

Literature Review on Knowledge Transfer within Multinational Company

YU Peng^{a,*} and JIANG Ling^b

^aSchool of Government, The Central University of Finance and Economics, Beijing 100081, China

^bSchool of Government, The Central University of Finance and Economics, Beijing 100081, China

Abstract. The effective transfer of knowledge, the fundamental source of an enterprise's competitive advantage, between the multinational company's internal parent firm and its overseas subsidiaries, is crucial to the multinational company's invincibility in the increasingly fierce global competition. The research on the multinational company internal knowledge transfer has become an important branch in the research field of multinational companies in the academic circle. Through clarifying the development vein of the theories of knowledge transfer within multinational company, this article sums up the four theory schools, namely the multinational company existing mechanism school, and the behaviour school, the influence factor school as well as the tool school of knowledge transfer within multinational company, and comments on each of the schools.

Keywords: knowledge transfer; multinational company; literature review

1. Introduction

Knowledge transfer within multinational company refers to the two-way flow of experiences along with the exterior information of strategic value between the multinational company's parent company and its subsidiaries and between its subsidiaries. The effective transfer of knowledge, the fundamental source of an enterprise's competitive advantage, between the multinational company's internal parent firm and its overseas subsidiaries, is crucial to the multinational company's invincibility in the increasingly fierce global competition [1]. Due to global economic environment's fluctuation, complexity and uncertainty, multinational companies will emphasize the effective transfer and integration of knowledge within the company all the more. With the emergence of knowledge economy and fiercer competition in the global competition, the research on the knowledge transfer within multinational company has become an important branch in the research field of multinational companies and is gaining attentions from more and more scholars and enterprise managers. This article will clarify the development vein of the theories of knowledge transfer within multinational company and give relevant reviews.

2. Theory School Divisions of Knowledge Transfer within Multinational Company

2.1. Multinational company existing mechanism school

The earlier period's research on the multinational companies' knowledge transfer analyses from the multinational companies' move of foreign direct investment. This article concludes it as multinational company existing mechanism school which can be subdivided into the internalization theory and the knowledge evolution theory according to the appearance time and different premises.

Firstly, the internalization theory.

* Corresponding author. Tel.: +86-13717665133.
E-mail address: ypcufe@126.com.

From the angle of transaction costs, the internalization theory explains the reason for the existence of multinational companies. According to the theory, knowledge, as public good, can be transferred freely under the condition that the marginal cost is zero. The benefit of the knowledge owners, therefore, is difficult to protect effectively which will lead to dysfunction of market transaction. This thus requires the enterprise should replace the market mechanism with the administrative mechanism, avoiding market faultiness through internalized knowledge transaction and obtaining its due profits. When the process crosses the national boundaries, multinational companies thus emerge.

Secondly, the knowledge evolution theory.

From the perspective of the knowledge-based review, Kogut and Zander explained the reason for the existence of multinational companies. According to them, the existence of multinational companies is not due to knowledge's dysfunction in the market transactions but the multinational companies' role as an effective tool in promoting knowledge transfer beyond national boundaries. Kogut and Zander denies the knowledge's attribution as public goods and clarified knowledge into explicit knowledge and implicit knowledge. The more explicit the knowledge is, the more difficult the effective knowledge transfer will be. And the enterprise, as a social community, can promote the effective explicit knowledge transfer within the enterprise. The organization form as a multinational company thus is the most effective tool in promoting knowledge transfer, explicit knowledge transfer in particular, beyond national boundaries. And the multinational companies' ability in knowledge creation and transfer will grow with the furtherance of transnational operation and becomes multinational companies' important source of gaining sustainable competitive advantage.

2.2. The behaviour school of knowledge transfer within multinational company

With the multinational company internal knowledge transfer behaviour as the research object, the behaviour school of knowledge transfer within multinational company focuses on the respective characteristics as well as the interaction process of the knowledge transfer subject (knowledge transfer unit and knowledge receiving unit) and the knowledge transfer object (the transferred knowledge).

Firstly, node role theory.

Gupta and Govindarajan view multinational companies as a network for capital, product and knowledge exchanges between different countries [2]. They view parent companies and overseas subsidiaries as nodes in the multinational companies' global network with the nodes connecting with each other in vertical or horizontal, loose or close links. Furthermore, they classify the nodes in the multinational company network structure into four role players according to the knowledge flow degree and knowledge flow direction: global innovator, integrated player, implementer and local innovator.

Secondly, knowledge flows characteristic theory.

Mudambi, according to three standards, classified the multinational company internal knowledge flow into two groups: Group one means the multinational company internal knowledge flows can be classified into lateral flows and hierarchical flows based on the different degree position of the knowledge transfer unit and the knowledge receiving unit in the multinational company; Group two means the multinational company internal knowledge flows can be classified into competitive flows, collaborative flows and autonomous flows according to the competition and cooperation relations between the knowledge transfer unit and the knowledge receiving unit.

Thirdly, knowledge transfer process theory.

EI-Sayed concluded the multinational company internal knowledge transfer process based on the communication theory and analyzed the influence factors in every stage of the transfer process. EI-Sayed divided the multinational company internal knowledge transfer process into three stages: the knowledge outflow stage in which the transfer is influenced by the two factors of knowledge sharing tendency and the value of the source subsidiary's knowledge; the transfer mechanism stage in which the transfer is influenced by the type and purpose of transferred knowledge and target subsidiary's organization context; the knowledge inflow stage in which the transfer is influenced by the tendency and capacity of knowledge absorption.

2.3. The influence factor school of knowledge transfer within multinational company

Ever since the mid and late 1990s, more and more scholars have begun to conduct theoretical and empirical studies on the various factors affecting the effective transfer of knowledge within the multinational companies. They hold that the multinational company internal knowledge transfer is with cost and have some barriers. Such studies can be concluded as the influence factor school of knowledge transfer within multinational company.

Firstly, Gupta and Govindarajan's influence factor model of knowledge transfer within multinational company.

Gupta and Govindarajan classified the multinational company internal knowledge transfer into knowledge outflows from the subsidiary and knowledge inflows into the subsidiary. There are three factors influencing the knowledge outflows from the subsidiary: value of source unit's knowledge stock, motivational disposition of the source unit, existence and richness of transmission channels. Also, three factors influence the knowledge inflows into the subsidiary: motivational disposition of the target unit, absorptive capacity of the target unit, existence and richness of transmission channels.

Secondly, Simonin's knowledge ambiguity model.

Simonin claimed that "knowledge ambiguity" is an important factor influencing the effective knowledge transfer after empirical studies on multinational strategic alliance internal knowledge transfer. The stronger the "knowledge ambiguity" is, the bigger the barrier in knowledge transfer is. Simonin says "knowledge ambiguity" originates from the common influence of numerous factors. These influence factors can be classified into knowledge proprietary factors and partner proprietary factors [3].

Thirdly, Szulanski's influence factor model of knowledge transfer.

Szulanski held there are four areas of factors influencing knowledge transfer: the characteristic of knowledge, the characteristic of knowledge source, the characteristic of knowledge recipient and the characteristic of knowledge receiving environment. Szulanski found that three kind of factors out of the four group influence knowledge transfer most after quantitative studies of 122 transfers of best practices of 8 multinational companies: the recipient's lack of absorptive capacity [4], knowledge casual ambiguity and poor relationship between the knowledge source part and the knowledge recipient part. While the recipient's lack of reservation capacity influences the least [5].

2.4. The tool school of knowledge transfer within multinational company

Despite its crucial significance in the ascension of multinational company competitive advantage, multinational knowledge transfer still faces the cross-regional and cross-cultural challenges and even a high cost cannot ensure its success. More and more scholars, therefore, concern how to promote the effective knowledge transfer within the multinational company and put forward relevant tools and methods. The article concludes them as the tool school of knowledge transfer within multinational company.

Truran classified the knowledge transfer patterns into three types: the spoken form, the written form and the media form. Among them, the spoken and media form tend to be informal communication, accounting for about 70% organizational communications, while the written form tends to be formal communication, making up the rest 30%. Hence, organization internal knowledge transfer is mostly through informal communication channels. Almeida and Grant divided the multinational knowledge transfer patterns into three types of human communication, coded transmission and embedded transfer. The human communication way includes personnel transfer, e-mail, telephone, video conferences, face-to-face conference, training programs and knowledge transfer specialist teams; the coded transmission way includes electronic data exchanges, fax, group, written reports or manuals; the embedded transfer way includes rules, procedures, orders and module integration. Davenport and Prusak concluded the ways of promoting knowledge transfer into five patterns: first, face-to-face conferences; second, the tea rooms and the conversation rooms; third, symposiums and open forums; fourth, partner cooperation or the teacher and pupil inheritance; fifth, electronic technology.

3. Review on the Theory Schools of Knowledge Transfer within Multinational Company

3.1. Review on multinational company existing mechanism school

The multinational company existing mechanism school, as a representative theory in the earlier research on multinational company knowledge transfer, well explains the reason for the existence of multinational companies. Both the internalization theory and the knowledge evolution theory view multinational company knowledge transfer as the fundamental motivation of foreign direct investment. But the basic premises and foothold of the two differ greatly. The internalization theory premises that knowledge belongs to public goods, can be transferred without marginal cost but is difficult to protect. It then concludes that the knowledge transfer within the organization due to the market failure attributes to the multinational companies' existence. But practice shows that the transfer of implicit knowledge is slow, uncertain and with high cost. Based on this, the knowledge evolution theory, overthrowing the premise that knowledge is public goods and proceeding from the transfer barrier of implicit knowledge, puts forward that the effectiveness of the multinational company internal knowledge transfer rather than the failure of market mechanism is the fundamental reason for the existence of multinational companies.

3.2. Review on the behaviour school of knowledge transfer within multinational company

Different from multinational company existing mechanism school, the behaviour school of knowledge transfer within multinational company uses the knowledge transfer as its study object, focusing on the analysis of the multinational knowledge transfer behaviour. With the changes in global competition environment, the independence and innovation of the overseas subsidiaries has consistently increased. Conforming to this trend, the behaviour school of knowledge transfer within multinational company began to study the knowledge sharing and transfer within multinational companies from the perspective of the network, and paid sufficient attention to the overseas subsidiaries' contribution to the multinational company's integrated knowledge stock and the behaviour of horizontal knowledge transfer between the subsidiaries.

3.3. Review on the influence factor school of knowledge transfer within multinational company

As the most important branch in the research field of multinational knowledge transfer, the influence factor school of knowledge transfer within multinational company is of great theoretical and practical significance. Mature in the theory system, the school has engaged numerous scholars' attentions. Based on the previous research results, the research scholars of the school all try to put forward one overall factor model affecting the effective knowledge transfer. In addition, due to the school's method of combining theoretical premises with empirical tests, the school is more real and of greater practical significance in the research on knowledge transfer within multinational company compared to the other two schools.

3.4. Review on the tool school of knowledge transfer within multinational company

Despite the diverse classifications of and discussions on the knowledge transfer tools among the school's scholars, the tool school of knowledge transfer within multinational company can be basically divided into two groups: the first are the tools relevant to codification conducive to the explicit knowledge transfer; the second are the tools relevant to human communication conducive to implicit knowledge transfer. Between the type and the tool of multinational company internal knowledge transfer exists the one-to-one relationship. On the one hand, human communication tool is only appropriate for the multinational transfer of implicit knowledge. For the human communication within multinational companies, the extra pay for cross-regional transportation and the cross-cultural cost brought by the differences in organizational cultures as well as language is needed. Therefore the cost of the human communication strategy is too high, and unnecessary high cost and resource consumption is certain when the strategy is adopted for explicit knowledge transfer. On the other hand, the codification strategy only applies for the multinational transfer of explicit knowledge. Without face-to-face communication, the codification strategy can reduce cost and achieve scale economic effect, thus appropriate for explicit knowledge transfer. But the loss of knowledge is possible when the strategy is adopted for implicit knowledge transfer due to the difficulty in the stipulation of implicit knowledge.

4. References

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