete with the other banks in the RBI group to allocate capital from its parent company when capital was a particularly scarce resource (Kosno, 2016).

The management team of ZUNO

The ZUNO team was very young, with an average age of employees at 30 years. The employees were enthusiastic and committed to seizing the opportunity to form a new bank company with a modern culture and develop state-of-the-art online banking services – all in all, to build a new way of banking within the industry. Employees of more than ten various nationalities worked in the offices, demonstrated their enthusiasm and drive to create new processes and enterprising creativity, and did not admit any room for failure. Several employees used to work in consulting companies prior to ZUNO, many with an IT background, and thus had limited knowledge about corporate cycles and banking.

Nevertheless, RBI gave ZUNO's management much leeway, with limited directional/strategic guidance. The red numbers at the beginning were explained through the initial investment.

ZUNO was independent; it was given its own room for development because, at the end of the day, RBI also had no in-house expertise in digital banking. While ZUNO followed basic RBI governance and standard procedures, the cooperation with the parent company and the sister banks in Slovakia and the Czech Republic was rather loose (XY, 2020). How ZUNO was to fit into RBI's overall retail banking strategy was not clearly articulated among shareholders and all stakeholders (WZ, 2020)

Austrian ZUNO managers were staying in Bratislava part-time. Instead, they were daily commuting, and in case their physical presence was not needed, they ran work ex Vienna. The factors mentioned above have strengthened the individualism and uniqueness of ZUNO within the RBI group, however, at the expense of limited collaboration and communication within the group (Arzner, 2017; XY, 2020).

The young ZUNO team was ready to take risks, was fearless in investing in broadening structures, and was relying on building scale and achieving profitability later. In 2014 ZUNO communicated that their performance was improving "We are growing and strengthening our position on the market. It can't be surprising that such a huge investment is not paying back in one or two years" (Mária Kecsoová, ZUNO spokesperson; Sušanka, 2011). The atmosphere in the local branch was still optimistic; the employees were ready to succeed in the fight for the customer and even still believed in further ZUNO expansion (XY, 2020).

ZUNO internationalization

The idea, knowledge, experience, and practices of digital banking were intended to be distributed from Slovakia to Czechia, which happened in 2011. The knowledge from Slovak ZUNO operations was also supposed to be used in Hungary and Poland. The most valuable know-how gathered in Slovak ZUNO was the digital technological one previously non-existing at this level of detail in the parent company. Infrastructure built in Slovakia, departments, and teams were copy-pasted in the Czech Republic. The preparation of the ZUNO subsidiary in Poland and Hungary was already very advanced when RBI re-assessed the plan and stopped the entries to these markets. The reasons were: the increasing bank taxes in Hungary and the decision of the Polish regulator not to grant the

banking license to RBI for ZUNO in Poland. (CD, 2020). Despite that, the knowledge gathered in Slovakia supported the design of the intended additional ZUNO subsidiaries (Arzner, 2017; WZ, 2020).

Closure of the operations

ZUNO did not manage to come to black numbers. Ultimately there were several pitfalls. Firstly, in retrospect, the timing for the whole initiative could have been better. At first, there was a lack of liquidity during the financial crisis, which drove ZUNO's initial business model based on deposits. The measures taken by Central Banks in response to the said situation have severely diminished the competitiveness of ZUNO's business case. The following enlargement of the product portfolio by launching loans was separate from RBI's initial intentions. It helped only partially, as ZUNO still needed to provide the full range of banking products and services expected by individual clients, who used ZUNO services often only for secondary banking. Usually, they also used the services of other banks.

Secondly, ZUNO's positioning targeted client groups other than sister companies active in Slovakia - Tatrabanka and the Czech Republic - Raiffeisenbank. However, it created competition for these banks belonging to RBI Group (Onuferová, 2015). Its products needed to be more profiled to differentiate ZUNO's profile, as the traditional banks also started offering low-fee services reasonably available through the internet. Finally, mistakes were made in the management of ZUNO's operations: the potential of collaboration with the parent company and sister banks was not fully leveraged, the relatively inexperienced ZUNO team did not always receive enough strategic guidance and support from the parent company, which was especially needed during the crucial phase when ZUNO attempted to turn from the initial project stage to a running bank operation.

Consequently, ZUNO was constantly delivering losses that started to worry the RBI Board. After careful considerations that lasted approximately 1½ years, during which the organization was significantly restructured and its cost base reduced, ZUNO decided to sell (corporate statement, Aktuality, 2016). The decision also included ZUNO in the Czech Republic since it suffered from the same problems as Slovakia. The

sale of ZUNO failed finally, and ZUNO's lending business in both Slovakia and the Czech Republic was integrated into the local banks of the Group, Tatra Banka in Slovakia, and Raiffeisenbank in the Czech Republic.

Further to the knowledge that RBI gained in the process of setting up ZUNO operations in the Czech Republic and while preparing its operations in Hungary and Poland, additional knowledge was transferred to RBI headquarters from ZUNO Slovakia, i.e., experience in digital banking, online customer relationship management, providing banking services solely via the internet. This expertise, together with a few experienced former ZUNO employees, was transferred back to RBI and is of high value today in supporting RBI's ongoing digital banking agenda - also after the discontinuation of ZUNO (Arzner, 2017; 2019; Vogl, 2019).

CONCLUSIONS

Reverse knowledge transfer can be discussed and identified also in the projects that have already been finished since some of their phases may generate innovative and beneficial solutions for the company. In the case of ZUNO, it was a pilot in digital banking for RBI, creating valuable learnings during the business set-up and roll-out.

ZUNO bank developed enhanced banking technology and processes for digital customer acquisition and lending, expertise which could have been more present in RBI and has helped develop the bank's digital strategy. No doubt, it is a tangible heritage of local branches that has enhanced the digital segment of MNCs, hence supporting the overall bank competitiveness.

Even though ZUNO was established as a greenfield investment, its internal integration in MNC needed to be stronger, which limited managerial knowledge inflow from the parent company. The assigned managers created a mutual collaborative relationship between the parent and daughter company to gain strategic guidance during a critical period for the whole industry that required bold initiatives. Consequently, ZUNO needed to respond better to industry development, and its business model became unsustainable. In parallel, ZUNO management missed the competencies to turn the unit from the initial project stage to running a bank organization. These failures have their roots in sub-optimal management attention that provided ZUNO only with basic guidance – the

vital coordination mechanisms fueled with strategic support were not put in place, likely because of unclear ZUNO's role within the RBI group.

ZUNO bank brought up several managers of various competencies, and some moved to RBI headquarters after the closure of local markets. These quasi-returnees represent a great portion of knowledge about digital banking systems and very complex infrastructure, processes, and aspects. As they witnessed the establishment and development of a branch, they can contribute to the management of other bank operations thanks to identifying pitfalls mentioned earlier as steps to be replaced by proper managerial control. It is obvious that these returnees have gathered valuable experience that RBI can materialize in further digital banking development while running its other operations.

The importance of careful headquarters' attention translated to regular communication, the proper control mechanism, and active knowledge exchange were confirmed in line with the literature. Should this not be in place, MNC risks not only diverting the behavior of subsidiaries but as observed in ZUNO, also unsound decisions causing entrepreneurial issues. At the same time, we prove the role of international assignees in bridging the subsidiary and its parent, which can work well when the manager is integrated into the host country team rather than monitoring local performance from the headquarters. ZUNO case validated that the returning employees improve their professional and social skills during their assignment in the local firm and afterward-bring it to the parent's benefit.

To sum up, here are the answers to the research questions:

- It was fine for a local subsidiary to absorb knowledge input and structural support from the parent. However, this was insufficient since the subsidiary entered an entirely new field of operations that even the headquarters needed to familiarize themselves with (digital banking).
- The local subsidiary was able to generate much new knowledge, especially in digital banking, at work with new client segments, implementing new forms of marketing, working with new technologies, creating

new structures, and transferring them to other foreign markets.

- Unfortunately, the role of expatriates from Austria responsible for ZUNO operations was not as everyone expected: they created a separate office in Vienna. They only commuted to Bratislava when needed, i.e., their presence in Slovak ZUNO was temporary. Therefore, the classical flows guaranteed by expatriates between headquarters in Vienna and the Slovak branch could have been better and sometimes limited.
- ZUNO case is particular and cannot provide a general answer to the question of the contribution of the Slovak banking industry to the parents. On the other hand, it proves the core premise that banks in Slovakia can produce the quantity of knowledge that the parent companies may learn from. Even if ZUNO is a negative case from the point of view of business results, there was very much development in digital banking technologies and very much identified in the management of the bank's new branch.
- The authors are aware of the limitation of this research and studying just one case – however, there are no more cases of reverse knowledge transfer available in digital banking in Slovakia. Therefore, future research should include more relevant cases from more CEE countries to gain more knowledge for the international business community.

ACKNOWLEDGEMENT

This study is part of a research project of the Ministry of Education, Family and Sports of the Slovak Republic VEGA (2022-2024) No. 1/0270/22 "Growth of Slovakia's innovative capabilities and competitiveness for foreign investors in post-covid deglobalization era from the aspect of knowledge creation and transfer."

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Note: While ZUNO followed basic RBI governance and standard procedures, the cooperation with the parent company and the sister banks in Slovakia and the Czech Republic was rather loose (XY, 2020). Also, the question of How ZUNO fit into RBI's overall retail banking strategy was not clearly articulated among shareholders and all stakeholders (WZ, 2020).

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