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List of Abbreviations

KM	Knowledge Management
KT	Knowledge Transfer
FDI	Foreign Direct Investment
BRIC	Brazil, Russia, India, China
MNC	Multi-National Corporation
SME	Small and Medium sized Enterprise
EMM	Emerging Market Multinational Corporation
CEO	Chief Executive Officer
EU	European Union
GDP	Gross Domestic Product
USD	United States Dollar (currency)
NGO	Non-Governmental Organization
IPR	intellectual property rights
JV	Joint Venture
IJV	International Joint Venture
EJV	Equity Joint Venture
CJV	Cooperative Joint Venture
R&D	Research and Development

Abstract

This master thesis deals with the topic of knowledge transfer into emerging economies. Against the backdrop of the market entry of a Russian based company into China, this paper tries to outline the theory behind practice and provide practical evidence for the topic of knowledge transfer into emerging markets.

The thesis starts with the theoretical exploration of knowledge and its management, especially knowledge transfer. Here, it focuses on the basic concepts of the knowledge management framework, especially elaborating each component such as knowledge itself, types of knowledge, its characteristics and the process of knowledge creation. On this basis, different models and modes of knowledge transfer are presented by concentrating on the versatile terminology in the knowledge transfer literature.

Thereupon, this thesis outlines the theory behind emerging economies, specifically related to the BRIC economies. Hence, the idea of finding a contemporary and uniform definition of emerging economies frames the concentration of the topic while regarding current and future trends in global economy. In its core, the scientific question focuses on the knowledge transfer process to China.

As part of the practical work, this thesis provides a case study that is built upon the prior provided theoretical frameworks of knowledge transfer and emerging markets. Based on this qualitative approach, the reasons how a Russian-based company entered the Chinese market and successfully maintained its existence for almost 10 years are presented. Core of this study represents the knowledge created in Russia and its transfer to an emerging market like China. In particular, it is of interest how the knowledge transfer process is conducted regarding the environmental, legal and cultural background of two emerging economies.

Key words: knowledge management; knowledge transfer; emerging markets; market entry; global corporate strategy; knowledge-based theory

Abstract (German)

Die vorliegende Masterarbeit befasst sich mit Wissensmanagement bei Markteintrittsstrategien in Schwellenländer. Vor dem Hintergrund des Markteintritts eines russischen Unternehmens in China, wird zunächst eine theoretische Grundlage rund um Wissensmanagement und Wissenstransfer geschaffen. Hierbei geht man zunächst auf die Grundkonzepte des Wissensmanagements ein, insbesondere auf die einzelnen Bestandteile wie bspw. Wissen, Arten von Wissen, Charakteristiken von Wissen und den Prozess der Wissensbildung. Darauf aufbauend, erfolgt eine strukturierte Darbietung der verschiedenen Formen und Modelle des Wissenstransfers. Hierbei wird insbesondere Wert auf die verschiedenen Dimensionen der Wissenstransferterminologie gelegt.

Danach bildet das theoretische Gerüst um Schwellenländer, insbesondere auf die BRIC Staaten bezogen, den weiteren Faden dieser Arbeit. Es wird versucht, eine einheitliche Definition zu finden und dabei die aktuellen und zukünftigen Entwicklungen in der globalen Wirtschaft zu berücksichtigen. Kern der theoretischen Fragestellung bildet letztendlich die Frage nach Ursachen und Hintergründen im Prozess des Wissenstransfers nach China.

Im Zuge des qualitativen Teils wird aufbauend auf der theoretischen Grundlage eine Fallstudie entwickelt. Diese soll detailliert aufzeigen, wie ein russisches Unternehmen den chinesischen Markt betreten und es geschafft hat, sich ganzheitlich dort für fast 10 Jahre zu positionieren. Im Hauptaugenmerk dabei liegen das vorher in Russland über Jahre geschaffene Wissen und der Wissenstransfer in ein Schwellenland wie China. Dabei ist von besonderem Interesse, wie dieser Prozess abläuft, wenn der Transfer von einem in ein anderes Schwellenland erfolgen soll, und zwar unter Berücksichtigung der wirtschaftlichen, gesetzlichen und kulturellen Gegebenheiten.

Abschließend wird ein Resümee über die Ergebnisse gezogen und ein Ausblick auf zukünftige wissenschaftliche Fragestellungen gegeben.

Schlüsselwörter: Wissensmanagement, Wissenstransfer; Schwellenländer; BRIC; Markteintrittsstrategien

1. Introduction

In the course of time, knowledge has emerged to one of the most central resources a firm can call their own.¹ To catch up with current shifts and trends in technology, opportunities in emerging economies or improvement of competences, it is the utmost for every organization to ultimately advance the creation of new rather than capture old knowledge. Thus, contemplated by the massive process of globalization in our modern world, firms look for worldwide business ventures and partnerships to evidently reap the fruits from strategic collaborations, such as joint ventures or strategic alliances. In this perception, the course of knowledge transfer is being explored. Commonly, knowledge-based activities are seen by researchers as the fundamental sustainable competitive advantage. The creation and accumulation of such should be the prime aim of every firm in order to ensure long-term competitiveness and resulting out of this, survival.

In this respect, I will focus on the knowledge transfer of firms while entering into emerging economies, especially China. Here, for example FDI undertakings gained popularity over the recent years. Thus, main questions arise on this topic. What are the reasons for entering emerging markets (besides large economies of scale) and how is knowledge allocation handled within and across firm boundaries? Should a firm exploit its knowledge that could be one of their core competences and share some of their competitive advantage or take an explorative approach? What consequences do firms face when entering into cooperative agreements with apparently problematic countries regarding intellectual property? How do firms with extensive expertise and know-how protect their core competences towards possible fraud and trademark abuse? How do they overcome copy cats in China? Additionally, how do firms from western countries learn from past experiences or profit from the experiences of other vendors looking for profit in China for example? Finally, what is the best entry mode in order to gain the most of it and prevent from being outdueled in a high-potential market?

¹ Nonaka (1991)

These questions will draw the basic idea of the master thesis. It will also highlight some examples of current and past cooperative agreements or tryouts that failed or succeeded due to several reasons.

Based on this, practical evidence will be provided by using the case-study method to examine knowledge transfer activities of a Russian-based vendor that is successfully active in making business with its Chinese partners. The focus will be on the process of knowledge transfer during the partnership based on interviews and observation.

This paper consists of three big blocks and is set up as follows:

First, it outlines the basic idea behind knowledge management (KM) and especially knowledge transfer (KT) within this area of research. Here, the term *knowledge* will be described and classified. Then, knowledge transfer will be discussed deliberately, including definitional approaches to the term itself, different models of its process and mechanisms used for it followed by the presentation of determinant factors for effective transfer of knowledge as well as limitations of knowledge management itself.

Second, light on the topic of emerging markets is shed. After the definition and importance of recent emergence of such markets, characteristics are classified. The vital role of emerging markets in nowadays globalization is being discussed and linked to MNCs' business operations within this context. In order to remain competitive and challenging, strategies for MNCs from developed countries that are fitting the conditions of emerging markets are presented. Next, the BRIC economies are presented roughly by giving an overview over characteristics of each economy and outlining the environmental conditions of each country.

Third, building upon the characteristics of the emerging economies of Russia and China, a case study is conducted to practically provide evidence for knowledge transfer activities into and out of emerging economies.

Finally, the last section sums up the main findings of the thesis while focusing on future research implications and critical acclaim.

2. Knowledge Management

“In an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge.”²

This statement yields the importance and meaning of knowledge and its practice in uncertain environments. Thus, dealing with knowledge transfer into emerging economies, it is important to prior clear the theoretic background of knowledge transfer itself and of course the whole concept behind knowledge management, since the transfer of such representing a building block.

Thus, knowledge management resembles the improvement of capabilities due to the use of existing internal knowledge resources within an organization.³ So, core processes of knowledge management which are closely linked to each other and are interdependent have been derived. Hence, changes in individual core processes impact the other processes as well. In recent management literature, the following are considered as the fundamentals of knowledge management: goals, identification, acquisition, development, distribution, preservation, utilization and measurement (Figure 1).⁴

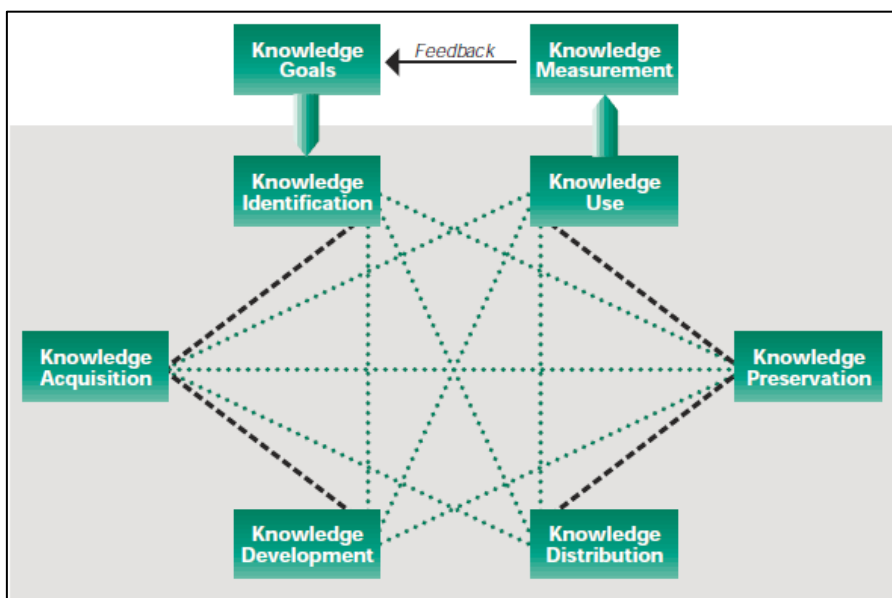


Figure 1. Fundamentals of Knowledge Management (Source: Probst 1998, p. 19)

² Nonaka (1991, p.96)

³ Probst (1998, p.17)

⁴ Probst (1998, p.19)

These building blocks simplify the process and structure of the KM cycle.⁵ In the following, these fundamentals are presented briefly.

Knowledge goals

The determination of knowledge goals is a core task of management and assists as a basis for monitoring and implementation.⁶ These refer to knowledge-related business goals at the normative, strategic and operational level and give learning a direction respectively verify the success of KM.⁷ Normative knowledge goals set the basis for knowledge-responsive corporate cultures in order to prepare organization for knowledge creation and share. Strategic knowledge goals present the core competences of an organization and forecast organizational knowledge demands. Finally, operational knowledge goals secure the implementation of the prior two goal subsets.⁸

Knowledge identification

Providing transparency about internal and external knowledge is a core task among organizations. In particular, it deals with the analysis and description of knowledge in the company and in the knowledge environment.⁹ So, non-transparency is created by decentralization, globalization, restructuring and fluctuation. This leads to inefficiencies.¹⁰

Knowledge acquisition

The import of knowledge from external sources resembles the acquisition of knowledge.¹¹ The attainment of knowledge can be achieved through the following activities: Acquisition of knowledge from external providers (recruitment, external consultants), acquiring knowledge from other companies, and acquisition of stakeholder knowledge (customers, suppliers) and purchase of knowledge products.¹²

⁵ Probst (1998, p.20)

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Probst (1998, p.21)

¹⁰ Ibid.

¹¹ Probst (1998)

¹² Probst (1998, p.23)

Knowledge development

Knowledge development is considered to be a complementary component to the acquisition of knowledge, in which the production of new skills, products, superior ideas and more efficient processes is of prime aim on individual and collective levels. In terms of developing knowledge individually, being creative and simultaneously able to solve problems systematically is of vital relevance. Key areas for collective knowledge development can be seen in communication, transparency and integration.¹³

Knowledge distribution

Sharing knowledge in order to provide former isolated existing knowledge throughout the organization is absolute. Two possibilities of making knowledge available are the centralized distribution to a recipient group and knowledge share among individuals. The tasks during the distribution of knowledge are: multiplication of knowledge as well as archiving and sharing of experiences plus simultaneous exchange of knowledge which lead to knowledge creation.¹⁴

Knowledge use

Eventually, the fruitful practice of knowledge within organizational processes resembles this building block. KM must create a context in which knowledge sharing can be facilitated. Moreover, at the heart of KM lays the combination of the stages of knowledge identification and distribution and implementation of organizational systems for future knowledge creation.¹⁵

Knowledge preservation

After successfully identifying, developing, acquiring and distribution of knowledge, preservation is very important and forms pools of knowledge and skills that can be stored and retrieved at a later date. For knowledge preservation, the processes of selection, storage and updating of valuable knowledge are necessary.¹⁶

¹³ Probst (1998, p.24)

¹⁴ Probst (1998, p.25)

¹⁵ Probst (1998, p.26)

¹⁶ Ibid.

Knowledge measurement

According to the knowledge objectives defined at the normative, strategic and operational level, specific measurement methods must be available in order to evaluate KM activities. Though, there are no proven tools of measurement or indicators for evaluation.¹⁷

However, to get a clear understanding of KM, it is of necessity to define knowledge itself and its characteristics. Therefore, this chapter deals with presenting the profound ideas behind the concept of KM, dealing especially with definitions and characteristics of knowledge, different types and dimensions of knowledge and the processes of knowledge creation, sharing as well as transferring.

To seize Nonaka's introductory quote, today's organizational challenge is to adapt to uncertain and rapidly changing environments by effectively and efficiently use its knowledge managing capabilities.¹⁸ Speaking of rapidly changing environments, we can easily draw the link to nowadays global economy. Though, MNCs can only profit from a useful KM implementation within their boundaries, exploiting already existing knowledge as well as exploring new capabilities in terms of creating new knowledge.

Evidently, organizations should be seen as foundations of knowledge, being capable of knowing what they do and how to do it¹⁹. Accordingly, knowledge cannot depreciate in its value when constantly used for good, which implies constant growth in competitiveness over time. Unlike physical assets that depreciate due to usage, knowledge is only destroyed when neglected.²⁰

Apparently, effective and well-performing KM requires mutual understanding behind the perception of knowledge as well as the dimensions and limitations of KM.

¹⁷ Probst (1998, pp.27)

¹⁸ Nonaka (1991)

¹⁹ Kogut and Zander (1992)

²⁰ Inkpen (2008)

2.1 Defining Knowledge

This part is dedicated to provide a precise definition of knowledge and its characteristics.

Over the years, scientists provided several different approaches in order to define knowledge in terms of economic research. Hence, starting from Plato's traditional "justified true belief"²¹, the idea behind knowledge evolved to a more and more complex construct.²²

In recent literature, researchers claim that both knowledge creation and transfer account to firms' staves of competitiveness.²³ Prior to defining knowledge, it is important to draw a distinct line between often as synonyms used terms of knowledge, information and data.²⁴ In result, a hierarchical view of data, information and knowledge was conducted.²⁵ At the basis, there is data which has to be brought to be categorized and put into a context. Now, the data turned into relevant information and can be used by each individual to his or her convenience, becoming to knowledge over time. Consequently, knowledge represents information that has been transferred into actionable information. Figure 2 illustrates the hierarchy of data, information and knowledge.

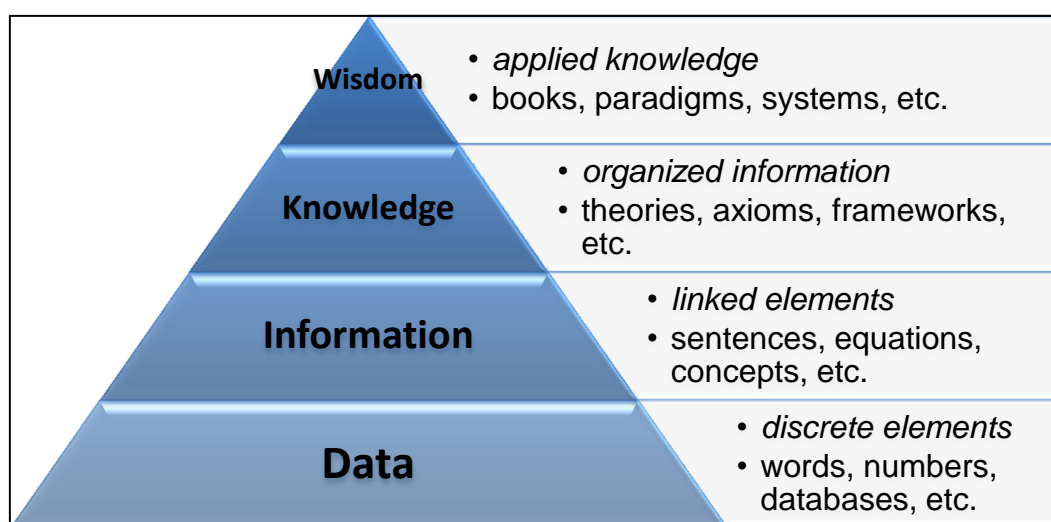


Figure 2. Hierarchical View of Data – Information – Knowledge (Source: Adapted from Awad and Ghaziri, 2004).

²¹ Small and Sage (2006, p.153)

²² Nonaka (1994, p.15)

²³ Argote and Ingram (2000, p.150)

²⁴ Alavi and Leidner (2001, p.109)

²⁵ Awad and Ghaziri (p.150); Roberts (2000, p.430)

Alternatively, information is “knowledge which can be transmitted without loss of integrity once the syntactical rules are required for deciphering it are known”, more precisely “knowing what something means”²⁶ In addition, information develops knowledge, yet information is not contingent upon one’s personal experience.²⁷

Nevertheless, many scientists often consider information and knowledge as synonyms despite their distinct nature.²⁸ Thus, information is defined as a “flow of messages”²⁹ while knowledge being “created and organized by the very flow of information.”³⁰ Other research claims, knowledge means a “fluid mix of framed experience, values, contextual information and expert insight that provides a framework for evaluating and incorporating new experiences and information.”³¹

Additionally, knowledge is considered to be a “dynamic mix of individual, group, organizational experiences, values, information, and expert insights”³², adding that it “originates in the minds of the individual knowledge worker and emerges as individual knowledge workers interact with other knowledge workers and the environment”³³. So, knowledge can be seen as “understanding gained through experience or study (...) know-how (...) that enables a person to perform a specialized task.”³⁴

Therefore, it is quite difficult to present a general definition of knowledge because of the variety of explanations in literature. However, keeping up with its economic conception, the definitions above will serve as the basis for the definition in use.

²⁶ Kogut and Zander (1992, p.386)

²⁷ Nonaka (1994)

²⁸ Ibid.

²⁹ Nonaka (1994, p.15)

³⁰ Ibid.

³¹ Davenport and Prusak (2000, p.4)

³² Small and Sage (2006, p.154)

³³ Ibid.

³⁴ Awad and Ghaziri (2004, p.57)

2.2 Knowledge Typology

Every organization faces different sets of strategies when it comes to KM. The strategic orientation depends on knowledge involved and its typology. Therefore, it is important to differentiate between several types of knowledge that are embedded in two dimensions. Hence, the cognitive dimension includes tacit and explicit whereas the organizational dimension contains individual and collective knowledge.³⁵

The cognitive dimension

In this dimension, authors distinguish between explicit also known as codified and tacit also known as implicit knowledge. As a matter of fact, individuals possess clearly more knowledge than they are able to share and thus, knowledge that can be transferred through words and numbers represents only a fraction of available knowledge.³⁶

First, explicit knowledge is transferable in formal, systematic language and indicates that knowledge is formed without any directly involved personal participation and hence, it is not difficult to transfer and share such knowledge among a group of individuals because of its ability to be translated easily.³⁷ Such knowledge is characterized as easy to reproduce, more exposed to replication by competitors as well as easier to share and codify.³⁸

Second, tacit knowledge “has a personal quality, which makes it hard to formalize and communicate [and] is deeply rooted in action, commitment, and involvement in a specific context.”³⁹ Therefore, tacit knowledge is hard to transfer as well as to codify. Additionally, tacit knowledge consists of technical and cognitive elements.⁴⁰ More precisely, the “technical element covers concrete know-how, crafts, and skills that apply to specific contexts [whereas] cognitive knowledge include schemata, paradigms, beliefs, and viewpoints.”⁴¹

³⁵ Alavi and Leidner (2001); Nonaka (1994)

³⁶ Polanyi (1966, p.4); Nonaka (1994, p.16)

³⁷ Nonaka (1994, pp.16)

³⁸ Inkpen and Ramaswamy (2006)

³⁹ Nonaka (1994, p.16)

⁴⁰ Ibid.

⁴¹ Ibid.

The organizational dimension

In this dimension of social interaction, knowledge can be transferred from one individual to another.⁴² According to that, individual and collective knowledge are in the midst of attention.

The former type is created respectively designed individually while the latter type is created by more than one individual through social interaction within the firm. Hence, individual knowledge contains the sum of “individuals’ competencies, information and knowledge”⁴³ while collective knowledge is depicted as the “accumulated knowledge of the organization stored in its rules, procedures, routines and shared norms which guide the problem-solving activities and patterns of interaction among its members.”⁴⁴ Hence, the prime aim of KM is to transform the large amount of individually created knowledge into valuable collective knowledge. Thus, Figure 3 illustrates all types of knowledge that originated from the combination of both dimensions.

		organizational dimension	
		individual	collective
cognitive dimension	implicit	embodied	encultured
	explicit	embrained	embedded
			encoded

Figure 3. Knowledge Typology (Source: Adapted from Blackler, 1995).

⁴² Nonaka (1994, p.17)

⁴³ Matusik and Hill (1998, p.683)

⁴⁴ Lam (2000, p.491)

2.2.1 Knowledge Characteristics and Attributes

Knowledge is in its character distinct from that of other organizational resources such as tangible assets for instance. In this respect, knowledge is resistant against wear and tear and does not depreciate. Furthermore, knowledge can simultaneously be in possession of multiple individuals respectively organizations. Though, its transfer cannot be monitored and its value is rather hard to measure. So, knowledge evolves cumulatively and is embedded in organizational KM activities.⁴⁵ Thus, these characteristics of knowledge mirror the strengths and weaknesses of possible KM activities within and across organizational boundaries.

Although, knowledge is of multifaceted character, there are also specific attributes that are attached to it. These are identified as the following: codifiability, teachability, complexity, system dependence, product observability.⁴⁶ These attributes guide measurement opportunities in order to evaluate to which degree capabilities have been shared and understood within organizations.⁴⁷

Codifiability represents the “degree to which knowledge can be encoded, even if the individual operator does not have the facility to understand it”⁴⁸ while teachability represents the “extent to which workers can be trained in schools or on the job [and] reflects the training of individual skills.”⁴⁹ Complexity resembles “inherent variations in combining different kinds of competences”⁵⁰ and system dependence the “degree to which a capability is dependent on many different experienced people for its production.”⁵¹ Finally, product observability defines the “degree to which capable competitors can copy the manufacturing capability, because they are able to manufacture the innovation once they have understood the functions of the product.”⁵²

⁴⁵ Inkpen (2008); Inkpen and Ramaswamy (2006)

⁴⁶ Zander and Kogut (1995, p.79)

⁴⁷ Zander and Kogut (1995)

⁴⁸ Zander and Kogut (1995, p.79)

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

2.3 Knowledge Creation

Knowledge creation is mainly driven by the individuals of each organization.⁵³ In this respect, knowledge is considered to be the product of the “interplay of human capital (employee knowledge and skills) needed to meet product or customers’ needs, structural capital (organizational capability to respond to market demands) and customer capital (the strength of a customer base).”⁵⁴ Three different models of knowledge creation are evident in recent literature. For the sake of completeness, these are the SECI model, the BA model and the leadership model.⁵⁵ However, due to the focus of this thesis to knowledge transfer, only the first-mentioned is being presented because of its contribution to the KM literature.

The SECI model

The SECI model describes the conversion of tacit and explicit knowledge which over time enables the spiral of knowledge creation.⁵⁶ In accordance, four modes of knowledge conversion are determined in Figure 4.

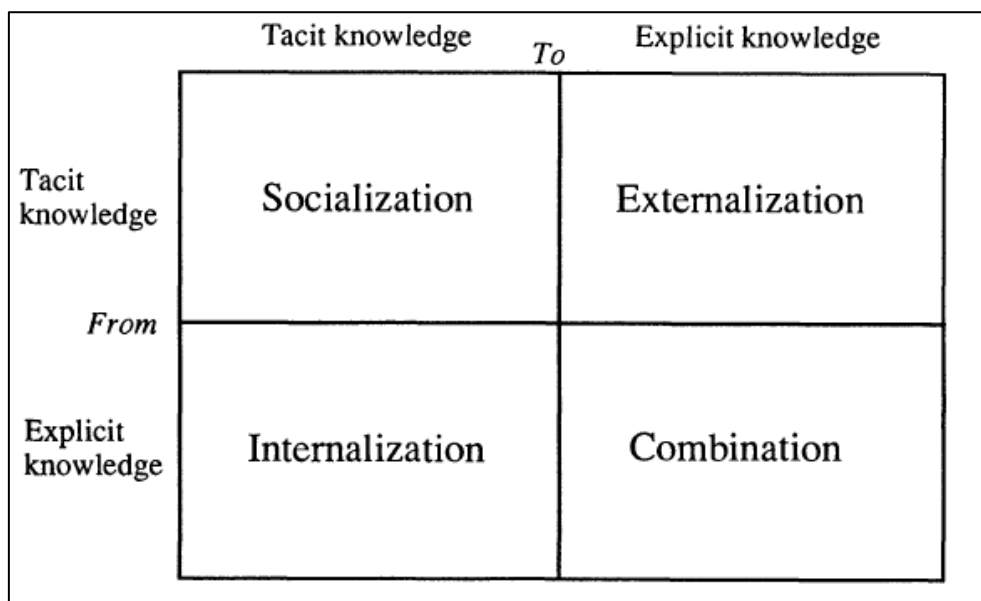


Figure 4. Modes of Knowledge Creation (Source: Nonaka 1994, p.19)

⁵³ Nonaka (1994)

⁵⁴ Kakabadse et al. (2001, p.144)

⁵⁵ Nonaka et al. (2000)

⁵⁶ Nonaka (1994, p.18)

The mode of socialization describes the conversion process from tacit to tacit knowledge through interaction of organizational members and their shared experiences.⁵⁷ Combination resembles the second mode of conversion where explicit knowledge is converted to explicit knowledge through combination of different explicit knowledge owners via social interaction in order to create new organizational knowledge.⁵⁸ Thus, the conversion process from tacit to explicit knowledge is determined as externalization while converting explicit into tacit knowledge is defined as internalization.⁵⁹ Both modes of conversion imply that tacit as well as explicit knowledge complement each other and can be accumulated through collaboration.⁶⁰

Because of the dynamic interplay between the four conversion modes, the interaction of all four is needed in order to facilitate organizational knowledge creation. Therefore, all four modes need to be aligned so that an organizational cycle is established which induces the spiral of organizational knowledge (Figure 5).⁶¹

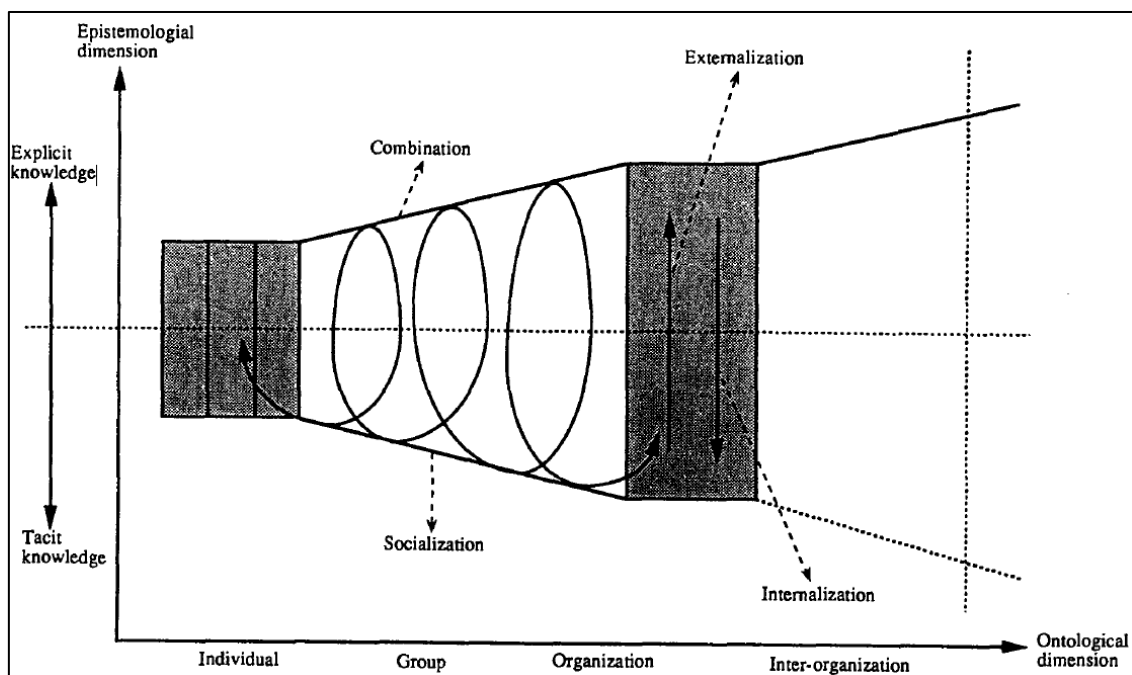


Figure 5. Spiral of Organizational Knowledge (Source: Nonaka 1994, p.20).

⁵⁷ Nonaka (1994, pp.18)

⁵⁸ Nonaka (1994, p.19)

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Ibid.

2.4 Knowledge Transfer

After elaborating on the general topic of KM and its basic content of knowledge itself and the creation of such, this chapter is completely dedicated to the topic of knowledge transfer. Prior to working on this field beyond organizational boundaries, it is necessary to identify theoretical contributions on knowledge transfer and explain it in detail.

In general, knowledge transfer describes the process where one entity is affected by the experience of another.⁶² More precisely, “knowledge transfer in organizations is the process through which one unit (e.g., individual, group, department, division) is affected by the experience of another.”⁶³ This allows organizations not only to learn from their own experiences within but also from experiences across organizational boundaries.⁶⁴ Then, knowledge can be scattered around on purpose or accidentally. Going into the same direction, knowledge transfer can be seen as an exchange of organizational knowledge between source and recipient.⁶⁵ During this process, the recipient should inherit a motivation to gain knowledge and the sender should be motivated to provide knowledge which in turn should also be worth it.⁶⁶ Thus, the more common features both actors share during the process of knowledge transfer the more successful the process itself is likely to be.⁶⁷

However, knowledge transfer can also be understood within an understanding of technology transfer, being the distribution of complex packages of knowledge which embody levels and types of technology.⁶⁸ This process contains the transfer of knowledge as well as information at both micro- and macro-level between individuals and organizations.⁶⁹ In addition, knowledge transfer is described as the process where knowledge is acquired by one actor from another.⁷⁰

⁶² Argote et al. (2000)

⁶³ Argote et al. (2000, p.3)

⁶⁴ Argote et al. (2000)

⁶⁵ Szulanski (1996)

⁶⁶ Easterby-Smith et al. (2008)

⁶⁷ Inkpen and Dinur (1998)

⁶⁸ Roberts (2000, p.432)

⁶⁹ Ibid.

⁷⁰ Albino et al. (1999)

The upcoming section is set up into four main parts which deal with the idea of knowledge transfer.

First, different KT types are presented. Second, followed by a set of different KT models, KT mechanisms are presented. Next, knowledge transfer will be evaluated according to its performance for organizations.

2.4.1 Types of Knowledge Transfer

There are five KT types, being serial knowledge transfer, near knowledge transfer, far knowledge transfer, strategic knowledge transfer and expert knowledge transfer.⁷¹

- Serial knowledge transfer occurs when previously acquired knowledge through the finalization of tasks in various settings is used for another task within that organizational group.⁷²
- Near knowledge transfer reflects practices where transferred knowledge has been derived from other organizational groups in similar situations and can be applied on those.⁷³
- Far knowledge transfer occurs when tacit knowledge which has been derived from various tasks by one group is transferred to another group within the organization.⁷⁴
- Strategic knowledge transfer is evident when complex organizational knowledge assets are transferred among organizational members.⁷⁵
- Expert knowledge transfer emerges when members of the organization put their focus on the support of experts to conceive some of their codified knowledge and benefit from the general knowledge transfer itself.⁷⁶

Another classification of knowledge transfer distinguishes between structured and unstructured processes of knowledge transfer.⁷⁷

⁷¹ Dixon (2000)

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.

⁷⁵ Ibid.

⁷⁶ Ibid.

Hence, structured knowledge transfer is “formal, planned and is an intentional transfer process”⁷⁸ while unstructured knowledge transfer “is an informal, unplanned and spontaneous transfer process.”⁷⁹ The unstructured transfer of knowledge proceeds without a pattern and skips the perfectly aligned four stages of the structured knowledge transfer, which will be presented later.⁸⁰

Additionally, the unstructured process of knowledge differentiates between three sub-processes. The so-called unstructured copy represents simply copying mostly explicit knowledge. Hence, efficiency of such copying depends on the receiving party’s enthusiasm and its absorptive capacity.⁸¹ Unstructured adoption focuses more on the exceptional transfer of tacit knowledge. While the environment is exposed to uncertainties and changes, participating individuals rely on shared thinking and must adapt the available knowledge to the changing environment and thus, implying that individuals do not have direct access to knowledge.⁸² Last but not least, unstructured fusion describes a situation where knowledge is available but useless for participating individuals. Therefore, these individuals have to create new knowledge which is applicable by using external knowledge sources and their own tacit knowledge.⁸³

⁷⁷ Chen and McQueen (2010)

⁷⁸ Chen and McQueen (2010, p.57)

⁷⁹ Chen and McQueen (2010, p.58)

⁸⁰ Chen and McQueen (2010, p.59)

⁸¹ Chen and McQueen (2010, p.58)

⁸² Ibid.

⁸³ Chen and McQueen (2010, p.59)

2.4.2 Models of Knowledge Transfer

As presented above, knowledge transfer resembles a process where knowledge gets transferred from a source to a recipient along a subset of stages. This transfer has to be repeated as long as the needed knowledge has been transferred to the recipient successfully. In the following, a short summary of general belief on how the KT process takes place is being presented.

Identification of Knowledge

In the first place, an organizational entity or individual has to identify the relevant knowledge assets that have to be transferred to another entity or individual. Here, the identification process is not only targeting the recipient of knowledge, but is relying on both participants. Thus, the understanding of the recipient is needed to identify the knowledge gap respectively lack. Consequently, the recipient has to present an analysis of the current situation and attach it to the desired situation. Additionally, understanding the source is needed as well because it has to be aware of its knowledge. So, the source can collect all the knowledge parts needed for the recipient to switch from the current situation to the desired one.

The costs of identifying lacking knowledge are depending on the critical fit between current and desired knowledge.⁸⁴ So, if there is quite a small uncertainty regarding the actual value of desired knowledge relevant to problem solving, then costs for identifying the desired knowledge are lower and vice versa.⁸⁵ However, how successful the identification process will be is relying on the previous successful experiences of the desired knowledge's source.

Therefore, organizations can lower the costs of identifying appropriate knowledge in future undertakings by achieving success in identifying appropriate knowledge in the past more often. Albeit, identifying knowledge is easy and thus is not that cost-intensive.⁸⁶ According to that, identifying knowledge in organizations bears similarities to the process of recalling knowledge on an individual basis.⁸⁷

⁸⁴ Szulanski (2000)

⁸⁵ Ibid.

⁸⁶ Kane et al. (2005)

⁸⁷ Ibid.

In contrast, the process of identifying appropriate knowledge represents a multifaceted undertaking that demands awareness and experience.⁸⁸ As a result, the majority of the scholars assume that identifying appropriate knowledge to decipher a certain problem is a challenging task that demands a substantial amount of resources.⁸⁹

Transfer of Knowledge

The communication of explicit knowledge differs from the communication of tacit knowledge. In the former case, transfer is ensured through patents, manuals or licensing contracts. Though, the transfer of explicit knowledge is usually embedded in contractual agreements.⁹⁰ Hence, the transfer of explicit knowledge is an unpretentious task nowadays. For instance, sending an email or having a conference call would be enough to ensure the transfer of explicit knowledge.

However, the transfer of tacit is more complicated than that of explicit knowledge. In general, tacit knowledge transfer requires both recipient and source of such knowledge to be located at the same place. Here, knowledge can be transferred during mentoring programs.⁹¹ Additionally, tacit knowledge can also be transferred by moving employees from one organization to the other, accessing the services of consulting agencies or agreements, such as inter-firm transfers.⁹² Accordingly, by only transferring codified knowledge, the task to transfer a package of both tacit and explicit knowledge may fail. In other words, some kinds of knowledge assets are only transmittable through sharing personal experience or face-to-face communication between recipient and source.⁹³

Interpretation of Knowledge

All knowledge that inherits a high degree of complexity entails the understanding of its tacit elements so that the recipient is able to comprehend and apply it. Thus, once knowledge is transmitted and understood, it could be used without any wear.⁹⁴

⁸⁸ Roberts (2000); Szulanski (2000)

⁸⁹ Kane et al. (2005); Szulanski (2000); Roberts (2000)

⁹⁰ Roberts (2000)

⁹¹ Inkpen (2008)

⁹² Argote et al. (2000)

⁹³ Roberts (2000)

⁹⁴ Dosi and Grazzi (2010)

Furthermore, persistent use of knowledge enables revitalization of knowledge among organizational members. So, frequent use of knowledge might even increase its meaning and relevance to the organization. In fact, knowledge is a durable good.⁹⁵

As a matter of fact, the stage of interpreting the transmitted knowledge by the recipient is not completed with the initial transfer of knowledge. Application of the newly acquired knowledge enhances its interpretation and hence strengthens its understanding.

Repetition

The last stage within the general KT process can be seen as an additional application phase. Thus, transferred knowledge is not sufficiently integrated into the acquiring of an organization's pool of knowledge after one KT cycle.⁹⁶ Therefore, this stage resembles the repetitive process of the prior three stages. Subsequently, after the transmission stage and during the interpretation stage, the recipient might become alert of a new discrepancy of knowledge and demands additional knowledge to solve it. Hence, this acknowledgement and request activate additional processes of identifying knowledge and the knowledge transfer starts all over.⁹⁷

These findings pave the way for the next section. In the following, four KT models will be showcased. First, a four-staged model is introduced, followed by two common approaches in KT literature, namely communication-based and knowledge-based. Third, a KT framework is presented with its four dimensions.

⁹⁵ Dosi and Grazzi (2010)

⁹⁶ Szulanski et al. (2004)

⁹⁷ Ibid.

2.4.2.1 A Four-Staged-Model

Referencing Szulanski (1996), the knowledge transfer is constructed around four stages, illustrated below (Figure 6).⁹⁸

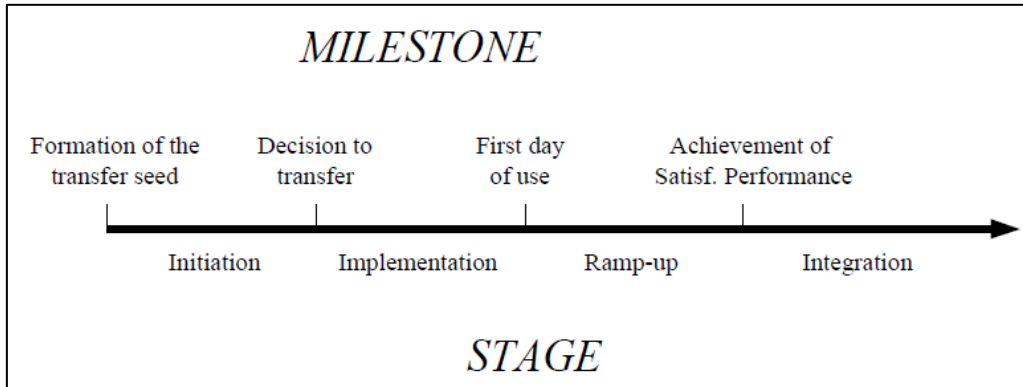


Figure 6. Course of Knowledge Transfer (Source: Szulanski 2000, p. 13).

During the first stage, also called *initiation stage*, “all events that lead to the decision to transfer”⁹⁹ are being assessed. Consequently, organizations recognize that new knowledge is needed to fulfill certain demands or solve specific problems. Therefore, related goals and costs are defined and research activities are induced. Eventually, the desired transfer seed is formed and a decision to finally transfer is made.

Next, the *implementation stage* starts and along with it, organizational members start to accept the sharing of knowledge while simultaneously applying the newly acquired knowledge in their daily operations.¹⁰⁰ In other words, this stage describes the first day of use of the transferred knowledge. Here, it is of primary importance that the knowledge source is linked to the recipient. Additionally, all knowledge transfer undertakings should be aligned to individuals’ needs plus social relationships should be attached amidst communication partners.¹⁰¹

In the third stage, the so-called *ramp-up stage*, the individuals’ aim is to put previously transferred knowledge into practice.¹⁰² Thus, the utility of the transferred knowledge will increase over time and reach a satisfactory level after ineffective application upfront.¹⁰³

⁹⁸ Szulanski (1996)

⁹⁹ Szulanski (1996, p.28)

¹⁰⁰ Szulanski (1996)

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ Ibid.

Finally, the fourth stage closes the KT process. The *integration stage* points out whether the implementation of new knowledge is successful.¹⁰⁴ If so, then individuals of the organization consequently integrate the transferred knowledge into present organizational knowledge pools.

2.4.2.2 Communication-Based and Knowledge-Creation Model

In recent literature, two models lead the field of creating, using, sharing and transferring knowledge: the communication-based and the knowledge-creation model.¹⁰⁵

Communication-based model

Here, the KT process is considered to be a communication procedure with processing information bits.¹⁰⁶ Communication is defined as “the process of giving and receiving information.”¹⁰⁷

In terms of communication, knowledge transfer is observed as “a message encoded in a medium by a sender to a recipient in a given context.”¹⁰⁸ Based on previous findings, scholars assume that an inter-firm KT activity embraces three stages: encoding, transmission, receiving and interpretation.¹⁰⁹

- First, knowledge is arranged and codified by the source. On one side, well-codified knowledge enhances knowledge transfer with the prospective recipient. Otherwise, knowledge with a high level of codification can also be effortlessly apprehended by competitors.¹¹⁰
- Second, the encoded information is transmitted towards the recipient. This can happen either verbally or written. For this reason, it is of importance to select the best possible transmission channel.

¹⁰⁴ Szulanski (1996)

¹⁰⁵ Inkpen and Dinur (1998)

¹⁰⁶ Albinot et al. (1999)

¹⁰⁷ Ramasamy et al. (2006, p.134)

¹⁰⁸ Yakhlef (2007, p.46)

¹⁰⁹ Shannon (1948)

¹¹⁰ Albino et al. (1999)

- Third, the information is finally received by the recipient and also interpreted. Thus, after receiving and interpreting the information, the recipient or recipients decode the information, attach it to their knowledge and share it throughout their organization.

Building upon this idea of knowledge transfer, knowledge flows describe any kind of a two-individual communication that inherits “a message, a sender, a coding scheme, a channel, transmission through the channel, a decoding scheme, a receiver, and the assignment of meaning to the decoded message.”¹¹¹ This model of inter-firm knowledge transfer is based on information processing activities between two organizations while neglecting the process of knowledge creation within organizational boundaries.

Knowledge-based model

Here, the KT process is closely linked to the topic of organizational learning.¹¹² By definition, organizational learning follows individual learning and knowledge sharing. Thus, this process is stirred by a shared vision.¹¹³ Therefore, transfer of knowledge through social interaction is working better within one organization rather than between two distinct organizations.¹¹⁴ In this case, knowledge transfer happens through education, learning activities and socialization.¹¹⁵ Considering the organizational learning approach, the course of knowledge transfer is classified along five stages, being acquisition, communication, application, acceptance and assimilation.¹¹⁶

¹¹¹ Gupta and Govindarajan (2000, p.475)

¹¹² Albino et al. (1999)

¹¹³ Senge (2006)

¹¹⁴ Argote and Ingram (2000)

¹¹⁵ Roberts (2000)

¹¹⁶ Gilbert and Cordey-Hayes (1996); Albino et al. (1999)

Figure 7 illustrates the process of knowledge transfer according to the four stages.

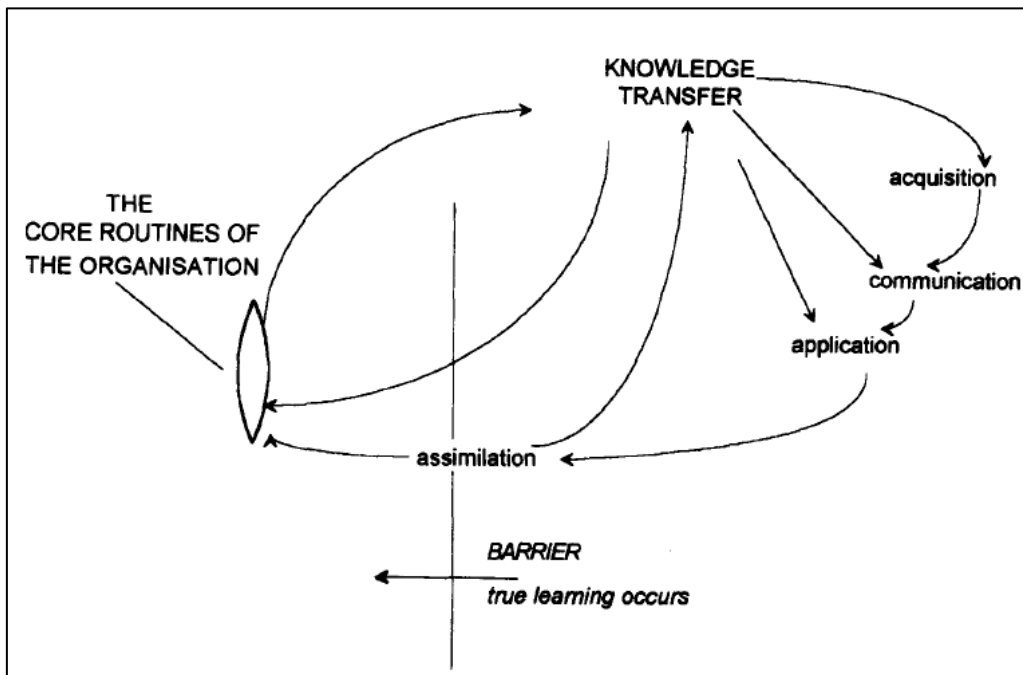


Figure 7. Knowledge Transfer Framework (Source: Gilbert and Cordey-Hayes 1996, p. 303)

In detail, prior to in-house transfer of knowledge of an organization, it has to be acquired from an external source (Acquisition). Hence, prior experience of the receiving individuals defines how the transferred knowledge is interpreted and thus, in what way the knowledge is shared throughout the organization.¹¹⁷ This again can happen verbally or written but individuals need to be conscious of which method or communication channel to use (Communication).¹¹⁸ Next, applying the transferred knowledge fosters the learning capabilities of the organization, opposing the idea that even knowledge itself enables organizations to learn (Application).¹¹⁹ Afterwards, organizational members have to accept and approve the applied knowledge within their organization. This process concludes in the final stage, where results and effects of knowledge application are adjusted in regard of organizational goals (Assimilation).¹²⁰

¹¹⁷ Gilbert and Cordey-Hayes (1996)

¹¹⁸ Ibid.

¹¹⁹ Ibid.

¹²⁰ Ibid.

2.4.2.3 A Knowledge Transfer Framework

In their paper, Albino et al. (1999) presented a deliberately constructed framework of the KT process. Thus, the authors identified four main dimensions that evidently influence this process.¹²¹

So, the first dimension represents the *actors* that are engaged in the KT process.¹²² Following, the second dimension includes the *context*, in which the interaction takes place.¹²³ The *content* which is transferred between the actors resembles the third dimension.¹²⁴ In the fourth dimension, it is of curiosity by which *media* the transfer is carried out.¹²⁵ As a matter of fact, knowledge which is incorporated by the members of an organization simultaneously represents the skill-level of the individuals and defines its core competencies, in turn enabling the individuals to accomplish various tasks.¹²⁶ Hence, each individual's skill is directly attached to a specific task and concludes in reaching a goal. In this matter, the possibility to determine knowledge-related tasks while analyzing knowledge transfer is quite promising.¹²⁷

In the following, the four dimensions of knowledge transfer according to Albino et al. (1999) are presented.

Actors

Actors symbolize the participants during KT process. Hence, actors can be understood as members of organizations itself.¹²⁸ Consequently, during the process, there are some determinant factors that can influence the effectiveness and success of knowledge transfer, such as openness, trust, geographic distance and prior experience.¹²⁹ These key factors will be elaborated closer in section 2.4.4 of this thesis.

¹²¹ Albino et al. (1999)

¹²² Albino et al. (1999, p.55)

¹²³ Ibid.

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ Albino et al. (1999)

¹²⁷ Ibid.

¹²⁸ Ibid.

¹²⁹ Khamseh and Jolly (2008); Easterby-Smith et al. (2008)

Context

In terms of the structure of an inter-firm relationship, the context in which the initial transfer of knowledge takes place and the transmission mechanisms that are built within that context are of high importance.¹³⁰ Scholars paid a lot of attention to this context within the knowledge transfer.¹³¹ In accordance, the context that influences knowledge transfer can be distinguished between *internal* and *external* context.¹³²

The former initially parallels the culture of an organization and literally resembles behavior, technical skills, resources as well as competencies, attitudes and beliefs attached to individuals of an organization and shared by those among each other.¹³³ In this context, absorptive and receptive capacity of the learning organization is of prime aim.¹³⁴ However, internal context is mainly described by the transfer proficiency of the organization. This capability basically refers to the ability to externalize knowledge. In other words, turning tacit into explicit knowledge, also known as externalization.¹³⁵

The latter describes a set of variables on behalf of the circumstances in which inter-organizational relationships occur.¹³⁶ Thus, external context is characterized by the dimensions of environment and atmosphere, and impacts the nature of knowledge transferred.¹³⁷ Environment represents market features in which organizations maneuver, such as structure, scale and technologies, whereas atmosphere denotes the arrangement of precise inter-firm variables, such as cooperation, expectations and social-cultural characteristics.¹³⁸ In view of that, external context has some influential potential regarding the internal context, e.g. when two organizations maneuver and collaborate in the same atmosphere, they lean towards to have a related culture. Subsequently, knowledge transfer can take place more willingly.¹³⁹

¹³⁰ Easterby-Smith et al. (2008)

¹³¹ Simonin (1999)

¹³² Albino et al. (1999)

¹³³ Ibid.

¹³⁴ Cohen and Levinthal (1990)

¹³⁵ Nonaka (1994)

¹³⁶ Albino et al. (1999)

¹³⁷ Albino et al. (1999, p.56)

¹³⁸ Ibid.

¹³⁹ Albino et al. (1999)

Content

Content can be understood in two distinct ways.¹⁴⁰ In this respect, instrumental content is “related to all the knowledge necessary to do or to coordinate a job”¹⁴¹ and cultural content is “associated with the knowledge capability of creating a specific organization’s cognitive background.”¹⁴² Hence, the successful knowledge transfer is directly connected to the recipient’s skill of integrating the abilities alongside transferred knowledge and during knowledge transfer between two entities cultural content fosters the creation of an inter-firm culture between two participating actors.¹⁴³ Hence, this newly-created culture shall enhance awareness capabilities of both recipient and source, such as the provision of uniform language among KT partners, in turn increasing the efficiency of communication.¹⁴⁴

Media

Media is defined as “every means useful for transferring data and information”¹⁴⁵ and is characterized by “code and channel.”¹⁴⁶ The former simply refers to a certain demonstration of the knowledge to be exchanged while the latter describes the medium by which the code can be transmitted.¹⁴⁷ Thus, feedback capabilities, the number of items that can be used and processing speed are depicted as vital elements of the channel.¹⁴⁸

Another two important characteristics of media are capacity and richness.¹⁴⁹ Both are determined to affect KT efficiency and effectiveness. Media capacity is known as the ability to process information with iteration of transferred information and without deprivation.¹⁵⁰

¹⁴⁰ Albino et al. (1999)

¹⁴¹ Albino et al. (1999, p.56)

¹⁴² Ibid.

¹⁴³ Albino et al. (1999)

¹⁴⁴ Ibid.

¹⁴⁵ Albino et al. (1999, p.56)

¹⁴⁶ Albino et al. (1999, p.57)

¹⁴⁷ Albino et al. (1999)

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

¹⁵⁰ Ibid.

Media richness, in turn, refers to the capability of changing mental models of individuals easily within the KT process.¹⁵¹ Hence, higher media capacity enables organizations to cope with higher degrees of uncertainty. Then again, high media richness reduces the ambiguity within the KT process.¹⁵²

In reference to the four stages of knowledge transfer by Cordley-Hayes (1996), Albino et al. (1999) expanded the process with another stage, being acceptance. This stage precedes assimilation and is related to the approval of applied information during the KT process.¹⁵³ Figure 8 illustrates KT components in accordance to Albino et al. (1999).

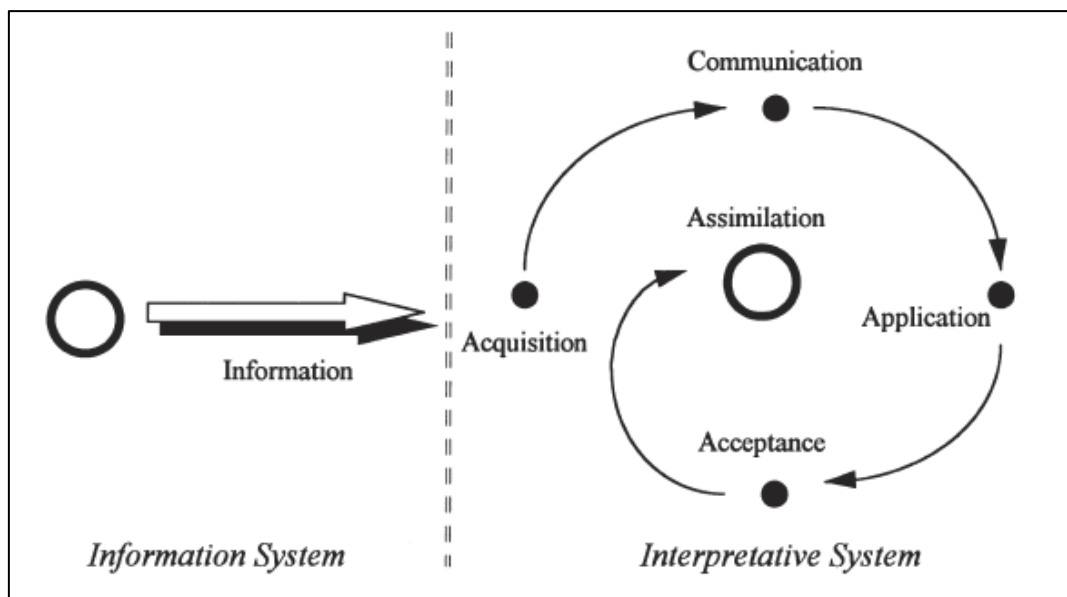


Figure 7. Components of Knowledge Transfer (Source: Albino et al. 1999, p. 54).

¹⁵¹ Albino et al. (1999)

¹⁵² Ibid.

¹⁵³ Albino et al. (1999, p.55)

2.4.3 Mechanisms for Knowledge Transfer

Returning from the dimensions of KT models, this section deals superficially with mechanisms to share respectively transfer the knowledge between source and recipient and vice versa.

There are several mechanisms that enable the transfer of knowledge. In consistency with the knowledge-based view, KT mechanisms are defined as “organizational routines that enable the transfer of explicit and tacit knowledge.”¹⁵⁴ Hence, growing larger in numbers, different means of communication significantly impact the various techniques individuals and organizations use to interact with each other. Thus, this section presents briefly diverse practices that can be used in favor of KT efforts.

Starting from basic direct interaction, face-to-face communication¹⁵⁵ represents an effective instrument in terms of knowledge transfer. Moreover, telephone, letters and memos, documents and bulletins as well as computer outputs are added to the picture.¹⁵⁶ Going into the same direction, electronic as well as voice mail, teleconferencing, videoconferences, desktop videoconferencing information databases, computer-aided-design and computer-manufacturing software count as common KT mechanisms.¹⁵⁷ In addition, “interfirm mobility of the labor force [and] interactions between suppliers and customers and the makers and users of capital equipment”¹⁵⁸

From a holistic perspective, KT mechanisms can be determined as the movement of personnel and training initiatives, communication and observation, technology transfer as well as reproduction of routine processes, interactions with stakeholders and the establishment of alliances or related inter-organizational partnerships and last but not least patents, presentations and scientific papers.¹⁵⁹

¹⁵⁴ Windsperger and Gorovaia (2011, p.621)

¹⁵⁵ Daft and Lengel (1984)

¹⁵⁶ Ibid.

¹⁵⁷ Roberts (2000, p.435)

¹⁵⁸ Inkpen and Tsang (2005, p.150) in reference to Keeble and Wilkinson (1999)

¹⁵⁹ Argote et al. (2000, p.3)

2.4.4 Performance Evaluation of Knowledge Transfer

This section deals with the analysis of KT performance within organizational boundaries. More precise, it shall elaborate not only positively influencing factors of knowledge transfer but also work out the barriers of knowledge transfer that eventually lead to negatively influencing factors of KM. What are the key factors that enable respectively induce effective knowledge transfer and which barriers arise throughout the transfer process?

However, knowledge transfer within and across organizational boundaries has tremendous impact on organizational performance and competitive advantage.¹⁶⁰ Recently, scholars particularized the influence of successful organization of KM activities including transfer of knowledge resulting in advantages for firms.¹⁶¹ As a result, knowledge transfer not only improves skills of organizational members, but also improves the quality of pursued strategies; hence, enhancing core processes.¹⁶² Besides improving existing relationships to stakeholders, knowledge transfer may reduce operation costs and product cycle time; more precisely, knowledge transfer increases productivity on an individual and collective level, plus helps firms to extend market share.¹⁶³

Because of these findings, every multinational corporation should put its KT activities on top priority. Though, a clear understanding of the eminent important KT process can help organizations to attach importance to knowledge transfer. Regarding small and medium sized firms, the framework of valuable knowledge transfer could be the key to both maintaining and obtaining market share; thus, being competitive. Because of their interest in overall performance and short-term benefits, SMEs should put emphasis on knowledge transfer.

In this context, as the KT process is depicted, it is of high importance to identify the determinant factors that could eventually affect the transfer of knowledge in both directions, positively and negatively.

¹⁶⁰ Van Wijk et al. (2008); Gupta and Govindarajan (2000); Inkpen (2008)

¹⁶¹ Chen and Chen (2006)

¹⁶² Chen and Chen (2006, p.26)

¹⁶³ Ibid.

2.4.4.1 Determinant Factors for Knowledge Transfer

This section deals with the factors that positively as well as negatively influence the KT process. In this respect, a review of KT literature deals as a basis for further explanation. Basically, this section collects all key factors that induce knowledge transfer, which have been evaluated in prior sections of this thesis, and puts them into the context of performance evaluation.

Recent literature determines several factors that directly impact knowledge transfer and categorizes such into four categories¹⁶⁴:

- The typology of transferred knowledge
- The absorptive and disseminative capacity of partners
- The mutual behaviour of partners
- The nature of partnership

In reference to Khamseh and Jolly (2008), relevant factors are embedded into the four categories above and evaluated in detail.

Additionally, and in order to ease the understanding of pure theory, a practical example illustrating a fictive scenario where a recipient wants to acquire knowledge from a source about how to integrate a new machine into the existing manufacturing process is being presented.

a. Typology of Transferred Knowledge

The type of the required knowledge between two units (individuals, groups, organizations, etc.) could affect its transfer in several ways; choosing transfer mechanisms and minding specific characteristics is vital regarding: (1) tacit or explicit, (2) simple or complex, (3) core or non-core knowledge and the (4) complementarity of knowledge.¹⁶⁵

¹⁶⁴ Khamseh and Jolly (2008, p.40)

¹⁶⁵ Khamseh and Jolly (2008)

(1) Tacit or explicit knowledge

Many researchers claim that explicit knowledge is easier to transfer within and across firm boundaries because of its less complicated codification and articulation than tacit knowledge.¹⁶⁶ Being entrenched in one's cognitive processes, tacit knowledge is much more difficult to transfer and formalize.¹⁶⁷ The transfer itself may relate to explicit, tacit or to hybrid forms of both knowledge forms. However, the transfer of tacit is more difficult than that of explicit knowledge.¹⁶⁸ So in support of this finding, recent KM literature determined indicators for tacit knowledge being more challenging to transfer.¹⁶⁹ Those indicators emphasize individual management of time, common language, mutual trust, and relationship network, type of training, and transmission as well as storage of knowledge as the relevant factors that complicate the transfer of tacit knowledge.¹⁷⁰

(2) Simple or complex knowledge

Accordingly, knowledge can differ in terms of its complexity.¹⁷¹ Eventually, the more complex knowledge is, the better it is protected from imitation and hence, sustains more value to its basic idea of competitive advantage.¹⁷² In this respect, as technologies enlarge complexity, knowledge is more likely transferred to FDI undertakings of the firm rather than to third parties, e.g. allies.¹⁷³ Though, complexity and tacitness are no interchangeable terms but both need specific tools and mechanisms to be transferred.¹⁷⁴ However, complex knowledge is much more difficult to transfer than simple knowledge. Furthermore, it is possible to define simple knowledge with less information. In contrast, a larger amount of information is necessary to label complex knowledge.¹⁷⁵

¹⁶⁶ Nonaka (1994)

¹⁶⁷ Khamseh and Jolly (2008)

¹⁶⁸ Ibid.

¹⁶⁹ Joia and Lemos (2010)

¹⁷⁰ Joia and Lemos (2010, p.418)

¹⁷¹ Kogut and Zander (1992)

¹⁷² Khamseh and Jolly (2008)

¹⁷³ Kogut and Zander (1992)

¹⁷⁴ Khamseh and Jolly (2008)

¹⁷⁵ Ibid.

(3) Core or non-core knowledge

As mentioned in several research papers around the topic of KM, core competencies and capabilities refer to those factors which increase competitiveness and therefore are crucial for a firm's success. Although, both partners of a business partnership are fostering to combine individual core competencies in order to excel the outcome of their cooperation, the risk of losing core knowledge is also existent and remains a constant factor to be thought of.¹⁷⁶ However, the understanding of the term *core* differs among literature and practices. Hence, individuals attach different values to it and therefore organizations possess various core competencies.

In general, both terms of *core* and *tacit* are in no way interchangeable.¹⁷⁷ Knowledge can be tacit without being core, though core knowledge is often of tacit character.¹⁷⁸ Thus, when knowledge is considered as core for one partner, it is much more difficult to transfer it through any activity and relies on excellent transfer mechanisms.

(4) Knowledge complementarity

Here, speaking of knowledge complementarity within the context of recent literature on KM, it refers to the development and distribution of knowledge synergies as well as the matching of knowledge resources gathered through and within alliances.¹⁷⁹ Therefore, the consensus is that the higher the complementarity between knowledge gathered by partners, the more effective is knowledge transfer through such activities.¹⁸⁰

¹⁷⁶ Khamseh and Jolly (2008)

¹⁷⁷ Ibid.

¹⁷⁸ Khamseh and Jolly (2008, p.41)

¹⁷⁹ Khamseh and Jolly (2008)

¹⁸⁰ Ibid.

b. Absorptive and Disseminative Capacity of Partners

The framework of absorptive capacity is dated back to Cohen and Levinthal (1990). The authors describe absorptive capacity as “the firm’s ability to identify, assimilate and exploit knowledge from the environment.”¹⁸¹ Eventually, disseminative capacity is equally important and is defined as “the ability of people to efficiently, effectively and convincingly articulate and communicate, spread knowledge in a way that other people can understand accurately, and finally, tactically put the learning into practice.”¹⁸² Going into the same direction and generalizing the idea above, the importance of related knowledge in alliances, focusing on the features of prior knowledge and previous experience among partners as well as geographical distance is legit.¹⁸³

(1) Absorptive capacity

In the literature on knowledge transfer in strategic alliances, allies are seen as the sources of external knowledge; hence the internalization of such knowledge differs among organizations and relates to the absorptive capacity of each partner.¹⁸⁴ In order to comprehend and practice the diffused knowledge, absorptive capacity is critical for the knowledge recipient. Though, firms can benefit immensely from the internalization of acquired knowledge from its partners when the partner firms are similar in terms of skills, resources and capabilities.¹⁸⁵ Therefore, the lower the distance between knowledge bases of partners, the more effective is the knowledge transfer.¹⁸⁶ Thus, the larger the absorptive capacity is, the easier the recipient grasps the transferred knowledge.

However, in the practical example, the knowledge-seeking company (recipient) anticipates knowledge about machines in the production processes as absorptive capacity. The already shared knowledge about manufacturing machines is helpful in terms of understanding and applying the transferred knowledge about the new machine.

¹⁸¹ Cohen and Levinthal (1990, p.569)

¹⁸² Mu et al. (2010, p.33)

¹⁸³ Inkpen (1998)

¹⁸⁴ Lane and Lubatkin (1998)

¹⁸⁵ Cohen and Levinthal (1990)

¹⁸⁶ Khamseh and Jolly (2008)

In this case, absorptive capacity could represent procedures used for the new machine that are in any kind similar to procedures of existing machines, e.g. specific work stages that have to be in order.

Concluding, the more recipients within a company are familiar with procedures of manufacturing machines respectively gained knowledge about existing manufacturing machines through experience, the larger the absorptive capacity for the desired transferred knowledge will be. In other words, the recipient will be able to comprehend the transmitted knowledge much easier.

(2) Disseminative capacity

In KM literature, authors relate to disseminative capacity as to what extent knowledge sources own the capability to transfer knowledge.¹⁸⁷ During the KT process, the source requires some sort of feedback from the recipient and therefore disseminative capacity is being encouraged to develop.¹⁸⁸ In order to provide effective knowledge transfer, the knowledge source has to be capable of its task to transfer knowledge.¹⁸⁹

Regarding the practical example, disseminative capacity is of utmost importance for success of knowledge transfer. The recipient will only be able to apply the transferred knowledge if the source is able to describe the proceedings in an appropriate way. Hence, this is oblique to the source's understanding of the recipient and her problem. In order to provide the recipient with a elucidation that is feasible, the knowledge source has to be aware of the knowledge already acquired and applied by the recipient. Apart from that, the provided solution may be too complex for the recipient to put into practice.

¹⁸⁷ Mu et al. (2010)

¹⁸⁸ Ibid.

¹⁸⁹ Minbaeva and Michailova (2004)

(3) Prior relationship

Being active in prior relationships with partners allows firms to learn about their partners and fosters the building of trust within KT activities.¹⁹⁰ Therefore, prior relationships enhance cooperation between allies in many different ways. Over time, allies develop expectations, become familiar with interactions and most important reach awareness of the ally's motives and the ally itself.¹⁹¹

Prior experience of both partners also affects the competence of both passing on knowledge and internalizing new knowledge.¹⁹² Everyone has its own perception of the KT process due to different philosophies. Hence, knowledge transfer depends not only on the knowledge previously gathered by the recipient but also on the recipient's know-how with similar knowledge.¹⁹³ Therefore, when the transferred knowledge is related to previously acquired knowledge by the recipient, the effectiveness of both knowledge recipient and source upsurges eventually.¹⁹⁴ In conclusion, the more history of prior relationship allies provide, the more effective the transfer of knowledge is.¹⁹⁵

(4) Distance

Many scholars assume that knowledge transfer is most effectively conducted when organizations or individuals that exchange knowledge are geographically located near to each other.¹⁹⁶ Hence, when one organization discovers new knowledge, other organizations are also able to benefit from such a discovery. These effects are called knowledge externalities.¹⁹⁷ A good example is the often-used collaboration of universities and companies in terms of research or provision of high-skilled graduates. As a matter of fact, benefits of knowledge externalities are geographically limited. Thus, geographically close actors are expected to be involved more in information sharing and hence facilitate the transfer of tacit knowledge.

¹⁹⁰ Khamseh and Jolly (2008)

¹⁹¹ Norman (2002)

¹⁹² Albino et al. (1999)

¹⁹³ Senge (2006)

¹⁹⁴ Albino et al. (1999)

¹⁹⁵ Khamseh and Jolly (2008)

¹⁹⁶ Ambos and Ambos (2009)

¹⁹⁷ Ibid.

Consequently, the closer two actors are located to each other, the smaller the physical as well as cultural distance between both. In this case, distance resembles a physical space between recipient and source of knowledge. Otherwise put, this means that the bigger the distance between two organizations, the weaker the intensity plus frequency of contacts, hence knowledge externalities decline and therefore it becomes much more difficult to transfer knowledge between those organizations.

Regarding the descriptive example, distance plays a crucial role due to the fact that transfer of tacit knowledge requires direct personal contact. In order to do so, one member of the receiving organization has to meet the source's organization equivalent. Hence, the bigger the distance between the two members, the bigger the travel time. Therefore, the effective time that the members of both organizations meet, compared to the total time that is needed to assist the meeting, decreases as the distance rises. As a matter of fact, a larger distance between knowledge recipient and knowledge source decreases the probability of effective knowledge transfer.

c. Mutual Behaviour of Partners

Here, factors are related to interactions, assumptions, policies and attitudes of partners towards each other.¹⁹⁸ For instance, a partner's decision-making and reactions related to the other partner's behaviour or undertaking affect the knowledge transfer within the process, for instance by changing levels of trust and motives for cooperation.¹⁹⁹

(1) Level of knowledge protection

In order to increase the distribution of knowledge among allies, regular contact between allied employees should be enhanced to share information on specific terms. Hence, limiting the knowledge flow among partners can prevent one from acquiring knowledge from the other but evidently also establishes a barrier in terms of transferring and learning knowledge.²⁰⁰

If such a reduction in information sharing takes place, the underprivileged partner will most likely reduce its own knowledge sharing. In this context, increasing the level of knowledge protection leads to the decrease of effective knowledge transfer. Thus, this is very important and unravels one crucial topic in KT literature, namely transparency; in other words, the degree of openness among partners.²⁰¹ Openness can be understood as the willingness to share knowledge in a cooperative interaction, which could also be denoted as the openness of dialogue.²⁰² In this context, a higher level of openness allows a more effective knowledge transfer between two organizations.²⁰³

¹⁹⁸ Khamseh and Jolly (2008)

¹⁹⁹ Ibid.

²⁰⁰ Ibid.

²⁰¹ Hamel (1991)

²⁰² Albino et al. (1999)

²⁰³ Ibid.

(2) Learning intent

Learning intent describes “the extent to which the focal firm believes that the partner is focused on learning during the alliance.”²⁰⁴ In other words, prior to learn and benefit from knowledge transfer firms have to provide the intention to learn.²⁰⁵ The key elements in allied knowledge creation are based on contemplated objectives of partners.²⁰⁶ However, entering into alliances with learning objectives is not sufficient. If the learning objective is not correctly communicated to the partner and later adjustment is not pursued, inefficiencies will occur.²⁰⁷

(3) Trust

To reconcile the framework of openness with the framework of trust, it is clear that openness results in a good foundation of trust, thus leads to more openness. Trust defines “the willingness of a party to be vulnerable.”²⁰⁸ In addition, such moral commitment is coherent because it creates emotional benefits.²⁰⁹

Regarding explicit knowledge, contracts and licences build a basis of the knowledge transfer. Though, in terms of tacit knowledge, this is not as concrete. Eventually, it is not known upfront, which and how much tacit knowledge is needed by the recipient and what knowledge the source is willing to share. A contract might be a feasible solution, but cannot be specified, as specifying the desired tacit knowledge is hard to realize. Accordingly, trust is a prerequisite between recipient and source during the KT process. Within this process, trustworthiness of the knowledge source is crucial for the whole process. Hence, the stronger the supposed trustworthiness is, the higher the willingness to exchange information will be.²¹⁰ Hence, the trustworthiness of the knowledge source depends on the degree to which both source and recipient share similar language, objectives and worries, and how the recipient estimates the preferences openness as well as strength of relationship of the source.²¹¹

However there is also a disadvantage of trustworthiness, particularly when the

²⁰⁴ Khamseh and Jolly (2008, p.40)

²⁰⁵ Hamel (1991)

²⁰⁶ Inkpen (1998)

²⁰⁷ Khamseh and Jolly (2008)

²⁰⁸ Mayer et al. (1995) In: Levin and Cross (2004, p.1478)

²⁰⁹ Roberts (2000)

²¹⁰ Szulanski et al. (2004)

²¹¹ Levin et al. (2011)

knowledge source does not know how to achieve superior outcomes exactly.²¹² Here, strong alleged trustworthiness of the source results in an unproductive knowledge transfer because the confident relies on the source without questioning its reliability.²¹³ Nevertheless, trust generally has a positive impact on creation, sharing and transfer of knowledge.²¹⁴ In order to form and uphold trust in KT activities, it is essential to implement face-to-face relations and social interactions.

The relationship between the degree of trust and the reception of valuable knowledge within the KT process is of vital spirit, especially the tie strength between two actors.²¹⁵ According to the authors, it describes the power of a relationship between two actors. In this context, it is central to recognize that trust and tie strength cannot be used interchangeably. Strong ties result in an accurate knowledge transfer, but however weak ties do not affect the KT process adversely.²¹⁶ Weak ties are characterized by detached and not reoccurring interactions between the involved actors where trust is not the significant influence when transferring redundancy-free information.²¹⁷

In recent literature, trust is considered to be vastly central for the effective setup of the market in a knowledge-based economy, since knowledge transfer upsurges high risk and uncertainty. In addition, a higher level of trust between actors decreases risks and uncertainties.²¹⁸ Moreover, trust improves the effectiveness of knowledge transfer, especially in terms of tacit knowledge.²¹⁹

As a matter of fact, trust increases beneficial behaviours within a strategic partnership, e.g. open communication and the willingness to share information among allies.²²⁰

²¹² Szulanski et al. (2004)

²¹³ Ibid.

²¹⁴ Khamseh and Jolly (2008)

²¹⁵ Levin and Cross (2004)

²¹⁶ Ibid.

²¹⁷ Ibid.

²¹⁸ Roberts (2000)

²¹⁹ Levin and Cross (2004)

²²⁰ Khamseh and Jolly (2008)

d. Nature of Partnership Activity

The model of organizational learning based on two distinct forms of exploitation and exploration is dated back to March (1991).²²¹ He concluded that in exploitative activities, firms use their available competencies in order to enhance productivity and generate rents, whereby in explorative activities, the firm focuses on creating new capabilities, technologies or products.²²²

Exploration or exploitation

There are huge differences between explorative and exploitative alliances. First, the amount of knowledge transfer is much higher in explorative than in exploitative alliances.²²³ Hence, explorative alliances pursue the effective and efficient knowledge application plus adding value to the venture. In addition, explorative partners put their emphasis on novelty and knowledge formation.²²⁴ Second, firms which exploit their resources and capabilities are trying to maintain a higher level of knowledge protection than firms entering into explorative alliances. In this respect, the nature of partnership activity can definitely impact the transfer of knowledge.²²⁵

Dimension

The personal dimension of the organization is also influencing the effectiveness of KT activities.²²⁶ So, knowledge transfer within the boundaries of an organization is more effective than the transfer of knowledge between two organizations because organizational members are more alike within their boundaries and thus, enabling the transfer of knowledge within an organization more easily.²²⁷ In addition, transferring tacit knowledge could be more cost-intensive across firm boundaries than within a firm.²²⁸

²²¹ Khamseh and Jolly (2008)

²²² Khamseh and Jolly (2008) in Reference to March (1991)

²²³ Khamseh and Jolly (2008)

²²⁴ Ibid.

²²⁵ Ibid.

²²⁶ Argote and Ingram (2000)

²²⁷ Ibid.

²²⁸ Kogut and Zander (1992)

3. Emerging Markets

Emerging markets are progressively becoming drivers of the global economy growth. Therefore, there is enlarged analysis and interest in emerging markets since the 1990s. This interest results in a demand and supply perception. Thus, usually having an enormous number of inhabitants and growing income, emerging economies offer a huge market for goods and services. Additionally, with given work-force and low costs, emerging economies are the main suppliers of goods and services throughout the world.²²⁹ Multinational corporations (MNCs) play a significant role in global businesses and economy and hence there is an increased interest in the interaction between emerging markets and MNCs.²³⁰

This section examines emerging markets in the first place and later links to operations of MNCs in developing countries. It entails three sub-sections. The next segment deals with a theoretical clarification of the emerging markets framework, providing definitional approaches towards the understanding of such. Then, the second segment presents the main characteristics of emerging markets found in recent literature. The third segment deals with the largest emerging economies in the world, including Brazil, Russia, India and China, also known as BRIC economies. The final segment of this section deals especially with multinational companies from developed countries that are involved in operations in emerging countries.

3.1 Definition

As global economic development has depressed world trade activity recently, emerging markets seem to be on the rise towards the world's leading industrial countries. Therefore, differentiating these countries from developed markets may dwindle in importance.²³¹ So, one crucial point of this thesis is that companies have to draw a distinct line between both types of economies. In addition, they need to regard the varieties among emerging economies. However, a question remains: "What is an Emerging Market?"²³²

²²⁹ Pillania (2009)

²³⁰ Khanna et al. (2005)

²³¹ Khanna and Palepu (2010)

²³² Khanna and Palepu (2010, p.3)

The term itself was coined 1981 at the International Finance Corporation by some economists during investigation of first investments into developing countries.²³³ Since then, emerging markets have risen to the center of attention in media, politics and economist's debates, but definitions of emerging markets vary widely.²³⁴

According to Standard & Poor's definition, emerging markets are defined by three main categories, namely (1) poverty, (2) capital markets and (3) growth potential. Hence, emerging economies are characterized as not industrialized, low-or middle-income countries with a low average of living standards (1). Additionally, emerging markets show a low market capitalization relative to GDP and a low stock market turnover plus few listed stocks as well as low sovereign debt ratings (2). Furthermore, emerging markets exploit economic liberalization, welcome foreign investments warmly and impress with recent economic growth (3).²³⁵

Mostly, the term of emerging markets is reduced to its obvious meaning; hence those economies are emerging because they have not yet emerged significantly.²³⁶ However, this description is rather inaccurate and vague. Thus, when business executives should draw a distinct line between developing and developed countries, three basic explanations will evidently come up.²³⁷

(1) Developing economies, such as Brazil, India, Russia, China and South Africa, are determined to be called emerging due to their fast economic growth throughout recent development during the last two decades. By introducing these countries to worldwide capital and technical assets, their economic and business situation has changed dramatically. Thereupon, growth in their gross domestic products outperformed the GDPs of developed economies, elevating most of their population out of poverty while simultaneously creating a newly-rich middle class, especially in Russia. Additionally, these economies bear an enormous market for products and services, including low cost and educated labor force, plus the ability to compete with developed economies concerning fabrication and information technology.²³⁸

²³³ Khanna and Palepu (2010)

²³⁴ Ibid.

²³⁵ Khanna and Palepu (2010, p.4)

²³⁶ Khanna and Palepu (2010)

²³⁷ Ibid.

²³⁸ Ibid.

(2) Another idea of emerging markets could be embedded in their role as emerging competitors. According to Goldman Sachs, the BRIC economies could outpace the G-6 economies by the year 2050 in terms of joint growth.²³⁹ Hence, firms with headquarters in emerging economies already compete successfully with their counterparts in developed economies; for instance, China-based Lenovo's acquisition of IBM in 2004²⁴⁰ and India-based Tata Motors' purchase of Jaguar and Land Rover recently.²⁴¹

(3) Another explanation of emerging markets could lead to the assumption that the recent financial crisis accelerated the ascent of these economies regarding their role as dominant players in world economy.²⁴²

Going into the same direction, emerging markets are defined by their extreme volatility plus high level of risk as well as their transition to market economies without any records of foreign investments in their history.²⁴³

Another approach of holistic character defines *emerging market* as "a society transitioning from a dictatorship to a free market-oriented economy, with increasing economic freedom, gradual integration within the global marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in cooperation with multilateral institutions."²⁴⁴ In the premise of this thesis, this definition outlines the basis for the rest of this work.

²³⁹ Wilson and Purushothaman (2003)

²⁴⁰ <http://www-03.ibm.com/press/us/en/pressrelease/7641.wss> (accessed December 3, 2012)

²⁴¹ http://www.nytimes.com/2012/08/31/business/global/tata-motors-finds-success-in-jaguar-land-rover.html?pagewanted=all&_r=0 (accessed December 3, 2012)

²⁴² Khanna and Palepu (2010)

²⁴³ Mody (2004)

²⁴⁴ Kvint (2008), In: Define Emerging Markets Now, http://www.forbes.com/2008/01/28/kvint-developing-countries-oped-cx_kv_0129kvint.html (accessed December, 3, 2012)

3.2 Characteristics

By going more into detail while discussing the theory behind emerging markets, some major difficulties appear closely related to a firms' decision to endeavor undertakings in emerging economies.

These markets are susceptible to financial crises. Additionally, such important rights as those of intellectual property are not guaranteed and governmental restrictions might be unavoidable.²⁴⁵ Though, a much more significant characteristic of emerging economies is inherited in unreliable product quality, being the result of insufficient talent of local staff and resources.²⁴⁶ Another problem is the uprising corruption in developing countries, usually making it difficult for business ventures to evaluate investment prospects or to perform due diligence on probable partners. Therefore, in total the sum of risks might outweigh the possible rewards attached to doing business with or in emerging countries.²⁴⁷

Subsequently, many economists consider that developing countries not really differ from other countries; instead missing the start compared to its competitors and lately, catching up.²⁴⁸ The rising trend of emerging markets is mirrored in the listings of the New York Stock Exchange²⁴⁹ and Forbes' annual billionaire listings.²⁵⁰

In this context, economists consider these characteristics as vital for describing an emerging economy, but however do not represent conditions for an economy to be emerging. Then, being aware of the features of emerging countries does not mean that business undertakings in those are of successful character. In this respect, emerging markets represent symptoms of market structures and share common differences from developed countries.²⁵¹

²⁴⁵ Khanna and Palepu (2010)

²⁴⁶ Ibid.

²⁴⁷ Ibid.

²⁴⁸ Ibid.

²⁴⁹ Over 160 listings on the NYSE are firms, based in developing economies. The MSCI Emerging Markets Index includes 21 countries. http://www.nyse.com/about/listed/lc_ny_region.html

²⁵⁰ In 1987, 13 out of 141 billionaires resided in developing economies; in 2001, 83 out of 583 billionaires resided in emerging countries; in 2008, 300 out of 1125 billionaires resided in developing countries.

²⁵¹ Khanna and Palepu (2010)

Superficially, emerging markets mirror markets where supply and demand are not able to come together efficiently. Hence, every economy should provide regularities to enable the best-possible functioning of market structure.

However, developing economies simply fall short in order to do so.²⁵² Thus, these institutional gaps reflect the emerging character of an economy and represent the main reason for high transaction costs as well as operative challenges in emerging markets.²⁵³

When it comes to the point for business managers to evaluate an emerging economy's reaction to specific outcomes, they often overlook the differences by which emerging economies are operating compared to their developed counterparts.²⁵⁴ For instance, one would suggest that China is amongst the world's most advanced market due to its GDP. Nevertheless, China is as emerging as an emerging market could be because of its market structure.²⁵⁵ However, business managers surely know that operating in these markets is different than having business ventures in developed countries. Do they really?

Finally, emerging economies seek risks but also opportunities for multinational enterprises in favor of global competitiveness. Though, the undertaking to operate in an emerging country should not only be reduced to overall risk-assessment. More precisely, companies can refine their strategies in developing markets to avoid inaccuracies and outperform competitors.

²⁵² Khanna and Palepu (1997)

²⁵³ Khanna and Palepu (2010)

²⁵⁴ Ibid.

²⁵⁵ Ibid.

3.3 Multinational Corporations and Emerging Markets

In recent years, the number of multinational corporations getting started in transitional economies is growing larger. This subject of interest also became very popular in recent international business endeavours.²⁵⁶

First, MNCs based in developed countries target emerging economies because of the mentioned reasons in the previous section. However, the success of the MNCs is held to a minimum, especially that of American multinationals. Therefore, many scholars and economists started to investigate the reasons for failure in emerging markets.²⁵⁷ For that reason, there is a need for MNCs to reinvent their strategies for entering and operating in emerging economies plus expand their understanding of such markets.²⁵⁸ Consequently, the concept of institutional gaps within the regulatory framework of emerging economies, specific intermediaries in such economies and contractual mechanisms are the reasons for the failure of MNCs based in developed countries in emerging markets.²⁵⁹

Second, the number of emerging economy-based companies being involved in business undertakings in developed markets is increasing. Pillania (2008) coins the term of emerging market MNCs (EMMs) and states that these companies compete with their developed counterparts in their market for growth and share.²⁶⁰ Additionally, the prior cited acquisitions of IBM by Lenovo and Jaguar/Land Rover by Tata Motor Group underline the EMMs significant pace in terms of mergers and acquisitions. Hence, even the largest Western corporations recognize the fast and vital expansion of emerging countries.²⁶¹

Third, the competition between developed MNCs and EMMs both entering into emerging markets is increasing dramatically. Here, EMMs' experience in operating in its own emerging market is of high importance due to the fact that these companies have advantages in understanding another emerging market plus lower costs compared to developed countries' companies.

²⁵⁶ Meyer (2004)

²⁵⁷ Ramamurti (2004); Khanna and Palepu (1997)

²⁵⁸ London and Hart (2004)

²⁵⁹ Khanna et al. (2005)

²⁶⁰ Pillania (2009)

²⁶¹ Accenture (2008)

For instance, MNCs from South Korea are much more successful in operating in India than their counterparts from the United States or even Japan.²⁶² Therefore, it is clear that EMMs are able to generate competitive advantages in developed and developing markets due to their ability to manage an array of risks, improvise on a daily basis and keep in line with the significance of culture.²⁶³

Fourth, speaking of competition; it is also swelling between EMMs, especially in the so-called third world countries.²⁶⁴ Thus, EMMs require a wide range of resources in order to substantially increase their growth, leading to a hard-fought competition in developing countries for natural resources like oil in African countries.²⁶⁵

Fifth and last, the importance of the growing power and impact of EMMs is obvious.²⁶⁶ So, many companies from emerging markets gained global prominence across the world. For instance, Accenture (2008) names PetroChina's public offering move in 2007 which enabled the company to develop into the world's largest public corporation in terms of market capitalization.

The rising dominance of MNCs from emerging markets is mirrored in the Fortune Global 500 corporations ranking based on revenue²⁶⁷. Traditionally, this ranking is dominated by large corporations from Western Europe, North America and Asia. Recently, the number of MNCs from these countries has been reduced while the EMMs' entrants are on the come up.

²⁶² Khanna and Palepu (2010)

²⁶³ Ibid.

²⁶⁴ Pillania (2009)

²⁶⁵ Ibid.

²⁶⁶ Ibid.

²⁶⁷ Annual ranking of the world's largest corporations.
<http://money.cnn.com/magazines/fortune/global500/>.

Table 1 shows the significant development of emerging markets in this ranking by focusing on the increasing number of MNCs from Brazil, Russia, India and China.

Country	Year										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brazil	3	3	3	3	4	5	5	6	7	7	8
Russia	3	3	3	3	5	4	5	8	6	8	7
India	1	4	4	5	6	6	7	7	8	7	8
China	11	15	16	16	20	24	29	37	46	61	73
Total	18	25	26	27	35	39	46	58	67	83	96
Sources: Fortune (2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012)											

Table 1. Fortune Global 500 MNCs (referring to Pillania 2009, p. 102)

As one can see, the number of EMMs significantly increased throughout the last decade, resulting in a relative increase from 3,6% in 2002 up to 19,2% in 2012. Thus, corporations based in emerging markets represent almost one-fifth of the 500 largest corporations worldwide.

However, a highly important difference regarding ownership structures between emerging markets MNCs and those from developed countries is evident. While MNCs from developed countries among the Fortune Global 500 have private ownership, most of the EMMs and especially BRIC economies tend to have governmental ownership.²⁶⁸ Additionally, corporations based in emerging markets tend to belong to industry or financial sectors, such as energy industry and banking industry.

After clarifying the importance of EMMs within global economy, it is of high interest to investigate their international expansion strategies. In recent literature, studies have outlined at least the following internationalization models of EMMs²⁶⁹:

- *Full-fledged globalizers* represent mature, more reliable EMMs that are comparable to their Western counterparts in terms of geographic span and reach.

²⁶⁸ Pillania (2009)

²⁶⁹ Ibid.

- *Regional players* target foreign markets in pursuing greater scale but due to cultural attraction and geographic closeness they remain their focus on neighbouring regional markets.
- *Global sourcers* favour the selling to their home markets; however, due to domestic constraints in resources, they foster international sourcing.
- *Global sellers* mirror global sourcers because they primarily produce or source at the domestic market but seek new consumer markets abroad.
- *Multi-regional niche players* represent smaller companies being active in niche sectors, typically putting emphasis on innovation, technology and processes.²⁷⁰

Finally, emerging markets can be understood as the new growth drivers of global economy and while MNCs play a vital role in global business, it is of utmost interest to gain knowledge about the outcomes of MNCs from developed countries trying to operate within the institutional voids of emerging economies.²⁷¹ So far, the success of developed economy-based MNCs in emerging markets has been mixed. Notwithstanding that the number of EMMs that are expanding and acquiring corporations in developed economies lately is increasing rapidly, MNCs based in developed countries need to be aware of the upcoming substantial competition rising against them.²⁷²

Therefore, MNCs need to adapt their strategies according to the economical context in order to operate in developing countries without being outperformed by their emerging counterparts.²⁷³ The following section deals with possible strategies that should be kept in mind when entering into emerging markets.

²⁷⁰ Accenture (2008, p.3)

²⁷¹ Pillania (2009)

²⁷² Ibid.

²⁷³ Khanna et al. (2005)

3.3.1 Suitable Strategies

“Successful companies develop strategies for doing business in emerging markets that are different from those they use at home and often find novel ways of implementing them, too.”²⁷⁴

Decision makers from the largest corporations across Western Europe, the US and Japan face the most critical challenge in the on-going globalization. Moreover, it has become a vital task to decide among countries do business with and what internationalization strategy to choose from. Eventually, most corporations stuck to their traditional procedure entering new markets with deployed strategies.²⁷⁵ However, many MNCs are struggling in order to develop successful strategies to enter and maintain competitive in emerging markets.

The reasons for unsuccessful emerging market entries may lie in the existence of institutional voids within the environment of those markets.²⁷⁶ These embed the absence of regulatory systems plus contract-enforcing mechanisms and the lack specialized intermediaries. Compared to these barriers, developed economies provide a much softer infrastructure that eases the execution of business models for MNCs. In emerging markets, undeveloped infrastructure linked to unknown customer preferences and the absence of intermediaries for personnel recruitment or trustworthy suppliers build the basis for the unsuccessful entrance of MNCs from developed countries.²⁷⁷

In this context, the authors state that mistakes were made by Western MNCs because instead of trying to engage more closely with emerging economies, MNCs from developed countries kept on pursuing business undertakings in their home markets or neighbouring economies. For instance, the percentage of investments of the US into BRIC economies accounted only for 2,5% of the overall investments made in 2002.²⁷⁸

²⁷⁴ Khanna et al. (2005, p.64)

²⁷⁵ Khanna et al. (2005)

²⁷⁶ Ibid.

²⁷⁷ Ibid.

²⁷⁸ Ibid.

Thus, successful companies from developed countries develop strategies that differ from those being used at their home market and therefore function around institutional gaps.²⁷⁹ In other words, they refine their strategies based on customized approaches to each emerging economy's institutional context.

Eventually, companies pursuing interests in internationalization strategies often use risk and country assessing tools, though leaving out initial information about cutting deals in developing countries, for example infrastructure. Thus, companies rely on country rankings (tables in section 3.4) but neglect variation in market infrastructure of each emerging market, for instance.

	Brazil	Russia	India	China
Global Competitiveness Index ranking* (out of 144 countries; for 2012-2013)	48	67	59	29
Governance indicators (percentile rankings)** (out of 200 countries; for 2012)				
Voice and accountability	63,8	22,5	59,2	4,7
Political stability	46,2	20,8	12,7	25
Government effectiveness	55,5	42,2	54,5	60,7
Regulatory quality	55,9	38,9	40,3	45,5
Rule of law	55,4	25,4	52,6	40,4
Control of corruption	63	13,3	35,1	28,9
Corruption Perceptions Index ranking*** (out of 174 countries; for 2012)	69	133	94	80
Composite Country Risk Points**** (for December 2012; large number means less risk)	70	78	72	76
Weight in Emerging Markets Index (%)***** (for December 2012; out of 21 emerging markets)	14.90%	6.80%	6.10%	17.80%
Sources: *World Economic Forum, Global Competitiveness Report 2012-2013 **World Bank Governance Research Indicator Country Snapshot, 2012 ***Transparency International, Corruption Perceptions Index, 2012 ****The PRS Group, International Country Risk Guide, January 2012 *****Barclays Global Investors, iShares "2012 Annual Report to Shareholder"				

Table 2. Composite Indices for BRIC (referring to Khanna et al. 2005, p.65)

²⁷⁹ Khanna et al. (2005)

Table 2 presents composite indices that are definitely useful, but companies seeking entrance to emerging markets should only use them as a basis for developing strategies when their home and target economies share comparable institutional contexts.²⁸⁰ Therefore, three possible strategy choices for companies are revealed. Accordingly, companies can (1) *adapt* their strategy to developing countries, (2) *change* the market backgrounds or they can simply (3) *stay away* from developing economies.²⁸¹

Based on Khanna et al. (2005) the following strategies are linked to practices.

- (1) In order to succeed, MNCs have to adapt their strategies for each desired entry market. Therefore, they may have to adapt to gaps in the market's product environment. Additionally, firms must stick to their core competences while adapting their business models. So, advantages such as global branding and scale are easily lost when shifts are too drastic. Two good examples for this approach represent the market entries of Dell into China and McDonald's into Russia²⁸². Companies should be aware of modifying their business model without neglecting the parts of it that allow them to maintain its competitive advantage.
- (2) Due to their power, MNCs are usually able to change the settings they are operating in. For instance, the products or services firms are offering can lead to changes in the markets, which in turn can have broad consequences. When Japanese firm Suzuki entered the Indian market, it enhanced quality management in the automotive sector.²⁸³ Same applies to factor and talent markets.²⁸⁴ Thus, by changing contexts, companies must be aware of their mission to help the countries to fully develop its potential.

²⁸⁰ Khanna et al. (2005)

²⁸¹ Khanna et al. (2005); Khanna et al. (2006)

²⁸² Dell changed their „order online“ model for the Chinese market in order to please the customers by using faxes and paper orders. McDonald's identified Russian farmers and bakers, built up a manufacturing site and imported raw materials in order to adapt to Russia's factor market.

²⁸³ Suzuki entered India in 1981, forcing the local suppliers to undergo quality clusters with Japanese experts in order to produce high-quality parts.

²⁸⁴ The Big Four established branches in Brazil and their presence raised standards across the country. German-based Knauf successfully invested into training and education facilities in Russia in order to boost industry standards.

- (3) For some companies, it is simply not practical or economically not reasonable to adapt their strategies to emerging economies and therefore they should rely on their decision to simply stay away from those markets.

Regarding strategies for companies based in emerging markets, the so called “emerging giants”²⁸⁵ face their challenge in overcoming institutional voids in the market they operate in. Hence, there is also a set of strategies that allow them to respond to insituional gaps in emerging markets and multinational competition.

Table 3 sums up the most important findings of recent literature.

Strategic choice	Options for emerging market-based companies
Replicate or adapt?	<ul style="list-style-type: none"> • copy business model from developed markets • exploit local knowledge, capabilities, and ability to navigate institutional voids to build tailored business models
Compete alone or collaborate?	<ul style="list-style-type: none"> • compete alone • acquire capabilities from developed markets through partnerships or JVs with multinational companies to bypass institutional voids
Accept or attempt to change market context?	<ul style="list-style-type: none"> • take market context as given • fill instituional voids in service of own business
Enter, wait or exit?	<ul style="list-style-type: none"> • build business in home market in spite of institutional voids • deemphasize home market early in corporate history if capabilities unrewarded there

Table 3. Responding to Institutional Voids (Source: Khanna and Palepu 2010, p.14)

²⁸⁵ Khanna and Palepu (2010)

3.4 BRIC Economies

As mentioned before, emerging economies have risen over the last decades and underpin this fact with an average growth rate of almost 6% recently.²⁸⁶ By outperforming their developed counterparts, BRIC economies had their peak at an average growth rate of 9,7% in 2007 and still are on the run at 6% in 2011.²⁸⁷

Terminology of current emerging markets differs in many ways: everyone may be familiar with the term BRIC;²⁸⁸ additionally, variations occur in terms of BRICS (including South Africa), BRICET (including Eastern Europe and Turkey), BRICK (including South Korea), the Next Eleven (including Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam), CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa) and Frontier Markets (including recent and less developed emerging markets).²⁸⁹

Though, in premise of this thesis, emerging markets of interest are Russia and China; hence, relying on the terminology of BRIC.

This section deals with the specific contexts given in the BRIC economies. Prior to briefly mapping the contexts in each economy the context of the European Union (similar to the US) will be outlined to illustrate a common comparison. The five contexts include the political and social system (1), openness (2), labor and capital markets (3+4) as well as product markets (5).²⁹⁰

²⁸⁶ <http://www.weforum.org/news/emerging-markets-drive-financial-services-growth-report-finds> (accessed December 3, 2012)

²⁸⁷ <http://www.northerntrust.com/wealth/12-summer/BRIC-investing-challenges-opportunities.html> (accessed December 3, 2012)

²⁸⁸ Brazil, Russia, India and China

²⁸⁹ Powney (2011, p.2)

²⁹⁰ Referring to Khanna et al. (2005)

For comparison reasons, the context in the EU will be presented in order to outline the vital differences between developed and developing countries.

- (1) In terms of political structure, countries among the EU have vivacious democracies with checks and balances. The operating companies can rely on the rule of law and fair application of legal contracts. A vibrant media checks misuses by both companies and governments. Powerful non-governmental organizations impact company policies on social and environmental matters.²⁹¹
- (2) Regarding the modes of entry, the EU is open to all forms of foreign direct investments with the exception of governmental veto rights concerning potential monopolies or national security.²⁹²
- (3) In the workers market, the level of unionization varies among EU countries. Industrial actions take place in home markets, especially in the manufacturing and public sectors. Concerning the managers market, the EU possesses a large and diversified pool of well-trained talented management personnel.²⁹³
- (4) Companies can get bank loans easily and the corporate bond market is well-developed. The successful integration of the stock exchange in each country of the EU gives the companies a good access to a bottomless pool of possible investors. Venture capital is usually accessible for specific industry clusters in urban areas. Regarding accounting standards, valuable transparency is given and accounting practices are uniform across the EU.²⁹⁴
- (5) Sophisticated product design capabilities are accessible. Thus, governments enforce intellectual property rights and protect trademarks. Therefore, research and development generally induces competitive advantages. Additionally, companies use foreign and local home market suppliers. Instead of vertical integration, firms tend to outsource their capabilities and move production offshore. The infrastructure is highly developed among the EU and its urban areas. The product markets in the EU are mature and provide strong brands.²⁹⁵

²⁹¹ Khanna et al. (2005)

²⁹² Ibid.

²⁹³ Ibid.

²⁹⁴ Ibid.

²⁹⁵ Ibid.

Eventually, developing countries undergo the same stages of development as the already developed countries did and still do. Therefore, the World Economic Forum presented a framework for stages of development (Figure 9) that is linked to the economic notion of stages of development and develops three forms of economies.²⁹⁶

Factor-driven economy

When economies move along the development process, wages increase and labor productivity must increase, too. Hence, the economy is considered to be *factor-driven* in the first stage and countries strive for factor talents, being unskilled labor and natural resources. So, firms' competition is centered on prices and they sell basic products or goods while simultaneously reflecting their low productivity in lower wages. In order to remain competitive at this stage of development, economies have to focus on basic requirements such as well-functioning institutions, a well-built infrastructure, a constant macroeconomic environment and healthy personnel with conventional education.²⁹⁷

Efficiency-driven economy

As soon as an economy becomes more competitive, productivity will enhance and wages will increase with further development. Then, economies will shift towards the *efficiency-driven* stage. Here, they have to advance towards more efficient manufacturing processes as well as better product quality due to increased wages and their inability to increase prices. Hence, competitiveness is gradually driven by higher education, goods and labor markets efficiency, stable plus mature financial markets, technological readiness and large market.²⁹⁸

Innovation-driven economy

Finally, as economies enter the *innovation-driven* stage, wages will reach their highest point so that the only possibility for countries to overcome this wage level by providing their business undertakings to compete on a new and unique product level.

²⁹⁶ Schwab (2012)

²⁹⁷ Ibid.

²⁹⁸ Ibid.

Here, firms' have to sustain competitiveness by producing new and diverse goods using highly-developed production processes and by inventing new ones.²⁹⁹

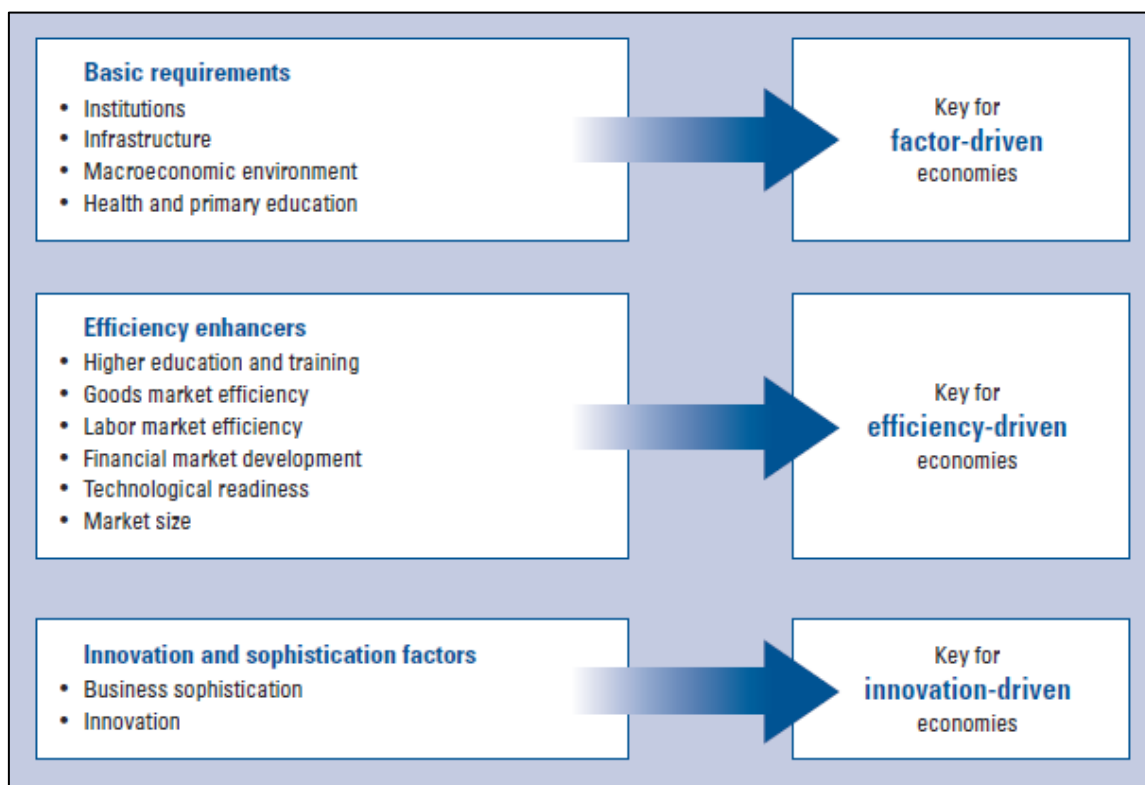


Figure 8. Stages of Development (Source: The Global Competitiveness Report 2011-2012, p. 9).

In the following, each BRIC economy will be briefly presented with an outlook at the condition of each country including strengths, weaknesses, opportunities and risks. Additionally, stages to which economies are currently attached to are evaluated.³⁰⁰

²⁹⁹ Schwab (2012)

³⁰⁰ The data gathered regarding the economies was conducted mostly through global competitive reports of the World Economic Forum.

3.4.1 Brazil: A Sure Thing

Brazil with its population of 199.7 million inhabitants and GDP of 2,492.9 billion USD shares currently 2.91% of the world total GDP. The economy's democracy is vivid and bureaucracy seems to be very wild whereas signs of corruption can be found in federal as well as state governments. Local media has a high influence on undertakings and serves as an overseer while local NGOs do not have marginal influence.³⁰¹

Considering entry modes into the Brazilian economy, both Greenfield investments as well as acquisitions are promising. Hence, foreign firms tend to team up with local companies in order to gain local expertise and know-how. The labor market in Brazil is characterized by strong and pragmatic trade unions on the one side and on the other side by a large pool of management talent with different English skills.³⁰²

Speaking of the Brazilian capital market, the banking system that exists is quite good and the stock market is functioning well. As mentioned before, the accounting system, especially financial reporting, is based on common-law regulations and functions well in connection with the market entry of the Big Four accounting firms. Regarding financial distress, the Brazilian economy provides processes for firms to stay in rather than go bankrupt and evidently out of business.³⁰³

In terms of product development and intellectual property rights, Brazil provides excellent local design capabilities. Though, it has to deal with several IPR lawsuits with companies from North America. Regarding the supplier base and logistics, Brazil ranks 13th and 36th among 144 in terms of local supplier quantity and quality. The infrastructure inherits a good network of transportation possibilities. Additionally, both local and global brands are existent on the Brazilian product market due to their acceptance by customers.³⁰⁴

³⁰¹ Khanna et al. (2005)

³⁰² Ibid.

³⁰³ Ibid.

³⁰⁴ Ibid.

Though, Brazil inherits some factors that make doing business in its market quite problematic. Tax regulations and tax rates complicate the possible market entrants' price strategies.³⁰⁵

Compared to the other members of BRIC, Brazil may have the brightest future and thus, providing less risks. Politically, its democratic government ranks best regarding corruption of the BRIC economies with a score of 39³⁰⁶ (ranked 63th among 174). Economically, it relies on exports of materials such as farming products, e. g. beef and coffee. Regarding fluctuation, prices for agricultural materials are less affecting than for raw materials like oil or copper. The latter two are key exports of neighboring countries Chile and Peru.³⁰⁷

The future looks bright for the Brazilian economy, especially in terms of infrastructure. Hence, the country is looking forward to host both the 2014 World Cup and 2016 Summer Olympics which in turn should foster Brazil's international appearance and draw attention to the economy's long-term ambitions. As for now, Brazil finds itself within the framework of stages of development in transition from efficiency-driven to an innovation-driven economy.

Table 4 illustrates the importance of the five major Brazilian companies in the Forbes 500 listing of 2012.³⁰⁸

Country rank	Company	Rank	Revenues (\$ millions)
1	Petrobras	23	145,915
2	Banco de Brasil	88	81,887
3	Banco Bradesco	136	65,137
4	Vale	159	58,990
5	JBS	286	36,921
Source: Fortune (2012)			

Table 4. Brazilian MNCs in Fortune Global 500.

³⁰⁵ Khanna et al. (2005)

³⁰⁶ <http://cpi.transparency.org/cpi2012/results/>. Score 0 – 100 (the lower the score, the higher the corruption; accessed December 3, 2013)

³⁰⁷ Khanna et al. (2005)

³⁰⁸ Schwab (2012)

3.4.2 Russia: Future Oil Giant

Russia is the largest country of the world in area but ranks only 4th among the BRIC economies in terms of population with 147.1 million inhabitants. With a GDP of 1,850.4 billion USD, Russia accounts for 3.02% of the world total. The country is characterized by a centralized government and some regional feudal tenure whereas bureaucracy is overwhelming. However, local media is completely under governmental control while NGOs are not well-developed and not well-organized.³⁰⁹

In terms of Russia's openness, possible market entry strategies are embedded in the availability of Greenfield investments and acquisitions. However, the entry strategies are considered to be difficult in their application. Therefore, foreign firms try to build alliances with local companies in order to gain access to local inputs and the government.³¹⁰

The labor market is reflected by indeed present trade unions but with declining influence on several sectors, except railway and mining industries. On the other side, management talent with English skills is rare and is supplemented by the declining number of emigrating managers. Therefore, employment agencies are up and coming to hire new workforce.³¹¹

Regarding capital markets, the Russian banking system is strong but partially dominated by state-owned banks. In addition, IPOs are on the come up while the credit market is booming. In order to raise equity capital, foreign firms have to build local subsidiaries. The accounting standards are based on old Soviet systems of financial reporting; however, this works well. As recent development shows that the banking sector is moving towards international accounting standards.³¹²

Speaking of product markets, Russia's capabilities in local design are strong and IPRs are secured through sufficient regulatory authorities. Firms can have access to local suppliers when in need of simple components but the economy's lack of a decent overall logistics network makes manufacturing in Russia problematic.

³⁰⁹ Khanna et al. (2005)

³¹⁰ Ibid.

³¹¹ Ibid.

³¹² Ibid.

Customers prefer global brands over local brands in the automotive sector and vice versa in the foods and beverages sector.³¹³

Russia, like Brazil, is heavily dependent on exports. The economy's leading export is oil and therefore Russia's future is tied to the price of oil. In this case, politicians seem to sit back and relax. However, policy-makers discussed an initiative to improve and diversify Russia's economy by establishing businesses within different industries to be more competitive internationally. Thus, this initiative would also have an incremental impact on Russia's plan to implement the much-needed upgrade of its infrastructure. However, with Putin being elected again and increasing oil prices, there will unlikely be a serious approach in pushing forward the privatization and modernization packages.

Russia trails behind the others in terms of economic growth.³¹⁴ Its main problem lies in its corruption that occurs throughout all levels of government. Russia ranks 133th amid 174 and most corrupt among BRIC economies with a score of only 28. For reference, Austria and Germany rank 25th and 13th. Therefore, corruption is considered as most problematic barrier for operating in Russia, followed by inefficiency of governmental bureaucracy.³¹⁵ It can also be difficult for MNCs to do business in Russia due to the required political alliances, and even when foreign firms succeed in building those, the economic setting can change rapidly. Nonetheless, the Russians seek for luxury goods and higher living standards and the newly-developed upper class is a possible market for foreign market entrants.

³¹³ Khanna et al. (2005)

³¹⁴ Schwab (2012)

³¹⁵ Ibid.

In result Russia is currently transitioning from an efficiency-driven to an innovation-driven economy.³¹⁶ Table 5 illustrates the significance of the five major Russian companies in the Forbes 500 listing of 2012.

Country rank	Company	Rank	Revenues (\$ millions)
1	Gazprom	15	157,831
2	Lukoil	49	111,433
3	Rosneft Oil	137	65,093
4	TNK BP-International	198	48,909
5	Sberbank	304	35,502
Source: Fortune (2012)			

Table 5. Russian MNCs in Fortune Global 500.

³¹⁶ Schwab (2012)

3.4.3 India: On the Rise

India is the second-largest country in terms of population (1,250.2 million inhabitants) and accounts for 5.65% of world total GDP with 1,676.1 billion USD. The economy is characterized by its dynamic democracy and the high level of bureaucracy of its government. Though, corruption is existent in state and local governments. Politicians and companies are being observed by a vibrant press and attentive NGOs.³¹⁷

In terms of modes of entry, India inherits restrictions on Greenfield investments and acquisitions which demonstrate the necessity of joint ventures. Bureaucracy complicates foreign investments in sectors where companies are allowed to pursue such undertakings.³¹⁸

In the labor market of Indian economy, trade unions are volatile due to their strong political connections. However, their existence is becoming less important. Albeit, the economy owns a large pool of high-skilled management talent, fostered by upcoming technical and business schools all over India.³¹⁹ Therefore, it is not surprising that India rank 16th among 144 when it comes to the availability of scientists and engineers.

The capital market is provides by a well-developed banking system which allows MNCs to rely on local banks when being in need of financial assets. Additionally, equity is not only available to local but also to foreign entities. The financial reporting functions very well.³²⁰

Regarding the product development and IPR, India possesses some local design capabilities and regulatory authorities monitor product quality and fraud. In terms of suppliers, India ranks 10th out of 144 concerning local supplier quantity but lacks in supplier quality and reliability. Although, roads and airports are in a bad condition the Indian railroad system is well-developed. In the products market, Indian consumers rely both on global and local brands.³²¹

³¹⁷ Khanna et al. (2005)

³¹⁸ Ibid.

³¹⁹ Ibid.

³²⁰ Khanna et al. (2005)

³²¹ Ibid.

India's growth and economy profile have lagged behind China's, but its long-term forecasts may be more promising. Thus, India performs better in overcoming barriers to become a developed economy.³²² Another reason is embedded in India's commitment to allow foreign direct investment and foreign involvement which in turn will foster India's economic growth in the long run.³²³ As for now, India is still considered to be in the first stage of development and thus being a factor-driven economy.³²⁴

Table 6 illustrates the relevance of the five major Indian companies in the Forbes 500 listing of 2012.

Country rank	Company	Rank	Revenues (\$ millions)
1	Indian Oil	83	86,016
2	Reliance Industries	99	76,119
3	Bart Petroleum	225	44,582
4	Hindustan Petroleum	267	38,885
5	State Bank of India	285	36,950
Source: Fortune (2012)			

Table 6. Indian MNCs in Fortune Global 500.

³²² Khanna et al. (2005)

³²³ Ibid.

³²⁴ Schwab (2012)

3.4.4 China: Sleeping Giant

China is the largest economy among the BRICs with a population of 1,367 million inhabitants and accounts with a GDP of 7,298.1 billion USD for 14,32% of the world total. The political structure in China is dominated by the monopoly of the Communist Party which maintains mostly all of China's political power. Economic policy decisions are made by local governments.³²⁵ Thus, officials can misuse their political power for personal benefits. The Chinese media is under control of the government and only a small number of independent NGOs exist. As a result, companies will not be at the mercy of the public but also cannot count on specific surveillance processes in terms of power abuse.³²⁶

Regarding China's openness, the Chinese government allows Greenfield investments as well as acquisitions. But acquired firms may have hidden liabilities because they likely have been in state ownership before. In China, partnerships allow companies to align their interests with federal government.

In terms of Chinese labor market, everything runs through the All-China Federation of Trade Unions. Therefore, workforce is strictly asked to join this institution. However, there is no historic evidence on any industrial activities besides some minor strikes in manufacturing sites.³²⁷ The Chinese market for managers is small and static. The problem here is the lack of sufficient English skills at management level.

The Chinese capital markets are underdeveloped in many ways. For instance, the banking system and the equity market do not function well. In turn, foreign investors have to raise debt and equity capital in their home markets. Venture capital is not rely available and is limited to a small number of venture capitalists.³²⁸ In terms of accounting standards, China has little transparency in its undertakings. As a result, the financial reporting standards are not very strict in China but the governmental regulatory authorities want to strengthen disclosure processes.³²⁹

³²⁵ Khanna et al. (2005)

³²⁶ Ibid.

³²⁷ Ibid.

³²⁸ Ibid.

³²⁹ Ibid.

Regarding the product markets, IPR and product development are not linked to one another. Piracy and imitation is common among Chinese companies and punishment for fraud varies heavily from canton to canton and level of corruption. The supplier and logistics base is versatile. There are some suppliers that have strong manufacturing capabilities but lack in technical abilities. However, infrastructure is excellent due to the well-developed road network and good port facilities. The Chinese consumer prefers global brands, especially from the United States, European and Japanese market.³³⁰

The economy continues to slow down after growing rapidly throughout the past decade.³³¹ China's recent ambiguity can be traced back to Europe because a great share of its expensive manufactured goods are sold in the European market which means, if demand declines in there, China's economy might suffer.³³² Additionally, the European economic crisis could upset the pushing forward of infrastructure in China. As debt levels increase in Europe, domestic investors have merged their investments leading to a capital outflow in China, resulting in the economy's own debt problems.³³³

Like Russia and India, China faces serious problems regarding corruption.³³⁴ The Corruption Perceptions Index 2012 ranks China 80th with a score of 39. Even, India being worse at rank 94 with a score of 36, the situation in China is considered to be more threatening. For instance, a conflict between a foreign market entrant and a state-owned entity, will likely result in favor of the state due to the law being seen as only a guideline.³³⁵

³³⁰ Khanna et al. (2005)

³³¹ <http://www.northerntrust.com/wealth/12-summer/BRIC-investing-challenges-opportunities.html> (accessed on December 3, 2012)

³³² Ibid.

³³³ Ibid.

³³⁴ Khanna et al. (2005); Schwab (2012)

³³⁵ Khanna et al. (2005)

Table 7 illustrates the significance of the five major Chinese companies in the Forbes 500 listing of 2012.

Country rank	Company	Rank	Revenues (\$ millions)
1	Sinopec Group	5	375,214
2	China National Petroleum	6	352,338
3	State Grid	7	259,142
4	Industrial & Commercial Bank of China	54	109,04
5	China Construction Bank	77	89,648
Source: Fortune (2012)			

Table 7. Chinese MNCs in Fortune Global 500.

4. Case Study: Knowledge Transfer into Emerging Markets

This section provides empirical work and evidence. Here, the qualitative approach in form of a case study is chosen in order to outline the link between theory and practice.

Based on observations and interviews in Russia as well as China, a case study was conducted, showing the course of events and exploring the knowledge transfer into and from emerging economies. Hence, a Russian based company decided to set its business vendors to a new level and establish an entity in China, after being successfully engaged in business undertakings beforehand for almost ten years.

In two vocational undertakings, the author of this thesis gathered deep insights into the business strategy of a Russian company dealing with a market entry into the Chinese market. Therefore, these insights will be presented and critically evaluated on their success.

This section consists of five subsections and is set up as follows: First, the case study method is introduced and presented. Second, a subset of preconditions is provided in order to prepare the course of events, e.g. possible market entry strategies to China and the foreign ownership policy of the Chinese government. Third, the author provides a short historical recap of the course of events between the two companies, putting the focus more on the Russian corporation due to its anticipatory undertakings in favour of the market entry and the author's engagement during his studies abroad. Here, a company profile of both firms involved completes the picture of preliminary measures. Fourth, the actual knowledge transfer between the two actors is being analyzed and evaluated according to specific criteria such as articulation, training measures, copying capabilities and adaptation abilities. Fifth, the author provides an aftermath of his work, presenting pros and cons of the case study method and giving advice for future research activities in the field of knowledge transfer into emerging markets.

4.1 Methodology

The case study method provides the possibility for academics to inspect collected data in a specific context. Mostly, this method centres on selecting a small amount of individuals in a limited geographic zone.³³⁶ This thesis embeds also practical research in form of a case-study approach of a firm being engaged in KT activities into the emerging market of China. The basis for this case study is equipped in the theoretical review that happened before. Therefore, the theoretical concepts and propositions being elaborated before are explored using this case study.

Hence, the case study method needs some preliminary actions prior to conducting it. Therefore, revising the literature and classifying the need for research plus considering available data sources came beforehand. After the literature of knowledge transfer and emerging markets has been reviewed, this study aims to evaluate the happenings within the process of knowledge transfer between two emerging markets. Thereupon, the dynamic role of knowledge transfer could be derived in the evolving partnership between two economies on the basis of Russian-Chinese cross-cultural experience.

Robert Yin is by far considered to be the one to put major emphasis on case study methodology because of his theoretical as well as practical input and his prolonged work in this field. Hence, he defines case study as an “empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”³³⁷ In addition, further explanations consider a case study as an “empirical research that primarily uses contextually rich data from bounded real-world settings to investigate a focused phenomenon.”³³⁸ Thus, Yin developed the belief that despite the method being considered as a qualitative technique, constructing a case study is reasonably a research method which also includes quantitative methods such as surveys or interviews.³³⁹ As a matter of fact, case studies perfectly match for research purposes questioning *how* and *why*.³⁴⁰

³³⁶ Zainal (2007)

³³⁷ Yin (2009, p.18)

³³⁸ Barratt et al. (2011, p.329)

³³⁹ Zainal (2007)

³⁴⁰ Yin (1984, p.14)

In addition, case studies present “a history of a past or current phenomenon, drawn from multiple sources of evidence.”³⁴¹ Hence, the data included could be gathered from direct observation, interviews or private and archives. Therefore, contact in a case study is important due to every fact being relevant to the course of events within a case study.

As a matter of fact, case studies provide many variables whose proofs might be gathered from diversified data pools, such as observations, surveys, interviews and archives.³⁴² There are several perceptions about what case studies truly are. Hence, every case study should have a case which should “be a complex functioning unit, be investigated in its natural context with a multitude of methods, and be contemporary.”³⁴³ Furthermore, there are several types of case studies: exploratory, descriptive and explanatory.³⁴⁴

Exploratory case studies examine any occurrence in data which serves represents the centre of the researcher’s attention.³⁴⁵ Thus, before proposing research questions and hypotheses, it is eligible to prior conduct fieldwork and small-scale data.³⁴⁶ As a preface, these undertakings ease the preparation of a framework for the study.

Descriptive case studies describe a phenomenon, processes or events.³⁴⁷ The aim of the researcher is to describe the data as it occurs and solve the questions of *what*, *who* and *where*.³⁴⁸ These studies could be designed in a narrative form.³⁴⁹ The challenge for the researcher is to back up the event or process with a theoretical approach.³⁵⁰ If the researcher fails to do so, the description could lack strictness resulting in possibly occurring problems during the work.³⁵¹

³⁴¹ Leonard-Barton (1990, p.249)

³⁴² Johansson (2003)

³⁴³ Johansson (2003, p.2)

³⁴⁴ Yin (1984)

³⁴⁵ Zainal (2007)

³⁴⁶ Ibid.

³⁴⁷ Yin (1984)

³⁴⁸ Ibid.

³⁴⁹ Zainal (2007)

³⁵⁰ Ibid.

³⁵¹ Ibid.

Explanatory case studies explore and explain the characteristics of an event or process in more detail.³⁵² The aim is to investigate possible inter-relationships and therefore solves questions of *how* and *why*.

In the issue at hand, the case study approach consisting of two firms has been selected because the research questions focus on knowledge transfer into emerging markets, especially into the market of China. This allows a comparison of practice to the theory and provides findings for future research. Therefore, the single-case method is used with an explanatory type.

In this case study, China's manufacturing and lighting industries have been chosen. Both industries are large-scaled in the Chinese market and dominated by FDI which in turn provide extensive KT possibilities from Western MNCs towards Chinese companies and vice versa.

So, necessary data for this case study was conducted during two encounters in Russia and China. First, the author observed KM activities in the Russian company. Within this activity, he planned and participated in two business trips to the Chinese manufacturing site. The aim was to figure out how the Russian corporation was transferring initial and core knowledge to its partner and gain knowledge about the work environment in China. The needed information about knowledge transfer and organizational learning in the Chinese manufacturing and lighting industries was additionally collected through interviews. Second, the author engaged activities in China. For two months, the Russian-Chinese alliance was observed and internal KT processes and work flows were evaluated. The conducted interviews were held with executives and managers, both responsible for business strategy planning, finance activities, production and human resources. Most of the interviewees shared the experience of ten or more years working on this partnership, being capable of telling the whole process of internationalization from IJV negotiations up to building up a wholly-owned enterprise office in China..

³⁵² Yin (1984)

4.2 Preconditions

In order to provide a valuable research result, some preconditions have to be presented briefly. This section deals with topics such as foreign ownership restrictions, allowed entry strategies and cultural differences in China. Most of the Chinese market profile was already presented in section 3.4.4 of this master thesis. However, the focus will be held on company-specific case study purposes.

4.2.1 Foreign Ownership Restrictions

The Chinese Government allows three forms when it comes to foreign ownership policy in the Chinese industry.³⁵³ First, the government requests the collaboration of foreign firms with Chinese partners in order to form a joint venture, regardless of whether it will be a sleeping (equity joint venture) or industrial partner (cooperative joint venture). In this context, two possible scenarios are likely: the foreign firm's JV partner is imposed by the Chinese government; the foreign firm is free to choose a suitable business partner and afterwards needs approval by the Chinese government.³⁵⁴ Where at first glance, a choice for the foreign firm exists; a second look on the facts is inevitable. Thus, in practice, choices for foreign firms are rare because the amount of possible and especially suitable business partners may simply lack. Third, unrestricted equity ownership, allowing the foreign firm to claim 100% equity, may be unrestricted when the foreign firm decides to take upon a wholly owned affiliate.³⁵⁵ Thus, when the Chinese law requires an IJV, the business strategy is determined by the ownership structure, which is quite the opposite of conventional wisdom.³⁵⁶ In addition, KT strategies and their management are determined by the business strategy.

The Government of China imposes these ownership restrictions in order to complete a broad policy to transfer foreign technology to domestic industries.³⁵⁷ However, foreign firms transfer their knowledge to China and then witness how their knowledge gets spread among local domestic firms.

³⁵³ Buckley et al. (2004)

³⁵⁴ Ibid.

³⁵⁵ http://www.frankfurt-main.ihk.de/international/china_competence_center/de/laenderinfo/markteintritt/ (accessed February 23, 2013)

³⁵⁶ Buckley et al. (2004)

³⁵⁷ Ibid.

In order to prevent foreign firms from such leakage of knowledge competences, the Chinese Government tries to reduce this issue by relying on its foreign ownership policy. The challenge for the government remains, reducing the leakage of knowledge competences of foreign firms while generating returns on transferred knowledge, without decreasing the foreign firms' incentives to assemble or manufacture in China.³⁵⁸

4.2.2 Entry Strategies

As mentioned above, the entry prospects have three ways of entering into the emerging market of China, being through in-house, constrained or joint strategy. The strategies are determined by the structure of ownership and the type of business partner.

The in-house strategy represents the path for a foreign firm to enter the Chinese market through wholly owned affiliates. This market entry mode is oriented to international strategy while adapting to an international environment and dealing with costs of international technology transfer.³⁵⁹ In such a scenario, the affiliate can invest freely, proceed knowledge transfer and provide local management competences in order to pursue the internal development of absorptive capacity.³⁶⁰ Thus, leads to the affiliate being capable of establishing local sourcing opportunities to avoid suppliers with a low quality.³⁶¹

The constrained strategy explains the market entry through an international joint venture with a sleeping partner while the joint strategy resembles a market entry by a foreign firm through a joint venture with an active local business partner.³⁶² In general and as mentioned before, IJVs are constrained by the choice of their partners. In terms of choosing a sleeping partner, the IJVs are less restricted than choosing an active partner in the same industry.

³⁵⁸ Buckley et al. (2004)

³⁵⁹ Cannice and Daniels (2000)

³⁶⁰ Buckley and Casson (1976)

³⁶¹ Buckley et al. (2004)

³⁶² Ibid.

Thus, the aim of a sleeping partner will be profit-oriented while active industrial partners are often reluctant to provide their true economic intentions prior to entering an IJV.³⁶³ Furthermore, industrial partners aim to shift their costs towards the foreign partner in order to benefit from it.³⁶⁴

However, both types of partners could provide capabilities to benefit from knowledge transfer but there are differences in their strategies and intentions. Hence, a sleeping partner will not decline unnecessary resources but simultaneously disagree with the foreign firm on how much to invest regarding absorptive capacity.³⁶⁵ As a result, the business strategy will be constrained. Thus, an active partner may provide resources that are not supporting absorptive capacity. Additionally, learning across organizations is not only depending on absorptive capacity of the receiving firm but also on similar characteristics of both firms to be efficient.³⁶⁶ Moreover, processing mechanisms of structure and knowledge determine the efficiency of inter-organizational learning.³⁶⁷ So, if two firms have very different organizational structures, firm A will have problems to adapt knowledge from firm B.³⁶⁸

China's successful entry to the World Trade Organization in 2001 paved the way for the government to adjust possible entry forms into the economy through foreign firms.³⁶⁹ Since then, foreign enterprises have the opportunity to decide between more forms of market entry; the most important being representation office, both joint venture forms and wholly foreign-owned enterprises.³⁷⁰ Therefore, foreign firms usually can enter through a representation office when they are planning to first test the Chinese market without any legal power to do business in China. Hence, this office is considered to act as the representative of the foreign parent enterprise with no legal power, not even authority for visa.³⁷¹

³⁶³ Buckley et al. (2004)

³⁶⁴ Ibid.

³⁶⁵ Ibid.

³⁶⁶ Cohen and Levinthal (1990)

³⁶⁷ Lane and Lubatkin (1998)

³⁶⁸ Ibid.

³⁶⁹ http://www.frankfurt-main.ihk.de/international/china_competence_center/de/laenderinfo/markteintritt/ (accessed February 23, 2013)

³⁷⁰ Ibid.

³⁷¹ Ibid.

Thus, firms are also allowed to enter the Chinese market by founding a wholly foreign-owned enterprise with no Chinese participation. However, enabling firms for the first time to invest and produce in China without sharing their core knowledge with any Chinese partners, this market entry type is attached to some restrictions by the government.³⁷² Firms have to make a positive contribution to the Chinese economy and if they would like to operate also on the local Chinese market, they have to provide modern and advanced technologies to do so. Otherwise they are restricted to distribute their goods only beyond China.³⁷³

Figure 10 illustrates the most used entry strategies and their outcomes.

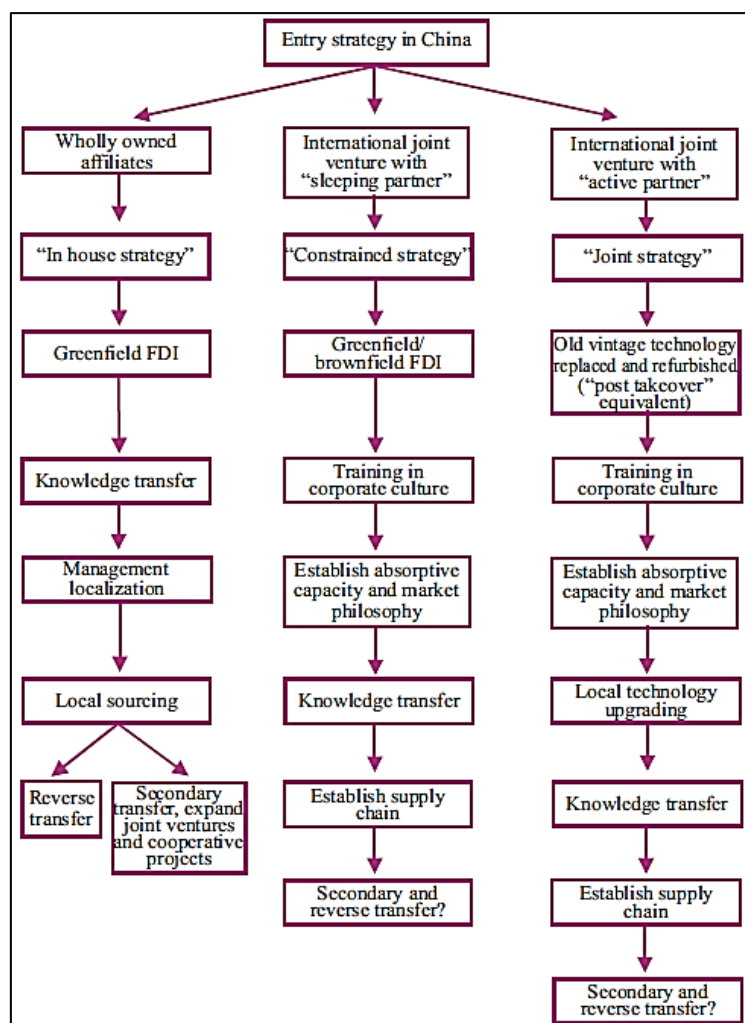


Figure 9. Entry strategy set in China (Source: Buckley et al. 2003, p. 74).

³⁷² http://www.frankfurt-main.ihk.de/international/china_competence_center/de/laenderinfo/markteintritt/ (accessed February 23, 2013)

³⁷³ Ibid.

4.2.3 Cultural Differences

Coming to the next point of significant preliminary aspects, the notions of *guanxi* and *mianzi* are of utmost importance. In order to examine cultural awareness in KT activities to China, these concepts are fundamental keystones in cultural interactions.³⁷⁴ In this context, *guanxi* represents the dimension of personal connections and *mianzi* reprises the dimension of facial.³⁷⁵ Hence, *guanxi* consists of a “fundamental web of interpersonal relations [that] can reduce uncertainty, lower search and other transaction costs, provide usable resources and a sense of connectedness.”³⁷⁶ *Mianzi* is considered to be an equally valuable concept in the Chinese culture. It represents the respect by others of an individual's social standing and position.³⁷⁷ Though, keeping up good relationships is the essence of doing business within the Chinese culture, it is also vital to guard one's dignity or saving one's face.³⁷⁸ Based on these propositions, focusing on the concepts of *guanxi* and *mianzi* creates trust between partnerships in China.³⁷⁹

In terms of knowledge transfer to transitional economies, managers or entrepreneurs face an environment where cultural and institutional aspects play a vital role in determining performance. As a matter of fact, the awareness of the Chinese culture can be described as one of the key factors for success in knowledge transfer. Thus, overcoming cultural barriers and pursuing a healthy partner relationship resembles two key strategies which should be followed by market entrants.³⁸⁰ However, strategies for removing cultural barriers and establishing good inter-partner relationships seem to be still unexplored.³⁸¹

Therefore, the role of *guanxi* and *mianzi* represents the cultural awareness needed in order to understand traditional culture and people's behaviour in China. The development and use of both concepts within cultural contexts in China is necessary in terms of successfully establishing of new businesses in this emerging market.³⁸²

³⁷⁴ Buckley et al. (2006)

³⁷⁵ Ibid.

³⁷⁶ Buckley et al. (2006, p.276)

³⁷⁷ Lockett (1988), In: Buckley et al. (2006, p.276)

³⁷⁸ Buckley et al. (2006, p.276)

³⁷⁹ Ibid.

³⁸⁰ Si and Bruton (1999)

³⁸¹ Buckley et al. (2006)

³⁸² Ibid.

In this context, a model to manage cultural awareness in knowledge transfer in China has been developed (Figure 9).

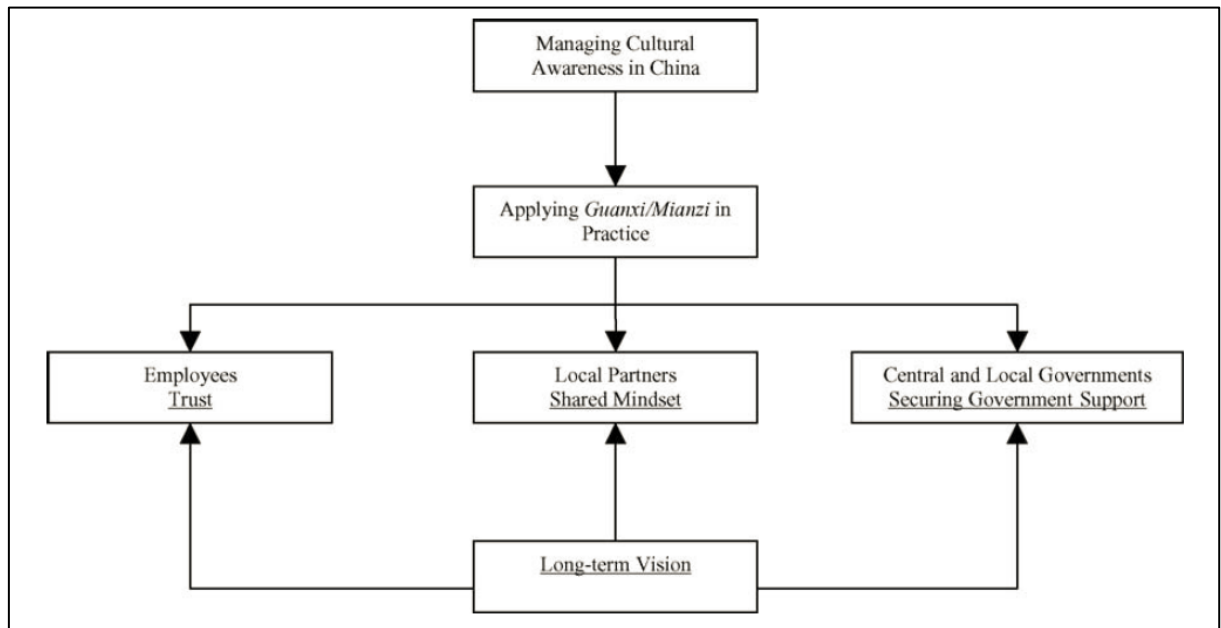


Figure 10. Managing cultural awareness in knowledge transfer (Source: Buckley et al. 2006, p. 285).

Thus, in order to manage cultural awareness, companies entering into the Chinese market should implement the concepts of *guanxi* and *mianzi* in their strategies and build upon the three key elements of trust, shared mindsets and governmental acceptance. In the long run, this sort of vision enhances the performance within and across organizational boundaries regarding knowledge transfer into the Chinese market.

4.3 Course of Events

The company MW-Light was founded in 2003 in Moscow, Russia. The firm sees its main area of activity in the manufacturing and wholesale of decorative lighting systems such as floor and table lamps, chandeliers as well as street lighting. The distribution of their goods is focused on the Russian and neighbouring markets such as Ukraine, Uzbekistan and Belarus. However, MW Light also serves customers across Europe, such as Germany, France, Belgium and Spain. According to one interviewee, the company's mission is to bring the beauty and aesthetics of decorative light to every home in the development of its business and customers, providing better service and terms of cooperation.

The manufacturing site is centred in China. Before its foundation, one future executive managed to establish neat and tight relationships to Chinese manufacturers in the city of Guzhen. This small town of approximately 60,000 inhabitants is known as *The Lighting City* for its wide infrastructure of lighting exhibitors, manufacturers and suppliers of production components. After opening up headquarters in Moscow and having a rough time with Russian suppliers plus manufacturers, the company entered into a cooperative joint venture (CJV) with a local Chinese entrepreneur who owns almost all manufacturing sites in the area and had a really good rapport with the local suppliers. Since then, the Russian-based firm was producing and assembling their goods in China while distributing them mostly in their home market.

The distribution of their products is happening through different channels. First, every product from every line is presented in a large exhibition hall in Moscow. Two additional shops are located in the suburbs of Moscow. Recently, the company launched an online shop that enables the customers to easily order online, however limiting the shipment only to Russia. Customers beyond Russia are limited to order via telephone. Additionally, as a wholesale, MW Light is keen on acquiring customers from all over Russia and even beyond, such as shopping malls, hotels or retailers.

In 2007, the company installed an agreement with a German licensor that included the licensing of three registered trademarks of the best-selling and top-notch products to excel sales and credibility on domestic and European markets. Meanwhile, executives were eager on the lookout for possibilities to enter the market without the engagement of a Chinese partner.

In 2008, the company founded a wholly owned enterprise in Hong Kong and launched its first office which should provide better opportunities with wider reach to operate in the Chinese market and being more independent. However, they remained active in their business with the Chinese partner in terms of manufacturing.

Recently, the company maintained its competitive position on the Russian market and opened up several showrooms across Moscow only to distribute high-class products and their strategy is to establish subsidiaries in every metropolitan area across Russia.

In 2012, the Russian-based company managed to launch its first wholly-owned manufacturing site and established a sales office nearby in order to target the domestic as well as neighbouring markets. The distribution in the Chinese market remained within the operation of their CJV. The idea is to simultaneously remain active in their local market with the known standards and to compete in domestic markets with high volume potential, such as China

4.4 Knowledge Transfer

The purpose of this section is to examine the process of knowledge transfer from the Russian headquarter to the emerging market of China, especially focusing on managerial and technical skills. In order to simplify the conducted material, the knowledge transfer process was divided into four stages which include all eminent factors for the issue at hand. The four stages that illustrate the knowledge transfer are as follows: overcoming language barriers, training initiatives, willingness to copy and assimilation. Every stage was analysed in detail and the results are presented below.

4.4.1 Overcoming Language Barriers

The first stage of knowledge transfer between both partners contains language and its articulation, meaning understanding, sharing and processing the transferred knowledge in a way that every individual involved could fit into the KT process without any value losses. Thus, the omnipresent differences in language between Western MNCs³⁸³ and EMMs are culminating in articulation between both firms. However, the lack of proper language skills within a partnership can lead to obstacles during inter-unit communication undertakings. China, in favour of the Government's *Open Door* policy in 1978,³⁸⁴ established several possibilities to provide their middle school students English skills among its secondary school system.³⁸⁵ Though, non-graduates were not given the same opportunity to excel their foreign language skills. Therefore, language differences are considered to be the biggest doubt for management. Thus, one interviewee resembled that everybody understood that both service and product quality cannot be achieved without the transferred knowledge being comprehended and adapted by each employee along the value chain. Therefore, overcoming language barriers comes first in order to foster knowledge transfer.

³⁸³ In this respect, Russia is considered to be "western" due to management skills and development.

³⁸⁴ Wei (1995)

³⁸⁵ Ibid.

In order to handle the language problems as early as possible, MW light began to inquire for graduates with proficient levels of foreign language skills. They also provided language training programs in Russia and China as part of their general training offers. MW Light relied on significant person-to-person communication during their transfer of knowledge and therefore invested a lot to establish English skills among their workers and managers in China. Due to stringent recruiting requirements and language trainings as well as in-house training opportunities, the Russians enabled their Chinese staff to operate effectively in terms of English language. This might sound easy and might only inherit some costs regarding language training, but it took the company almost a decade to reach an enjoyable level of efficiency in their daily operations and there is still room for improvement. Since day one of doing business with the Chinese, executives were involved in monthly business trips to the partner manufacturer in order to strengthen the ties and weaken the language barriers. Later, Chinese employees underwent technical as well as sales trainings in English and participated in personnel exchanges to Russian showrooms in Moscow.

The frequent exchange of personnel between both partners fostered the exposure of both parties to English and the cultural environment of each other which in turn, resulted in the promotion of learning effectiveness. One interviewee commented that both allies were eager to host managers and engineers from Moscow/Guzhen on a regular basis, plus highly relying on staff to be sent for training or transfer purposes to Russia.

Most important, the company put a Russian manager in charge of its operations in China. Her assistant that was hired in Guangzhou is a fluent speaker of English and participates as an intermediary during meetings or within recruitment processes.

Although, the Chinese management teams had some average English skills, this did not apply to engineers and sales' staff whose skill-level was below average in the beginning. As mentioned before, in-house training and personnel exchange came over a period of time, but in the beginning, MW Light managed to establish departments where technical materials were provided in Chinese.

These translation departments screened all transferred documents from Moscow and Hong Kong and respectively transferred the needed information in Chinese or English to the relevant reference group. They are considered to be the sources for knowledge that has been translated and is often reused by employees. Additionally, these departments ensured that all transferred information respectively knowledge was understood and applied correctly. However, no specific strategy to enhance knowledge creation could be determined since departmental duties focus on bridging the gap between domestic and foreign employees. For this reason, small task forces were set up to ease articulation between office and manufacturing employees.

Thus, communication problems due to language difference are considered to be the major problem but there are also others, e.g. differences in doing business, understanding of technology and best practices between domestic and foreign affiliates.

In result, MW Light managed to implement translation departments in order to provide technical knowledge both in Chinese and English, however, not really increasing the speed of knowledge transfer and therefore hindering the foreign affiliate to generate large absorptive capacity. Hence, after placing a Russian manager into the Chinese office, the company enhanced knowledge transfer through the establishment of language training activities such as personnel exchange and the dialogue between different employees from Russia and China. This strategy helped MW Light to increase local embeddedness and move away from sole knowledge re-use to a knowledge creation strategy.

4.4.2 Training Initiatives

The second phase included training initiatives that were started in order to transfer valuable knowledge across organizational boundaries. The training which Chinese employees had to participate in is way above the regular norm of training initiatives in China. Regarding training initiatives, one interviewee commented that training systems in China are existent, but usually focusing on training only the newly-recruited personnel in their pre-employment stage. Afterwards, firms are expecting staff to upgrade their education on their own. Hence in China, only large companies can afford regular training initiatives in the pre- and post-employment stage because when performance runs not well, training budgets are usually the first to be cut.

MW Light established not only training initiatives in China, but also are they present for a long time in Russia. Every new employee has to participate in the specific language and technical training when he or she is hired. Beforehand, the applicants have to pass additional language and skills tests. After the qualification for work, each new employee is continued to be trained several times a year on specific tasks.

One interviewee told that the development of the company is impossible without the development of employees. The recruitment of professionals that want to work productively, continue to develop and build a long-term and mutually beneficial working relationship are of prime aim. Thus, MW Light is eager to train their personnel partly internal and external. The training itself is systematic, integrative and intensive as part of competitive strategy for global but also local markets. Obviously, the investments into such training initiatives are very cost-intensive, especially in terms of personnel exchange programmes and external training consultants. This enabled a wider scope of training due to acquisition of training consultants from Guangzhou which contributed to the development of internal training initiatives. Resulting out of this, knowledge could be transferred via training from headquarters to affiliates and later to newly-formed branches in order to pursue awareness of one another.

Each member of the personnel within the partnership is attending multiple hours of training per year and this includes not only the engineers and sales staff but also management and executives of MW Light plus the suppliers in China.

In the affiliates, the training initiatives are not only limited to technical and managerial know-how, it is also of high importance to study and apply social as well as cultural knowledge of the counterpart. This also includes the corporate culture which in turn makes it easier for the employees to adapt the corporate identity and therefore be more willing to adapt transferred knowledge and information. According to the representative of the affiliate in Hong Kong, training does not only require learning, it also induces learning afterwards. Since knowledge transfer takes place in reversed manner, MW Light thought of also crafting a knowledge-creation strategy in China to be able to compete simultaneously on the Chinese market. Therefore, the transfer of managerial and technical skills as well as social knowledge fostered the building of a knowledge network in the Chinese affiliates.

To tackle the importance of social knowledge,³⁸⁶ the company held trainings in both countries, Russia and China, run by external Russian managers. These initiatives were considered to be an effective technique to implement the vision, belief, firm specific knowledge such as internal wording plus management as well as technical skills, corporate culture and goals of MW Light.

In order to increase absorptive capacity, MW Light involved also company-related employees, e.g. workers from suppliers and staff from affiliates, in their training programmes. In addition, the frequent exchange of management personnel provided the opportunity for both parties to participate in the different training initiatives and thus, foster effective knowledge transfer by creating the knowledge whether in Russia or China and transfer it through mentoring to the counterpart. Furthermore, Russian engineers were sent to China in order to run specific trainings to enhance work-flow and share their expertise within the Chinese manufacturing site.

However, the amount that is being invested into training initiatives not only relies on the foreign partner but also on the domestic partner in China. Therefore, the Chinese added not as much value to training their employees as the Russians did. Hence, it took MW Light longer to pursue their partners to rely on training initiatives and good performance within the CJV.

³⁸⁶ Nonaka (1994)

Regarding this, one interviewee told that training is beneficial, but it also sacrifices a lot of resources, both financial and human. In China, things are run differently. Profits always come first and therefore, employees are expected to undergo specific workshops on their own. However, businesses were going well and the decision to participate in MW Light's integral training initiative was made. Although, differing from Chinese practice, the reward was knowledge that evolved to be core over time and its successful integration.

In direct reply, one interviewee from Russia stated that the Chinese partner felt intimidated by the training initiatives and did not attached the strategic value to such an undertaking and put more emphasis on the shared profits of the partnership. Nonetheless, the dialogue between both partners finally sealed the integral training initiatives.

4.4.3 Replication

The next phase of knowledge transfer deals with the copying, meaning the primary knowledge transfer being a one-way transfer from the foreign firm to the Chinese partner. Hence, the partner replicates the blueprints from the parent firm and assembles business operations. The efficiency of such copying depends on the amount of absorptive capacity created upfront.

Thus, the process of replication requires almost all of prior transferred knowledge respectively technologies (such as product design, assembly process, testing and quality checks) and managerial skills (such as marketing, finance and accounting, organization and planning, supply and distribution). Absorptive capacity needs to be produced to ensure primary knowledge transfer which in turn, provides the copying of an operating or manufacturing system from the headquarters.³⁸⁷

However, the decision to wholly deploy the manufacturing process into China comes with two eminent factors. First, the import of components into China is entailed with significant costs. Second, the Chinese government cherish a policy that imposes tax, repatriation of profits and imposes penalties for corporations that achieve low localization rates of the added value.³⁸⁸ This policy forces foreign parent firms to propel the transfer of technology to China with no regard to the establishment of proper absorptive capacity.

The production of components may be done internally or bought from Chinese suppliers. Unfortunately, production quality and component manufacturing are still major topics when it comes to comparing Chinese suppliers and their equivalents abroad. The reason for this is embedded in the power of communist ideology within the business culture and the absence of some form of professionalism.³⁸⁹ On these grounds, foreign firms are facing large costs being on the lookout for trustworthy or more precisely solid suppliers. Thus, the company had a broad list of possible suppliers from its local partner but they were not satisfied with the product quality at all and therefore thought about internalizing the process of manufacturing of minor components in-house.

³⁸⁷ Cohen and Levinthal (1990)

³⁸⁸ Buckley et al. (2006)

³⁸⁹ Buckley et al. (2004)

From the start, the company was heavily investing in KT activities such as mentioned before. Therefore, the process of replicating the blueprints and simultaneously manufacturing several product lines was started right away. In order to secure a manufacturing flow, the assembly of small parts was started. In the first place, a R&D department was founded in order to get rid of unnecessary suppliers of small components that could be easily assembled in-house. In the second step, Russian engineers developed first prototypes and provided their know-how to the Chinese staff in short work-shops. Then, components were imported from the parent company in Russia and introduced to the department in China. By providing technical food for thought, MW Light helped its partner to acquire new knowledge and establish knowledge-creation within the building of absorptive capacity. After some months of assembling and testing, the department was able to produce blueprints for the needed components and from then on, constantly working on new ways of eliminating unnecessary suppliers.

After all, the Chinese partner did not only copy the technology of its Russian counterpart but also the capacity to innovate and yield new technology. The idea was to produce components that are of minor complexity and then move on with the gathered know-how to developing ways of producing components with higher complexity. This strategy came out to be successful due to its competitiveness. The approach of learning by doing paid off and the R&D department soon began to converge from replicating the ideas to implementing new designs and constructions.

In the next step, additional departments were founded, focusing on technical software and quality management. Fortunately, the establishment these departments ignited the continuous building of absorptive capacity and led to more knowledge-creation within the CJV. Hence, it was not only depending on the transfer of technology from the parent firm and was thus able to share the transferred knowledge in order to create new knowledge as well as core competences.

One interviewee told that the provision of personnel, training, materials, manuals and imported components lead to enhanced results until manufacturing was lifted on another level. The shortcomings of the Chinese partner were absorbed by exchanging skilled personnel and expertise.

This initiative tackled China's focus on hard production skills and shifted the focus of the partner towards putting emphasis on research and development besides replication only. Learning was drawn-out from the transferred technology to cover managerial, cultural and technical inputs. For instance, a quality control system was applied and demanded that quality should be maintained by all employees.

However, there were some discrepancies in terms of product development between both partners. The Russian company was looking to upgrade existing lines of products and further improve product quality as well as design whereas the Chinese partner was eager to develop new products on a cheaper basis for both the local and global markets.

Though, the representatives had to be aware of possible intellectual property infringements. Because the products were of high quality and destined for the European market, they were susceptible for copy cats within the manufacturing sites. As mentioned in section 3.4.4, China is still a topic to corruption and violation of IP rights. Consequently, there was an incident where representatives of the parent firm were visiting possible manufacturing sites for expansion reasons and found a half-constructed piece of a chandelier lying on an assembly-line which was of really bad quality and clearly copied from one of the high-quality patent products destined for the Russian market. It was clear that someone secretly passed the patented blueprints to another manufacturer in order to produce look-alikes with much lower costs and in mass-produced goods fashion.

This shows the dark side of replication during the KT process. Bringing one's own knowledge and expertise, combined with all the technical knowledge and patents, makes it easy in China, to get copied and outdueled by the competition. For this reason, investigation began and the Chinese partner promised this to happen for the last time. However, behind closed doors, and due to more possibilities in entering the market, talks began in terms of opening up a wholly-owned foreign enterprise.

As a result, MW Light opened its own manufacturing site and a nearby office as a wholly foreign-owned enterprise and shifted the assembly lines of their main product range to the new site. Though, they decided to cooperate with their partner in terms of developing suitable product lines for the Chinese market.

4.4.4 Adaptation

The last stage of knowledge transfer includes the process of adaptation. The ability to modify specific product details for the host market or the ability to change manufacturing processes in a foreign market to please local needs are considered to be competitive advantages. The differences in terms of technology and infrastructure between developed and developing countries require reasonable adjustments regarding products.

For instance, the customer needs in China regarding lighting products differ a lot from the requirements of the Russian market. Fittings and ports need to be adapted in order to be in line with Chinese markets. Additionally, MW Light had to adjust manufacturing facilities to higher standards due to the expectations of customers in the domestic market.

The initiated approach was to start manufacturing components internally under guidance of foreign parent engineers while putting emphasis on research and development activities in order to be able to design new products and keep the innovation rate high. This strategy enhanced the learning of local staff to manufacture appropriately and established a knowledge-creating environment, which in turn raised local embeddedness. In addition, such learning network helped to acquire local knowledge in terms of what to adapt and to what extent. This included simple design and practicability questions as well as different pricing strategies. To give a brief example, one interviewee said that customers rely on the quality of products. Quality comes with design and is of prime importance. Therefore, major or even minor mistakes cannot be accepted in the assembly line. Every product has to pass quality controls and be eligible for the company's certificates. As a matter of fact, the Chinese partner does not attach the same level of significance to quality. It took some time, to adapt production processes to a convenient level and simultaneously acknowledging needs of the Chinese markets.

Therefore, the parent firm had to keep up the quality within the manufacturing site for the home market while simultaneously providing enough supply for lower standardized production. The biggest issue; MW Light was facing, related to the voltage potential of the lighting components.

China's electrical environment is in complete contrast to that of Western Europe and even Russia. Thus, improvement needed to be done and the wiring inside the products needed adjustment in order to run smoothly within the European households. For instance, also bulbs had to be adapted to European standards and suppliers had to be briefed. In turn, the design of the products was clearly matched not only to Russian but also to European needs and perceptions.

Furthermore, MW Light had to adapt to Chinese standards. Therefore, an inter-organizational task force consisting of Russian and Chinese engineers as well as designers developed products that were perfectly aligned with the needs of the domestic market. In this respect, one interviewee told that the company's mission was to align low prices with a certain level of quality. In terms of design, it had to completely adopt a new strategy; it had to listen to the Chinese partner because they knew their markets best. The key to being successful in an emerging market such as China lies in the firm's patience, flexibility and awareness of Chinese know-how of its market.

Local knowledge plays a vital role in terms of adaptation. China might be developing and emerging but its market players know their playgrounds best. That is why MW Light listened to its partner and made a huge contribution to serve both local and foreign markets at the same time. With such knowledge transferred to the foreign ally, the Chinese partner provided an opportunity for its counterpart to operate independently in the future. In general, the knowledge of local government, component suppliers, financial institutions and marketing channels were essential for the joint design and implementation of rapid and efficient product adaptation. As a result, the construction of a knowledge network helped to surpass the adaptation stage during the KT process in faster pace.

4.4.5 Reprise

One of the reasons for joining forces with foreign partners in high-technology industries is knowledge sharing and learning as part of a knowledge creation strategy.³⁹⁰ Therefore, knowledge gathered from operating an CJV can be used by the parent firm to enrich its own strategy for further operations. Partners could learn from each other on how to prevent knowledge leaks and catch vital knowledge about market specific data and for instance, make preparations to enter a foreign market by themselves.

Though, China's ownership restrictions complicate the situation on entering the developing market. However, its intention is to foster the transfer of foreign technology to the local entrepreneurial landscape, equity and partner selection restrictions interfere with the intentions of foreign parent firms. Although, the main goal of partner selection is the perfect matching of goals and strategies for IJVs, restrictions result in lack of trust and goal conflicts. The ownership restriction policy by the Chinese Government has not smoothed knowledge transfer into domestic industries as intended. Moreover, it creates barriers to knowledge transfer because foreign firms had no incentives to exploit its knowledge assets.

Through China's membership in the World Trade Organization, things have changed and governmental restrictions eased up. Thus, full equity ownership can boost market entrants to handover more knowledge to resident suppliers created around a knowledge creation strategy in order to be independent of local partners and be in full charge of any operations. The events that were conducted in the case study summarize the process of knowledge transfer of a Russian company to the emerging market of China and vice versa. In four stages, the key elements were elaborated and presented. Hence, this section briefly collects all important facts and puts it in a nutshell.

Knowledge transfer to the Chinese firm happened largely in the form of the provision of management skills and corporate culture as well as technical know-how. In return, the Chinese partner provided essential market know-how, a network of reliable suppliers and ties to local regulatory authorities and the government.

³⁹⁰ Lane and Lubatkin (1998)

The foreign parent firm relied on keeping up the dialogue with its Chinese partner in order to provide cultural awareness and being responsive for ideas as well as objections.

The four stages of knowledge transfer included the willingness to overcome language barriers, capabilities to establish training initiatives, replication skills plus speed and the readiness to adapt. In order to be able to transfer knowledge effectively and efficiently, the foreign parent firm relied on the transfer of people, training programmes, representative visits, commitment to knowledge transfer of managers and the establishment of a knowledge-creating learning network within the partnership.

In order to transfer core knowledge, MW Light focused on moving personnel to the Chinese partner as the basis of transferring tacit knowledge. The exchange of valuable personnel helped to implement reliable training programs but also to develop commitment among managers as the basis for knowledge creation. The transfer of explicit knowledge happened upfront by sending translated firm-specific documents to the partner and mentoring programs by the Russian engineers. In result, the Chinese firm was in any way the beneficiary of knowledge transferred by its Russian counterpart. However, the upbringing of new knowledge to the Chinese partner increased absorptive capacity and thus, enhanced the Chinese understanding of corporate culture.

After successfully operating with the Chinese partner and the high-skilled personnel on both ends, the knowledge transferred over the years lead to the creation of new core knowledge within the partnership including specific market know-how, supplier expertise and of course technical innovation. Thus, managers being active in the CJV and their knowledge were of pivotal importance regarding recent preparation and foundation of a wholly foreign-owned enterprise.

The uphold dialogue between both parties and strong ties respectively levels of trust enabled knowledge transfer to be very successful, even into an emerging market. In other words, with the right mechanisms, MW Light managed to maintain strongly competitive in the Chinese and in the Russian market. The founded inter-organizational knowledge community provides shared understanding which is based on experience and best practices that ease future KT activities.

4.5 Limitations

Regarding the limitations of such a case study, there are both advantages and disadvantages in using the case study method for the issue at hand. Therefore, the pros of case studies are as follows.

First, the analysis of the data is usually taking place during its actual use. This resembles the situation in which the observed phenomenon takes place.³⁹¹ For instance, a case study could investigate the process of a student comprehending a working paper. In order to examine the strategies the student is using, the researcher has to examine its strategies within the individual's environment. This method clearly is different to the method of experiment where a phenomenon is isolated from its environment, focusing on a small number of variables.³⁹²

Second, case studies could be fed with both qualitative and quantitative analyses of the data due to their variations in approaches. These might be intrinsic, instrumental or collective. Then, some case studies are based on qualitative data from journals which explain behaviour by descriptive reports whereas other studies seek evidence from quantitative data collections.³⁹³

Third and most powerful advantage of this method is its ability to provide integrated surplus value.³⁹⁴ Hence, case studies often produce detailed reports from real-life experiences or appearances that are not only helping in order to describe or explain data in a real-life setting, but also help to understand situations which experiments or surveys may not capture. So, a case of a student's strategies for reading working papers can shed light on the number of approaches taken as well as the reasons for using strategies, and how certain approaches are taken in comparison to others.³⁹⁵ Due to its complex construction, a student's reading behaviour cannot be simply explained by isolating each strategy. Hence, comparing each strategy to other strategies provides the much-needed emphasis on the complex cognitive processes of reading.³⁹⁶

³⁹¹ Yin (1984)

³⁹² Zainal (2007)

³⁹³ Ibid.

³⁹⁴ Ibid.

³⁹⁵ Ibid.

³⁹⁶ Ibid.

Despite the three mentioned advantages, case studies have also received criticism during their application. In accordance, there are three main limitations of case studies.³⁹⁷

First, case studies are often blamed for lacking in terms of precision. In this context, “too many times, the case study investigator has been sloppy, and has allowed equivocal evidence or biased views to influence the direction of the findings and conclusions.”³⁹⁸ Thus, due to the strictly confidential character of the data and anonymous will of representatives, no recording data could be secured. During the analysis of the material, the author tried to be as neutral and on point as possible to gather the information and provide a non-appraisal view of the events.

Second, making general statements relying on data conducted from a case study is quite impossible over the small figure of subjects (or like in this thesis only one subject). Therefore, the question remains: “How can you generalise from a single case?”³⁹⁹ In the case of this thesis, the subject is a multinational enterprise and making general assumptions is quite impossible. MNCs differ in terms of size and operative power to multinational enterprises which by definition simply operate in more than one country. Thus, further research on this topic is essential, especially for comparison reasons with other emerging markets. Therefore, the author suggest to further put emphasis on conducting multiple cases of knowledge transfer into emerging economies in order to compare different strategies used among case participants.

Third, case studies are labelled as being of long character and therefore difficult to construct, resulting in the production of a large amount of documentation which in turn leads to higher complexity.⁴⁰⁰ In this thesis, the case study construction was in fact complex and long-drawn-out due to inaccuracy in the record of events. Attached in the appendix of this thesis, a guideline in terms of a questionnaire can be found.

³⁹⁷ Yin (1984)

³⁹⁸ Yin (1984, p.21)

³⁹⁹ Ibid.

⁴⁰⁰ Yin (1984)

5. Conclusion

Knowledge remains a vital element for corporation all over the globe. To catch up with current shifts and trends in technology, opportunities in growth markets or strengthening of competences, it is the utmost for every organization to ultimately advance knowledge-creating rather than knowledge-reusing strategies. Thus, contemplated by the process of globalization, firms look for worldwide partnerships to evidently reap the fruits from strategic collaborations. The high potential of emerging markets for Western MNCs cannot be denied. Economies of scale, opening up new markets and internationalization are only three arguments for entering developing economies. In this context, knowledge transfer into the emerging market of China was explored. Commonly, knowledge-based activities are seen by researchers as the fundamental sustainable competitive advantage. The creation and accumulation of such should be the prime aim of every firm in order to ensure long-term competition.

Beforehand, characteristics and types of knowledge within the framework of KM were presented. Thus, organizational knowledge is resistant against wear and tear; its additional use will eventually increase its value and develop into a core asset in firms' portfolio.⁴⁰¹ The literature on knowledge transfer indicates that knowledge can have several owners because of its intangible character. The KT concept elaborates on the different types of transfer, its mechanisms and presented four KT models in recent literature. Hence, the evaluation and limitation of effective knowledge transfer shed some light on the determinant factors for transfer.

The economies of emerging markets are clearly on the come-up. Therefore, it is vital to evaluate characteristics and market-specific key elements of each of the BRIC states. Section 3 provided an overview over the highly coveted market of these countries. The idea was to question strategies that are suitable for developed economies to fit into the framework of emerging countries. In this context, the past of Western MNCs striving for operational success in emerging markets was outlined.

⁴⁰¹ Inkpen (2008)

In the practical section, a case study was conducted on how and why a Russian company entered into the emerging market of China. The focus was set on the KT mechanisms used by the firm and how the process of knowledge transfer took place with the economy-specific characteristics in mind. The findings of this case study were in line with those of Inkpen (2008).⁴⁰² According to his findings, competitiveness-seeking firms have to establish systems of innovation to implement knowledge transfer. He adds that chances are low that existing structures within organizations provide the essential suppleness and commitment to warrant the creation of fresh ideas through the transfer of knowledge. The company in the case study succeeded in terms of transferring knowledge and remain competitive while simultaneously establishing new core knowledge.

In the introductory section, the author proposed questions concerning the topic of knowledge transfer into emerging markets. At this point of the thesis, it is time to answer those questions by simultaneously providing propositions for further undertakings within the field of KT literature.

What are the reasons for firms entering emerging markets?

Growth potential is said to be the key driver for firms from developed economies to enter emerging markets. From the conducted material, one can assume that economies of scale have top priority, followed by the development of new and high potential markets. Though, in order to succeed within knowledge transfer, firms have to be persistent, patient and aware of cultural as well as managerial differences.

How is the process of knowledge transfer handled within and across boundaries?

Firms have the possibility to choose whether they would like to transfer knowledge in order to create a knowledge-reusing or a knowledge-creating environment within their business undertaking abroad. Strategy follows structure et vice versa. So, for knowledge-creation, parent firms have to invest more resources and exploit more of its knowledge assets than by relying on knowledge-reuse. Though, absorptive capacity is gradually lower and therefore the speed of transfer much slower.

⁴⁰² Inkpen (2008, pp.85)

Regarding the transfer of core knowledge, firms need to transfer people, implement skilled training programs, exchange managers and establish coordinated learning networks.⁴⁰³

Should a firm exploit its knowledge that could be one of their core competences and share some of their competitive advantage or take another approach?

This remains up to every firm's strategy and internal procedure. From what the case study examined, in order to be successful, firms have to apply some risk-seeking strategies. For instance, experimenting with ideas and knowledge in hope of finding new alternatives for knowledge creation are of superior quality whereas improving existing capabilities and rationalizing support exploitation. Thus, seeking innovation and competitiveness requires knowledge sharing, especially core knowledge in order to generate new capabilities. In this context, the compromise would be to combine both approaches of exploitation and exploration. Every firm has to decide for itself which approach to apply.

How do firms with extensive expertise and know-how protect their core competences towards possible fraud and trademark abuse?

In the first place, patents protect every firm's trademarks. But this does not apply for emerging markets. They resemble economies where fraud and corruption is a daily issue. However, strong ties and a high level of trust are not only necessary for operations abroad but also seemingly important for the protection of intellectual property rights within a partnership with a firm from an emerging market. Same applies to trademark rights. When the level of trust is high, the partner is more interested in aligning his strategy to that of its foreign counterpart.

How do they overcome copy cats in China?

In this context, there is no right answer. Infringement of intellectual property rights, especially trademarks, is a popular phenomenon in China. There is no existing law in China that prohibits the infringement of property rights and trademark piracy is flourishing.

⁴⁰³ Inkpen (2008)

Nevertheless, firms have the opportunity to fight piracy in their domestic markets by law. However, legal actions against copy cats are costly and soak up a lot of human resources. Thus, in order to fight trademark piracy, firms can rely on their strengths for example design and quality and succeed by establishing unique selling propositions that outsell the lower quality copies.

How do firms from Western economies learn from past experiences or profit from those of other vendors looking for profit in China?

There are lots of databases and guides in the internet, operated by the chamber of commerce, ministries and experts that provide essential but basic information about entry restrictions and market characteristics. In addition, the literature conducted some empirical data on the topic of Western MNCs in China or the entry into emerging markets. However, there is little research on the topic of knowledge transfer into developing economies. Hence, market entrants have to undergo a fundamental market analysis prior to pursuing the expansion.

What is the best entry mode in order to gain the most of it and prevent from being outdueled in a high-potential market?

The most promising entry mode into China is by establishing a wholly-owned enterprise. Since China's entry into the World Trade Organization, ownership restrictions have been loosened. Before 2001, foreign companies had to enter via international joint ventures with a Chinese partner. However, it is not generally disadvantageous to enter into a partnership with a Chinese counterpart. But foreign entrants need to be aware of the complexities that might come with an IJV, such as goal conflicts, communication problems and possible infringement.

Further research implications drift into more findings that can foster generalization. For now, research on knowledge transfer into emerging economies is mainly focusing on the transfer to China, such as in this thesis. Thus, the author emphasizes future research to go into the direction of investigating business partnerships of Western MNCs with the rest of BRIC economies or one of the many emerging markets worldwide.

To close out this thesis and sum up the most important findings within the topic of knowledge transfer into emerging markets and especially the economy of China, the author would like to present a quote which perfectly catches the idea behind it on point.

“The China market, as in most transitional economies, has tremendous potential for Western firms. However, the Western firms must think through their own and their Chinese partners’ knowledge needs.”⁴⁰⁴

⁴⁰⁴ Si and Bruton (1999, p.88)

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Appendix



Company name:

Name and Position:

1. What is your field and market of operation?
2. When and why did you decide to outsource the manufacturing site?
3. Why did you choose China? Have you considered other countries?
4. What have been the preparations for entering the market?
5. What type of collaboration did you choose? Why?
6. What were the first steps in the partnership?
7. How much time has been set up to complete the IJV?
8. How did you manage to overcome language barriers?
9. How did you manage cultural differences?
10. Describe the recruitment of additional personnel within the partnership!
11. Did you implement any training activities across and within firm boundaries?
12. In general, what were knowledge transfer activities that were implemented?
13. How did you manage to secure transferred knowledge and develop new knowledge?
14. Did you have concerns about copycats in China?
15. How are property rights secured?
16. How is knowledge adapted within the partnership?
17. What was the reason for establishing a wholly-owned affiliate?
18. How did you implement the lessons learned from your operational experience?
19. What are current opportunities of enhancement?
20. Which mistakes have you made? What would you do differently today?
21. In your opinion, what are the key factors for entering an emerging market such as China?

Curriculum Vitae

Name: Edgar Klimin, B. A.
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Place of Birth: Ufa, Russia
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Education

- 10/2010 – 04/2013** **MSc in International Business Administration**
Major in International Management, Organization & Personnel
University of Vienna, Austria
- 10/2006 – 08/2010** **BA in Business Administration**
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Justus-Liebig-University of Giessen, Germany
- 09/1998-06/2006** **Winfriedschule Fulda; A-Levels**

Language Skills

- Russian: first language
- German: native speaker
- English: native speaker
- French: basic skills