

# KNOWLEDGE MANAGEMENT AND ORGANIZATIONAL LEARNING IN MNC'S

**Helmut Kasper**

**Beate Haltmeyer**

**Vienna University of Economics and Business Administration**

## ABSTRACT

*Knowledge sharing and learning in MNC's (Multinational Companies) is a cross-border process in two ways: not only organizational but also national borders have to be overcome which is a highly difficult and complex undertaking. However, for MNC's the highly diversified knowledge in the different geographically dispersed units is a key asset and the transfer and usage of this knowledge throughout the whole organization is the key for competitive advantage. This paper presents a theoretical concept of knowledge sharing in MNC's and focuses on the influence of the multinational or multicultural context on the process of knowledge sharing. The model is subject to broad empirical testing in the course of our It, therefore, provides an analysis of the most important international / inter-organizational context factors and suggestions how to handle the problems arising from cultural differences with respect to successful knowledge sharing.*

## INTRODUCTION

Not only management theorists but also a growing number of executives and consultants have proclaimed in recent years that new knowledge provides the basis for organizational renewal and constitutes the major source of sustainable competitive advantage for organizations. This knowledge-based view of the firm argues that creating, organizing, and using knowledge assets are the essence what firms do. Given that their ability to leverage the creativity and skills located in different parts of the world is a key asset of MNC's (Multinational Companies), the management of these knowledge assets, the knowledge dissemination throughout the different companies of the whole organization, and eventually learning within multinational organizations is crucial for their success. Therefore, management of knowledge sharing in a highly competitive global environment will be a key challenge for managers in a multinational organization. For this reason, we are currently engaging in a research project on knowledge management and organizational learning in MNC's sponsored by the Austrian Research Fund<sup>1</sup>. The research project aims to identify the main aspects which have an impact on the successful management of knowledge assets within a multinational environment. In particular, the processes of knowledge sharing and knowledge transfer in and between MNC's are investigated.

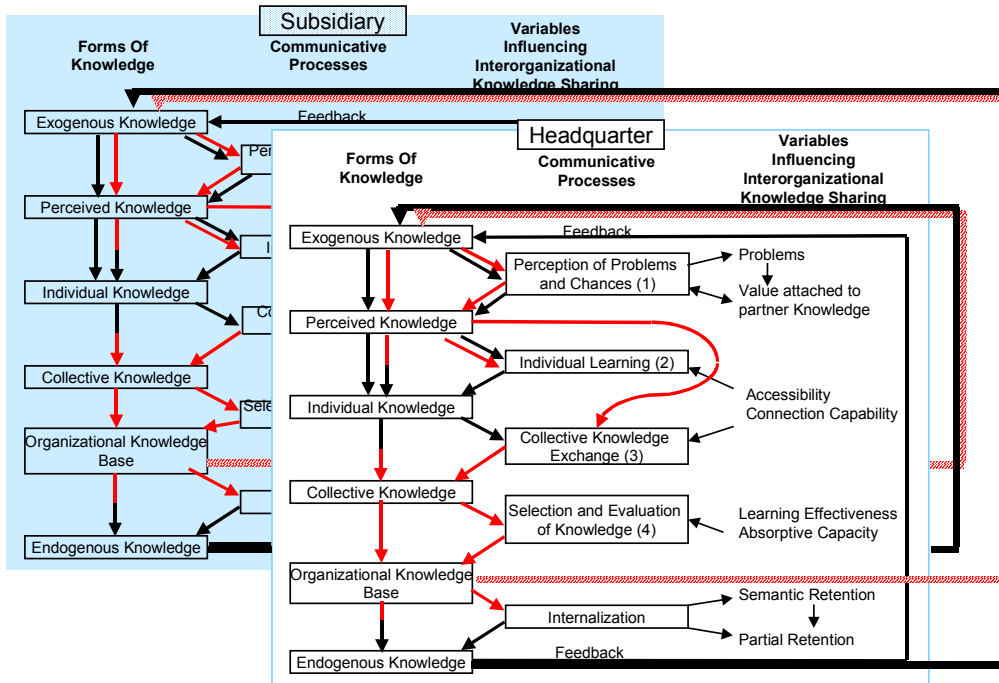
Based on the concept of knowledge creation of Nonaka and Takeuchi (1995) and on the processual model of systemic knowledge management of Kasper and Mühlbacher (2002) we developed the model of knowledge sharing in MNC's (see exhibit 1) which is subject to testing in an extensive study in the empirical part of our

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<sup>1</sup> It is a research project of the Department of Change Management and Management Development (Univ.-Prof. Dr. Helmut Kasper, MMag. Beate Haltmeyer) together with the Department of International Marketing and Management (Univ.-Prof. Dr. Bodo B. Schlegelmich, Mag. Claudia Chini), both of the Vienna University of Economics and Business Administration (Wirtschaftsuniversität Wien). The research project is sponsored by the FWF (Fonds zur Förderung der wissenschaftlichen Forschung, P#14925).

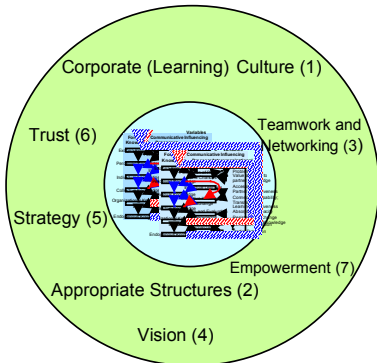
# EXHIBIT 1: THE MODEL OF KNOWLEDGE SHARING IN MNC'S

Model of Knowledge Sharing in Multinational Companies 1 - The Process of Knowledge Sharing and its Influencing Variables

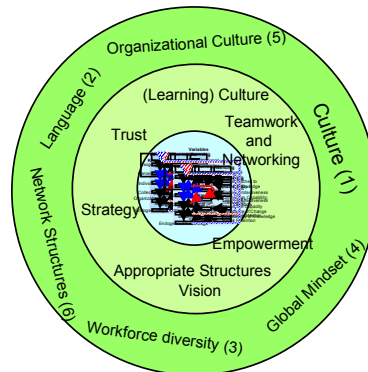


- Legend:**
- Exchange of explicit knowledge
  - Exchange of tacit knowledge
  - Explicit knowledge
  - Tacit knowledge

Model of Knowledge Sharing in Multinational Companies 2 - Organizational Context Factors



Model of Knowledge Sharing in Multinational Companies 3 - International / Interorganizational Context Factors



research project. The purpose of this article is to present this model which provides a complete picture of knowledge sharing in MNC's presenting both the process of intra- and interorganizational knowledge sharing as well as the context relevant for cross-border knowledge transfer and learning – the organizational context and the international / inter-organizational context.

## **KNOWLEDGE SHARING IN MULTINATIONAL COMPANIES – A THEORETICAL APPROACH**

As can be seen in exhibit 1/1 the process of knowledge sharing in multinational organizations means both the process of knowledge exchange between the involved organizations (here symbolized by headquarter and subsidiary) as well as the process of knowledge transfer within the respective organizations which consists of different levels. On each of these levels several process variables can be identified which have an influence on what happens with the exchanged knowledge in the organization. Only if the exchanged knowledge is evaluated, processed, stored, and disseminated in the acquiring organization, it can finally be integrated in and amplify the organizational knowledge base. Thus, it is necessary to analyze inter-organizational knowledge sharing on both an inter-organizational level as well as on an intra-organizational level. Consequently, whenever we use the term knowledge sharing in this paper, it refers to the knowledge exchange between different organizations on the one hand and the process of the dissemination of the exchanged knowledge in the participating companies on the other hand. With respect to knowledge sharing it is also critical to distinguish between explicit and implicit (= tacit) knowledge. Explicit knowledge is formal and systematic and can be easily communicated and shared with others. In contrast, tacit knowledge refers to a kind of knowledge which is highly personal, hard to formalize and thus difficult to communicate to others: it is deeply rooted in action (Nonaka 1996).

This process of knowledge sharing however must not be treated in isolation but has to be embedded in the organizational and, as we look at multinational companies, the international/inter-organizational context. These context factors shown in the two outside layers in our model (see exhibit 1/3) have a considerable impact on the process of knowledge sharing as such. Looking at our model it becomes obvious that knowledge management in multinational organizations requires an understanding of and appreciation for the complexities of acquiring, transferring, and integrating knowledge in a global learning environment. "In the global arena, the complexities increase in scope as multinational firms grapple with cross-border knowledge transfers and the challenge of renewing organizational skills in various diverse settings" (Inkpen 1998). Below, we will explain the different components of knowledge sharing in MNC's shown in exhibit 1 and discuss those aspects in further detail which are especially relevant for knowledge sharing in multinational / multicultural setting.

### **The Process of Cross-Border Knowledge Sharing in MNC's**

The process of knowledge sharing in MNC's can be split in two parts: the inter-organizational and the intra-organizational knowledge transfer.

**The Process of Inter-organizational Knowledge Transfer:** As it is shown in exhibit 1/1 we suppose that the process of knowledge exchange between different organizations can take place on two levels depending on the kind of knowledge to be exchanged: on a collective level or on an individual level. Knowledge exchange on an individual level means that tacit (black line in exh. 1/1) or explicit knowledge (grey line in exh. 1/1) from the one organization is perceived by and transferred to the other organization by individual learning. Is explicit knowledge from the one organization transferred on an individual level, it turns into tacit knowledge in the acquiring organization. Knowledge exchange on a collective level is only possible for explicit knowledge and means that it is transferred from the organizational knowledge base of one organization directly to the collective knowledge of the other organization by collective knowledge exchange (see grey, dashed line in exh. 1/1). Whereas in the first scenario the process is highly dependent on the individuals in the organization and their willingness to learn, the process of individual learning is omitted in the second scenario. Collective knowledge exchange is especially suitable for the transfer of so-called structured knowledge which is explicit and rule-based and embedded in an organization's systems, processes, tools, and routines (De Long / Fahey 2000). In the contrary, social knowledge

existing only in relationships between individuals or within groups and human knowledge manifested in skills or expertise (De Long / Fahey 2000) are only possible or at least more likely to be exchanged on an individual level by e.g. seminars or employee assignments.

A precondition that a knowledge exchange between two or more companies takes place is that the knowledge existing in the partner organization is perceived as exogenous knowledge and possible learning opportunity. At this point (1) [the numbers in parenthesis always refer to the part in exhibit 1 with the corresponding number] the process of inter-organizational knowledge exchange turns into the process of intra-organizational knowledge transfer of the exchanged knowledge.

**The Process of Intra-organizational Knowledge Transfer:** The process of intra-organizational knowledge transfer consists of five different communicative processes by which the exchanged knowledge gets transformed step by step.

Step 1: Perception of Problems and Chances (1): The first step of the intra-organizational transfer of the partner knowledge is the awareness of the existing exogenous knowledge in the partner organization. Since in inter-organizational knowledge sharing the involved organizations form (part of) the environment for each other, environmental irritations meaning opportunities to learn existing in the other organizations have to be in the system's language so that they can be perceived as such. At this stage the organization knows that a certain knowledge is stored in the other organization. However, the decision whether or not the organization strives for acquiring this knowledge depends on the value it attaches to the partner knowledge. To what degree this knowledge is valued is influenced by the need of a certain solution or knowledge and its applicability in the organization. In order to enter into the process of knowledge sharing, the value attached to the knowledge stored in a partner organization must be higher than the expected cost of the knowledge acquisition. Especially in a multinational context the dimension of value is a critical factor in this stage of the knowledge exchange process, because what is seen as valuable knowledge does not appear to be fixed but rather derives at least in part from social conventions that differ from one social context to the other. Since organizational units filter information according to their (culturally influenced) systems of meaning and funds of knowledge, they tend to ignore information that is of low relevance to the local task but that might be of high importance to the global task (Macharzina et al 2001).

Step 2/3: Individual Learning / Collective Knowledge Exchange (2.3): When the knowledge existing in the other organization is perceived as valuable it comes to the next step in the process of knowledge sharing: individual learning or collective knowledge exchange. In order that perceived knowledge can be transformed into individual or collective knowledge by the process of individual learning and/or collective knowledge exchange, it must be accessible to the partners. Accessibility of partner knowledge can be by no means taken for granted. According to Inkpen (1998) there are two factors limiting knowledge accessibility - partner protectiveness and knowledge tacitness. The degree of partner protectiveness, in our view, depends – among others - on the expectation of the knowledge providing partner whether and how the knowledge is going to be used in the other organization (can be enhanced by appropriate feedback), incentive schemes (subsidiaries might have little incentive to share their knowledge with other local units), and reciprocity and transparency of knowledge transfer. To transfer knowledge, there must be both collective commitment of the partners on the one hand, as well as a certain amount of individual and organizational autonomy on the other hand. All these factors are again influenced by the social context, by national and organizational culture, and by the kind of information or knowledge to be transferred.

Besides, inter-organizational trust has an important impact on the accessibility of knowledge (Prange 1996). Only in a climate of trust, organizations will be ready to put their knowledge at the disposal of their partner organizations. The second factor which limits knowledge accessibility is knowledge tacitness. As already mentioned before, tacit knowledge involves intangible factors embedded in personal beliefs, experiences and values and is hard to formalize. Therefore, it is very difficult to communicate and to share with others. However, “the more tacit the knowledge, the greater the likelihood that the knowledge is valuable” (Inkpen 1998). Consequently for knowledge sharing in multinational organizations to be successful it is extremely important that the involved organizations offer appropriate possibilities to communicate tacit knowledge, that means opportunities for personal contact, such as teamwork, seminars, foreign assignments, and discussion forums. Although the transfer of tacit knowledge

frequently requires direct interpersonal contact (Macharzina et al. 2001), to a certain degree a well-designed documentation system can help individuals to make their tacit knowledge explicit and available to their colleagues.

Another precondition for a successful knowledge transfer is the connection capability of the learning processes. As human behavior, knowledge and cognition is guided by the contextual rules and resources resident in social structures (structural conventions), knowledge has to fit these contextual requirements of the recipient unit. The transfer of knowledge, especially of organizational procedures and management practices, from one cultural context to another is likely to fail “unless the governing philosophy – the system of underlying structural conventions - fits the system of meaning of those expected to implement these procedures from day to day, or unless the organizational routines are transformed so that they conform to existing cultural expectations” (Macharzina et al. 2001).

Step 4: Selection and Evaluation of Knowledge (4): After the knowledge has been transferred from one organization to the other, the knowledge has to be selected and evaluated by the acquiring organization. For an organization to learn, it is not enough that the knowledge is made accessible, but the new knowledge must also be integrated in the organizational knowledge base. “Ethnocentrism, skepticism of the credibility of remote sources, suspicion of the unknown, and resistance to change can lead organizational units to reject proposals” (Macharzina et al. 2001). The process of selection and evaluation of the new knowledge decides if the knowledge is transferred into the organizational knowledge base or if it is rejected. Whether or not the evaluation of the knowledge results in its integration in the organizational knowledge base depends on the learning effectiveness or absorptive capacity of the organization. Inkpen (1998) describes three factors influencing the learning effectiveness - knowledge connections (such as foreign assignments or visits by personnel) between the partner firms, relatedness of partner knowledge, and the cultural alignment between parent executives and alliance managers.

\* Knowledge connections: Knowledge connections “occur through both formal and informal relationships between individuals and groups” (Inkpen 1998) and help to build a common language, an inter-organizational structure and culture (Prange 1996). Rotation of personnel, for example, is a good mean to foster horizontal integration through the development of a shared sense of organizational identity and enhances an organization’s capacity for rapid transfer of knowledge and information (Macharzina et al. 2001). With consciously managed knowledge connections in place new knowledge has a better chance to survive and to be integrated into the organization’s knowledge base.

\* Relatedness of partner knowledge: The connection capability of the exchanged knowledge as described above is not only important for individual learning and collective knowledge exchange but it is also decisive for its successful integration in the organizational knowledge base. Unrelated knowledge is more likely to be rejected in the process of evaluation because of a lack of common language for understanding the knowledge. (Inkpen 1998)

\*Cultural alignment: If it comes to evaluating the knowledge, often the issue of loyalty and local-global tensions come to the surface. Researchers found out that especially headquarters tend to reject proposals from subsidiaries. (Macharzina et al. 2001) To overcome this obstacle of local vs. global thinking a high level of commitment to the entire organization and its global goal is absolutely necessary. (Gupta / Govindarajan 1991) In the long run, knowledge sharing in multinational companies can only work, if managers of the involved organizations have similar assumptions on the partner relationship, its objectives, and performance. (Inkpen 1998)

## **Knowledge Sharing in a Global Context – International / Inter-organizational Context Factors**

The process of knowledge management and organizational learning cannot be examined separated from its context. Since the context factors have a strong impact on the process of knowledge management, the process and context of knowledge management are highly intertwined. In addition to the organizational (learning) environment, which also has to be considered in investigating knowledge management within a single organization and therefore will not be dealt with further in this article, with regard to knowledge sharing in multinational organizations special attention has to be paid on international and inter-organizational context factors.

“Internationality, in particular, adds a new layer of complexity to the tasks of creating, transferring, applying, and exploiting knowledge.” (Macharzina et al. 2001) Generally spoken, differences in national and organizational cultures have two effects on the process of knowledge sharing. On the one hand they intensify at least some of the barriers to effective knowledge sharing (e.g. lack of trust, lack of communication) and on the other hand they add new hindrances - workforce diversity, a broad variety of cultural differences as such, language problems, just to name a few. Thus, they increase the challenge of implementing and maintaining a knowledge management system across national and organizational boundaries.

In our view, there are several factors the management has to be aware of or which have to be considered in order to cope with the difficulties stemming from the multinational and inter-organizational context. These factors, which are shown in the outside layer of our model of knowledge sharing in multinational organizations (see exhibit 1/3), are described below.

Culture (1): Knowledge management in multinational organizations does not only mean to transfer knowledge across geographical and political, but also across cultural boundaries. Since culture impacts the behavior of people, managers have to know which consequences the existing cultural differences have in terms of the behavior of the employees. The way of communicating, for example, varies from culture to culture which is not only rooted in language differences but also in differences in style, time, gestures, stance, eye movement, and location. Also motivation is very culture specific. “The key to effective motivation is identifying individual needs - and these will vary with people from different cultures.” (Buhler 1999) Especially in such a sensitive area as knowledge sharing, where communication and motivation to participate in the knowledge sharing process play a crucial role, cultural differences are supposed to have tremendous effects on the outcomes. As management practices cannot simply be transferred from one country to an other without a cultural match, a multinational organization must ensure that its policies, programs, and opportunities are open to people of all cultures. This is not only true for the knowledge transferred in the knowledge sharing process but also for the knowledge management system itself.

Language (2): Language (also nonverbal) is the carrier and conditioner of culture. As Macharzina et al. (2001) point out “language goes hand in hand with socially determined ways of perceiving and interpreting, that is, with ways of knowing”.

Workforce Diversity (3): With employees coming from all over the world, the workforce of a multinational company as a whole as well as of each of its subsidiaries usually is highly diversified. Consequently, it must be dealt with a veneer of racial, ethnic, religious, educational, social, and country-of-origin diversity (Marquardt / Reynolds 1994). Therefore all leadership functions including knowledge management functions have to be adapted to the wide range of existing differences.

Global Mindset (4): As we described in the chapter on the process of knowledge sharing in multinational organizations the value attached to the knowledge existing in the partner organization at least partly depends on the cultural background. „Culture and particularly subcultures, heavily influence what is perceived as useful, important, or valid knowledge in an organization. Culture shapes what a group defines as relevant knowledge, and this will directly affect which knowledge a unit focuses on.” (De Long / Fahey 2000) Therefore, effective knowledge sharing in multinational organizations requires a world-oriented, geocentric, global mind-set, especially among those who have professional and managerial responsibilities. This global mind-set represents the need for sharing and complying with local values and practices. One can no longer think in domestic terms, one must think in terms of global opportunities for the organization. (Buhler 1999)

Organizational Culture (5): The establishment of a global mind-set goes hand in hand with the building of an integrative corporate culture. In order to make the knowledge transfer between organizations possible, differences in the organizational cultures involved have to be considered and have to be aligned as far as possible and processes have to be adapted to the remaining differences. Although it is not possible to form monolithic culture, mutual understanding and the willingness not only to tolerate existing differences but also to appreciate them as opportunity to learn can help to create an atmosphere in which employees at different locations work

together and find a common way of doing things. This ideally results in a shared core set of beliefs and assumptions. In contrast to companies with ethnocentric cultures where local employees are supposed to adapt and internalize the meaning system of the foreign parent organization, global corporate cultures “characteristically have organizational members with a broad scope of thought that allows for systemic solutions going beyond those arrived through nationally defined perspectives” (Macharzina et al. 2001). In order to establish a global corporate culture, it is necessary to exchange norms, values, beliefs, assumptions, and knowledge, i.e. taking each other’s perspective. Since a great deal of these aspects of culture are tacit by nature and very hard to make explicit, to gain mutual understanding intense personal interactions over a lengthy period of time are required. Besides, a further characteristic of corporate cultures which are very effective in creating and integrating new knowledge is to demand broad participation in knowledge gathering and distributing information on the external environment. (De Long / Fahey 2000)

Network Structures (6): The idea of network structures is somehow similar to the one of a global corporate culture because the centrality of parent headquarters is questioned also with respect to knowledge creation and transmitting. Networks are characterized by dispersed assets, specialized operations of subunits, and consists of non-bureaucratic and non-hierarchical structures which allow for rapid information and knowledge diffusion and are assumed to be positively related with a high absorptive capacity. In network-oriented models of multinational organizations there is strong orientation towards the global acquisition and use of knowledge. “Knowledge about the whole company should be embedded in all parts of the multinational system” (Macharzina et al. 2001). Network structures also imply a specific role of top management, not control but enabling is the main challenge for top management in network oriented multinational organizations.

## CONCLUSION

Managing the process of knowledge sharing in MNC’s is a highly complex and difficult but extremely important management task. In this article we presented our theoretical approach to investigate this process and highlighted the main variables having an influence on knowledge sharing between different organizations in a multinational environment. Given this numerous aspects which are supposed to have considerable impact on the success or failure of knowledge management in MNC’s it is comprehensible that managing knowledge sharing in such multinational organizations means an enormous challenge for managers in all parts of the organization. Moreover, it is not very surprising that managers often claim that knowledge management in many cases does not show the desired effects.

The empirical part of our research project started in summer this year. Thus, at the moment we are testing our model of knowledge sharing in MNC’s by carrying out qualitative and semi-structured interviews in nine multinational companies. Within each company, we interview three respondents ( $n = 3$ ), at the headquarter and in two more subsidiaries ( $n = 3$ ) in different countries, in the end – the data collection process is expected to be finished in spring next year - we will have data from 81 interviews ( $N=81$ ). In addition to the qualitative and semi-structured interviews, we are going to analyze a few exemplary knowledge exchange processes (e.g. via e-mail) to gain further insights on how the knowledge exchange takes place in the investigated companies and by which variables the transfer and the application of knowledge is influenced. The goal of our research project is to identify the most critical factors referring to successful knowledge sharing in MNC’s and to show reasons for the functioning or non-functioning of knowledge management systems. With our findings we hope to be able to provide useful hints for knowledge managers to cope with the difficulties of learning in and from a multinational environment so that the great learning potential lying in the diversity of multinational organizations can be used as much as possible as a competitive advantage.

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