

## **ABSTRACT**

Industrial globalization presents the need for companies to expand into new territories world-wide. Research has attributed difficulties in doing so largely to problems and difficulties in the process of knowledge transfer, and has recently pinpointed the essential role of implementing knowledge from other parts of the world, and the learning required to do so. An ethos of knowledge transfer, implementation and learning are needed for international business success.

Chinese multinational companies are new and significant phenomena, are newly internationalizing, and are culturally ill-disposed to such an ethos. This study will employ longitudinal ethnographic research to identify if and how they reconcile this conundrum, to advance understanding concerning the link between knowledge and learning and international business development.

## **BACKGROUND**

The knowledge source, the knowledge transfer process, and the knowledge recipient have been categorized as the three principle elements of a knowledge-management system (Wiig , 1995). As knowledge retention and distribution have always been the concern of organizations and their managers, sophisticated techniques and systems have been designed for managing the knowledge source and knowledge transfer (Davenport and Prusak, 1998; Wiig, 1995). One of the main recent streams of research in international business is concerned with knowledge-management within multinational corporations, especially knowledge transfer between parent firm and subsidiaries. For these firms, and for research on them, cross-border knowledge transfer and implementation have become hot topics.

For most multinational companies, transferring knowledge is important for self-improvement and development, both in home and in host markets. Knowledge transfer is a circular process; MNCs gather knowledge from business partners, and then apply it back to doing business with these or other business partners. In this process, knowledge application (which can be called as 'implementation') plays an essential role; it determines the effectiveness of knowledge transfer, without which, MNCs cannot develop and possibly cannot survive in foreign markets. Thus, the implementation of transferred knowledge should be a focus of attention; especially for companies dealing with multinational markets.

Many firms in the People's Republic of China have, in recent years, grown so rapidly that

they are now beginning to become MNCs. However, their complex culture background, their different political environment and their firms' comparatively undeveloped management skills and technologies bring huge challenges for their internationalization. These aspects also represent obstacles for foreign companies who are trying to do business with Chinese MNCs. These concerns lead to a comprehensive investigation of the factors, and the management techniques that influence the implementation of international business knowledge transfer within the Chinese-Western context.

## **LITERATURE REVIEW**

### **Knowledge Transfer in MNCs**

Buckley and Casson (1976) advocated the very existence of a MNC lies in its ability to internalize externalities by putting together resources and activities at a more efficient rate than markets do. According to Kogut and Zander (1993), MNCs were defined as a social community in which knowledge exists among cooperating members; the productive knowledge of this community was defined as competitive advantage.

Nowadays MNCs are widely viewed as the most efficient mechanisms for the international transfer of tacit knowledge; based on this advantage, MNCs are able to create and dynamically transform networks of information involving multi-location data-inputs, centralize and disperse information processing and constantly evolve modes of data analysis and knowledge-processing capabilities (Gupta and Govindarajan, 1996).

The importance of knowledge transfer derives from the increasing globalization and convergence of industry, the challenging environment that forces companies to expand into new markets. New markets normally imply new customers, competitors, stakeholders, and business practices, whose effective management depends on appropriate organizational knowledge and skills (Prusak, 1998; Riesenberger, 1998). Since a market entrant may not necessarily have these skills in-house, it must either develop them internally or acquire them externally by cooperating with or taking over other firms that possess them (Barney, 1999).

On one hand, knowledge transfer is one kind of 'knowledge sharing', a natural product of

interaction which may be unplanned and even unintentional (Szulanski, 2000). This point may help to explain the knowledge transfer (or lack of it) between parent firms and subsidiaries, or between subsidiaries of MNCs. On the other hand, simple sharing is not an efficient way to transfer knowledge, because when translated into another culture it may result in knowledge that is technically appropriate but culturally void (Kayes et al., 2005).

This concern can be addressed theoretically with the 'knowledge based view'. This explains how firms grow and gain competitiveness through creating and learning know-how, and serves as an analytical tool that presents an evolutionary view of firm (Kogut and Zander, 1992, 1993; Spender, 1996). Although the knowledge based view is interested in the humans who play a major role in the process of knowledge creation, transfer, and acquisition within the organization (Conner and Prahalad 1996; Grant , 1996), it hints at the term 'knowledge learning' to describe the complete process of knowledge transfer in acquisitions, join-ventures and strategic alliances.

## **Learning**

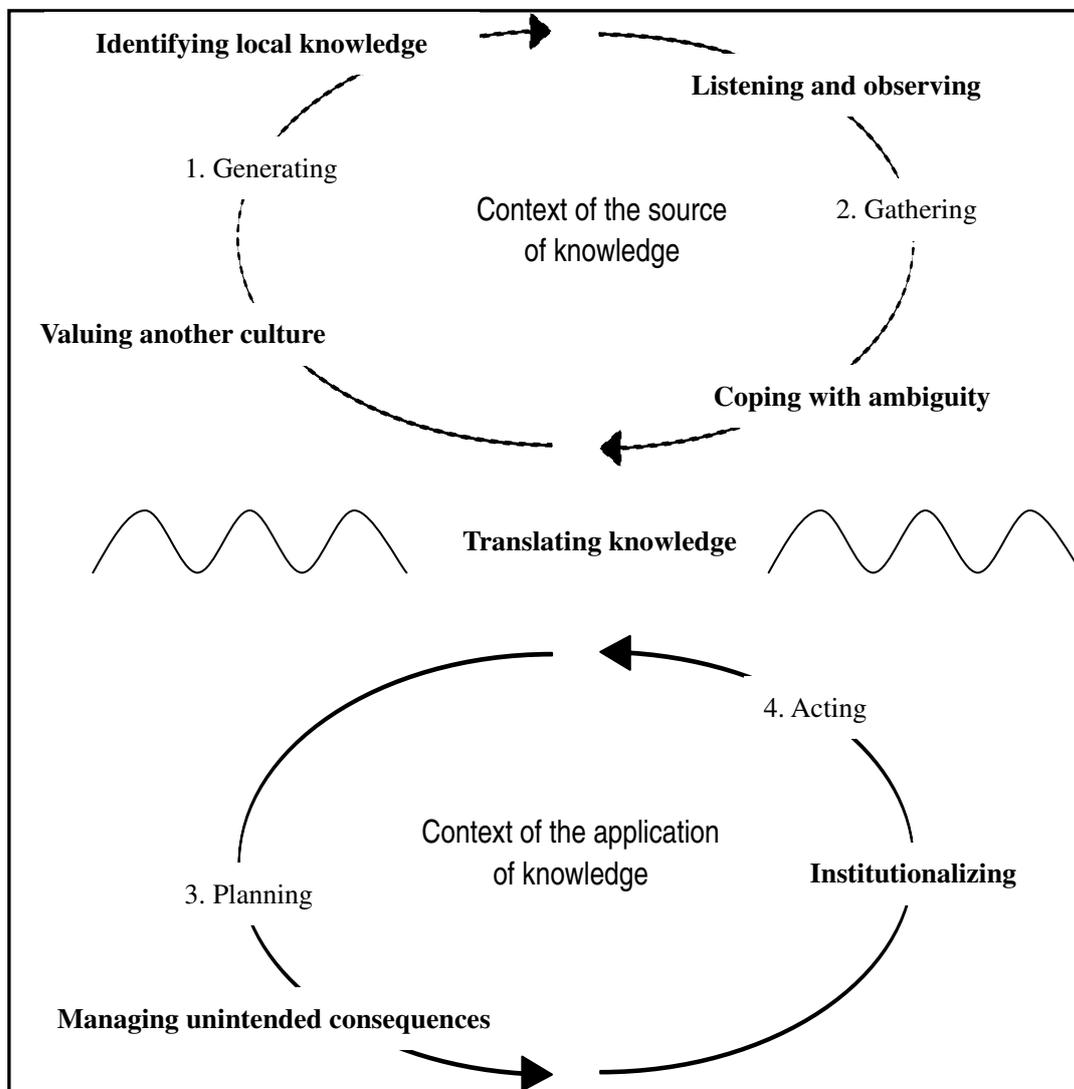
A consensus has emerged that an essential competency for success in managing the global organization lies in learning (Ferraro, 2002). Learning is not a simple imitation process, it suggests the company draws on direct experiences from others to solve problems, make sense to the normal daily events, and finally also create new knowledge. Kolb (1984) developed a four stage model of experiential learning that lies behind knowledge creation: generating knowledge, gathering knowledge, organizing knowledge and acting on knowledge.

Based on these four stages, a seven-stage of cross-cultural knowledge transfer model has been developed (Kayes et al., 2005). Figure 1 adopts this to the situation of international acquisitions and alliances. It highlights the transfer between the two parts of the process, transferring and implementation, in which:

- Transferring is just a simple knowledge flow process; companies discover and replicate knowledge from partners: it is a passive adaptation. Reception and replication of knowledge might be labeled learning to imitate (Zott, 2003)
- Implementation includes knowledge understanding and exertion, involving not only

learning experiences from partners, but also making them an element of a new way of managing and operating. Learning to create new knowledge depends on user firms' dynamic capabilities, that subset of capabilities which allows the user firm to reconfigure, reintegrate and transform its resources (in this case, knowledge resource) into new competencies and competitive advantages (Teece et al., 1997).

Though much attention has been given to transferring knowledge, researchers are now finding that without implementation, the simple transferring process can be meaningless. In other words, implementation is the ultimate objective of knowledge transfer, this involving action.



**Figure 1: Cross-cultural knowledge transfer in International Mergers and Alliances**

## **Research Question**

The capabilities and conditions of successful knowledge transfer have been viewed from various contexts and perspectives by international researchers, but there are few studies of the implementation of knowledge transfer, especially the international business knowledge transfer between MNCs. Here I will ask how companies connect the external knowledge transfer with internal knowledge transfer and knowledge learning. Specifically, how do they translate knowledge from one subsidiary to another, how do they reorganize it, adapt it and institutionalize it, and how do they develop an organizational learning cycle. It therefore uses the two different perspectives of knowledge transfer implementation, that of the knowledge transfer and that of knowledge learning. It ultimately aims to provide references for improving management practice concerning knowledge transfer and learning in international business.

This research will investigate and analyze the international business knowledge transfer and implementation within Chinese MNCs. Chinese MNCs are a new phenomenon, and being novices in the international business area, are still in the initial stages of multinationalization process from a knowledge transfer point of view. Their lack of global experience in dealing with multinational business means they often do not realize the need for a different management approach and mentality (Li, 2006). They are highly influenced by the traditional Chinese culture dimension, which shapes operations into a conservative pattern with top-down communication styles, which may limit knowledge flows at different levels.

Common and different knowledge transfer features will be identified in Chinese MNCs, and how these features influence the development of Chinese MNCs will be investigated. These issues will be critically analyzed to compare the observed practice in Chinese MNCs with theoretical developments and with the results of earlier studies.

## **Methodology**

Based on earlier studies, knowledge transfer heavily relies on the capability of managers; their flexibility and learning capability influences the transfer process, so talking with managers directly is necessary to understand the process of knowledge transfer, implementation and

learning. A longitudinal in-depth investigation is therefore required for these complex cases, in a qualitative study employing ethnographic research principles. The best way to collect primary data is through periodic personal interviews. However, there are two clear options:

1. A single case study of one Chinese MNC, and its subsidiaries in different countries. This research method provides the deepest and broadest research data. But the research result may highly influenced by some unique factors of this interviewed company, limiting the scope for generalization.
2. A multicase study of two to three Chinese MNCs in different industries, together with their subsidiaries in different countries. It will be possible then to compare the differences and similarities between the companies, draw comparative conclusions about knowledge transfer in the Chinese MNCs, and generate more generalisable findings. The access demands, however, especially for a long time investigation then become substantial, and present new problems. For example, people move jobs, making it difficult to maintain long-term relationships with interviewees.

Which research method would be taken highly depends on the process of gaining access, but the general research steps have been decided. Three managers from each company, from different departments or subsidiaries, are expected to be interviewed three times each. Through reduplicate checking of the same general questions, the complete change process will be discovered and examined.

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