KNOWLEDGE TRANSFER WITHIN WESTERN MULTINATIONALS' SUBSIDIARY UNITS IN CHINA AND FINLAND

THE IMPACT OF HEADQUARTER CONTROL MECHANISMS, SUBSIDIARY LOCATION AND SOCIAL CAPITAL

Helsingfors 2004
Knowledge Transfer within Western Multinationals' Subsidiary Units in China and Finland: The Impact of Headquarter Control Mechanisms, Subsidiary Location and Social Capital

Key words: Knowledge Transfer, MNC, Social Capital, Headquarter Control Mechanism, Subsidiary Location, HRM, China

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Li Li
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I INTRODUCTION

1.1 The Study

Knowledge, knowledge transfer, competence development in multinational corporations (MNCs) and related issues have been studies both separately and in relation to each other from different perspectives within different disciplines for a long time (Boekema et al., 2000). The focus on knowledge is shared by several recent theoretical perspectives such as the resource-based and the knowledge-based views of the firm. Both of the theories see knowledge as the most important resource and the one with the greatest potential for providing sustainable competitive advantage for the firm (Grant, 1996; Davenport and Prusak, 1998). At the core of these theories is a conception of firms as systems producing and processing knowledge (Schulz, 2001). It suggests that firm specific knowledge development is dependent upon its competitive capabilities and its ability to access and transfer such capabilities. Hence, the ability and practices of how MNCs manage knowledge transfer has become one of the central issues of research in the international management literature.

From a network perspective, MNCs are commonly perceived as networks of geographically dispersed units that exchange capital, products, and knowledge (Ghoshal and Bartlett, 1990; Schulz, 2001). The network-based view of the MNC posits that the differentiated MNC has greater capacity of processing and mobilizing knowledge in the creation and renewal of competitive advantage for its ability to access knowledge residing in its internal as well as external networks (Hedlund, 1986; Bartlett and Ghoshal, 1989). Although it is generally accepted that MNCs are better able to exploit knowledge more efficiently internally than would be possible through external market mechanisms (e.g. Hedlund, 1986; Bartlett and Ghoshal, 1986), effective transfer of valuable organizational knowledge is still likely to be problematic and laborious, especially within diversified and differentiated MNCs (Bartlett and Ghoshal, 1992; Hedlund, 1994; Lord and Ranft, 2000).

A well-known argument in the network-based view of the MNC posits that knowledge and best organizational practices could emerge anywhere in the MNC’s network (Bélanger et al., 1999). Every part of the MNC can become the source of knowledge with potential for utilisation elsewhere in the MNC-internal network. In other words, both headquarters and subsidiaries are
dependent on other nodes of the network for knowledge and other types of resources. This has led to a renewed conceptualisation of how the strategic role of MNC units should be conceived. In the differentiated MNC, given the important contributory role of subsidiaries in the MNC’s value creation and competence development, recently, there is a shift of interests from a headquarter-centred approach to a subsidiary-centred approach. Knowledge transfer is no longer simply viewed as a one-way movement of methods from headquarters to foreign subsidiaries; “reverse knowledge transfer” (Håkansson and Nobel, 2001) from subsidiaries to the headquarters and other corporate units is receiving increasing research attention. From this standing point, this research aims to study knowledge transfer from a subsidiary’s perspective; it investigates both knowledge transfers to and out of the subsidiary.

Knowledge transfer cannot occur without the existence of systems and mechanisms that enable and facilitate the process. Researchers point out that MNCs should increasingly use subtle or informal mechanisms to retain control over those subsidiaries that have developed unique or valuable knowledge (e.g. Birkinshaw and Hood, 1998). Recent research suggests that the superiority of the differentiated MNC in acquiring and producing knowledge stems from the existence of multiple governances/mechanisms of knowledge transfer (Kogut and Zander, 1992; Almeida et al., 2002). Knowledge transfers taking place within MNCs are likely to be subject to organizational influences (Kostova, 1999). Research has identified a number of control and coordination mechanisms used by MNCs that enhance and encourage efficient transfer and integration of knowledge with in the MNC (Ghoshal and Bartlett, 1988; Lord and Ranft, 2000). Nevertheless, there is still a lack of understanding of the nature and content of these processes and the specific mechanisms that enhance or impede efficient transfer and integration of capabilities within the MNC. Few studies have systematically examined the impact of specific headquarter control mechanisms on knowledge flows in MNC units. By investigating a range of organizational mechanisms that may positively influence a subsidiary’s propensity to undertake knowledge transfers to other parts of the corporation, this research aims to contribute to our understanding on what control mechanisms MNC headquarters may choose to control and enhance knowledge flows across different units from a subsidiary’s point of view.

Previous literature shows that the country of location and the nationality of the subsidiary affect subsidiary knowledge transfer in multiple ways (Frost, 2001; Rugman and Verbeke, 2001). Some work has been conducted on how subsidiary location may affect motivational dispositions of the knowledge recipients (e.g. Gupta and Govindarajan, 2000). It is suggested that knowledge of
subsidiaries located in economically less advance countries may be perceived as low in commercial value, such a negative ‘country-of-origin’ effect may impact on other MNC units’ propensity to engage in knowledge transfer with the subsidiary. However, few efforts have been at examining how, controlling for other factors, the location of the focal MNC subsidiary impacts on knowledge transfer. Using MNCs’ subsidiaries located in China and Finland, in this thesis the impact of subsidiary location on the motivational dispositions of knowledge receiving units to value and accept knowledge from subsidiaries located in economically less advanced countries is examined.

The MNC network facilitates knowledge flows because it functions as a mediator and repository of knowledge providing necessary environment and structure for resource exchanges, however, the extent to which knowledge transfers actually take place may be influenced and determined by relational aspects of network relationship between the units. To facilitate greater cross-national cooperation and coordination as well as the flow of valuable knowledge across geographically dispersed MNC units, both structural and relational attributes of network relationships are important resources for the creation and transfer of knowledge in the MNC. Nahapiet and Ghoshal (1998) label these network resources as social capital. In their conceptualisation, social capital comprises both the network and the assets which may be mobilized through that network. They suggest that social capital is a multi-dimensional construct containing three distinct yet interrelated attributes which in their terms identified as the structural, relational and cognitive dimensions of social capital. They posit that each of these dimensions facilitates the combination and transfer of knowledge. These assumptions are further validated and supported by Tsai and Ghoshal’s (1998) empirical study.

Nevertheless, given the complexity and variation of network relationships in MNCs, the link between social capital and knowledge transfer should still be further empirically tested and amended. Tsai and Ghoshal (1998) examined the social capital of business units within the corporation as a whole in a single country setting. Building on Tsai and Ghoshal’s (1998) work, an aim of this research is to further investigate the impact of social capital on cross-national knowledge transfer between dyads of individual MNC units – the level at which knowledge transfer actually takes place. It focuses on interunit knowledge transfer among MNC units located in different countries.
In the context of the MNC, subsidiary units are embedded in multiple networks consisting of both internal and external relationships of ties. In the subsidiary's respective host country, those links to external local market ties are crucial sources for knowledge and other resources exchanges. Hence, learning from both internal and external sources is an important process of the MNC’s overall competence development. Yli-Renko et al.’s (2001) study find that social capital is positively related to a young firm’s knowledge acquisition from local market relationships. As a set of network resources, social capital is rooted in relationships. These network relationships may differ in their types, e.g. MNC-internal network vs. external network, as well as in their cultural and geographical distances, e.g. when knowledge exchange parties in the relationship are located in different countries. The positive link between social capital and knowledge transfer may not hold in the same strength in these different contexts. As an attempt to examine potential differences in the effects of social capital on knowledge transfer in inter-unit and inter-firm relationships, I focus on dyadic relationships to examine whether and how do the effect of the cognitive and relational dimensions of social capital on inward knowledge transfer to subsidiaries differ in inter-organizational and intra-organizational context.

It should be noted that cross-national interunit knowledge transfer within the differentiated MNC is subject to cultural influences. Culture creates frictions in knowledge sharing processes, and cultural factors may influence a firm’s ability to implement knowledge organizational-wide successfully (Davenport and Prusak, 1998; Ford and Chan, 2003). In spite of a number of studies in which cultural distance is included as a potential factor influencing knowledge transfer (e.g. Simonin, 1999a, 1999b; Håkanson and Nobel, 2001), cross-cultural issues related to knowledge transfer is still an area that has received fairly limited research attention. In some past studies, measures of cultural distance (Hofstede, 1980) have often been treated as explanatory variables of knowledge transfer while our knowledge of what problems the national culture actually creates in cross-national knowledge transfer process is limited. Using a case study setting, this thesis attempts to investigate perceived problems involved in transferring management of people practices to Western MNCs’ business units in China from a cultural perspective. Implementing HRM practices and competencies in foreign business units can be viewed as a transfer of managerial knowledge. As an exploratory study, this research also aims to examine the process of such transfer by focusing on several mechanisms and tools used in the transfer. The case study setting enables to explore the influence of specific cultural values and their implications in the process of transferring human resource management practices to China.
1.2 The Research Objective of the Thesis

While there is a considerable amount of research devoted to discover a range of factors influencing the transfer of knowledge in the MNC, our knowledge of the transfer of knowledge in MNCs is still far from complete. To address some of the research gap discussed above, the objective of the research is to gain a better understanding of how subsidiaries engage in knowledge transfer in MNCs. More specifically, the thesis aims to:

1. explore the impact of a range of previously less examined factors (i.e. headquarter control mechanisms and subsidiary location) on the extent to which subsidiaries engage in company-internal knowledge transfer;
2. examine the influence of social capital variables on knowledge transfer in dyadic relationships between foreign-owned subsidiaries and their sister and patent units;
3. provide some initial insights into potentially different effects of trust and shared vision in intra-organizational vs. inter-organizational relationships;
4. explore means and mechanisms used in transferring human resource management practices to Western MNCs’ business units in China from a cultural perspective.

1.3 The Structure of the Thesis

The thesis has five chapters. The current introduction chapter presents the objective of the thesis and outlines the research scope and aim of research. In the following chapter, previous research in the MNC literature that includes knowledge transfer aspects is reviewed. The review of literature is limited to those aspects addressed in the thesis. First, the development of the concept of knowledge and knowledge transfer in different streams of literature is discussed. Second, theoretical perspectives, literature on factors and determinants of MNC knowledge transfer, and literature on the theory of the MNC as the knowledge-processing firm are discussed. Finally, I discuss those underlying theories based on which the analyses of the individual papers included in the thesis are carried out.

In the third chapter, the empirical base and the quantitative and qualitative research methods used in the thesis are presented. A summary of the empirical studies is provided in chapter 4. In the last chapter I discuss the main findings of the thesis in relation to each of the individual papers, as well as managerial implications and theoretical contributions to the international
management literature on knowledge transfer in MNCs. The limitations of the thesis and avenues for future research are also addressed.
II PREVIOUS RESEARCH

2.1 Knowledge and Knowledge Transfer Conceptualised

Scholarly research devoted to the organizational dimensions of knowledge creation and transfer in the firm construes knowledge as a set of capabilities that enhance the chances for growth and survival (Kogut and Zander, 1992). In the literature, some researchers look at knowledge in a broadly defined way as resources that provide a sustainable advantage for the firm (Davenport and Prusak, 1998), whereas others pay more attention to various classes of more specialised organizational competencies (Lyles and Salk, 1996).

A commonly adopted operationalisation of knowledge categorises organizational knowledge into information and know-how. For example, in Kogut and Zander’s (1992) conceptualisation, know-how is defined as the accumulated practical skill or expertise that allows one to do something smoothly and efficiently, while information or “know-what”, is used to represent more articulable dimension of knowledge. Another similar distinction has been drawn between explicit and tacit knowledge (Polanyi, 1966; Nonaka and Takeuchi, 1995). The degree of knowledge tacitness is based on the codifiability and complexity of knowledge analysed. This distinction between the explicit and tacit knowledge is important because it addresses two important dimensions of knowledge that are central to knowledge transfer research – the transferability and applicability of knowledge. As opposed to explicit knowledge, tacit knowledge is a crucial source of sustainable competitive advantage because it is difficult for competitors to imitate (e.g. Teece, 1998), yet, its idiosyncrasy, context embeddedness and ambiguity may make it resistant to clear communication, and hence reduce its transferability and appropriability to transfer (Grant 1996; Simonin, 1999a).

For the purpose of this research, I use Kogut and Zander’s (1992) conceptualisation of knowledge that incorporates both relatively tacit know-how and more explicit information.

Knowledge transfer is also an elusive concept difficult to capture. Along the development of the concept, several streams of literature have contributed to our understanding of different aspects related to this phenomenon. A literature search reveals that studies on knowledge transfer have examined a range of issues, including knowledge transfer processes and their outcomes, transfer
of knowledge in general as well as transfer of organizational practices, and intra-organizational and inter-organizational knowledge transfer.

The literature on the process of knowledge transfer sees the transfer as a process in which an organization recreates and maintains a complex, tacit set of routines in a new setting (Szulanski, 2000). Some studies have focused on knowledge transfer along stages and examined factors that are expected to correlate with difficulty at different stages of the transfer (Szulanski, 2000; Simonin, 1999a). Knowledge transfer in the stream of literature focusing on the outcome of knowledge transfer implies that the transfer results in the receiving unit accumulating or assimilating new knowledge (Zander, 1991). Some researchers focus on the degree to which knowledge has been internalised and institutionalised in the recipient (Kostova, 1999; Cummings and Teng, 2003). In the international management oriented literature, intra-organizational knowledge transfer is generally viewed as the movement of knowledge within the organization. It is conceptualised as the overall amount of know-how and information transmitted between units within the organization (Appleyard, 1996; Gupta and Govindarajan, 2000; Schulz, 2001; Tsai, 2001). Inter-organizational knowledge transfer has also been examined in the contexts of international acquisitions, joint ventures and strategic alliances, and vertical supplier-customer market relationships. Knowledge transfer inter-organizationally is often viewed as a learning process; it identifies various factors that influence the acquisition of knowledge from external partners (Inkpen, 2000; Håkanson, 1995; Bresman et al., 1999; Simonin, 1999b; Makino and Delios, 1996).

In this thesis, Szulanski’s (1996:28) definition – where knowledge transfer is seen as dyadic exchanges of organizational knowledge between a source and a recipient unit – is adopted. Following Gupta and Govindarajan (1991), this thesis focuses on two dimensions of knowledge flows: transfer volume and direction. From a subsidiary’s perspective, the thesis examines the extent of knowledge transfers to and out of the subsidiary. The term ‘outward knowledge transfer’ is used to denote the transfer of knowledge from the subsidiary to the headquarters and other corporate units, while ‘inward knowledge transfer’ is used to refer to the transfer of knowledge to the subsidiary from relationships of ties in the subsidiary’s corporate internal and external networks.

As for the success or effectiveness of knowledge transfer, Schlegelmilch and Chini (2003), based on a review of literature, suggest that effective knowledge transfer implies the recipient unit has
integrated the new knowledge in the unit’s context and has made use of it. They argue that the effectiveness of knowledge transfer processes depends on the perceived benefit (Foss and Pedersen, 2002) and the overall satisfaction with knowledge management (Becerra-Fernandez and Sabherwal, 2001). In other research works, Grant’s (1996) uses effective utilization to refer to the potential to turn knowledge into a competitive advantage-yielding capability, and Buckley and Carter (1999) note that an important requirement for effective knowledge transfer is for the source unit to recognize the knowledge requirements of the recipient unit in order to provide the recipient unit knowledge in an “appropriate” form (see Schlegelmilch and Chini 2003 for a review). Researchers taking a process view on knowledge transfer emphasize the key element in knowledge transfer is the extent to which the recipient acquires potentially useful knowledge and utilizes this knowledge in own operations (Minbaeva et al., 2003). This knowledge utilization leads to some behavioural change or/and the development of new ideas.

2.2 Theoretical Perspectives

Existing theoretical perspectives of the firm provide us many valuable insights on issues related to knowledge transfer activities within and between MNCs. The resource-based theory of the firm views the firm as a bundle of resources and capabilities that can be sources of sustainable competitive advantage for the firm (Amit and Schoemaker 1993). Firms strive for competitive advantage from both external industry and internal sources for such resources and capabilities (Gulati et al., 2000). The resource-based view posits that the stock of firm assets and capabilities is combinative and cumulative in nature (Helfat, 1997; Kogut and Zander 1992), the renewal and development of resource-based advantage through learning is essential.

Looking deeper into firm resources and capabilities, the knowledge-based view of the firm argues that the primary resource of the firm is knowledge (Grant, 1996; McEvily and Chakravarthy, 2002). Researchers adopting a knowledge-based perspective emphasize that it is the firm’s knowledge, as well as its ability to generate knowledge, that lie at the core of the firm (Spender, 1996). Therefore, a firm can be seen as a knowledge system (Grant, 1996; Tsoukas, 1996); the primary task of the firm is to integrate and to develop specialised knowledge residing in the firm (Grant, 1996). In the knowledge integration process, a firm’s knowledge is continually reconstituted through knowledge generating activities undertaken within the firm (Tsoukas, 1996).
Noting that a firm cannot possibly hold all necessary resources and knowledge to maintain itself, it relies interdependently on internal and external relationships of ties for resources. As a result, firms can be viewed as connected to each other in multiple networks of resources and other flows (Gulati et al., 2000). This shifts the research interests to a network-based view of the firm. Due to resource interdependency, a firm’s embeddedness in a network of ties becomes important in the acquisition of competitive capabilities (Andersson and Forsgren, 2000; McEvily and Zaheer 1999). Hence, the conduct and performance of firms are influenced in important ways by the strategic networks in which they are embedded (Gulati et al., 2000; Andersson and Forsgren, 2000). Within the context of an MNC, geographically dispersed subsidiaries embedded in diverse environment may possess knowledge that is unique and useful for other MNC units.

Each of these perspectives of the firm suggests that firm specific knowledge development is dependent upon its competitive capabilities and its ability to access, assimilate and accumulate such capabilities. Learning and transfer of knowledge with relationships of ties in multiple networks enable and facilitate firms’ value creation.

2.3 Literature on factors influencing knowledge transfer

Although the benefits and importance of knowledge transfer in the MNCs as the primary internal function providing a basis for competence development have long been realised, the activities of knowledge transfer vary significantly among different firms. Hence, how to manage knowledge transfer has become a central issue in international management research. Research aiming at explaining why organizations differ in terms of their abilities of managing knowledge transfer has brought attention to various organizational or contextual factors that either promote or impede the transfer of knowledge. Theoretical assumptions and empirical examinations of these factors influencing knowledge transfer can be organised according to three properties of the context within which knowledge transfer occurs: properties of the units, properties of the relationships between units, and properties of the knowledge itself (Argote et al., 2003).

With regard to properties of units, researchers emphasize that characteristics of both the source and the recipient unit affect the process of knowledge transfer. In a MNC-internal context, scholars observe that knowledge flows into or out of a subsidiary to be a function of several characteristics of the units involved in the transfer, for example, the motivational dispositions of the source and recipient units (Gupta and Govindarajan 2000), the ability to absorb and
assimilate transferred knowledge, or absorptive capacity of the recipient units (Cohen and Levinthal, 1990); values of source unit’s knowledge stock (Gupta and Govindarajan 2000); as well as the existence and richness of transfer mechanisms between the units (Subramaniam and Venkatraman, 2001).

Other researchers, while fully recognizing the importance of properties of the units, emphasize properties of relationships between units, such as closeness in the relationships in terms of high level of trust, shared understanding and normative integration (Hansen, 1999; Ghoshal and Bartlett, 1988; Ghoshal et al., 1994). As a relationship-related barrier, cultural and institutional distance between units may also create stickiness in internal knowledge transfer (Szulanski, 1996; Kostova, 1999). To cultivate a cooperative relationship and generating relational rents from relationship of ties, researchers suggest that frequent contacts and ongoing interactions are required (Håkanson and Nobel, 2001). A positive link between network embeddedness and knowledge acquisition has been increasingly acknowledged in the knowledge transfer literature (Andersson and Forsgren, 2000; Andersson et al., 2002; Rowley et al., 2000).

Still other researchers emphasize the different properties of knowledge, such as knowledge tacitness (Nonaka, 1994; Lam, 1997) and knowledge ambiguity (Simonin, 1999a), and knowledge complementarity (Buckley and Carter, 1999) that facilitate or act as knowledge-related barriers to knowledge transfer.

Looking at literature on inter-organizational knowledge transfer, researchers have identified a variety of context-related barriers such as difficulties related to learning in various contexts like in JVs and alliances (Inkpen, 1998; Lyles and Salk, 1996; Makino and Delios, 1996). These factors are, among others, goal disparity (Si and Bruton, 1999), organizational dissimilarity in terms of cultural distance (Håkanson and Nobel, 2001; Simonin, 1999b), knowledge compatibility or complementarity (Shenkar and Li, 1999; Lane and Lubatkin, 1998). Examining knowledge transfer in international acquisitions, Bresman et al.’s (1999) study shows that the transfer of knowledge is facilitated by communication, visits and meetings and by time elapsed since acquisition. Units in the differentiated MNC are located in different geographic areas, in this sense, cross-national interunit knowledge transfer in the differentiated MNC resembles interfirm knowledge transfer to a certain degree. This makes those studies conducted in an inter-organizational context highly relevant to the study of MNC-internal knowledge transfer.
2.4 MNC as an efficient vehicle for knowledge transfer

A well-accepted view in the literature on the existence and growth of MNCs argues that the very reason why MNCs exist is that they are efficient vehicles for creating and transferring knowledge across borders (Kogut and Zander, 1992, 1993). It is indicated that the ability to transfer knowledge effectively from one unit to another is an important factor explaining the emergence of the “interconnected” MNCs (Argote et al., 2000). The differentiated MNC is likely to have advantages relative to markets because they can transfer knowledge more readily across its interconnected units. In the view of Kogut and Zander (1992, 1993), MNCs’ advantages over markets are due to the existence of a set of higher-order organizing principles that facilitate the integration of the entire organization. The view that firms are superior to markets in moving knowledge across national borders has been supported by other researchers. For example, Tsai (2000, 2001) theoretically suggests that the firm is an attractive alternative to market for resource exchange because the existence of shared values and multiple organizing principles that facilitates knowledge sharing. New empirical evidence from Almeida et al.’s (2002) study indicate that the superiority of MNCs stems from the firms’ ability to use multiple mechanisms of knowledge transfer flexibly and simultaneously to move, integrate and develop knowledge.

Other researchers, however, have a different view on the effectiveness of knowledge sharing in inter- and intra-organizational contexts. For example, Schulz (2001) argues that because of geographic proximity and cultural similarity, certain aspects of knowledge transfer may occur more effectively between a MNC’s subsidiary and local firms than between a parent organization and its overseas subsidiaries. Although researchers have acknowledged and theoretically suggested that potential differences may exist in knowledge sharing and resource exchange between inter- and intra-organizational relationships, it has not yet been well examined empirically. Departing from the research on knowledge sharing and resource exchange either intra-organizationally or inter-organizationally, this thesis aims to further theorize and provide some initial insights into some aspects of potential differences in inter- and intra-organizational knowledge transfer.

2.5 Agency Theory and Headquarter Control Mechanisms

The increasing value of subsidiaries is conceived in terms of their potential and ability to create and develop knowledge and competence that contribute to the MNC’s overall competence development. The subsidiary’s knowledge should come into wider use by diffusing it in the
MNC. If valuable knowledge remains in, or only diffuses slowly from the individual MNC subsidiaries, opportunities for worldwide leverage are lost. Therefore, appropriate incentive measures and proper organizational means to encourage knowledge transfer out of the subsidiaries with valuable knowledge should be in place to ensure subsidiary knowledge dissemination to other units of the MNC.

Theoretical arguments and justification for the use of headquarter control mechanisms in MNC-internal knowledge transfer are well grounded in the resource-dependence approach and agency theory. From a resource-dependence perspective, because the parent company relies on its foreign subsidiaries for certain essential resources, the parent company is dependent to varying degrees upon its subsidiaries (Ghoshal and Nohria, 1989). As the parent company’s dependence on the resources controlled by an overseas subsidiary grows and the consequential resource flows between the subsidiary and the parent company increase, the headquarters will want to exercise control over the subsidiary (Ghoshal and Nohria, 1989; Taylor et al., 1996). This highlights the importance of coordination on knowledge transfer and consequent elements like control and cooperation in the headquarters-subsidiary relationship within the differentiated MNC (Ghoshal and Bartlet, 1988, Birkinshaw et al., 2000).

Agency theory examines the principal-agent relationship. The headquarters-subsidiary relationship in MNCs has a principal-agent structure (Roth and O’Donnell, 1996). It is therefore quite appropriate to apply an agency theory perspective (Jensen and Mechling, 1976; Eisenhardt, 1989) to study headquarter control mechanisms in MNC-internal knowledge transfer. In headquarter-subsidiary relationship, the headquarters (principal) delegate work to the subsidiary (agents) and the agent performs tasks on the principal’s behalf (Jensen and Mechling, 1976). The agency problems in the headquarter-subsidiary relationship arise from goal incongruence and potentially divergent interests between the principal and the agent. In the differentiated MNC, there are also difficulties in monitoring or verifying agent behaviour (Eisenhardt, 1989; Roth and O’Donnell, 1996). In knowledge transfer, for example, a basic problem is to motivate the subsidiary to actually transfer knowledge that may be useful to other subsidiaries, as the subsidiary may be less willing to do so for the reason such as MNC-internal power struggles (Gupta and Govindarajan, 2000; Foss and Pedersen, 2002). Since headquarters depend on valuable knowledge residing in overseas subsidiaries, an important issue is therefore to design optimal control mechanisms that make subsidiaries behave in the headquarters’ interests (Eisenhardt, 1989).
Regarding knowledge transfer, researchers have suggested several possible control strategies that can be used to align a subsidiary’s actions with headquarters’ goals. Firstly, from a socialization approach, Ghoshal and Bartlett (1988) suggest that the diffusion of subsidiary knowledge in the MNC can be best achieved through normative integration, which is the development of an important social mechanism facilitating creation of an intensive and cooperative HQ-subsidiary relationship. Such a social control by shared values and norms may also be used through expatriate staffing (Ouchi, 1979; Gong, 2003). Secondly, another key control mechanism is the design of a managerial reward and incentive systems. According to Lord and Ranft (2000), a lack of incentives is especially problematic when considering the internal transfer of more tacit forms of local knowledge. Thirdly, output control through linking knowledge transfer to the evaluation of the subsidiary’s performance is likely to be positively associated with the transfer of local market knowledge.

While the importance of headquarter control mechanisms is recognized in the international management literature, few efforts have been made to empirically examine the effects of headquarter control mechanisms on knowledge transfer out of subsidiaries. In this thesis, a set of control mechanisms used by MNC headquarters that may influence the level of outward knowledge transfer from the subsidiary are explored.

2.6 Location

There is today a widespread agreement that a key competitive advantage of multinational companies lies in their ability to exploit locally created knowledge worldwide (Bartlett and Ghoshal, 1989; Schlegelmilch and Chini, 2003). One of the main arguments is that an essentially important source of knowledge for MNCs is their foreign subsidiaries located in a variety of host countries performing specific value-creating activities (Frost, 2001; Rugman and Verbeke, 2001). Nevertheless, the extent to which MNCs actually utilize specific knowledge generated in overseas subsidiaries may be influenced by, among others, motivational factors (Szulanski, 1996). One set of problem that limits the MNC’s ability to exploit knowledge developed in one unit/location in other locations is the lack of motivation to learn/accept ‘not-invented-here’ (NIH) knowledge on the recipient side (Gupta and Govindarajan, 2000).

The ‘NIH’ barrier to the utilization of subsidiary knowledge may result from the perceived value of a subsidiary’s knowledge. Firstly, subsidiary knowledge, especially those acquired in a
specific local setting, may be highly tacit and context bound. This knowledge localness, or context embedded nature of subsidiary knowledge (Lam, 1997), may inhibit its transfer to other parts of the MNC. Secondly, it is suggested in the marketing literature that a manufacturing nation’s image has a significant impact on how consumers perceive and evaluate the quality of products from that country, and hence on their propensity to buy those products (Johansson, 1989; Roth and Romeo, 1992; Kim and Chung, 1997). Applying a similar reasoning to knowledge transfer within the MNC, one can expect the location of a subsidiary to influence how managers in other MNC units perceive the value of knowledge residing in that subsidiary. Gupta and Govindarajan (2000), in the context of knowledge outflows to the parent corporation, argue that a country’s relative economic level influences the perceived value of the knowledge stock possessed by subsidiaries in that country. From a receiver’s viewpoint, knowledge received from units located in economically and technologically less advanced countries might – due to a sense of superiority or ethnocentrism – be perceived as contextually less sensitive and lower in commercial value. The ‘NIH’ problem is therefore likely to be more serious when source subsidiary is located in an economically and technologically less advanced country. Hence, it can be expected that the propensity of MNC units to engage in knowledge transfer to vary depending on the location of the sender unit.

Despite its importance, few studies have empirically linked subsidiary location to subsidiary knowledge transfer. Location is either treated as an antecedent to other broader constructs or included as a control variable. To investigate location of subsidiary as an important determinant which has a direct impact on outward knowledge transfer from the subsidiary, this thesis examines what different does location make in outward transfer of knowledge from subsidiaries located in Finland and China.

2.7 Social Capital

Scholarly inquiry into organizational learning has emphasized the important roles of network linkages and the surrounding social context in resource exchanges. In search for answers to questions such as why and how the properties of relationship facilitate value creation and resource exchange, a growing number of research has applied the concept of social capital which is conceptualised as relational resources embedded in the networks of social relations (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998; Adler and Kwon, 2002) to gain a better understanding of knowledge transfer in cooperative relationships. Gulati et al. (2000) content
that these networks of relationships can be thought of as an inimitable resource by itself, and as a means to access inimitable resources and capabilities. Gulati (1999) refers to them as “network resources”, which is a notion similar to that of social capital.

In the stream of literature on social capital, prior studies have mainly focused on the role of social capital as a valuable asset for managing cooperative relationships (Tsai, 2000; Koka and Prescott, 2002; Blyler and Coff, 2003). Social capital is seen as a facilitator in resource exchange and value creation (Nahapiet and Ghoshal, 1998). Previous literature suggests that social capital encompasses many aspects of social context. These aspects of social capital in the relationship are: the level of social interaction between the firms, the quality of the relationship in terms of goodwill trust and reciprocity, and higher shared understanding on each other’s business practices (Nahapiet and Ghosal, 1998; Tsai and Ghoshal, 1998; Yli-Renko et al., 2001). Social interaction refers to the extent of normative integration between the parties of the relationship (Ghoshal and Bartlett, 1988). Trusting relationship refers to the extent that this interaction is marked by the development of goodwill trust and expectations of reciprocity (Yli-Renko et al., 2001). Shared understanding refers to common business vision and mutual understanding of doing business (Dyer and Singh 1998). Empirical research has indicated that these attributes of social capital affect knowledge exchanges between units (Tsai and Ghoshal, 1998; Yli-Renko et al., 2001).

2.7.1 Social Interaction

MNC networks necessitate knowledge sharing among subunits and this sharing process requires extensive interunit coordination and integration. Existing interunit interaction ties provide channels through which both information and resources flow. Ghoshal and Bartlett’s (1988) study finds considerable evidence of positive associations between creation and transfer of innovations by a subsidiary and the extent to which the subsidiary is normatively integrated with the parent company. In their view, such integration was typically the result of a high degree of organizational socialization and is achieved through extensive social interactions between the headquarters and the subsidiary, such as mutual visits, joint-work in teams, task forces, and committees. Empirically, Tsai and Ghoshal (1998) and Tsai (2000, 2001) have found supports for a positive relationship between social interaction and knowledge creation and resource exchange.
2.7.2 Trust

At the organizational level, a positive relationship between trust and cooperative relationships has been well documented in various branches of organization studies. Looking specifically at antecedents of cooperation, Smith et al. (1995) editorially noted that trust is a fundamentally important factor predicting the level of intra- and inter-organizational cooperation. In addition, Dirks and Ferrin’s (2001) review of the literature on the role of trust in organizational settings demonstrates that trust has either direct or moderating effects on a variety of desired performance and behavioural outcome variables. In their view, trust facilitates the effects of other determinants on performance or behavioural outcomes because trust provides conditions under which certain outcomes are more likely to occur. More recently, in an effort to integrate the diverse literature on how trust affects organizations, McEvily et al. (2003) conceptualise trust as an organizing principle through which organizations organize and coordinate their activities. They propose that trust influences organizing by shaping interaction patterns between actors and motivating these actors to contribute and combine resources.

In the literature specifically examining the relationship between trust and sharing knowledge, Nahapiet and Ghoshal (1998) argue that trust, representing the relational dimension of social capital, facilitates the sharing of intellectual capital. They theoretically suggest that trust affects knowledge exchange and combination through creating or enhancing a number of conditions necessary for exchange and combination to take place. This positive relationship has been empirically supported in a variety of intra- and inter-organizational contexts. In an intra-organizational context, following Nahapiet and Ghoshal’s (1998) theoretical framework, Tsai and Ghoshal (1998) have empirically examined how each dimension of social capital facilitates value creation and sharing process across units within an MNC. The findings of their study suggest that trust has a significant and positive effect on resource exchange and combination in intra-firm networks. In a similar study, Tsai (2000) suggests that inside a multinational or multiunit organization, a high degree of trustworthiness allows the exchange of idiosyncratic resources and shapes the patterns of inter-unit strategic linkages.

Similarly, in inter-organizational context, Zaheer et al. (1998) point out that trust, both at interpersonal and organizational level in inter-organizational exchange relations clearly matter. Trust has been suggested as a relationship mechanism (Morgan and Hunt, 1994) that facilitates cooperation and coordination and generates relationship commitment in market relationships.
Trust influences the process of knowledge sharing by increasing openness in knowledge transfer, facilitating joint problems solving (McEvily et al., 2003).

2.7.3 Shared vision

It has been suggested in previous literature that shared vision encompasses many aspects of a cooperative relationship. The concept of shared vision is often used to refer to shared values and mutual goals and understanding in a cooperative relationship (Morgan and Hunt, 1994; Parsons, 2002). In social capital literature, Nahapiet and Ghoshal (1998) discuss relational resources that provide shared representation, interpretations, and systems of meaning among parties. In a follow-up study, Tsai and Ghoshal (1998) label these resources as shared visions. In their view, a shared vision embodies the collective goals and aspirations of the members of an organization.

The importance of shared vision in inter-firm/unit exchanges has been brought forward in the organizational cooperation literature. Shared vision as a necessary condition for exchange to occur because identification and combination of strategic resources can only be realized if the firms have systems and cultures that are compatible enough to facilitate coordinated action (e.g., Dyer and Singh, 1998). Shared values and understandings between parties in an exchange relationship facilitate meaningful communication that is essential in both the exchange and combination required for knowledge creation. According to Nahapiet and Ghoshal (1998), shared norms and identity increase the level of mutual understanding among organizational members, which in turn acts as a resource influencing both the anticipation of value to be achieved through collaboration and the motive to combine and share knowledge. Drawing on Nahapiet and Ghoshal’s (1998) study, Yli-Renko et al. (2001) further emphasize that shared vision enhances relative absorptive capacity (Lane and Lubatkin, 1998) in knowledge assimilation process in the exchange dyad and allows firms to engage more in knowledge acquisition and exploitation. The same line of reasoning also applies in intra-organizational relationships. The existence of shared goals and values enhances headquarter responsiveness to subsidiary needs and appreciation of subsidiary initiatives that help to create a conductive environment and intrinsic motivation for knowledge sharing (Hewett and Bearden, 2001).
2.8 The Transfer of HRM practices

There is an increasing interest in exploring the transfer of organizational practices internally in MNCs. The knowledge transfer literature has identified a variety of mechanisms through which transfers of knowledge in organizations may occur. In the literature it is argued that the nature of knowledge, e.g. the level of tacitness, affects the use of transfer mechanisms (Lahti and Beyerlein, 2000). The appropriateness of modes for transferring knowledge depends on the type of knowledge to be transferred. It is suggested that tacit knowledge may be more effectively transferred through face-to-face and interaction based communications, while explicit knowledge can be easily transferred through written and traditional media like manuals and blueprint (Foss and Pedersen, 2002; Subramaniam and Venkatraman, 2001). It is the tacit components of knowledge that require more transfer efforts. Lahti and Beyerlein (2000), in their study of knowledge transfer and management consulting, note that tacit knowledge is best transferred through methods that help convey rich contextual information, such as regular company communication, meetings, personal contacts, along with methods of collaboration involving teamwork, facilitated sessions, etc. Other researchers have identified similar ways in which knowledge can be conveyed, for example, personnel movement and the collaboration of individuals (Almeida and Kogut, 1999), training, observation, replicating routines and presentations (Appleyard, 1996; Argote and Ingram, 2000).

Consistent with the knowledge transfer literature, in the context of HRM practices transfer, several authors have discussed similar routes through which MNCs may try to transfer MNC practices to the overseas business unit. Hetrick (2002), in her study of transferring HR ideas and practices to Poland, observes that management styles and ways of doing things are transferred to local managers through observation and reinforced through coaching and mentoring. She particularly emphasizes the role of expatriate managers in the transfer process. Other researchers have also stressed the importance of expatriate manager as a transfer vehicle. For example, Gamble’s (2003) study on transferring HR practices from the UK to China argues that the presence of expatriate facilitates the transfer of standardized MNC practices. Expatriate managers not only spread explicit knowledge through such means as employee handbooks, training manuals and standard operating procedures, but also help to disseminate tacit knowledge through the ways of managing the business. He also suggests that benchmarking between the firm’s different plants is a powerful means to enhance the transfer of practices.
A substantial part of literature examining knowledge transfer has been concerned with the transfer of whole stock of knowledge or technical knowledge (Appleyard, 1996; Zander and Kogut, 1995; Gupta and Govindarajan, 1991, 2000). Some researchers have investigated the transfer of marketing knowledge (Simonin, 1999b, Schlegelmilch and Chini’s, 2003) and R&D knowledge (Håkanson and Nobel, 2001). There is a lack of research effort at investigating organizational practices transfer with a few noteworthy exceptions such as Kostova’s (1999) study. Still, most studies on the issue of organizational practices transfer have focused on factors influencing perceived success of practices transfer. It is concerned mostly with the applicability and transferability of these practices. Relatively fewer studies have explored the transfer process itself, i.e. means or mechanisms of transfer, especially in a Chinese context. A purpose of this research is to increase our understanding of this important area of interest.

2.9 The Individual Papers

The thesis consists of five empirical papers, four of which (Paper 1 to Paper 4) are quantitative investigations of a range of factors hypothesised to have impact on knowledge transfer in MNCs’ subsidiary units. Paper 5 is a qualitative analysis of the transfer of Western human resource management (HRM) practices and competencies to Western-owned units located in China.

For the quantitative part of the thesis, both inward knowledge transfers to the subsidiary and outward knowledge from the subsidiary are examined. In Paper 1 and Paper 2, focusing on subsidiaries as source units, we set out to investigate knowledge transfer out of subsidiaries to other MNC units. In Paper 1, we explore the impact of a number of headquarter control mechanisms on outflows of knowledge in MNCs. A comprehensive model, based on agency theory and socialization theory, was tested on a sample of Finnish and Chinese MNC subsidiaries. In Paper 2, we test the direct effect of subsidiary location, as well as the interaction effects of location and social capital, on outward knowledge transfer from subsidiaries to other MNC units. We propose that MNC subsidiaries located in economically highly developed countries will transfer more knowledge to other corporate units than will subsidiaries located in less developed countries. We argue that the location of the subsidiary will significantly moderate the relationship between previously identified social capital dimensions and transfer of subsidiary knowledge within the MNC. The analysis is based on the same sample of MNC subsidiaries located in Finland (an economically highly developed country) and China (a less developed country).
Paper 3 and Paper 4 focus on inward knowledge transfer to subsidiaries. In Paper 3, we apply a social capital perspective to knowledge transfer in dyadic relationships between MNC units. Three hypotheses on the impact of varying levels of structural, relational and cognitive social capital were tested on our data of Finnish and Chinese MNC subsidiaries. Drawing on social capital literature, Paper 4 examines the positive linkage between the relational and cognitive dimensions of social capital (i.e. trust and shared vision) and inward knowledge transfer to subsidiaries from both the subsidiary’s corporate and external relations. The study provides some initial insights into the literature by theoretically suggesting that the effects of trust and shared vision on inward knowledge transfer differ in importance in intra- and inter-organizational relationships. Hypotheses were tested on data collected from Western MNC subsidiaries located in China. The study represents an effort toward a better understanding of the context where trust and shared vision are more of vital importance. From a cultural perspective, Paper 5 provides some qualitative insights into knowledge transfer to China in the context of HRM implementation in Western multinationals Chinese business units.
Figure 1. Overview of the issues covered in the quantitative part of the thesis

Intra-organizational

Headquarter Control Mechanisms
Location
Trust
Shared Vision
Social Interaction

Outward Knowledge Transfer
Inward Knowledge Transfer

Inter-organizational

Trust
Shared Vision
III RESEARCH METHODOLOGY

This research is conducted as a sub-project of an Academy of Finland project on managing knowledge creation and transfer in multinational corporations. The aim of the overall project is to augment our understanding of the MNC-internal knowledge transfer, with a particular emphasis on the corporation-wide use of knowledge developed and possessed by individual MNC subsidiaries. The project is carried out by a research team in the department of management and organization at the Swedish School of Economics, Helsinki. Other research team members are Wilhelm Barner-Rasmussen, Anette Björkman, Ingmar Björkman, and Patrick Furu. All have participated in the data collection. The empirical data consists of Western multinationals’ subsidiaries in Finland and in China. The research includes both quantitative surveys and qualitatively oriented in-depth interviews.

3.1 The Quantitative Method

Data for the quantitative studies were collected through structured face-to-face interviews with top managers of Finnish and Chinese subsidiaries of foreign MNCs. Finland and China were chosen as empirical settings so as to test the hypotheses with comparable data from two very different contexts, one small Western industrial country and one large Asian developing country. It endows our findings with a stronger claim to cross-border applicability than many previous studies in the field. The choice to collect data through face-to-face interviews has contributed to the high response rate and helped us ascertain that the subsidiary presidents did their best to provide us with high quality information. The reason for choosing subsidiary top managers as respondents is, given the broad scope of the research instrument, they were likely to be the key persons best able to provide perceptional data on the full range of questions.

In both countries we began the data collection process by contacting subsidiary presidents by mail. In Finland we targeted the 150 largest foreign-owned subsidiaries, in China some 300 foreign-owned subsidiaries whose contact information was available to us. The letter described the project and emphasized the confidentiality of individual responses. The respondents were then contacted by telephone to book interviews. The result was an initial sample of 164 subsidiaries. The response rate in Finland was nearly 60%, while in China it was much lower at 25%. During the interviews, the respondents and the researchers went through a pre-tested questionnaire together. The questionnaire was constructed based on an extensive literature
review. Most items in the questionnaire were measured using either five or seven-point Likert scales. The questionnaire language was English; any terms respondents had difficulty understanding were explained to them in another language they felt comfortable with (Finnish, Swedish, or Mandarin). For a discussion of the operationalization of the constructs in this thesis, see the individual papers.

The interviews, which lasted 45-120 minutes, were conducted in 2000-2002. The Finnish part of the data was collected in January-May 2000, during the time the top managers of 89 of the largest Finnish subsidiaries of foreign multinational corporations participated in the study. The Chinese part of the data was collected in Summer 2001 and 2002, when 75 Chinese subsidiaries of Western MNCs took part in the study. Some general characteristics of the quantitative data are presented below.

Table 1 shows how the participating 164 subsidiaries were distributed by home region of their parent company (Scandinavia, USA or rest of Europe) and subsidiary type (manufacturing or mainly sales/service). Table 2 presents descriptive statistics of general characteristics of the MNCs and the subsidiaries.

**Table 1 Distribution of sample by subsidiary type and home region of the MNC**

<table>
<thead>
<tr>
<th>Subsidiary type</th>
<th>MNC home region</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scandinavia</td>
<td>USA</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>36 units</td>
<td>20 units</td>
</tr>
<tr>
<td></td>
<td>(61%)</td>
<td>(51.3%)</td>
</tr>
<tr>
<td>Sales/Service</td>
<td>23 units</td>
<td>19 units</td>
</tr>
<tr>
<td></td>
<td>(39%)</td>
<td>(48.7%)</td>
</tr>
<tr>
<td>Total</td>
<td>59 units</td>
<td>38 units</td>
</tr>
<tr>
<td></td>
<td>(36%)</td>
<td>(24%)</td>
</tr>
<tr>
<td>MNC home region</td>
<td>Number of country operated</td>
<td>Sales of MNC (M. USD)</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td></td>
<td>Min.</td>
<td>Max.</td>
</tr>
<tr>
<td>Scandinavia</td>
<td>2</td>
<td>148</td>
</tr>
<tr>
<td>USA</td>
<td>12</td>
<td>190</td>
</tr>
<tr>
<td>Other Europe</td>
<td>3</td>
<td>190</td>
</tr>
<tr>
<td>All sample</td>
<td>2</td>
<td>190</td>
</tr>
</tbody>
</table>
3.2 The Qualitative Method

For the qualitative part of the thesis, China was chosen because China is a very important market and manufacturing base for multinational companies, the managerial need to understand how things work there is strong; additionally, as much of previous research is conducted in a Western setting, there are both an academic and a managerial need for research in Asian – particularly in the Chinese context, it provides a good setting for examining cultural sensitive aspects of knowledge transfer process.

The qualitative data were derived from research visits to six Western multinationals’ business units in China. The research visit was carried out in September 2003. All interviewed companies were located in Shanghai. This is for convenience as well as the fact that Shanghai and its vicinity is one of the regions in China where foreign investments are concentrated. The sample firms were chosen from the company list of European Chamber of Commerce in China as well as contacts from our previous research visits. The choice of sample firms was dependent upon access. About 50 companies were initially contacted, in total 6 companies agreed to take part in the study. At each company, face-to-face, semi-structured interview was conducted with either general manager or HR director of the company who had agreed to participate in the research. Altogether five expatriate managers and one overseas Chinese HR manager were interviewed. Each interview lasted around 60 minutes. The interviews were audiotaped and then transcribed. In Table 3, general characteristics of the interviewed companies are presented.
Table 3  Main characteristics of the companies interviewed

<table>
<thead>
<tr>
<th>Company</th>
<th>Products</th>
<th>Subsidiary size</th>
<th>MNC home country</th>
<th>Interviewee (nationality)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.1</td>
<td>Biotechnology and Chemical products</td>
<td>Large</td>
<td>The Netherlands</td>
<td>General manager (Dutch)</td>
</tr>
<tr>
<td>C.2</td>
<td>Electronics and telecommunication</td>
<td>Large</td>
<td>Germany</td>
<td>General Manager (German)</td>
</tr>
<tr>
<td>C.3</td>
<td>Elevators</td>
<td>Large</td>
<td>Finland</td>
<td>HR director (Hong Kong Chinese)</td>
</tr>
<tr>
<td>C.4</td>
<td>Actuators</td>
<td>Medium</td>
<td>Spain</td>
<td>General Manager (Spanish)</td>
</tr>
<tr>
<td>C.5</td>
<td>Pharmaceutical products</td>
<td>Medium</td>
<td>The Netherlands</td>
<td>General Manager (Belgian)</td>
</tr>
<tr>
<td>C.6</td>
<td>Foods</td>
<td>Medium</td>
<td>Denmark</td>
<td>General manager (Canadian)</td>
</tr>
</tbody>
</table>

The themes of the interviews were focused on mechanisms used/designed for implementing Western HRM systems in the Chinese business units. Main question themes guided the interviews include:

1. Please describe the HRM practices in detail.
2. The extent to which the practices have been influenced by how the MNC deals with the HRM practices in question elsewhere in the corporation.
3. What are transfer mechanisms that have been used (How and who)?
4. The perceived effectiveness of each mechanism for each of the HRM practices.
5. Why certain mechanisms are perceived to be effective in transferring certain practices?
6. Please elaborate on why the different mechanisms are used.
7. Possible explanations for problems in transfer.
IV SUMMARY OF THE EMPIRICAL STUDIES

Paper 1
Managing knowledge transfer in MNCs – The Impact of headquarter control mechanisms

In the international knowledge transfer literature, few efforts have been made to examine the influence of organizational mechanisms on knowledge transfer within the MNC (Foss and Pedersen, 2002). There is a lack of research on the strategies used by MNC headquarters to control that the competence of subsidiaries is transferred across different units. The question addressed in this paper is hence how different organizational mechanisms impact on knowledge flows from a foreign-owned subsidiary to other parts of its parent MNC.

In the differentiated MNC, from an agency theory’s perspective, headquarter-subsidiary relationship can be viewed as a principle-agent relationship (Roth and O’Donnell, 1996). In MNC-internal knowledge transfer, particularly in outward knowledge transfer from subsidiaries, agency problems may induce the subsidiary not to engage in a transfer of knowledge to other MNC units. For example, due to MNC-internal power struggles (Gupta and Govindarajan, 2000), a subsidiary may be reluctant to transfer knowledge to other units for fear of losing a position of superiority, or because it is insufficiently compensated for the efforts and costs involved in the process of knowledge transfer (Szulanski, 1996; Forsgren et al., 2000). Given a situation of information asymmetry between MNC top management and the focal subsidiary, it may therefore be in the subsidiary’s self-interest not to transfer knowledge to other MNC units, even though this would enhance overall MNC performance. This highlights the need for MNCs to utilize certain control mechanisms to encourage knowledge sharing from the subsidiary. We accordingly hypothesize in this paper that headquarters will use several kinds of mechanisms as safeguards against opportunism on the part of the subsidiary. However, it has also been persuasively argued that self-serving behaviour on the part of managers can be mitigated by corporate socialization (Lubatkin, Lane and Schultze, 2001). Research has found knowledge flows in MNCs to be positively related with the use of corporate socialization mechanisms (Gupta and Govindarajan, 2000), and the existence of close relationships among MNC units (Szulanski, 1996; Tsai and Ghoshal, 1998). Hence, in this paper we use socialization theory (Van Maanen and Schein, 1979) to hypothesize a contrasting set of factors influencing foreign subsidiary transfers of knowledge.
In the paper, we have developed a model of factors that are hypothesized to influence the knowledge transfer from foreign subsidiaries to other parts of the corporation. We explore the impact of organizational mechanisms on interunit knowledge flows in multinational corporations (MNCs). A comprehensive model, based on agency theory and socialization theory, is tested on a sample of 134 Finnish and Chinese MNC subsidiaries.

The results support our assumption that MNC headquarters can indeed successfully use various organizational mechanisms to enhance knowledge transfer, and that both agency theory and socialization theory seem to be relevant for predicting intra-MNC knowledge flows. The findings suggest that headquarters may influence the flow of knowledge transfers within the MNC by tailoring the criteria used to evaluate subsidiary performance. Additionally, knowledge transfer between subsidiaries also seems to be enhanced by extensive socialization practices. Corporations may thus be able to increase the likelihood for knowledge sharing by organizing international training programs, by establishing international task forces and committees, and by encouraging visits across MNC units.

By contrast, the results failed to establish any positive effect of management compensation on knowledge flows: we found no support for the hypothesized impact of a compensation system for top management based on the regional or global performance of the MNC, which theoretically could be expected to be enhanced through successful knowledge transfers. More research is clearly needed on the impact of financial compensation systems on MNC-internal knowledge transfer. Contrary to expectations, our data indicate that the use of expatriate managers is not significantly related with outward knowledge transfer from subsidiaries to other parts of the MNC. It is possible that extensive use of expatriate managers on relatively short-term assignments in the subsidiary has a negative impact of the development of long-term, trustful relationships between MNC subsidiaries that are important for extensive competence transfers to take place (Tsai and Ghoshal, 1998). Still, an expatriate-dominated management group may focus the attention of the subsidiary’s activities more on MNC-internal processes than on developing relationships with organizations in the local environment, and the subsidiary may consequently fail to take advantage of the resources residing in its environment to develop competencies that are unique within the MNC.
We thus conclude with the hope that this exploration into the mechanisms used by MNCs to enhance knowledge transfer will provide a base for extensive future research into this important area.

**Paper 2**

**What difference does the location make? A social capital perspective on transfer of knowledge from MNC subsidiaries located in China and Finland**

The main aim of this paper was to examine the effect of subsidiary location on knowledge transfer within the MNC. The study was based on samples drawn from Western MNCs’ subsidiaries located in Finland (a highly developed country) and China (a less developed country). We develop hypotheses concerning the impact of the subsidiary context on knowledge transfer, and test these hypotheses on a sample of 164 Western-owned subsidiaries located in China and Finland.

The apparent importance of knowledge and the subsidiary’s contributory role to the firm-specific advantages of the MNC has attracted considerable research attention into the question of how to explain the patterns of knowledge transfers from foreign subsidiaries to other MNC units. In recent years, China has become a very important recipient of foreign direct investments and some research has been conducted on transfer of knowledge to China (e.g., Si and Bruton, 1999; De Meyer, 2001; Bruun, and Bennett, 2002), but so far there is a lack of research on outward transfers of knowledge from MNC subsidiaries in China to other parts of the corporation.

The knowledge transfer literature has acknowledged that the relative economic level of the country where the MNC subsidiary is located, among others factors, has impacts on other MNC units’ propensity to engage in knowledge transfers with the subsidiary (Gupta and Govindarajan, 2000). For instance, subsidiaries located in China may be perceived as less trustworthy (Mayer et al., 1995) by other MNC units, who therefore may be more reluctant to receive knowledge from these subsidiaries located in China. One of the particular contributions of this paper is to extend our understanding of knowledge transfer into a Chinese context, thus increasing our understanding of how MNCs learn from a relatively less advanced market.

In this study, we assess the direct impact of subsidiary location, together with the three dimensions of social capital, on cross-border knowledge transfer in MNCs. In this paper we have proposed that social capital will have a more significant effect on outward knowledge transfer from
subsidiaries located in China, as a negative ‘country-of-origin’ effect will increase the need for strong social mechanisms to support the knowledge transfer process. We have investigated how subsidiary location moderates the impact of different dimensions of social capital on outward knowledge transfer.

The results indicate that more knowledge will be transferred from subsidiaries located in Finland (an advanced industrialized country) than subsidiaries in China (a developing country). The findings support the view that positive effects of trust and shared vision are more influential in the Chinese than in the Finnish context. This suggests that the influence of the negative ‘country-of-origin’ effect on receiving units decreases as mutual understanding and confidence grows. However, the interaction effect of social interaction and subsidiary location was not statistically significant. This may indicate that social interactions do not automatically enhance learning from Chinese units.

This study provides initial insights into both the direct effect of subsidiary location, and the interaction effects of location and social capital on knowledge transfer.

**Paper 3**

**Dyadic interunit knowledge sharing in MNCs: A social capital view**

In this paper, we apply a social capital perspective to knowledge sharing in dyadic relationships between units of multinational corporations (MNCs). The aim of the paper is to examine the influence of social capital levels on inward knowledge in dyadic relationships between MNC units. This examination is based on data from an extensive database charting knowledge sharing relationships between foreign-owned subsidiaries in Finland and the People’s Republic of China (PRC) and their intra-MNC sister and parent units.

This paper builds on the work by Tsai and Ghoshal (1998), but differs from their research in several important ways. First, while Tsai and Ghoshal studied resource exchange among 15 business units in one corporation (with no attention paid to the geographic location of the units or other organizational characteristics), we focus on interunit knowledge sharing among MNC units located in different countries. We thus control for the impact of a range of factors that may affect knowledge sharing in the MNC context. Second, Tsai and Ghoshal (1998) examined the social
capital of business units within the corporation as a whole. Building on the work of Burt (1992) and others on the structural properties of social networks (see e.g. Dacin et al., 1999), Tsai and Ghoshal (1998) collected data on the structural distance (or ‘betweenness’ [Freeman, 1977]) between each of the business units in the case company. Furthermore, their measures of trust and shared vision were based on respondents’ responses to questions concerning their units’ relationships with the rest of the corporation. By contrast, we focus on knowledge sharing within dyads of individual MNC units. This allows us to investigate the impact of social capital levels on knowledge sharing at the level at which such sharing actually takes place – between individual MNC units. Our approach is thus congruent with the relational stream of the social capital literature as developed by Coleman (1988; 1990) and others (Dacin et al., 1999).

The results presented in this paper support the proposed model of the impact of social capital on knowledge sharing among units with the MNC. Shared vision and interunit interaction ties emerged as highly significantly related to inward knowledge sharing in MNC subsidiaries. These findings are further buttressed by their consistency across two very different cultural and socioeconomic contexts. This supports previous findings concerning the importance of interunit interaction (e.g. Gupta and Govindarajan, 1991; O’Donnell, 2000), but also underlines that ‘soft’ factors such as perceptions of shared vision indeed impact upon subsidiaries’ willingness to accept knowledge from other parts of their parent MNCs. This indicates that future research on knowledge sharing in MNCs should account for these aspects, despite the obvious difficulties involved in quantifying them.

Only the hypothesis on the positive impact of trust and trustworthiness was not supported. This may indicate that perceptions of trust and trustworthiness are more important for decisions to engage in outward knowledge sharing than for decisions to seek and accept inward knowledge sharing from other MNC units, i.e. are more relevant for senders than for receivers. Receivers seem to be able to receive flows of knowledge without trusting the sender. This result may e.g. be due to receivers generally perceiving that they only run a marginal risk when receiving and using knowledge from other MNC units. Also, the obvious usefulness (or even necessity) of certain types of knowledge inflows may lead receivers to at least temporarily disregard trust and trustworthiness concerns.

This paper provides strong support for the relevance of social capital as a framework for studying interunit knowledge sharing in MNCs.
The effects of trust and shared vision on inward knowledge transfer in subsidiaries’ intra and inter-organizational relationships

Drawing on social capital literature, this study examines the relationship between trust and shared vision and inward knowledge transfer to subsidiaries from both the subsidiary’s corporate and external relations. Previous literature has acknowledged and theoretically suggested that potential differences may exist in knowledge transfer between intra- and inter-organizational relationships, it has not yet been well examined empirically. The study provides some initial insights into the literature by theoretically suggesting that the effects of trust and shared vision on inward knowledge transfer differ in importance in intra- and inter-organizational relationships. Hypotheses were tested on data collected from 75 Western MNCs’ subsidiaries located in China.

Departing from the research on knowledge sharing and resource exchange either intra-organizationally or inter-organizationally, this study aims to further theorize differences in intra- and inter-organizational knowledge exchange relationships by focusing on the effects of trust and shared vision on knowledge sharing both in intra- and inter-organizational relationships, and subsequently test a set of hypotheses on data collected from Western multinational corporations’ subsidiaries located in China. The sample consists of 73 long-distance corporate or divisional headquarters for intra-organizational relations and 51 local firms for inter-organizational relations.

The findings of the study supported the presumption that the effects of trust and shared vision respectively on inward knowledge transfer to the subsidiary differ in importance in intra- and inter-organizational relationships. The results showed that, in managing knowledge sharing, trust is a more influential determinant on inward knowledge transfer to the subsidiary in inter-organizational relationships and shared vision, on the contrary, is more influential in intra-organizational relationships. The differences in the effects of trust and shared vision on knowledge sharing suggest that MNCs need to manage intra- and inter-organizational relationships with different efforts regarding trust and shared vision building. The study suggests that the effects of trust and shared vision in intra- and inter-organizational relationships manifest in their moderating roles of overcoming a number of disadvantages associated with each type of relationships. This is consistent with previous literature on the roles of trust and shared visions as social mechanisms to create or enhance a number of favourable conditions necessary for exchange and combination to occur (e.g. Nahapiet and Ghoshal, 1998).
The study represents an effort toward a better understanding of the context where trust and shared vision are more of vital importance.

**Paper 5**

**A Cultural perspective on the transfer of HRM practices and competencies to Western MNCs’ business units in China**

China today is one of the world’s largest recipients of FDI. Many Western MNCs have established joint ventures, large manufacturing units, R&D units and regional headquarters in the country. Many of these multinationals have chosen to implement formal HRM systems in their business units in China. However, the introduction of HRM practices to the Chinese subsidiary has been found to be a major challenge for foreign firms in China (Child 1991, 1994; Warner, 1995; Ahlstrom et al., 2001). This paper seeks to address two issues which have been relatively under-explored in the research to date: first, to identify several organizational tools and mechanisms used in implementing a number of Western HRM practices and competencies in Western multinationals’ Chinese business units; and second, to discuss the perceived problems involved in the process of transferring HRM practices to the Chinese business units. The paper draws on two important streams of work in the field of international business – studies of the transfer of knowledge and international HRM in MNCs. Based on interviews with five general managers and one HR manager in six Western multinational’ subsidiaries in China, a number of organization mechanisms used to transfer Western HRM practices and competences, such as training, staff meeting and manager-employee discussion were examined. This study focuses on the evaluation of these transfer mechanisms from a cultural perspective.

The findings of the paper show that many of the problem issues in the transfer of HRM practices are related to the cultural concept of hierarchy and a traditionally domineering management style. In the Chinese organization, the role of status is prominent. The managerial behaviour of the Chinese is constant and deferential to different forms of authority within the organisation. The cultural value of respect for hierarchical authority is also reflected in communications where people tend to discriminate between in-group and out-group. The Chinese are more used to share information among their compatriots and group members.
The findings reveal that although the mechanisms discussed in general are useful, some techniques used may not be necessarily effective in light of the Chinese context. Some of the methods such as activity training involving role-play, presentation etc. are at odds with the familiar ways of communication in China. These methods may not have the intended effects on the implementation of HRM practices. Chinese may prefer using traditional means of learning such as lectures and courses given by senior experts. Likewise, that kind of meeting where information is communicated and passed down vertically from the superior is still more acceptable in the Chinese context. To promote the implementation of management of people practices and to create a wide awareness and understanding of Western business practices and behaviour, making more use of traditional Chinese communication methods would be more beneficial (Child, 1991).

The findings of the paper suggest that the role of expatriate managers in the transfer of HRM practices in China is important. Expatriate managers often assume the trainer’s role in passing on technical knowledge and managerial skills and so forth. Expatriates also act as role models for other Chinese managers in the business units. Nevertheless, it should be pointed out that the transfer of HRM practices is not complete until the transferred HRM practices are actually applied in a way leading to desired managerial behaviour consistent with a given setting (Fan, 1998). Simply being exposed to these implemented practices doesn’t essentially change people’s behaviour pattern. Implementing a good HR system in China therefore requires time and patience. The transfer of HRM practices in Chinese business units can be enhanced by a good understanding of cultural different and resultant interpersonal norms (Antoniou and Whitman, 1998).
V DISCUSSIONS

5.1 Main Research Findings

This research builds on and contributes to the expanding body of previous research on factors influencing knowledge flows within multinational corporations. Driving by the firm belief that MNC subsidiaries are becoming increasingly important in terms of their contributory roles to the MNC’s overall value creation and competence development, the research focuses on MNC subsidiaries to gain a better understanding of how MNCs manage knowledge transfer in MNC units. In the thesis, both types of knowledge transfer, namely outward knowledge transfer from and inward knowledge transfer to the subsidiaries are explored.

Outward knowledge transfer was examined in Paper 1 and Paper 2. The results of the two papers are synthesised and summarised in Figure 2 where determinants of outward knowledge transfer investigated in the papers are included. Arrows show hypothesized impacts of headquarter control mechanisms and subsidiary location on outward knowledge transfer. Dotted arrows indicate that the proposed linkages were statistically insignificant in the regression analyses.
Knowledge transfer within the MNC is neither frictionless nor entirely sticky. MNC management may influence the flow of knowledge transfers within the corporation by means of organizational mechanisms. In this research we try to shed some lights on this important area by focusing on the impact that headquarters’ control mechanisms have on the transfer of subsidiary knowledge. We largely found support for the main argument that MNC management through choices regarding organizational controls can encourage and enhance corporate-internal knowledge transfer. In particular, it was shown that a control system which explicitly applies knowledge development as a performance evaluation criterion can have positive effects on the subsidiary’s propensity to transfer knowledge to the rest of the MNC. The results also suggest that by putting in place certain socialisation mechanisms MNCs may increase the likelihood for knowledge transfer.

Noticeably, the results of the research did not support all of the hypotheses based on agency theory. One plausible explanation may be, given the fact that knowledge transfer is a resource-
demanding activity; it involves a cost and requires considerable efforts. An expatriate-dominated management under headquarter pressure that emphasises more on MNC internal process may possibly have fewer resources to be deployed in building relationships with local market partners, which is essential for the development of subsidiary specific competences. This trade-off implies that direct control in terms of use of expatriate may in the long term have a negative impact on the subsidiary’s possibility to develop subsidiary specific knowledge with unique value for utilization elsewhere within the MNC. While both processes of engaging in MNC-internal activities and building external market relationships are important to the performance of the subsidiary, these findings suggest that MNCs should carefully weigh the potential advantages and disadvantages with the use of headquarter controls on subsidiary knowledge creation and transfer.

With respect to subsidiary location, it finds evidence that more knowledge is transferred from subsidiaries located in an industrialized country (e.g., Finland) than subsidiaries located in a developing country (e.g., China). This finding is in line with the results of Gupta and Govindarajan’s (2000) study, which indicate subsidiaries in more advanced countries to be more likely sources of technological, marketing and managerial know-how than those in less advanced countries.

Importantly, rather than only examining the direct impact of location, we have made a further step to explore the interaction effect of subsidiary location and social capital. The findings support the view that positive effects of trust and shared vision are more influential in the Chinese than in the Finnish context. This may imply that the influence of the negative ‘country-of-origin’ effect on receiving units decreases as mutual understanding and confidence grow.

Paper 3 and Paper 4 explore inward knowledge transfer to the subsidiary. For the convenience of the discussion, the results of Paper 3 and Paper 4 are synthesized and presented in Figure 3. It should be noted that the results of the two papers are not directly comparable. First, each paper is based on different data set – one (Paper 3) on the sample of 164 Finnish and Chinese subsidiaries, while another (Paper 4) on the Chinese sample (75 observations) only. Secondly, the proposed model in Paper 3 includes the three dimensions of social capital, in Paper 4, only the relational and cognitive dimension are examined. In Figure 4, arrows show hypothesized linkages between social capital dimensions and inward knowledge transfer. Dotted arrows indicated that the results find no support for the hypothesised relationship. The thickness of the arrows shows that the effect is more influential either in inter-organizational or in intra-organizational relationships.
Consistent with prior studies, the results of this research support the positive role of social capital as a facilitator of knowledge transfer. As outlined in previous literature, the three dimensions of social capital are not entirely independent of each other. Nevertheless, each dimension independently has a unique significance. In our study, we found empirical evidence for the positive impact of both shared vision and interunit social interaction on inward knowledge transfer. However, an interesting finding is that the trust variable was not statistically significant. One possible explanation may be that, receivers generally perceiving that they only run a marginal risk when receiving and using knowledge from other MNC units. Also, the obvious usefulness (or
even necessity) of certain types of knowledge inflows may lead receivers to at least temporarily disregard trust concerns.

While our study has highlighted the importance of social capital in promoting knowledge transfer, the thesis has also uncovered some new findings that the effect of trust and shared vision may be contingent upon different contexts. It appears to be that in managing knowledge transfer, trust is a more influential factor in inter-organizational relationships, while shared vision, in contrast, is more influential in intra-organizational relationships. Although it may still be premature to draw a definite conclusion, this research is an exploratory step toward a contingency perspective on the role of social capital in cooperative relationships. It may also be noted that our results are in line with those obtained in some prior studies (e.g. Luo, 2002).

On the basis of six companies interviewed, Paper 5 has identified a number of mechanisms used in transferring selected HRM practices and competences in the Chinese business units, such as training, staff meeting and manager-employee discussion, etc. The effectiveness of these transfer mechanisms are discussed from a cultural perspective. It suggests that cultural differences should be taken into consideration in the choice and use of different transfer mechanisms.

5.2 Managerial Implications

As suggested in previous literature, knowledge transfer is believed to be critical for the creation and renewal of competitive advantage of the firm. Hence, issues concerned with the ability to transfer knowledge across borders within the MNC’s network are of significant managerial relevance and importance. Gaining a good understanding of factors influencing the process of knowledge transfer is strategically important for international management.

Regarding the use of headquarter control mechanisms, our results indicate that on one hand, MNC headquarters can indeed successfully use certain organizational mechanisms to enhance knowledge transfer, on the other, as outlined earlier, direct control such as the extensive use of expatriates over time might have a negative impact on outward knowledge transfer. It is desirable to utilize socialization mechanisms such as organizing international training programs, establishing international task forces and committees, and encouraging visits across MNC units. Through such socializations, potential agency costs or agency problem may decrease as headquarters and subsidiaries develop better relationships.
With respect to cultivating relationships to obtain beneficial organizational outcomes such as smoother and efficient knowledge transfer, efforts at promoting shared vision and trust are important. Network relationships characterised by a high degree of positive affect in terms of trust, congruence and shared understanding and repeated social interactions are arguably better positioned to facilitate knowledge flows and generate relational benefits.

While the MNC’s internal network provides a platform for facilitating flows of knowledge, the mere existence of such a network does not automatically result in knowledge sharing. From a management viewpoint, both formal control, and trust and social control should be in place to promote and encourage knowledge transfer. Particularly in the Chinese business context, the relative difficulty of transferring knowledge underlines the need for cooperative relationships. This enables the headquarters and other sister units to improve their understanding of the knowledge residing in Chinese subsidiaries, increasing in turn the likelihood of knowledge outflows from those subsidiaries.

The findings in relation to Paper 5 suggest that the effectiveness of the transfer mechanisms would be enhanced by an ongoing, everyday dialectic of mutual learning and compromise (Gamble, 2000). It would be recommendable for Western multinationals to introduce mechanisms with sufficient formalization to provide for a systematic and regular dissemination throughout the organization (Child, 1991).

5.3 Theoretical Contributions

The results of the thesis make several theoretical contributions to the international management literature on cross-border knowledge transfer. By drawing on agency theory and socialization theory to develop and test a model of foreign subsidiary knowledge transfer, it contributes to our understanding of the applicability of agency theory to the international knowledge transfer research. Theoretically, the findings of Paper 1 can be interpreted as supporting Lubatkin et al.’s (2001) suggestion that the original agency theory proposed by Jensen and Meckling (1976) should be integrated with other theoretical perspectives, including socialization theory.
Secondly, concerning the specific issue of how location issues influence intra-MNC knowledge transfer, we suggest that location has a separate impact on knowledge transfer, even after accounting for the joint impact of the social capital variables.

Thirdly, our focus on knowledge transfer within dyads of individual MNC units provides an important addition to the literature on the impact of social capital on knowledge transfer (see Tsai and Ghoshal, 1998). It has been suggested that researcher should study innovations and transfer of knowledge in organizations at a level of organizational dyad (Kostova, 1999; Zaheer et al., 1998). To date, with few exceptions (e.g. Zaheer et al., 1998; Nohria and Ghoshal, 1997), analyses of organizational dyads have been absent from the literature. This makes the results of Paper 3 an interesting comparison to that of Tsai and Ghoshal (1998). Besides the level of analysis, the empirical base of our study is larger with multifirm sample from different countries whereas Tsai and Ghoshal (1998) base their conclusions on data from one MNC. In turn, the larger sample enables us to include a large number of control variables absent from previous studies.

Fourthly, although the positive link between social capital and knowledge transfer in general has been supported and validated by several systematic research efforts, few studies have addressed the question of when or where social capital becomes more critical. As an exploratory study to observe the effect of social capital in different contexts, this research has identified several contextual contingency variables that differentiate the strength of social capital on knowledge transfer. In Paper 2, for example, we observe a stronger impact of trust and shared vision on inward knowledge transfer in the Chinese business context, while in Paper 4, it is found that the impact of trust and shared vision on outward knowledge transfer is contingent upon relationship type (i.e. inter- vs. intra-organizational).

Finally, regarding Paper 5, since most of previous studies on the transfer of HRM practices to China have revolved around factors influencing the transferability and applicability of Western HRM practices in Chinese context, Paper 5 contributes to the literature by shedding some light on an important yet less addressed issue of HRM practices transfers to China – the transfer process itself.
5.4 Limitations

The thesis remains subject to several general limitations. Firstly, there is a potential risk for common method bias due to the use of self-reported, partly perceptual measures. This common method bias is partially reduced by asking the questions included in the study at different points of time during the interviews; still, future research where data from one MNC unit is corroborated by data from other units belonging to the same parent corporation would be desirable. Secondly, the cross-sectional nature of the data collection limits the ability to examine the dynamic interplay between the constructs studied, highlighting the demand for time series data on the topic.

Thirdly, our analyses have been on the subsidiary’s overall stock of knowledge, whereas the impact of the type of knowledge e.g., marketing knowledge (see e.g., Simonin, 1999b) on knowledge flows has not been examined. Scrutiny of how specific functional knowledge interact with different factors influencing knowledge flows would be one way to further augment our understanding of how MNCs utilize and assimilate different types of knowledge in pursuing a competitive advantage. Further, although our results are in general consistent with the findings of previous literature on determinants of knowledge flows in MNCs, it would be recommendable for future studies to probe deeper into the underlying issues of causality.

As for Paper 5, a small-sample case study obviously has limitation in terms of generalization to population. Moreover, since only general manager or HR manager in the case companies were interviewed, analyses presented in Paper 5 are from the perception of expatriate managers only. Incorporating the perception of local people in the companies may explain the managerial learning on the part of the Chinese employees substantially better.

5.5 Suggestions for Future Research

In relation to the findings of the papers, several avenues for future research are suggested. A further exploration into the mechanisms used by MNCs to enhance knowledge transfer will provide a base for extensive future research into this important area, particularly regarding the impact of financial compensation systems on MNC-internal knowledge transfer. Further research on the mechanisms involved in specifying, communication and following up subsidiary goals would help shed further light on subsidiary knowledge transfers in MNCs. Such work would also contribute to our understanding of the usefulness of agency theory for the study of MNC
management and control. We would also encourage in-depth case studies on the mechanisms MNCs employ to integrate knowledge residing in their geographically dispersed subsidiaries.

The role of location in knowledge transfer also deserves being more fully explored, for example by means of comparative studies in different developing country contexts. A comparison of China and India would appear particularly interesting, given recent economic developments. Another suggestion for further research is to further increase our understanding of the dimensions of social capital in the MNC context, for example, by looking at the antecedents of each dimension of social capital. Still, the study of trust and shared vision often highlights trust and shared vision benefits; however, researchers have also acknowledged risks of trust and shared vision (see e.g. Adler and Kwon, 2002 for a review). For example, building trust and shared vision is a cumulative process, it is costly to maintain, this may trade off against their moderating roles in overcoming transaction costs. Strong and trusted ties offer opportunities but also pose threats such as information redundancy and relationship over-embeddeness (Rowley et al., 2000). Future research on the risks of trust and shared vision and the balance of benefits and risks may have valuable academic and business implications.

In the knowledge transfer literature, research has in general mainly concerned with the distinction between tacit knowledge and explicit knowledge. Fewer contributions exist that analyse different types of knowledge in terms of specific function. Noteworthy exceptions are, for example, Simonin’s (1999b) and Schlegelmilch and Chini’s (2003) studies on knowledge transfer between marketing functions, and Håkanson and Nobel’s (2001) study on the transfer of R&D knowledge within MNCs. Different characteristics of these functional knowledge may have significant bearings on the nature and content of the transfer process. Future research should address the characteristics of different knowledge types and their consequential impact on knowledge transfer.

It is an important issue to understand how knowledge has been effectively or successfully transferred. Overall, there is little research that addresses this issue. Although some exceptions do exist, such as several studies focusing on the outcome of knowledge transfer, however, the emphasis is often on factors determining transfer success, rather than on manifestations of successful transfer. Future research will need to take a longitudinal approach to study how knowledge transfer has over time resulted in desirable outcomes.
Additionally, whether to become closely integrated with other MNC units or to build close relationships with external market actors may involve a trade-off with significant performance implications. Research that augments our understanding of factors influencing not only the level of local embeddedness and MNC-internal integration but also their influence on organizational outcomes would have significant theoretical and managerial contributions.

Finally, in relation to Paper 5, a future research direction may look at changes in HRM practices and transfer mechanisms taking place over time and the evolution of managerial learning in Chinese business units.
REFERENCES


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