Transfer of knowledge in Multinational Corporations (MNC's) on International Projects

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***Abstract*—Based on authors experience in management and implementation of infrastructure projects for multinational corporations (MNC's) on international projects in Europe and Africa, this paper identifies main constrains in transfer of knowledge inside MNC's. In MNC's very often is necessary transfer of knowledge from parent company to subsidiary company or branches, since is an important source of competitive advantage compared with their domestic counterparts. Therefore this transfer of knowledge isn't always successful and linear, due several constrains. Since only in later stage of growth at the foreign market, subsidiaries may cumulate enough knowledge, to manage the projects with confidence, aim of MNC's are sustain free flow of knowledge inside the corporations towards less knowledgeable and experienced subsidiaries in foreign markets, enhancing possibility of growth and diversification. In this paper we identify common bottlenecks which are important to analyze and point out possible solutions which can mitigate them. In the knowledge transfer process we can identify main constrains, which are more important to analyze on this process: mechanisms, human capital, competition for resources inside MNC's, ethics and cultural barriers.**

***Index Terms*—transfer knowledge, multinational corporation, parent company, international project, ethics, cultural barrier, market competition, strategic management, competitive advantage, international business**

I. Introduction

Transfer of knowledge between parent company and its subsidiaries is considered an important issue and source of competitive advantage by many international business scholars. Actual research emphasizes that the ability to create and transfer knowledge inside MNC's is one of the main competitive advantages of MNCs compared with their domestic counterparts [1]. In fact, Kogut and Zander (1992) [2] argued that ability of MNC's to transfer knowledge more effectively and efficiently than the market is the main reason for their existence. In MNC's where knowledge is created in several parts of the MNC and transferred to various interrelated units, called "differentiated networks" [3], [4]. The conceptualization of MNCs as differentiated networks has inspired a recent stream of research on the creation, assimilation and diffusion of internal MNC knowledge. MNC's focused on a transnational strategy search not only for business opportunities in foreign markets, but also transfer of knowledge from parent company in order to increase competitive advantage on subsidiaries abroad and enhance their strategic role in innovation [5]. MNC's thrive for knowledge transfer, because besides competitive advantage, subsidiaries have more chances of development new business initiatives, which can built more competitive advantage at corporation [6], [7]. This knowledge generated at subsidiaries as an impact on MNC's performance [8]. Therefore in this transfer of knowledge, we can identify constrains which normally affect this process, inducing MNC's in loss of effectiveness on their subsidiaries activity and performance overall. Exists strategies which MNC's can implement and mitigate losses on this transfer of knowledge.

II. Transfer Knowledge Mechanisms

Knowledge is concept multidimensional with several meanings [9]. In this paper is considered knowledge as a main strategic asset of an MNC's being corporations an efficient vehicle where knowledge is generated and transferred [10]. Transfer of knowledge between parent company and subsidiaries, can be of various types: product, process or management [11], therefore isn't our aim on this paper analyze how different types of knowledge will generate constrains, since isn't predictable that transfer of know-how related to processes in a project can be significantly different of transfer knowledge related with management.

Foss and Pedersen (2004) [12] analyze articles related with transfer of knowledge in MNC's, pointing out that this process can be executed between subsidiaries trough international alliances or from parent company to the subsidiaries. Since the last relation parent-subsidiary, is more common at MNC's globally we would to dedicate a special attention to this one.

Mechanism that organizations were been used in this process are broad and include: strategic decisions,

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periodical review of subsidiary object, use of expatriates, coordination, empowerment, training, international trips, best practices and cultural changes and systems. Following Foss e Pedersen (2004) [12], we will focus further on most popular mechanisms in academic publications: expatriates, training, international trips and best practices.

H1: Transfer knowledge mechanisms at MNC's influence result of the projects.

Very often at MNC's when is necessary the knowledge transfer, very few mechanisms are used to assure effective knowledge transfer. It can be highlighted the most common problems which jeopardize the implementation of mechanisms: budget constraints, uncertainty regarding project takeoff, communication problems, limited human resources on teams. Therefore, if mechanisms aren't implemented adequately, knowledge transfer will happen at a very poor level and consequently expected competitive advantage will not be achieved at subsidiary company.

III. Human Factor-Expatriates

Individuals at MNC's are the link which guarantees creation and maintenance of knowledge in the corporation [13]. Therefore, the organization aims that; this knowledge of individuals should be shared, being necessary construction of structures and mechanisms which facilitate interaction and share of knowledge [14]. Interaction comes essentially from the fact that knowledge is not only explicit, coded, but in large scale tacit, ie, personal and difficult to materialize [15]. As much as complex, [16], independent [17] and non visible knowledge, more difficult of being transferred.

Expatriates from the parent company can have a significant role in dissemination and interpretation of parent company's knowledge at the subsidiaries [18]. They most often transfer knowledge and skills which don't exist at the subsidiary: organizational culture, technical knowledge, process knowledge, and financial and market knowledge.

Grainger and Nankervis (2001) [19] point out expatriates as senior managers which represent their organization in functions like; general directors, or directors in specific areas, like engineering, finance or marketing with the mission abroad for a long period. This period is general saw by the MNC's as internal development, being effort rewarded by benefits. In these situations, expatriates act as a link between parent company and subsidiaries, where big amount of knowledge information is handled by them [20].

Different perspectives of expatriate presence in subsidiaries was been empirically discussed. As positive, for parent company we can find benefits: high level of value exchange and dissemination of strategic organizational practices outside the organization [21]. In another way Bonhache and Brewster (2001) [22] highlight the expatriates as an important source of tacit knowledge transfer (knowledge present in human mind and shown trough behavior and perceptions). In this way is expectable that transfer of knowledge between parent company and subsidiaries trough expatriates.

H2: Use of expatriates constrains transfer of knowledge between parent and subsidiary companies.

Regarding transmission of knowledge in MNCs, we should have into account the human factor, ie all the qualities and defaults of one's personality. Often the transmission of knowledge happens due superior hierarchic orders and in the absence of a prior assessment of the actual knowledge of the technician who is supposed to convey this information to expatriates. After the process beginning, the transmission can be efficient and lead to the implementation of successful projects, but can also be suspended for lack of effective know-how that is required by the other part. How complex is the human factor, the shortcomings of parts that are supposed to transmit and receive information, appear often disguised in excuses that do not benefit the development of projects.

Often also grows a sense of injustice from individuals who transfer their knowledge, since they not perceived reciprocal immediate advantage in their relationship. However, with the evolution of the process, the coordinators of both parties should stress the importance of the exchange of knowledge for the good of the MNC.

IV. Competition for Resources: Inside and Outside of MNC's

Concept of competition multimarket it respects competition between companies in different markets simultaneous [23]. Concept application to MNC's can find is purpose, since we saw MNC's as a network of units or subsidiaries, differentiated and with different roles [24]. In this case we can infer that multimarket competition intra-MNC's predicts that MNC's can have competitive behaviors. In certain MNC's is evident that subsidiaries can have a high level of autonomy on their business development [25].

It's reasonable to assume that MNC's search for access of disperse knowledge, where subsidiaries have an active role in the development of new competences. According with Pearce (1999) [26] taking into account their market proximity where they develop their business, rather the individual that corporation headquarters.

Indeed, it can be found several reasons for existence of competition between subsidiaries. For example, internal rivalry at MNC's with other subsidiaries for parent company allocation resources. In competition for similar resources, their antagonism or pretension for start multimarket competition probably will raise [27].

Competition among subsidiaries also can appear in geographical and product diversification processes. If it lacks effective mechanisms of coordination, integration and control, more autonomous subsidiaries, at least the more innovative increase their range of competences and looks placement of their portfolio out of the core business. Therefore, overlap can happen with markets of other subsidiary and competition starts with successive retaliations [28]. When markets of subsidiaries overlap, already exists a multimarket competition.

A competitive game can start, where cooperation should happen. Competition between subsidiaries can a result of mandates not sufficient defined. If rights, obligation, responsibilities and objectives will be not sufficient defined can appear conflicts. Each subsidiary looks for protection of their interests and if it overlaps, competition intensifies.

Indeed operations of each subsidiary may benefit from inputs of another subsidiary, and the possibility of joining complementary assets and resources, access to various technologies, experiences and skills that individually do not have. Rational option, then, would seem the adoption of collaborative behavior and collusion. Thus, the international transfer of knowledge will be more likely to occur when the subsidiaries cooperate and less likely when there are competitive pressures. The decision to transfer or not a given knowledge will take into account whether the bonds of cooperation or competition with the other subsidiaries.

Another crucial difference is that interactions between headquarters and subsidiaries are carried across national borders. Geographical distance involve difficulties in managing and operating the market that will manifest, even in differentiated communication degree between subsidiaries, making the overall management of the MNC's [29].

H3: Competition for resources at MNC's between subsidiaries generate constrains in project development or creates a positive input.

In one hand, competition for resources, will determine which projects will be successful at MNC's since not all the projects will benefit from same level of expertise trough experienced technicians and available technological tools. Therefore in other hand, admitting that projects are well selected in fair and feasible economic approach, this competition for resources also will create a positive outcome, trough natural selection, since only the best and feasible projects will benefit from available knowledge at MNC's.

V. Ethics and Cultural Barriers

At MNC's context, cultural and diversity can have a very powerful impact on knowledge processes [30] and, since international business life is connected to people's mobility and their interaction, with crossing national borders, factors such as understanding, tolerance, value system, impacts of multinational environment, languages and behavioural diversity [31] have become very important. Expatriates are seen as an important source of identifying new knowledge and transferring implicit knowledge in multinational corporations [18]. MNC's often assign expatriates to foreign subsidiaries with the intend of transferring knowledge; however, research is lacking in connection with their strategic role in facilitating knowledge transfer and in enhancing foreign direct investment performance [32].

Capacity for transfer knowledge not only depends on recipient absorption capacity [33], but also depends on transfer facility (which will be minor as tacit can be the knowledge and difficulty of codification) [34], trough cultural barriers and physical distance between parent and subsidiary companies.

In other hand "ethical dilemmas in organization can be expressed as less clear situations, problems that put managers in difficult positions, wanting to take the best decision for the society's performance" [35]. Transfer of knowledge also, creates ethical dilemmas, since knowledge is considered a strategic asset very often it can happen confidentiality breaks and important know-how leaks towards local competition.

VI. Strategies to Enhance a Better Transfer of Knowledge in MNC's

Trough the discussion on this paper we could observe the importance of knowledge transfer at MNC's. Since very often is identified constrains mainly due human factor, competition for resources or ethical dilemmas and cultural barriers, it's important to point out strategies and mechanisms which can be used by MNC's on improvement of their knowledge transfer between parent and subsidiaries.

- Human capital is the most important factor which can be improved trough trainings and international trips, which enable a better communication between persons involved in the project;
- Investment in information systems, that allows formalization of information that result from projects executed at MNC's. Therefore this can be easily accessed through electronic documents and databases.
- Reward personal that transmits and disseminate knowledge at MNC's.

VII. Conclusion

Transfer of knowledge at MNC's in international projects is an important source of competitive advantage and constitutes mains reason of MNC's existence. Constrains can be observed mainly in the mechanisms used, human factor, competition for resources and ethical and cultural barriers in this process. In this way, trough empirical recommendations, there are several ways for improvement like trainings and international trips, which enable a better communication between persons involved in the project; Investment in information systems, that allows formalization of information that result from projects executed at MNC's. Therefore this can be easily accessed through electronic documents and databases; and reward personal that transmit and disseminate knowledge at MNC's.

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