

## **Towards a model of effective knowledge transfer within transnationals: The case of Chinese foreign invested enterprises**

**Paul Miesing · Mark P. Kriger · Neil Slough**

Published online: 29 September 2006  
© Springer Science+Business Media, LLC 2006

**Abstract** In this paper Chinese foreign invested enterprises (FIEs) are employed as prototypes to generate a model of how transnationals can transfer both tacit and explicit knowledge between their units as well as between FIEs and the parent organization. We propose that successful intra-organization knowledge transfer depends upon: (1) collective creation of knowledge as intellectual and social capital available throughout the organization; (2) trust-based collaboration among geographically dispersed entities that form the transnational organization; and (3) the willingness and ability of organizational units to use that knowledge. The paper further proposes that organizational knowledge should ideally flow in multiple directions, providing learning opportunities for both investing and host organizations. Implications for transfer of best practices, a specific form of tacit knowledge, are also offered.

**Keywords** Chinese foreign invested enterprises · Collective transnational strategy · Knowledge transfer

**JEL Classification** F02 · F23 · O32

---

P. Miesing (✉)  
School of Business, University at Albany, State University of New York,  
Albany, NY 12222, USA  
e-mail: paul.miesing@albany.edu

M. P. Kriger  
Norwegian School of Management BI, Nydalsveien 37, NO-0442 Oslo, Norway  
e-mail: mark.kriger@bi.no

N. Slough  
Milwaukee Area Technical College, West Allis, WI 53214-3110, USA  
e-mail: Neil@NeilSlough.com

## 1 Introduction

The current profound changes in the world's competitive environment provide a unique opportunity to examine how organizational globalization affects knowledge transfer and organizational learning. While every foreign subsidiary inherently provides some geographically unique knowledge that allows a parent to exploit opportunities that exist in local resources and/or output markets (Gupta & Govindarajan, 2001), the competitive advantage of a transnational organization (Bartlett & Ghoshal, 1999) lies to a great extent in its ability to identify and transfer best practices, particularly core competencies and knowledge, between its geographically dispersed and diverse units. A transnational organization is actually a "heterarchy" (from hetero-archy), relying less on control by headquarters and more on its far-flung business units sharing resources, abilities, and knowledge, and coordinating their own activities with each other.

Within a heterarchy, local units adapt products and marketing to unique geographical circumstances, but also simultaneously draw upon and contribute to a corporate-wide pool of knowledge. This collection of corporate abilities, skills, and competencies is ideally a free-flowing pool within which subsidiaries have frictionless interaction and exchange. In this view, global organizational learning and knowledge transfer is the transnational's principal method of achieving competitive advantages arising from exploitation of any existing economies of scale, scope, experience, and location. Maintaining structures and processes to identify existing competencies and allow their free transfer between units is, however, only one side of the "learning coin." Best practices are also created and developed as units redefine their decision-making processes to incorporate unique perspectives, methods, and problem-solving heuristics gained in diverse, geographically dispersed units.

Birkinshaw and Hood (2001) suggest that multinational's treatment of subsidiaries tends to evolve through three distinct phases: (1) *paternalism*, when companies export products that embody innovation; (2) *expansionism*, when multinationals are willing to invest in developing or obtaining foreign innovations but fail to integrate them globally; and (3) (the still-emerging) *liberalism*, when new ideas and knowledge can come from anywhere. This third phase is the context required for organizations to leverage foreign knowledge globally. This paper expands the domain of this product- and market-focused view to include innovation in business processes as well as in products and services. This final phase in the evolution of the relationship of parent and subsidiary can occur only in conjunction with a new set of business practices that encourage knowledge creation and acquisition, support its sharing, and facilitate its application and use.

Paralleling the three phases of business globalization are three types of interaction between the national cultures of parent and subsidiary: polarization, homogenization, and syncretization (Holton, 2000). *Polarization* envisions the clash of national cultures as equivalent to a "global civilizational war" (Huntington, 1996). Within this context, commonalities are inherently impossible and it is critical to understand and manage across cultural and political divides. When countries' markets are distinct, multinational corporations serve the unique requirements and preferences by customizing products and services. In contrast to the cultural separation in polarization, *homogenization* views global and local perspectives as mutually reinforcing rather than conflicting. The resulting neutral (sometimes bland)

blend of value sets erodes former individual identities. Acceptance of uniform values is then widespread, as differences between national values diminish and are subsumed in the newly merged culture. The third perspective, *syncretization*, recognizes that intercultural exchange can fuse diverse cultural elements into a mosaic where heterogeneous values remain intact and coexist (Hannerz, 1992). We use the term “cosmopolitan” (Levitt, 1983) to describe this syncretic alternative.

Examining the global efforts of Swedish firms over three decades ago, Johanson and Wiedersheim-Paul (1975) advocated that companies should commit to, and learn about, the foreign markets they enter. But corporations’ global expansion at the beginning of the 21st century seems to have produced multi-domestic production and marketing organizations that, although centrally controlled, are still fragmented rather than truly integrated global enterprises. Levitt regards the thoughtless accommodation of local preferences by multinationals to be “medieval,” claiming that global markets for standardized consumer products have been “irrevocably homogenized” (Levitt, 1983: 3&5). Proliferation of global products has required a corresponding uniformity of operating procedures, selling methods, and economic institutions. Friedman (2000) detailed how the transition to free markets has steadily increased global trade, capital flows, technology transfers, tourism, educational exchanges, and exposure to popular culture, all leading to convergence of management practices and beliefs. However, this is not necessarily equivalent to unilateral intellectual imperialism or commercial hegemony by Western firms, as shown by the almost universal adoption of certain Japanese business practices (e.g., just-in-time, quality circles, continuous improvement) that have become worldwide standard business practices.

A truly global firm operates as a unified, consistent, coherent system transcending local idiosyncrasies. Newfound practices within such integrated firms may arise, and be learned, from any quarter, including local product, process, or technology improvements that can be applied in other environments. While global organizations can internally disseminate knowledge and “best practices” across their operations and to their managers, the potential for reciprocal transfer remains under-developed by organizations and under-examined by investigators. A flow of learning in both directions can be a catalyst for the evolution of global best practices (within the firm at least, if not universally). Indeed, in a marketplace inundated by pluralism and complexity, global companies need to construct best business practices that reconcile inherent and inevitable national and cultural differences. How firms develop, distribute, and deploy knowledge is a major cause of performance difference between them (Bierly & Chakrabarty, 1996) and is the main driver of all organization competencies and capabilities (Lei, Hitt, & Bettis, 1996).

Just as each country has unique national advantages (Porter, 1990), each also has idiosyncratic organizational practices. These are sometimes viewed as quaint cultural artifacts that can be overlooked and ignored without ill effect on the subsidiaries. Though local features are often replaced by corporate policies when they are considered problematic, it is far less common for the parent organization to acknowledge, acquire, and adopt the valuable knowledge embedded in the “idiosyncrasies” of foreign subsidiaries. In a review of the numerous reasons foreign subsidiaries and local managers resist importing headquarter practices, Kostova (1999) posits that successful transfer of organizational practices depends on: (1) the institutional distance between home and recipient; (2) the degree of fit between the organizational culture of the recipient unit and the parent; (3) the proximity of attitudes of the transfer partners; and (4) the level of dependence of the subsidiary on the parent company.

There are indications that certain types of prior foreign experience are beneficial in overcoming differences between home and host countries. Barkema, Bell, and Pennings (1996) discovered that successful organizational learning was linked to certain patterns of international expansion: most successful firms expanded their foreign ventures incrementally. Such a “centrifugal pattern” describes situations where organizations increase operations in a country where current successful ventures are already underway, or attempt to duplicate operations in other countries with similar national cultures. According to Chang (1995), this type of learning can overcome relative weaknesses in other competencies and can allow further expansion into geographic areas and market arenas that would be impossible otherwise.

## 2 Three relevant contexts

Our paper examines global learning from three perspectives: The China context, the FIE context, and the learning context. We believe it is important to understand all three before proposing our model.

### 2.1 The China context

We propose that China is an ideal laboratory for the study of global knowledge and best practices transfer, for two reasons. First, there is an enormous economic transition in China that is creating vast business opportunities. Second, there are huge differences between the West and China, where business styles have deep roots in an ancient and enduring culture (Chen, 2003). Rarely are expatriate managers in China seen to act from the belief that the international parent can learn anything from its foreign business operations. Instead managers tend to focus on, and be predisposed to exploit, what the Chinese subsidiary has to offer (such as labor, land, and raw materials, as well intangible assets such as market opportunities and political connections), rather than the methods that could be learned but are being ignored (such as local strategic alternatives and implementation tactics). Business operations in China tend to be extensions of the parent firm—branches are expected to be largely passive implementers of headquarters’ strategies, tactics, practices, procedures, and policies. The inevitable result is a conflict of purpose often leading to frustration, disillusionment, and resentment. While Chinese managers want foreign investment, managerial skills and techniques, and transfer of modern business technology, many also surely believe they have something to offer the organization globally. Chen (2003) predicts an inevitable convergence of best business practices.

Lee (1999) discusses why it is important for foreign firms entering China to learn about the local environment, and identifies numerous ways to do so, such as: (1) explicit objectives and reward systems that encourage gathering, sharing, and using knowledge; (2) flexible corporate policies that permit local adaptations; (3) human resource policies that emphasize training, placement, and job rotation of local managers; (4) an organizational culture that supports subsidiary participation; and (5) formal and informal communications that facilitate open information sharing. Only tangentially does she mention the importance of transferring knowledge back home where it can be incorporated into the institutional memory for future use. The opening of China’s markets has attracted an unprecedented level of foreign enterprise participation. Much of the gain sought by investing firms has been predicated

upon China's large market, cheap labor, and low manufacturing costs. Currently, however, China's economic development is approaching a level where it can become a serious global competitor in many industries. As China develops its products, markets, and technologies, Western companies willing to enter and learn from Chinese business practices could potentially gain a competitive advantage by transferring new knowledge to operations elsewhere in the world.

## 2.2 The FIE context

Intel Corporation's investments in China show depth, breadth, and durability of organizational commitment to a particular region. In addition to a test and assembly plant for memory products, and a dozen marketing offices, the company also operates the Intel Architecture Development Center, which works with Chinese software developers, and the Intel China Research Center to access what Intel describes as a "deep pool of talented scientists and engineers" (Uimonen, 1998). While claims of commitment may be common among corporations, Intel's sincere dedication to fostering knowledge transfer is further shown by a US\$200,000 award to Beijing's Tsinghua University to enhance its e-business curriculum ("Intel Helps Establish e-Business Projects at Tsinghua University," 2000). Certainly these are not merely altruistic donations but long-term investments reflecting confidence in future commercial prospects.

We believe that foreign invested enterprises (FIEs), as an overall category of organizations, provide a strong source for modeling creation, sharing, and utilization of knowledge within transnationals. Much has been written about the broad array of global inter- and intra-organization relationships, such as joint ventures, wholly owned foreign enterprises, outsourced contract manufacturers, strategic alliances, licensing agreements, and other types of cross-border partnering. Besides being discrete structures, this *mélange* of forms can also be seen as a corporate globalization process that we refer to as a "collective transnational strategy." In the case of FIEs, the foreign partner provides the financial investment but either member (or both) can provide technology, markets, management expertise, and other resources. Following this reasoning the overall question of interest in this paper is:

"How can collective transnational organizations become 'global learning organizations' that transfer knowledge freely across borders?"

Recent research demonstrates the value to organizations of enacting collaborative strategies in the transfer of knowledge between different business units (Anand & Khanna, 2000; Kale & Singh, 1999). Studies have also examined how inter-organizational relations can improve a company's ability to compete globally by transferring unique managerial, marketing, and manufacturing knowledge, and by combining differing skills, knowledge, and cultures (Inkpen, 1998). A central premise underlying this paper is that foreign invested enterprises in China can provide a unique insight into the requirements for knowledge creation and sharing among all of the entities in a truly global organization.

Most of the research to date on knowledge transfer emphasizes the structures of subsidiary, partner, or joint venture operations necessary to facilitate these transfers. For instance, Lyles and Salk (1996) measured knowledge acquisition by examining the extent to which international joint ventures acquire concepts from the foreign parent across a wide array of areas (new technological expertise, new marketing

expertise, product development, knowledge about foreign cultures and tastes, managerial techniques, and manufacturing processes). They found that knowledge acquisition depends largely on the capacity to learn, with tacit knowledge contributing more to performance than explicit technical knowledge. But like most studies addressing knowledge transfers, the flow of proficiencies is based upon a static paradigm of “joint venture as student” and “foreign parent as teacher.” Addressing their study’s shortcomings, they suggest that future research assess knowledge acquisition by all stakeholders.

We propose that globalization will create new business practices that vastly improve universal standards within the firm. Of course, there are conditions where universal standards will not be appropriate, given local cultural norms or marketing needs. We contend that globalization pushes transnationals toward increased discovery, development, and dissemination of best practices between contributors (“teacher”) and beneficiaries (“student”), regardless of where these roles might occur in the organizational hierarchy, function, business, or geography. The uniformity and success of these organizational practices, processes, and products across various national settings should result in the emergence of truly global best practices. We recognize that this is a radical perspective but believe it is one that is critical to examine, especially in light of the “inappropriate parochialism” common to much of the recent globally irrelevant research (Boyacigiller & Adler, 1991: 278).

### 2.3 The learning context

General Motors coordinates its manufacturing process through the company’s North American Project Center in Michigan. The center functions as a clearinghouse that evaluates the lean processes used at low-volume sites in China and applies them worldwide at other GM plants. A Web site is used for organization-wide communication of lessons learned from its global experiences (Sorge, 2000). Millions of dollars in savings have been realized by implementing manufacturing systems in the U.S. that were invented in Chinese research laboratories (Green & Zimmerman, 2002). This requires more than publicly posting cognitively understandable information.

Polanyi (1966) distinguished between explicit information (“know-what”) that can be articulated and tacit knowledge (“know-how”) that is embedded in individual experience and contains some of our most important knowledge. Contrasted with this stark Western focus on the “what” and “how” of learning is the Eastern Confucian emphasis on relationships, or “know-who.” While it is intuitive to envision the control of knowledge resting with the “knower-giver,” Nonaka and Takeuchi (1995) point out that it is the recipient, as in the GM example above, who decides the value of new information. They go on to provide the metaphor of a “knowledge spiral” that achieves deeper levels of understanding with each iteration, blending the factors envisioned by alternating between explicit and tacit knowledge while cycling between the members of each knowledge dyad. While some local information is only useful in the geographic area of its formation (such as local laws, customs, and languages) other types of locally crafted knowledge may be applicable across multiple geographic contexts and can be a source of global strategic advantage (Gupta & Govindarajan, 1991; Kogut & Zander, 1992; Nobel & Birkinshaw, 1998).

Another example is Japan’s Jusco Department Store. Seeking to translate the individual experiences of its managers into collective knowledge that supports

organizational problem-solving, and to increase coordination across units, Jusco moved away from its traditional structure to one in which regional managers from across China report directly to the managing director. The top management team, which meets regularly to discuss lessons learned and communicate solutions across the organization, has been deliberately structured to include representatives from both China and Japan. The intent is to transfer individual experiences to an organizational *caché* of decision-making and strategic knowledge (Lee, 1999).

These examples demonstrate not just isolated past successes but, we argue, are indicators of things to come. We propose that companies willing and able to learn from their Chinese operations, and apply those lessons globally, will develop a larger stock of knowledge, both tacit and explicit, and will thereby build up their social capital. In this model, local Chinese operations would freely offer knowledge to be adapted directly by other subsidiaries, as well as by headquarters. All company units would effectively integrate local knowledge with headquarters-initiated, corporation-wide practices and competencies, to become truly cosmopolitan.

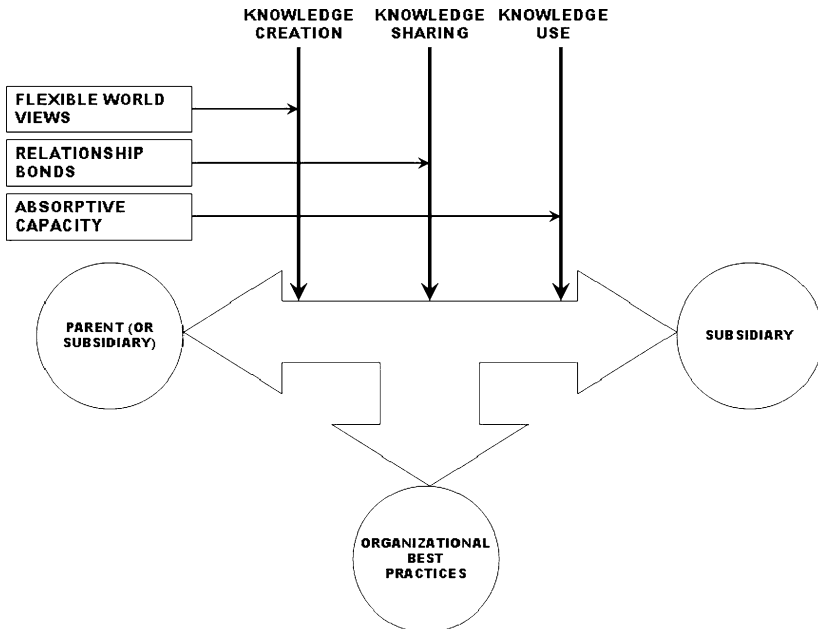
### 3 The proposed model

A truly transnational organization (heterarchy) encourages bi-directional knowledge flows to and from parent and subsidiaries and throughout the rest of the organization's system. The model we propose, outlined in Fig. 1, hypothesizes that transferring best practices between subsidiary and parent, and between organizational units, requires three activities: creating, sharing, and using knowledge. We synthesize the relevant extant literature on organizations to further develop the model and the propositions that derive from it.

#### 3.1 Organizational knowledge creation and flexible world views

Hu Mao Yuan, First President of Shanghai Automotive Industry Corporation (China's largest automobile manufacturer), attributes General Motors' success in China to the American company's ability to listen and learn from the local partner in its Shanghai General Motors joint venture (Kraar, 1999). Hu also attests to the benefits of the close personal relationships formed between top-level managers from the U.S. and Shanghai. In contrast, Cisco Systems has continued to close Chinese operations and cancel sourcing contracts in favor of Mexican projects where it pays four times the labor costs incurred in China. Cisco's failure in China has been directly tied to its inability to form close relationships with Chinese partners. This limited its activities to arms-length transactions and resulted in a lack of coordination and responsiveness. The company, believing it far easier to form close relationships in the West, where partners are geographically and culturally closer and presumably hold similar world views, continues to hope that shorter delivery cycles and quicker information flows will offset the significant cost disadvantage resulting from failure to form intimate relationships in China (Contractor & Lorange, 2002).

Most new ideas are in reality new perspectives, so that knowledge is created by thinking in new and fresh ways. Companies and individuals who stubbornly keep their core assumptions and routines engage in incremental change—what Argyris and Schön (1996) refer to as “single-loop learning”—in which an organization



**Fig. 1** Proposed model of global knowledge transfer within transnationals

adapts within existing knowledge routines and structures. A detrimental aspect of this kind of “learning by doing” is that it does not contribute to organizational renewal (Cohen & Levinthal, 1990). On the other hand, those who value knowledge are willing to beg, borrow, and steal to acquire it. They not only reject the “not-invented-here” attitude but are open and receptive to challenging their own existing world views. Argyris and Schön refer to “double loop learning” as acceptance of a new way of conducting business wherein the involved parties mutually examine and discuss the underlying assumptions of the business or its processes (1996). Global experiences provide new perspectives that challenge existing mental paradigms. Like athletes that cross-train, managers exposed to different ways of thinking begin to imagine new approaches to their business systems. This yields the following proposition:

**P<sub>1</sub>:**Organizational knowledge creation will increase when members have flexible world views.

The emerging “social capital” literature has attempted to explain how communities of knowledge systems, comprising strong social networks bound by shared norms and reciprocity, create greater sustainable competitive advantage through organizational knowledge creation. Self-selected, informal groups bound by shared expertise, passion for a particular activity or interest, or mutual goals, create social capital by providing informal mechanisms that both promote and permit knowledge flows within the organization (Ghoshal, Korine, & Szulanski, 1994; Gupta & Govindarajan, 2000). These “communities of practice” tend to be loyal and dedicated to the group and its members. As an example of a commitment to flexible world views, human resource policies must recruit and place, train and retain, and

rotate the best minds available for the task, wherever they might come from—including indigenous managers. Such a diverse community brings different perspectives, and hence creates new knowledge, but also requires greater trust among its members.

An important source of the current interest in trust is an increased focus on relationships in business, especially intra-organization cooperation. In fact, Fukuyama defines social capital as “the ability of people to work together for common purposes in groups and organizations” (1995: 10). For him, trust has a major role in economic development because it enables cooperative institutional arrangements to replace markets as the new value creators. Child (2001) also points out that trust is important for teamwork and joint knowledge creation, prevention of opportunistic behavior, and for the creation of numerous other benefits to global collaboration. Contrasting the cultural bases for trust found in the East with the greater use of institutional bases of trust found in the West, he stresses the importance of developing strong personal bonds—what the Chinese call “relationship building” (Child, 2001: 283).

One of the academic streams in the burgeoning social capital field is “intellectual capital.” In reality, this is a return to Schumpeter’s “creative destruction” (1942), which emphasized the role of the entrepreneur as innovator. The essence of capital and profits is the ideas and knowledge generated in the minds of entrepreneurs. Certainly, the Chinese are to be counted among the world’s successful entrepreneurs. The cornerstone for success of an internationalized firm is the continual development of intellectual capital gathered from an assortment of businesses and countries (Downes & Thomas, 2000). We thus propose that a flexible world view, by bringing different perspectives, generates new knowledge.

### 3.2 Organizational knowledge sharing and relationship bonds

Nestlé’s success in Russia and Vietnam is directly tied to its ability to transfer and apply the management knowledge gained in its Chinese operations (Luo, 2000). While many of the cases employed in the study of knowledge transfer concentrate on organizations in “high-tech” industries, Nestlé is in the “high-touch” category—attempting to produce and market products that flow past the taste buds and into the stomachs of people of different cultures around the globe. While quick management rotations are the norm at many Western multinationals, Nestlé expatriates stay on station for many years for the express intent of forming and nurturing the close relationships required to understand local cultures (Marcom, 1990).

Previous research finds that social networks smooth the exchange of new knowledge within organizations (Tsai, 2000; Tsai & Ghoshal, 1998). The ability of a firm to compete globally improves by transferring unique managerial, marketing, and manufacturing knowledge, and by combining complementary skills, knowledge sets, and cultures. Fundamental to such learning is a level of trust that encourages and enables teamwork and collaboration (Hamel, 1991; Inkpen, 1998). This requires the firm to focus on intra-organizational relationships, especially building tighter bonds, and leads to the following proposition:

P<sub>2</sub>: Organizational knowledge transfer across organizational units will increase with tighter relationship bonds between distant organization members.

Nonaka and Takeuchi (1995) argue that traditional (principally Western) organization hierarchies are inadequate for creating deeper types of knowledge, such as

tacit knowledge. In practice, however, it is not only structural incompatibility that prevents the identification and transfer of knowledge within organizations. Szulanski (1996) found that differences in intra-firm performance are partly explained by inability to internally share best practices. He concluded that firms have difficulty transferring knowledge because they do not know how to do so. He identified four reasons for such “internal stickiness”: (1) the characteristics of the knowledge, (2) its source, (3) the recipient, and (4) its context. For instance: practices that are identifiable, proven, and generalizable are easier to transfer (characteristics); trustworthy and reliable sources are more credible (source); recipients with *absorptive capacity* are willing to experiment with new practices (recipient); and finally, organic structures, systems, and cultures will tend to facilitate such transfers (context).

Informal communications appear to encourage more innovative attempts and the sharing of their results. Network theory posits that strong ties and tightly coupled systems have reciprocal relationships and mutual commitment that facilitate information sharing. In Granovetter’s (1973) view, it is concrete social relations that are mainly responsible for the production of trust in the economic sphere. Hence, the strength or weakness of ties between organization members, and the depth of member’s personal relationships, is important. Strong ties create a foundation for bonding and, over time, greater mutual trust. These strong bonds are more often associated with persons (or organizations) in close social proximity. Unfortunately, the combination of strong ties, homogeneity of group member characteristics, and close social proximity can often result in “groupthink” that reduces motivation to seek out and integrate different types and sources of information. The result is pressure to conform to uniform business practices, which discourages on-site experimentation, adaptation, and absorption of local practices.

On the other hand, distant and infrequent relationships provide access to diverse types of information that facilitate the learning process between individuals, thereby creating new knowledge (Cohen & Levinthal, 1990). Examining Chinese joint ventures, Shenkar and Li (1999) found that firms entered into these distant relationships precisely for the purpose of acquiring complementary knowledge. Moreover, distant and heterogeneous relationships are actually more efficient because unique elements make the overall system less redundant. Finally, the loosely coupled systems that develop are more flexible, adaptive, and resilient if they comprise sub-units that interact with each other but still retain their independence (Weick, 1976). It is generally acknowledged that empowerment facilitates greater experimentation and risk-taking, and that shared decision-making enables both parties to contribute equally to new procedures and processes.

While the efficiency and diversity of far-flung networks are vital to knowledge transfer, closeness and familiarity are equally essential. Huber (1991) proposed that the structures most conducive to sharing knowledge have units that are intimately connected to one another. Such intimate relationships are more conducive to knowledge transfers than casual relationships. In his work on emotional intelligence, Goleman (1998) suggests several ways in which individuals can build intra-organizational bonds. They can: (1) seek out relationships that are mutually beneficial; (2) build close relationships; and (3) make and maintain personal friendships. We consider this ardent intimacy to be in contrast to what Szulanski (1996) identifies as the arduous, exhausting relationships that are one of the major contributors to the inability to transfer knowledge that he calls “stickiness.”

Fundamental to the transfer of best practices is type of ownership structure, rewards, and control. A loosely coupled heterarchy is preferable to a tightly coupled hierarchy that tends to be more rigid and bureaucratic. Firms need to develop the learning capacities of all their individual units, foster closer relationships between them, and systematically discover and communicate best practices. This concept follows the typology proposed by Higgins and Kram (2001), where the term “intimate distant” defines a relationship that combines closeness with diversity in the participants’ social spheres.

### 3.3 Organizational knowledge use and absorptive capacity

Reflecting the profitability of its Chinese subsidiary, the Anglo-Dutch company Unilever intends to be one of the first foreign firms to list its FIEs on the Shanghai Stock Exchange. The action is not designed only as an equity funding maneuver but also as a method of solidifying and defining the Chinese elements of its operations (Jones, 2003). Unilever’s unparalleled success in China has been directly attributed to the organization’s knowledge transfers within and among its units. The company’s deliberate localization strategy has successfully employed Chinese native knowledge by incorporating herbal and other natural ingredients into its products. More important, however, has been the ability of the Chinese operation to successfully adopt the management processes and strategies developed by Hindustan Lever, a separate Unilever Indian subsidiary, which has allowed the company to expand sales beyond China’s cities and at the same time increase the price points for its China brands (Jacob, 2000).

A further condition for effective knowledge transfer is thus the willingness and ability of the organization’s units to adapt and apply new knowledge even if it comes from outside the organization’s or unit’s boundaries. An organization’s capacity to use new knowledge depends on its receptivity or “intent to learn” (Hamel, 1991). Cohen and Levinthal (1990) develop the concept of *absorptive capacity* to describe this phenomenon. This leads to the following proposition:

P<sub>3</sub>: Organizational knowledge use will increase with greater absorptive capacity in organization units.

Zahra and George reconceptualize the concept of absorptive capacity “as a dynamic capability pertaining to knowledge creation and utilization that enhances a firm’s ability to gain and sustain a competitive advantage” (2002: 185). They propose that a firm’s absorptive capacity increases with exposure to diverse yet complementary knowledge. Hence, an organization’s “absorptive capacity” depends on the relationships between, and the knowledge possessed by, all members. Utilization is rooted in the “know-why,” the conceptual understanding of an experience (Kim, 1993) that allows the distillation and reformulation of knowledge in its new context. This requires routines, processes, and mechanisms that can transform and exploit knowledge obtained from inter-organizational collective relationships such as consortia, alliances, and joint ventures. In all of these cases, organizations must make a deliberate effort to create and use new knowledge. The same is true for intra-organization knowledge transfers: core competencies of the future develop not so much from strategic physical or financial resources as from the leveraging of transferred knowledge which, in itself, is constantly redefined by the ongoing creation, sharing, and use of new understandings (Bontis, 1996; Lei et al., 1996).

## 4 Conclusion

We have argued in this paper that effective intra-organizational transfer of knowledge and best practice requires: (1) the creation of social capital, (2) between members in a collective transnational strategy, (3) who are willing and able to absorb new knowledge. This requires diverse perspectives, greater levels of trust, the building of tighter interpersonal bonds, development of active networks, receptivity to learning, and shared norms of reciprocity. Knowledge transfer is facilitated by building bonds between individuals and organizational units over extended periods of time. Central to this construct is trust, which can facilitate the sharing of knowledge regardless of where it originates. Trust, however, has a paradoxical quality, which is “fragile toughness.” It is tough in the sense that once it is established it can help parties—across country, cultural, or corporate boundaries—to endure difficult times, but it is fragile in the sense that once it is betrayed it is never again the same.

The conditions described above can be accomplished by carefully designing human resource policies to facilitate norms of reciprocity, by rewarding business units that are committed to developing intra-organizational relationships, and by cultivating collaboration—all within an organizational culture that encourages the creation, sharing, and use of knowledge throughout the firm. Future empirical research needs to be conducted into the specific types of relationships and activities that increase effective knowledge transfer in multiple directions within transnational organizations.

We hope that this paper provides an impetus for the further examination of this phenomenon by setting forth an initial framework of propositions that synthesize and build on the extant and still developing literature on global learning organizations. We conclude by offering the following specific questions to be explored in the future development of our model:

1. To what extent, and under what conditions, are practices in host countries adapted to, and adopted by, companies in the home country?
2. What facilitates the global transfer of knowledge and core competencies within transnational firms?
3. How can reciprocity between foreign subsidiaries and headquarters, as well between subsidiaries, be increased?
4. In what ways are business practices within transnationals and their subsidiaries evolving toward increasingly uniform standards?

**Acknowledgements** This study is funded in part by the Norwegian School of Management BI in cooperation with Fudan University (Shanghai); The University at Albany, State University of New York; and the U.S. National Science Foundation. We are grateful for comments provided by George Farris, Mingfang Li, and other participants of the Zhejiang University U.S.-China Mini Workshop on Technology and Innovation.

## References

- “Intel helps establish e-business projects at Tsinghua University.” (2000). *People’s Daily*, October 25, [http://fpeng.peopledaily.com.cn/200010/25/eng20001025\\_53583.html](http://fpeng.peopledaily.com.cn/200010/25/eng20001025_53583.html) (accessed April 15, 2004).
- Anand, B. N., & Khanna, T. (2000). Do firms learn to create value? The case of alliances. *Strategic Management Journal*, 21, 295–315.

- Argyris, C., & Schön, D. (1996). *Organisational learning II: Theory, method and practice*. Reading, Mass: Addison Wesley.
- Barkema, H., Bell, J., & Pennings, J. (1996). Foreign entry, cultural barriers and learning. *Strategic Management Journal*, 17, 151–166.
- Bartlett, C., & Ghoshal, S. (1999). *Transnational management: Text, cases, and readings in cross border management*. New York: McGraw-Hill.
- Bierly, P., & Chakrabarty, A. (1996). Generic knowledge strategies in the U.S. pharmaceutical industry. *Strategic Management Journal*, 17, 123–135.
- Birkinshaw, J., & Hood, N. (2001). Unleash innovation in foreign subsidiaries. *Harvard Business Review*, 79(3), 3–8.
- Bontis, N. (1996). There's a price on your head: Managing intellectual capital strategically. *Business Quarterly*, 60(4), 40–47.
- Boyacigiller, N. A., & Adler, N. J. (1991). The parochial dinosaur: Organizational science in a global context. *Academy of Management Review*, 16, 262–290.
- Chang, S. J. (1995). International expansion strategy of Japanese firms: Capability building through sequential entry. *Academy of Management Journal*, 38, 383–407.
- Chen, M.-J. (2003). *Inside Chinese business: A guide for managers worldwide*. Boston, MA: Harvard Business School Press.
- Child, J. (2001). Trust – The fundamental bond in global collaboration. *Organizational Dynamics*, 29(4), 274–288.
- Cohen, W. M., & Levinthal, D. A. (1990). Absorptive capacity: A new perspective on learning and innovation. *Administrative Science Quarterly*, 35, 128–152.
- Contractor, F. J., & Lorange, P. (2002). The growth of alliances in the knowledge-based economy. *International Business Review*, 11(4), 485–502.
- Downes, M., & Thomas, A. (2000). Knowledge transfer through expatriation: The U-curve approach to overseas staffing. *Journal of Managerial Issues*, 12(2), 131–144.
- Friedman, T. L. (2000). *The lexus and the olive tree: Understanding globalization*. New York: Anchor Books.
- Fukuyama, F. (1995). *Trust: The social virtues and the creation of prosperity*. New York: Free Press.
- Ghoshal, S., Korine, H., & Szulanski, G. (1994). Internal communication in multinational corporations. *Management Science*, 40, 96–110.
- Goleman, D. (1998). *Working with emotional intelligence*. New York: Bantam.
- Granovetter, M. S. (1973). The strength of weak ties. *American Journal of Sociology*, 6, 1360–1380.
- Green, C., & Zimmerman, R. (2002). Science and technology policy in action: How GM created a global laboratory network. *Technology in Society*, 24(1–2), 77–82.
- Gupta, A. K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, 16, 768–792.
- Gupta, A. K., & Govindarajan, V. (2000). Knowledge flows within multinational corporations. *Strategic Management Journal*, 21, 473–496.
- Gupta, A. K., & Govindarajan, V. (2001). Converting global presence into global competitive advantage. *Academy of Management Executive*, 15(2), 45–58.
- Hamel, G. (1991). Competition for competence and inter-partner learning within international strategic alliances. *Strategic Management Journal*, 12, 83–103.
- Hannerz, U. (1992). *Cultural complexity: Studies in the social organization of meaning*. New York: Columbia University Press.
- Higgins, C., & Kram, K. (2001). Reconceptualizing mentoring at work: A developmental network perspective. *Academy of Management Review*, 26, 264–288.
- Holton, R. (2000). Globalization's cultural consequences. *Annals of the American Academy of Political and Social Science*, 570, 140–152.
- Huber, G. P. (1991). Organizational learning: The contributing processes and the literatures. *Organization Science*, 2, 88–125.
- Huntington, S. P. (1996). *The clash of civilizations and the remaking of world order*. New York: Simon & Schuster.
- Inkpen, A. C. (1998). Learning and knowledge acquisition through international strategic alliances. *Academy of Management Executive*, 12(4), 69–80.
- Jacob, R. (2000). A Chinese clean-up operation. *The Financial Times*, May 18, p. 18.
- Johanson, J., & Wiedersheim-Paul F. (1975). The internationalization of firms: Four Swedish cases. *Journal of Management Studies*, 12(3), 305–322.
- Jones, A. (2003). Unilever eyes China IPO. *The Financial Times*, October 3, p. 31.

- Kale, P., & Singh, H. (1999). Alliance capability and success: A knowledge-based approach. *Proceedings of the Fifty-ninth Annual Academy of Management Conference*. Chicago, pp. BPS 01–06.
- Kim, D. H. (1993). The link between individual and organizational learning. *Sloan Management Review*, 35(1), 37–50.
- Kogut, B., & Zander, U. (1992). Knowledge of the firm, combinative capabilities, and the replication of technology. *Organization Science*, 3, 383–397.
- Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24, 308–324.
- Kraar, L. (1999). China's car guy. *Fortune*, October 11, p. 238.
- Lee, J. S. Y. (1999). Organizational learning in China. *Business Horizons*, 42(1), 37–44.
- Lei, D., & Hitt, M. A., & Bettis, R. (1996). Dynamic core competencies through meta-learning and strategic context. *Journal of Management*, 22(4), 549–569.
- Levitt, T. (1983). The globalization of markets. *Harvard Business Review*, 61(3), 92–102.
- Luo, Y. (2000). Dynamic capabilities in international expansion. *Journal of World Business*, 35(4), 355–378.
- Lyles, M. A., & Salk, J. E. (1996). Knowledge acquisition from foreign parents in international joint ventures. *Journal of International Business Studies*, 27, 877–904.
- Marcom, J. (1990). Feed the world. *Forbes*, October 1, 110–114.
- Nobel, R., & Birkinshaw, J. (1998). Innovation in multinational corporations: Control and communication patterns in international R&D operations. *Strategic Management Journal*, 19, 479–496.
- Nonaka, I., & Takeuchi, H. (1995). *The knowledge-creating company: How Japanese companies foster creativity and innovation for competitive advantage*. London: Oxford University Press.
- Polanyi, M. (1966). *The tacit dimension*. London: Routledge and Kegan.
- Porter, M. E. (1990). *Competitive advantage of nations*. New York: Free Press.
- Schumpeter, J. A. (1942). *Capitalism, socialism and democracy*. New York: Harper.
- Shenkar, O., & Li, J. (1999). Knowledge search in international cooperative ventures. *Organization Science*, 10, 134–143.
- Sorge, M. (2000). GM manufacturing wants to be common. *Automotive Industries*, 180(2), 75.
- Szulanski, G. (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17, 27–43.
- Tsai, W. (2000). Social capital, strategic relatedness and the formation of intraorganizational linkages. *Strategic Management Journal*, 21, 925–939.
- Tsai, W., & Ghoshal, S. (1998). Social capital and value creation: The role of intrafirm networks. *Academy of Management Journal*, 41, 464–476.
- Uimonen, T. (1998). Intel's Beijing lab to explore internet. *Computerworld Hong Kong*, May 8, <http://www.cw.com.hk/News/n980508002.htm> (accessed April 15, 2004).
- Weick, K. E. (1976). Educational organizations as loosely coupled systems. *Administrative Science Quarterly*, 21, 1–19.
- Zahra, S. A., & George, G. (2002). Absorptive capacity: A review, reconceptualization, and extension. *Academy of Management Review*, 27, 185–203.