



**IGNITED MINDS**  
Journals

*International Journal of  
Information Technology  
and Management*

*Vol. VIII, Issue No. XII,  
May-2015, ISSN 2249-4510*

**KNOWLEDGE TRANSFER PERFORMANCE OF  
MULTINATIONAL COMPANIES**

AN  
INTERNATIONALLY  
INDEXED PEER  
REVIEWED &  
REFEREED JOURNAL

# Knowledge Transfer Performance of Multinational Companies

Meenakshi Dala

Research Scholar, Jodhpur National University, Rajasthan

**Abstract – Knowledge is ascribed a key role when explaining the existence and the growth of multinational companies (MNCs). The effective dissemination throughout the MNC organization of valuable knowledge acquired by its local affiliates is seen as an important source of competitive advantage. Knowledge differs in characteristics and so do the available transfer mechanism. As such, it is essential that the MNC employs the mechanism of transfer that suits the specific knowledge characteristics. The use of unsuitable transfer mechanisms may cause loss of knowledge in the process of transmission or may involve unnecessarily high communication costs – both with potentially negative effects on the performance of the MNC.**

**Keywords: Process, Knowledge, Organizational, Multinational, Successful, Important, Transfer, Companies**

-----X-----

## INTRODUCTION

To an increasing extent is the success of multinational companies (MNCs) considered being contingent upon the ease and speeding by which valuable knowledge is disseminated throughout the organization (Hedlund 1986, Bartlett/Ghoshal 1989, Gupta/Govindarajan 1991). Thus, creation of knowledge in the spatially dispersed multinational organization is a necessary, but not sufficient condition for success in the global marketplace. If valuable knowledge remains in, or only diffuses slowly from, the individual MNC affiliates, opportunities for worldwide leverage are lost. Therefore, appropriate incentive structures and proper knowledge transfer mechanisms should be in place ensuring swift dissemination to other units of the multinational organization. It is essential that the MNC employs a medium suiting the specific characteristics of the knowledge subject to transfer. The use of unsuitable transfer mechanisms may cause loss of knowledge in the transmission process or may involve unnecessarily high communication costs – both with potentially negative effects on the overall performance of the organization.

## REVIEW OF LITERATURE:

The literature on intra-organizational knowledge transfer has proliferated over the last two decades and today a large body of literature exists (for an overview, see Argote 1999). We will therefore restrict ourselves to a review of MNC literature that includes knowledge transfer aspects. At least three distinct streams of literature that specifically deal with knowledge transfer

in multinational companies (MNCs) can be identified. These are:

- (1) Literature on the internationalization process of firms,
- (2) Literature on factors that facilitate or impede knowledge transfer of MNCs, and
- (3) Management-oriented literature on the use of transfer mechanisms in MNCs. The three literature streams seem to be converging in these years, but at their outset in the 1970s significant differences prevailed in terms of their approach to knowledge transfer in MNCs. Focusing on internationalization knowledge this large-scale empirical study explores the incidence and the performance implications of fit between knowledge characteristics and transfer mechanisms as used by Danish MNCs. It is found that a substantial proportion of the observed MNC knowledge transfer transactions may be classified as 'misfits' and to some extent do these 'misfits' result in impaired performance of the MNCs.

## 1. IMPORTANCE OF EXPERIENTIAL KNOWLEDGE IN THE INTERNATIONALIZATION PROCESS:

Knowledge plays a central role in the internationalization process theory that explains firms' incremental international expansion (Carlson 1975,

Bilkey/Tesar 1977, Johanson/Vahlne 1977). Based on the behavioral theory of the firm (Cyert/March 1963, Aharoni 1966) the theory describes firms' international expansion as a trial-and-error-based learning process: "... international expansion is inhibited by the lack of knowledge about markets and such knowledge can mainly be acquired through experience from practical operations abroad" (Forsgren/Johanson 1992,). As they gain local market knowledge firms expand internationally through a series of gradual investments. Following Penrose (1959) the internationalization process theory distinguishes between objective knowledge and experiential knowledge. Objective knowledge is explicit (e.g. market data, legislation, export technicalities) and can be traded in the market. A critical assumption of the theory is that objective knowledge is of minor importance in the internationalization process of firms. It is first of all the on-going acquisition of experiential knowledge that determines the gradual commitment in the internationalization process.

## 2. THE MNC AS A SUPERIOR VEHICLE FOR KNOWLEDGE TRANSFER:

The path-breaking conceptual and empirical studies of Zander (1991), Kogut/Zander (1992, 1993), and Zander/Kogut (1995) completely reverse this view by focusing on capabilities of knowledge transfer in MNCs. The very reason why MNCs exist is that they are efficient vehicles for creating and transferring knowledge across borders (Kogut/Zander 1993). In particular the capabilities of transferring tacit knowledge across borders distinguish the MNCs from the purely domestic firms. To a certain extent tacit knowledge can be codified, i.e. transformed into explicit knowledge. Codification of tacit knowledge facilitates the transfer process, but at the same time increases the risk of uncontrolled dissemination of firm-specific, proprietary knowledge. Thus, a trade-off exists between, on the one hand, incurred costs of communication and, on the other hand, assumed risk of knowledge dissemination, i.e. making the knowledge more susceptible to competitors' imitation. The internalization of business transactions holds the potential of changing this codification trade-off. First, as Kogut/Zander (1993) point out, internalization enables efficient transfer of tacit knowledge.

## 3. KNOWLEDGE TRANSFER MECHANISM:

In contrast to the positive theories of MNCs the management oriented MNC literature is dominated by studies of knowledge transfer mechanisms rather than knowledge characteristics and knowledge codification. In a seminal study Keegan (1974) seeded an interest for the knowledge transfer media used by MNC executives. Keegan addressed the question of MNC-managers' information sources in terms of transfer mechanisms. In his study of information sources utilized by headquarters executives in multinational companies Keegan found that written media (documentary sources such as reports and letters)

were of much less importance than oral communication, including face-to-face communication. In a more recent study of managers' use of communication media in 14 multinational companies de Meyer (1991) found that face-to-face communication made up an important part of oral communication, and the emergence of new telecommunication technology did not seem to have changed this. Thus, telephone conversations, and videoconferencing, etc., complements - but does not substitute for - face-to-face communication. Ghoshal et al. (1989) found that informal networking activities - such as direct contact among managers through joint work in teams, task forces, etc. - were the main determinants of knowledge flows in MNCs. In their influential contribution to the field of multinational management Bartlett/Ghoshal (1989) outline different knowledge transfer mechanisms used by MNCs in their pursuit of 'transnational strategies'. In this study we have examined the choice of mechanisms for transferring internationalization knowledge across multinational organizations. In a somewhat simplified decision matrix we would - on the face of it - expect tacit internationalization knowledge to be transferred through rich communication media and explicit knowledge through written media. Empirical evidence of Danish MNCs shows that most - but far from all - transfers of internationalization knowledge follow the expected pattern. Hence, up to one third of the observed combinations may be described as mismatches of knowledge characteristics and transfer mechanisms. The data indicate that to some extent are these mismatches associated with impaired performance as perceived by the MNC managers involved in the foreign business assignment. These findings send a warning signal to MNC managers to show a great deal of vigilance in their choice of knowledge transfer mechanisms.

## CONCLUSION:

For a long time theories on the existence and growth of MNCs and on the internationalization process of firms either assumed an almost frictionless intra-organizational knowledge transfer process, or considered the crucial internationalization knowledge to be extremely context-specific, thereby making the transfer process more or less futile. Hence, the knowledge transfer process was hardly an issue in the early versions of these theories. Since then, IB scholars have - inspired by organizational learning literature - gradually adopted a less deterministic and more sophisticated view on the knowledge transfer processes of MNCs: Transfer of knowledge within the multinational organization is neither frictionless or futile and requires a great deal of managerial discretion.

**REFERENCES:**

1. Hedlund, G. 1986. The hypermodern MNC – a heterarchy? *Human Resource Management* 25(1) 9-36.
2. Bartlett, C.A./ Ghoshal, S., *Managing Across Borders: the Transnational Solution*, Boston: Harvard Business School Press, 1989.
3. Gupta, A.K., V. Govindarajan. 1991. Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review* 16 768-792.
4. Argote, L., *Organizational Learning: Creating, Retaining and Transferring Knowledge*, Boston: Kluwer Academic Publishers, 1999.
5. Carlson, S., *How Foreign is Foreign Trade? A Problem in International Business Research*, Uppsala: Uppsala University Press, 1975..
6. Bilkey, W. J./Tesar, G., The export behaviour of smaller sized Wisconsin manufacturing firms, *Journal of International Business Studies*, 8(1), 1977, pp. 93-98.
7. Johanson, J., J.-E. Vahlne. 1977. The internationalization process of the firm - A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies* 8(1) 23-32.
8. Cyert, R. D./March, J.G., *A Behavioural Theory of the Firm*, Englewood Cliffs, NJ: Prentice-Hall, 1963.
9. Aharoni, Y, *The Foreign Investment Decision Process*, Boston: Harvard Business School, 1966.
10. Forsgren, M., J. Johanson. 1992. Managing Internationalization in Business Networks. In Forsgren, M., J. Johanson (eds). *Managing networks in International Business*, Gordon and Breach, Philadelphia.
11. Penrose, E. 1959. *The Theory of the Growth of the Firm*. Basil Blackwell, London.
12. Zander, U. 1991. *Exploiting a Technological Edge: Voluntary and Involuntary Dissemination of Technology*. Doctoral dissertation. Institute of International Business, Stockholm.
13. Kogut, B., U. Zander. 1992. Knowledge of the firm, combinative capabilities, and the replication of technology. *Organization Science* 3(3) 383-397.
14. U. Zander. 1993. Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies* 24(4) 625-46.
15. B. Kogut. 1995. Knowledge and the Speed of the Transfer and Imitation of Organizational Capabilities. *Organization Science* 6(1) 76-92.
16. Keegan, W.J. 1974. *Multinational Scanning: A study of the Information Sources Utilized by Headquarters Executives in Multinational Companies*. *Administrative Science Quarterly* 19 (3) 411-421.
17. De Meyer, A. 1991. Tech Talk: How Managers Are Stimulating Global R&D Communication. *Sloan Management Review* 32(Spring) 49-58.
18. Bartlett, C.A./ Ghoshal, S., *Managing Across Borders: the Transnational Solution*, Boston: Harvard Business School Press, 1989.