KNOWLEDGE CODIFIABILITY – A DOUBLE-EDGED SWORD? THE PERFORMANCE IMPLICATIONS OF KNOWLEDGE CHARACTERISTICS, EMPLOYEE INFLOWS AND EMPLOYEE OUTFLOWS IN YOUNG KNOWLEDGE-BASED FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

People are often cited as the key source of competitive advantage for most firms (Pfeffer, 1994; Katz et al. 2000), particularly for those operating in knowledge-intensive sectors. While much is known on the utilization and protection of firm’s human capital stock in established corporations, our understanding on human resource management in entrepreneurial settings is still limited (Cardon & Stevens, 2000). In this paper, we explore the dynamic interplay of knowledge codifiability, employee flows and performance in the context of knowledge-based product and service firms. While employee outflows may at times benefit firms by reducing stagnation, encouraging innovation and eliminating poor performers (Abelson & Baysinger, 1984; Dalton et al. 1981), they are also associated with the erosion of firm specific human capital and social capital (Shaw, Gupta & Delery, 2005; Coff, 1997; Phillips, 2002; Chadwick & Dabu, 2009), which can be especially harmful for young, entrepreneurial firms. Employee inflows are generally thought to enhance firm performance, as they can serve as a mechanism for the acquisition of externally developed knowledge (Rao & Drazin, 2002), especially when knowledge to be acquired is “sticky” and tacit (Polanyi 1967; Dosi, 1988; Madsen, Mosakowski & Zaheer, 2003). The tacitness of the organization’s knowledge base can be both beneficial (protecting a knowledge resource from imitation) and detrimental (limiting the usefulness of that knowledge resource by making the adoption of knowledge more difficult for newcomers) (Mitchell, 2006).

Method

We build a novel dataset by combining a survey on knowledge characteristics of 212 young software and service industry firms to the longitudinal register data on employee flows between firms. Matched employee-employer data from national registers was linked to the sample firms over their lifetime, allowing us to form yearly employee inflows and outflows for each firm.

Results and Implications

We show that the impact of employee turnover is contingent on the codifiability of the knowledge the firm processes: codified knowledge-base reinforces the positive impact of employee inflow on short term performance, and decreases the harmfulness of employee outflow.

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