MULTINATIONAL CORPORATION AND THE TRANSFER OF KNOWLEDGE

Ec. Ph.D. Student Panait Nicoleta Georgeta
University of Craiova
Faculty of Economics and Business
Administration, Romania

Abstract: The paper analyses knowledge flow transfers in transnational corporations, also studies the different form of knowledge to be transferred. As multinationals establish subsidiaries in new locations, they will transfer know-how from the parent to the local operation. In established multinationals with a geocentric orientation, knowledge should be freely flowing from one unit to another as the whole organizations benefits from development activity.

Key words: Transnational companies, Knowledge transfer.

Introduction

A transnational is a corporation with operations and investments in many countries around the world. It has its headquarters in one country and operates wholly or partially owned subsidiaries in one or more other countries. Knowledge may be transferred more efficiently through internal organizational mechanisms than by means of external market mechanisms, because these transaction are open to several market imperfections, including problems of information acknowledgement and revelation as well as negative externalities.

The transnational has various motives for establishing a corporate presence in other countries. One possible reason is a desire for growth. A corporation may have reached a plateau meeting domestic demands and anticipate little additional growth foreign meeting domestic demands and anticipate little additional growth. A new foreign market might provide opportunities for new growth. Other companies desire to escape the protectionist policies of an importing country. Through direct foreign investment, a corporation can bypass high tariffs that prevent its goods from being competitively priced.

Another reason is preventing competition. The most certain method of preventing actual or potential competition from foreign businesses is to acquire those businesses. Another motive is to reduce costs, mainly through the use of cheap foreign labour in developing countries. A transnational corporation can hold down costs by shifting some or all of its production facilities abroad.

Knowledge transfer and key factors

Organizational knowledge transfer is a extremely complex process that faces many obstacle on its way. The tacit nature of knowledge and the diversity of national and organizational cultures is a good example of this. Certain resources based on knowledge, such as skills, competences, capacities, know-how, technology and experience, cannot be completely reduced to codified knowledge (for example,
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procedures, algorithms, formulae or programs). Tacit knowledge is personal, context specific and difficult to regularize. It includes cognitive elements (diagrams, paradigms, prospects, points of view, etc.) that help individuals to perceive and define their environment. On the other hand, it is necessary to understand the existent relationship between the type of knowledge the firm has and its transferability. Organizations are considered to be depository of several types of knowledge (explicit and tacit) existing in ontological different levels (individual, group, organizational and interorganisational).

As tacit knowledge character increases, this knowledge becomes less „teachable”, less codifying, and the less transferable. This knowledge transference is complex and difficult for several reasons. Among, those, the following stand out: complex nature, acquisition through experience and trial and error, organizational learning generates tacit knowledge that is collective, which even more difficult transfer and although expatriate staff can serve as a substitute for tacit knowledge transference, it becomes a costly process.

A future condition for effective knowledge transfer is the ability of the organization system units to adapt and apply new knowledge even if it comes from outside the organization’s boundaries. An organization’s capacity to use new knowledge depends on its absorptive capacity, which is a dynamic capability.

Knowledge-based resources in transnational corporations

In transnational corporations knowledge flows among affiliate companies is gaining importance. In particular the analysis of the differences in models of knowledge flows might throw light on the management of transnational corporations.

Intellectual capital literature clearly differentiates three types of knowledge-based resource: human capital, relational capital and structural capital. Human capital is defined as the individual knowledge stock of the employees of an organization. Employees can do it by means of their knowledge, skills, experience, attitude, absorptive capacity and even their emotional intelligence.

In a limited sense, relational capital encompasses present knowledge in organizational connections already developed with the environment. The base of relational capital is the knowledge that was accumulated by the different parties during exchanges with a third party. This knowledge is external to the firm as well as to the human capital existing within the company. Relational capital becomes more valuable as relations – with customers, suppliers, shareholders and so have a longer duration. As a result of its external nature it is the hardest type of knowledge to codify.

Structural capital represents the knowledge that remains in the firm when employees go home. Therefore, the firms own it. Inputs to this process are provided by human capital. On the other hand, structural capital encompasses all forms of knowledge deposit which is not supported by the human being such as organizational routines, strategies, process handbooks and databases and many more. Structural capital can be subdivided into technological and organizational capital. Technological capital includes all technical and industrial knowledge, like results from research and development and from process engineering. Artifacts of organizational capital include an organization’s reliance on manuals and databases to preserve knowledge, along with the establishment of structures, processes, and routines that encourage repeated use of this knowledge. As an integration mechanism, organizational capital allows the firm to preserve knowledge as incoming employees replace those leaving.
Forms of knowledge-based resources, is clear that not all organizational forms of knowledge, skills and competences are strategic. The first step is analyzing what forms of knowledge exist in the firm. And the second step is determining how these forms can be a source of competitive advantage. The resource-based view of the firm states that organizational resources are valuable when they allow improving affectivity, capitalizing on opportunities and neutralizing threats. In the context of strategic management, value creation focuses on increasing the ratio of customer profits in comparison with the associated costs. In this sense, organizational knowledge can add value if it contributes to lower costs, provide increased service of product features.

Literature has not devoted much attention to the investment in this form of knowledge. Probably the best approach to managing ancillary knowledge is to disinvest in employees. Ancillary knowledge is formed basically by unskilled or semi-skilled employees that offer no source of competitive advantage. The firms tend to substitute technology for employees. Alternatively, if ancillary knowledge markets are efficient, then firms may find that it is possible to decrease administrative expenses by externalizing certain employees. In fact, the use of external sources allows firms to decrease labour costs, increase flexibility and focus the investment on the development of this knowledge with better potential to build a competitive advantage.

If a transnational corporation chooses a global orientation and wants to have global response capacity, it must deploy the stock of knowledge jointly (human capital, relational capital and structural capital). Decision-making complexity requires to know the trends and developments throughout the world, as well as to have a deep base of knowledge on local issues. In this sense, the decentralization of the authority towards affiliate firms needs to be accompanied by knowledge centralization, without supposing a physical centralization of people, or a central planning and control of the knowledge flows. Therefore it is necessary to develop a knowledge strategy centrally managed, which leads to the creation and application of strategic knowledge and simultaneously it provides international accessibility to the available knowledge.

Moreover, it is necessary to foster strong leadership that supports the sharing of strategic knowledge in the company.

On the other hand, if the transnational corporation aims to be competitive as a whole, it must achieve a balance among the following dimensions: the learning capacity; the speed to respond to environmental changes; the ability to coordinate and integrate knowledge in different locations and capacity to minimize costs.

The subsidiaries of a transnational have different roles in the knowledge transfer process. They can play the role of local innovator, integrated player, local implementer and global innovator respectively. They have the next roles:

1. Local innovator role (low output flow, low input flow). The affiliated company takes total responsibility for the creation of a relevant knowledge. Nevertheless, this knowledge is considered to be idiosyncratic to have a competitive use out of the country where the affiliate company is located.

2. Integrated player role (high output flow, high input flow). Its role is similar to the Global Innovator’s but is also implies a responsibility to create knowledge capable of being used by other subsidiaries. However, it is not self-sufficient in when meeting its own knowledge needs.

3. Local implementer role (low output flow, high input flow). It relies on input flows coming from the head company or the affiliated companies and therefore it creates little knowledge by itself.
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4. Global Innovator role (high output flow, low input flow). The subsidiary is a source of knowledge for other units. Historically, this role has been only played by domestic units.

Furthermore, the existence of knowledge anywhere in the organization does not generate immediately great benefits. That knowledge becomes a valuable organizational resource only if it is accessible. Moreover, its value increases by means of the level of accessibility. Executives of transnational corporations know how common “reinventing the wheel” is, that is, double the efforts because the knowledge about developed solutions for certain problems have not been shared within the organization.

Transnational corporations generate synergies through creation, accumulation, transferring and sharing of knowledge existing in different locations. In the same way, the development of these activities in an international landscape adds complexity to them. Additionally knowledge transfer is also affected by organizational cultural distance and national cultural distance. On the other hand, transnational corporations generate synergies thought creation, accumulations, transferring and sharing of knowledge existence in different locations. In the same way, the development of these activities in an international landscape adds complexity to them.

Conclusions

The world becoming smaller each day, with corporate mergers across national boundaries becoming more common and a technological and information revolution unlike any in the past, calls will continue to grow about bringing the aspirations of private enterprise more in line with national needs. How that will happen or whether it is even possible remain unanswered questions. The failure of the United States and Europe to resolve their economic differences and a growing movement toward economic regionalism in East Asia, including mutual currency supports, cooperative exchange systems, and an East Asian free trade area, even suggest a worldwide backlash already under way against economic globalization. At the same time, it is difficult to imagine anything less than a highly integrated world economy or one without the glue of the multinational corporations that helped bring it about in the first place.

References


