

# Analyzing Knowledge Processes – Knowledge Transfer in Theory and Practice

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*Abstract: This paper examines multinational enterprises from the perspective of knowledge management. It has two goals: based on recent management research, it highlights first a few critical issues of knowledge transfer at multinational companies. After the review of literature, knowledge sharing is studied with the help of a research project conducted with the participation of the authors of this paper. The Central and Eastern European International Research Team (CEEIRT) – researchers from universities in Central and Eastern Europe – is studying the trends in the changing HR practices. Using data on 74 Hungarian subsidiaries of multinational enterprises, this paper analyses knowledge transfer aspects in the HR practice and compares them with international research results. Through this, the article contributes to better understanding of knowledge transfer processes within multinational organizations.*

*Keywords: knowledge transfer, subsidiaries of multinational companies, reverse knowledge transfer, competence development*

## 1 Introduction

Multinational enterprises play an important role in the Hungarian economy. In 2009, the value of FDI exceeded 40 % of the GDP [13]. The contribution of these companies to the Hungarian export is considerable, and they employ approximately 20 % of people working in the private sector. Their human resource solutions have an impact on the practices of other actors of the economy.

Meanwhile, multinational companies are also important playground of learning [20, 14] and of cross-border knowledge transfer [17]. They also play critical roles in knowledge sharing, since mergers and acquisitions provide excellent opportunities for both parent and subsidiary to renew their knowledge base and to add new knowledge to it [23, 11, 19, 14].

This article presents findings of a research, which was conducted within the framework of a long-term cooperation between researchers of Central and Eastern European universities (Central and Eastern European International Research Team: CEEIRT). This team examines the changing HR practices and functions which can be observed in this region and in Hungary, and which take place in subsidiaries of multinational companies as result of social and economic changes.

The article focuses on diverse aspects of knowledge transfer. The aim is to analyze the specific features of knowledge transfer in international companies, precisely in the field of human resources. This objective is justified by researches [5, 14, 21, 17 etc.] which emphasize the importance of the aspects of knowledge management and learning in the case of multinational organizations; however, they don't get the attention they deserve although the companies often fail due to lack of it.

## 2 Research methodology

Within the framework of the project, HR functions and practical solutions were analyzed, by using the tools of benchmarking. This study uses information, which was gained from 74 Hungarian subsidiaries of multinational companies (personal interview at 62 companies, online questionnaire at 12 companies). About 80% of the interviewees were top managers or top HR managers and the majority of them (60%) had spent at least 3 years in their current positions. Our statements are based on descriptive statistical data (frequency, distribution, average).

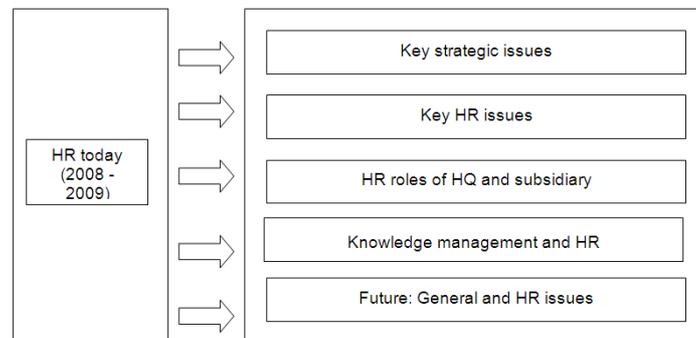


Figure 1

Research model (Source: own construction)

The research included several issues of HR (Figure 1). We also wanted to learn how the aspects of knowledge management are present in the field of HR, especially those of knowledge transfer. The findings are analyzed in this paper, which builds on one hand upon the results of international research and upon our own previous research in the field of HR [4, 10, 12]; and on the other hand, upon

the research conducted internationally [14, 21, 17] and by our faculty in the area of knowledge management [7, 8, 9].

### **3 International aspects of knowledge management**

Changing business environment made organizational knowledge a critical factor of sustainable competitive advantage. Knowledge transfer plays a critical role in long-term existence of the organization: it has strategic importance. In the following section of the paper, international dimensions of knowledge management will be analyzed.

When studying knowledge management features of multinational companies we can turn to the model which was developed by Marquardt and Reynolds [14] about global learning organizations, and which shows very well how big the variety of factors is, which have to be considered. In the learning processes of internationally operating organizations, critical factors are location [21, 23], the distance between the involved units, political issues, what is the organizational culture of the company like [23], what is characteristic of the strategy, structures and communication processes, language skills [22] or intercultural skills of the leaders. Based on international research, we examine these factors from the perspective of knowledge transfer.

#### **3.1 The directions of knowledge transfer**

Research usually shows a leading role of corporate headquarters in knowledge transfer of multinational companies, which means that a vertical knowledge transfer is characteristic of the companies: knowledge is transferred from the corporate centre to the subsidiaries. It is assumed that it is basically the subsidiary that learns from the parent; and there is no important knowledge flow in the other direction [23]. However, more and more research [23, 1] underpins a strengthening role of subsidiaries in organizational knowledge transfer. They contribute not only to the vertical but also to the horizontal knowledge transfer, if they own knowledge that is useful for both parent and other subsidiaries.

##### **3.1.1 Strategy and knowledge transfer**

If we want to analyze the directions of knowledge transfer, we have to consider the strategies of multinational companies. Bartlett et al. [2] identify four kinds of strategic mentality. International strategic mentality is the earliest stage of internationalization, when technology and other kinds of knowledge, generally are transferred from the parent company to the subsidiary. Multinational strategic mentality shows that strategy is based “on the foundation of multiple, nationally

responsive strategies of the company's worldwide subsidiaries". In companies with global strategic mentality, manufacturing, research and development are mainly managed from the headquarter; and also most strategic decisions are taken at the centre. Companies with transnational strategic mentality acknowledge the importance of flexible and responsive country-level operations. The methods of knowledge transfer which are identified by DeSouza and Evaristo [6] may be connected to the above described strategies. There are three kinds of vertical knowledge transfer that embody three strategies of knowledge transfer in global enterprises: strategy commissioned in the headquarter of the company and which is carried out at the local subsidiaries; strategy developed in the headquarter and carried out regionally; strategy developed regionally and carried out locally.

### **3.1.2 Conventional vs. reverse knowledge transfer**

Yang et al. [23] emphasize that mergers and acquisitions provide good opportunities for the organizations to supplement or renew their knowledge. Knowledge flows within multinational companies include along with the traditional vertical knowledge transfer from the headquarter to the subsidiaries and also knowledge transfer in the opposite direction, knowledge flows from subsidiary to headquarter, the so-called reverse knowledge transfer. They show that the determinants of conventional and reverse knowledge transfer are based on different transfer logics. Conventional knowledge transfer is probably "transplantation" or "supplementation", where subsidiary generally adapts the knowledge coming from the parent company. Reverse transfer is more complicated than conventional knowledge transfer, so knowledge characteristics play more important role than in conventional transfer. Subsidiaries may be motivated by the opportunity though, that they can strengthen their position through the transfer of knowledge within the whole organization, and that the parent company is interested in the knowledge transfer if it is beneficial for it from some point of view. For this, the parent company may recognize new knowledge of the subsidiaries and its possible advantages.

## **3.2 Critical actors of knowledge transfer**

Since international business life is connected to people's mobility and their interaction, with crossing national borders, factors such as understanding, tolerance, impacts of multinational environment, languages, accent, behavioural diversity have become more important than ever [3]. We usually distinguish two kinds of assignments in multinational organizations: assignees arriving from the parent company or from a third country to a subsidiary (expatriates) and the assignees from a subsidiary appointed for a long-term stay abroad at the parent company (inpatriates). Expatriates usually transfer knowledge and skills which don't exist at the subsidiary: organizational culture, technical knowledge, process

knowledge, financial and market knowledge. Along with this, they take home new knowledge, because they work in a multicultural workforce, they deal with different cultures, with different people and different attitudes. The expatriates benefit from the assignments, since their reputation and international competence improve. Hence, as an outcome of their assignment abroad, a two-way knowledge transfer becomes reality. Organizations are interested in using the knowledge and experiences of the expatriates the best possible way, for the sake both of the organization and the individual. Expatriates contribute to the reverse knowledge transfer of multinational organizations. However, in order to have a chance to do this, organizations have to develop knowledge-oriented views and also to develop and sustain a supportive collaborative organizational culture [3, 18]. The repatriation process affects the retention of these people, how their international experience and expertise is retained for the organization.

When analyzing the role of expatriates we also have to talk about the fact that a critical, though neglected factor in the knowledge transfer of multinational companies is the knowledge sharing ability of the sharing person. This is why we have, in this process, to pay attention to the abilities and willingness of expatriates to transfer knowledge [15, 16]. Disseminative capacity of the expatriate or knowledge sender depends on both ability and willingness to share knowledge. Multinational companies have different ways to develop the desired skills and competences of expatriates to transfer knowledge: long-term assignments abroad can strengthen the willingness of expatriates to transfer knowledge and at the same time, their knowledge transfer skills can also improve, through their involvement in diverse short-term projects, or other unique solutions. However, not only characteristics of the knowledge sender but also characteristics of knowledge, and of the receiver of knowledge, and the relationship between sender and receiver influence the degree of knowledge transfer from headquarters and subsidiaries [16]. Along with knowledge management initiatives coming from the centre, we also have to mention the importance of expatriates from regional centres. This mobility gives the opportunity, to adapt faster and more flexibly, instead of adapting centrally developed solutions.

## **4 Managing knowledge in the field of human resources**

Our statements regarding knowledge management features of practices in the field of HR are based on answers that we gained by using two different methods. First, there were questions explicitly addressing knowledge transfer features of the organizations under survey, second, there was information regarding other HR issues; but which we also were able to explain from the perspective of knowledge management, since they may have implications for knowledge management. In

focus was competence development, and factors that have an impact on it. We sought answers to questions such as:

- Who plays a more important role in the organizational learning and in knowledge transfer: is it the headquarter, or is it the subsidiary?
- In what direction does knowledge flow and what are its enablers?
- How does knowledge transfer take place within the international organization.

First, we sum up our statements regarding the competences which are viewed as important.

## **4.1 Desired competences in human resources management**

### **4.1.1 Changes in the importance of HR functions and required competences**

In the period examined, employee communication was first in the ranking of HR areas considered to be the most critical, most important HR functions. Respondents indicated that HR planning and talent management similarly critical. This is reflected in the answers to the question regarding critical skills and competences. From a variety of the managerial competence fields of HR managers – such as personal credibility; change management; business knowledge; teamwork; strategic contribution; traditional HR services; knowledge of foreign languages; the use of information technology in HR and knowledge sharing competence – respondents found

- the ability to ensure personal credibility (achieving results, effective relationships, communication skills) (84%);
- change management capability and skills (68%), and also
- appropriate business knowledge (66%)

to be the three most important ones.

### **4.1.2 Competence development**

We studied the most important personal competence development possibilities in the field of HR from three perspectives. We sought a) information regarding formal/informal learning, b) regarding the place where formal learning takes place (local vs. headquarter administered training and development), and c) the possibilities to learn as result of work-related mobility. We added to these dimensions also the dimension of intercultural trainings.

What respondents held for the most powerful method of HR competence development and consequently, for the best learning opportunity, was local training and development, and informal learning on the job. They also found formal learning important. What we see regarding informal learning, corresponds to the well-known fact; according to which people learn most and best during

work; from their closest co-workers, by experience, by doing activities. However, the priority of local learning as opposite to learning in the company centre may have different causes and requires further investigation. Learning in the centre received much lower scores, and so did mobility, these latter ones did not contribute to the competence development comparably to the methods described above. This regards both the mobility between parent and subsidiary, and between subsidiaries. In the surveyed period of time, respondents held intercultural trainings for the least influential means of personal HR competence development.

## 4.2 Knowledge flows

### 4.2.1 Knowledge transfer between parent and subsidiary

From the factors, which facilitate knowledge transfer between parent and subsidiary (Table 1), the research project examined the motivation towards knowledge sharing, knowledge transfer abilities, and also the way of knowledge transfer and the kind of transferred knowledge. From these factors, respondents found the ability to transfer knowledge and motivation to transfer knowledge as most important factors, and as the most important enabler of knowledge processes.

| Knowledge flow enablers          | The average of the answers |
|----------------------------------|----------------------------|
| Ability to transfer knowledge    | 2.56                       |
| Motivation to transfer knowledge | 2.63                       |
| Method of knowledge transfer     | 2.71                       |
| Type of knowledge                | 3.08                       |

Table 1

The enablers of knowledge transfer (on a 1⇒5 scale, average) (Source: own construction)

Respondents also meant that the knowledge transfer processes, which are practiced in their own organization, are the most important knowledge flow (Table 2). Knowledge flow from the parent to the subsidiary is the second most important flow of knowledge. It corresponds to the opinion of the respondents regarding the most important forum of knowledge transfer: the most important forum of knowledge acquisition is training and development at the local subsidiaries. The respondents found much less important yet still considerable the importance of knowledge flows between subsidiaries. This also corresponds to what they said about the moderate importance of mobility between subsidiaries. Very few respondents found that the company centre shows any interest for HR experiences gained at subsidiaries and suggestions coming from there. This finding does not support the statements of research according to that reverse knowledge transfer is getting more important in the knowledge transfer processes of multinational companies.

| Knowledge flows in HR                     | The average of the answers |
|---|----------------------------|
| Knowledge flows within subsidiary         | 2.56                       |
| Knowledge flows from parent to subsidiary | 2.63                       |
| Knowledge flows between subsidiaries      | 2.71                       |
| Knowledge flows from subsidiary to parent | 3.08                       |

Table 2

HR knowledge flows (on a 1-5 scale, on average) (Source: own construction)  
*(Explanation: 1=critical ⇒ 5 =not critical)*

#### 4.2.2 Knowledge transfer from outside the organization

External HR service providers also contribute to the learning processes in the organizations (e.g. consultants). As data show (Table 3), external service providers were used most often in training and development. If we view key HR functions from the perspective of knowledge management we have to mention that in human resource planning and in performance appraisal, almost none of the companies used the help of external service providers.

| Key functions of HR         | Increased | Decreased | No Change | External providers not used |
|-----------------------------|-----------|-----------|-----------|-----------------------------|
| Human Resource Planning     | 1         | 3         | 3         | 67                          |
| Recruitment                 | 8         | 28        | 18        | 19                          |
| Selection                   | 7         | 21        | 17        | 28                          |
| Performance Evaluation      | 4         | 1         | 6         | 62                          |
| Training and Development    | 11        | 20        | 31        | 11                          |
| Compensation and Benefits   | 8         | 8         | 33        | 24                          |
| Industrial-Labour Relations | 8         | 2         | 16        | 47                          |
| Employee Communication      | 4         | 3         | 18        | 48                          |
| HRMS/IT                     | 9         | 3         | 23        | 38                          |

Table 3:

Role and use of external service providers in the different key functions of HR  
 (Source: own construction)

Research results regarding direction and facilitators of knowledge transfer within multinational companies were underpinned by specific knowledge management solutions of the surveyed companies.

## Conclusions

Based on both theoretical and our own empirical research, we can argue that an important strategic challenge for multinational enterprises is to develop organizational framework, which supports and improves their knowledge processes. From the specific aspects of the acquisition and the accessibility of knowledge as critical organizational resources, we can mention the distance between the organizational units, the diversity of national cultures and institutions, language diversity, changes in the number of expatriates, and the relevance of knowledge for the organization; all of these can highly influence both the importance and the success of knowledge processes.

However, specific conditions such as attitudes and motivation of the people concerned in the transfer of knowledge plays a role in successful fulfilment of goals. According to the findings of the survey conducted among Hungarian subsidiaries of multinational companies, success of the knowledge transfer is dependent on the ability of the person to knowledge transfer and on the motivation to knowledge transfer, that is on his/her communication skills.

Results of the research also highlight that it is necessary to expand this research. There are several issues, which remain unanswered at this moment and need further research.

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