

Challenges facing  
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Multinational organizations (MNCs) have presented in academic debate since the globalization and intensified transnational competition has led to the introduction of a variety of new organizational practices. As the organizations expand globally, their organizational structures and behavior tend to become increasingly more complex. Especially for MNCs, although the attention of cost management may no longer directly affect company performance, the strategies of MNCs involve other managerial skills such as an interest in developing organizational structures and highly performing employees (Jacoby 2005; Dobbin 2005). Moreover, those firms that compete in the global marketplace typically face several types of competitive pressures, cost reductions and local responsiveness, conflicting demands on the MNCs.

Making global strategies should emphasize how the MNC can gain competitive advantages through market efficient in order to achieve its goal. Those advantages may come from using resources endowments, economies of scale, information and communication technologies (ICT), allocation of resources, training and learning programs from human resources management, and productive capacity (Malnight 1996). By achieving those advantages MNC can managerially well of their flexibility by altering their resource configuration and how they structures and manages in global market (Bartlett & Ghoshal 1991; Porter 1986; Prahalad & Doz 1987).

In general, the basic organizational structure of MNCs has a corporate headquarter located in the company's country of origin with at least one foreign subsidiary. On the one side, the corporate headquarter is a key element of a corporate structure and cover different corporate functions such as strategic planning, corporate communications, legal, marketing, <https://assignbuster.com/challenges-facing-multinational-organizations-transferring-knowledge-between-subsidiaries-management-essay/>

accounting and finance, human resources, and information technology (IT). It engages either entirely or partially focused on improving business process as a means of achieving nearest goals and sustainable, long-term performance improvement, which entity at the top of a corporation and to take full responsibility for the overall success of the corporation. On the other side, foreign subsidiary deal with a variety of functions such as production scale, sales order, administrative hubs, research and development, distribution channels. Normally, MNCs organize the relationships between corporate headquarter and foreign subsidiaries in three majorities, by location, business units and atmosphere. Those majorities has taken an important role and influence business strategies in the future circumstance.

There are two factors which will influence MNCs organizational structure across its foreign subsidiaries. The first factor is called geographic dispersion. It is the extent related to the cost of information flow within a firm and its impact on corporate performance. Indeed, boundaries may influence the information flow between headquarters and foreign subsidiaries, although nowadays information flow is popularly used to transfer through the internet. This resulted in the increase of costs of transferring information and valuation discount. Geographic dispersion may also increase the complexity of a firm's organizational structures. This is because the complexity may lead to become more costly if corporate headquarters are far from their business units (Harries, Kriebel & Reviv 1982; Myerson 1982). The second factor is multiculturalism. It refers to the extent of supply and demand factors those diverse cultural backgrounds and coordinates the business activities in order to achieve competitive advantages and productive efficiency.

Organizations must achieve a dynamic balance between geographic dispersion and multiculturalism. The role of this judgment provides the needs of tightly controlled from headquarters, or operating differently across diverse locations from subsidiaries (Bartlett & Ghoshal 1987). In some cases, centralization can provide variety of competitive advantages such as cost controls, improved value chain linkages and standardization. In contrast, decentralization has also gain different advantages of modifying products or services to fully meet local customer needs, respond to local competition, readily attract local employees and penetrate local business networks in order to enjoy productive efficiency. Making the strategies in both centralization and decentralization is common used in today's market, as they will affect the a firm's organizational structure by reinforcing or relinquishing central, and increase global sales through understanding the needs of local customers.

MNC very concern to the role of organizational instruments in the process of knowledge transfer between headquarter and subsidiaries (Hedlund 1986; Bartlett and Ghoshal 1985; Birkinshaw 1996; Gupta & Govindarajan 2000; Holm and Pedersen 2000). The concept of a MNC's knowledge structure is based on the interaction of internal organization, knowledge creation and knowledge used. However, it is difficult to be able to understand the process of MNCs' managing knowledge to their central aspects, mechanisms, and contextual factors. It is because the progress on these matters is arguably handicapped by the absence of a consistent conceptualization of the MNC's organizational structures. Some of the weaknesses are neglected by the aspects of MNC knowledge management.

Knowledge and learning is the root of understanding how competitive advantage is achieved and sustained. However, it can be unfortunate consequences. First, (Kogut & Zander 1992) argued that much of the literature assumes the knowledge is very costly to transfer across markets, while transferring knowledge within the MNC units is close to no cost. This is because the capabilities of firms will be directly reflected to the received knowledge. Second, the consequence is difficult to define the framework as the relevant theory of organizational learning requires an underlying theory of organizational knowledge, which cannot be understood in terms of changes to the knowledge structure within MNC. Third, the costs and benefits of knowledge transfer are hard to define as the knowledge is usually to combine other knowledge elements rather than exist separately. Also, the difficulties of knowledge transfer are related to specific characteristics when sending and receiving within MNC units.

Similar critiques may be directed to the composition of knowledge across the MNC network from recent literature (Gupta & Govindarajan 1991, 1995, 2000). The differentiated MNC literature has not mentioned much on the external environment to the subsidiaries which can broadly influence the sources of subsidiary knowledge stocks, including local networks, local markets, etc. Although those literatures have already stated the relation between knowledge and organization, causality has usually given different direction but towards to the organizational behavior (Ghoshal, Korin & Szulanski 1994). This means the MNC is seen to influence the characteristics of knowledge rather than reflecting the characteristics of transferred knowledge.

In some extents, it can be argued that MNC can indirectly influence the characteristics of knowledge. These may include the proportion between tacit and explicit knowledge in their knowledge structures. The knowledge structures can restrict the choices from subsidiary knowledge sources as they are associated with different mixed of tacit and explicit elements. Such block has taken into three considerable issues. First, decisions that influence relations between subsidiaries and/or between subsidiaries and the headquarter. Second, distinguish between knowledge sources within MNC networks, and the sources related to the external clusters. Third, the influence of diversified knowledge sources through organizational instruments.

Lyles and Schwenk (1992) defined the notion of knowledge structures were not just knowledge assets. They referred the knowledge structures can be shared by goals, cause-and effects, and other cognitive elements. However, it is argued that the degree to cognitive units are relatedness, and the degree of cost and benefits between elements are the core and outside of knowledge structures.

Knowledge structure is divided into four categories, namely knowledge elements, characteristics of knowledge elements, internal and external knowledge sources, and knowledge complementarities. Knowledge elements are the individual nodes represent tacit or explicit knowledge. For example, a patent held by the corporate center. Characteristics of knowledge elements refer to the knowledge content and complexity. Internal and external knowledge sources refer to the activity-based definitions of knowledge such as productive scale, marketing or the knowledge of research and development. Knowledge comes from MNC is transferred and/or developed <https://assignbuster.com/challenges-facing-multinational-organizations-transferring-knowledge-between-subsidiaries-management-essay/>

in the subsidiary itself is categorized as internal knowledge sources, whereas knowledge comes from their partners such as customers, suppliers or other institutions which are categorized as external knowledge sources. An advantage to distinct between internal and external knowledge may be more plausibly related to other characteristics of activity-based definitions of knowledge. Knowledge complementarities refer to the connection between knowledge elements. These connections may be perceived from intra-MNC knowledge transfers. Knowledge elements will be pertaining to certain aspects by one MNC unit and may be a useful addition to existing same aspect to other units (Buckley & Carter 1999). Combined knowledge will also be gained in MNC units through transferring to those as the best practice knowledge.

Some subsidiaries may rely relatively more on internal sources, while others may receive more on external sources. In turn, knowledge based on internal knowledge may be transferred at lower cost level within MNC. In particular, knowledge which is developed within the MNC knowledge structure may become a complement to other knowledge elements in the MNC network. Thus, this will impact the knowledge that is built in MNC knowledge structures and also influence the costs and benefits of transferring such knowledge.

Determinants of net benefits of combining knowledge depend on three elements. First, the characteristics of relevant elements, which refers to how the knowledge can complementary to each other, how much tacit is involved in the relevant knowledge elements and how the knowledge influence the complexity. Second, the costs are implied by the characteristics of relevant

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elements, which motivate firms to transfer and absorb knowledge, and coordinate these processes. Last, net benefits depend on efficiency of the costs of transfer.

MNCs wish to maximize their benefits under norms of rationality, but it could be a major managerial decision problem to develop and transfer knowledge. Those costs of developing and transferring knowledge may be substantial. The expected costs of knowledge are determined by the governance and the transferring costs influence the knowledge characteristics. Kogut & Zander (1993) regarded that these substantial costs are derived from the efforts to codify and teaching complex knowledge to recipient. However, Subramaniam & Venkatraman (2001) argued that the benefits of transferring knowledge may also be substantial and MNC management should do more on maximizing net benefits from exploiting complementarities and minimize the cost of transfer and governance. It is due to the MNC management will be seeking to determine and control those costs and benefits, and trying to influence the sources of subsidiary knowledge.

Difficulties of knowledge transferred exist is when knowledge management will do more on maximizing net benefits from exploiting complementarities between MNC elements and choosing minimum costs of transfer. MNC manager will be seeking to control those costs and benefits and to influence the characteristics of the subsidiary knowledge. However, there are some notable exceptions about the determinants of intra-MNC knowledge flows (Hamel 1991; Kogut & Zander 1993; Simonin 1999). Gupta & Govindarajan (2000) argued that it is very little systematic empirical investigation in the determinants of intra-MNC knowledge transfers has so far been attempted. <https://assignbuster.com/challenges-facing-multinational-organizations-transferring-knowledge-between-subsidiaries-management-essay/>



Impediments to Knowledge transferred could be classified as either motivational or cognitive barriers (Cohen & Levinthal 1990; Zander & Kogut 1995; Gupta & Govindarajan 2000). Cognitive barriers refer to the components those are difficult to measure such as ambiguity, complexity, absorptive capacity and tacit (Cohen & Levinthal 1990; Kogut & Zander 1993; Gupta & Govindarajan 2000). However, it has been argued that the barriers have raised the complexity with different characteristics, including different kinds of complementarities, distinguish the complexity and tacit knowledge which is due to the costs and benefits of knowledge transfer depend on the sources of the knowledge being transferred.

Motivational is a primary source of the success of knowledge transfer from cognitive matters. The costs and benefits of knowledge transfer depend on knowledge sources, including the richness of transmission channels, tacit, the absorptive capacity of the target units, etc. (Bartlett & Ghoshal 1989; Ghoshal, Harry & Szulanski 1994; Kogut & Zander 1995; Szulanski 1996; Gupta & Govindarajan 2000). It seems the knowledge from subsidiaries will be positively affected to the knowledge transferred to other MNC units, gathering the information from local market, resulted in a higher absorptive capacity. However, it is argued that the knowledge is mainly based on internal knowledge is likely to be more transferable within the MNC than external knowledge. Knowledge based on any conditions is complex. It is due to the external sources can be transmitted through existing channels. The sources from subsidiaries are more likely to have many overlapping elements from MNC knowledge structures that are based on external knowledge sources. In contrast, the subsidiaries knowledge built which is

based on external knowledge sources is likely to be less easily transferable to other MNC units. These knowledge may derive from the specific problems and needs of the external parties consists of knowledge of local skill levels, local customers tastes and governance regulations. Therefore, the costs of transferring such knowledge from other MNC units will be higher, while the benefits will become low. In other words, the more external knowledge subsidiary-level has received, the less knowledge will be transferred from MNC units.

Transferred knowledge based on both internal and external knowledge sources may be associated with both costs and benefits. This interaction has positively correlated with knowledge transfer from subsidiaries. It creates more transferable and combinable information with complementary knowledge elements, and can be interpreted and formulated access to other MNC units. However, the sources will be influencing through location and decisions. This is due to the manager has also taken the control from organization and influences the sources of knowledge from subsidiaries. This does not mean of optimizing the accumulation and motivational mechanisms as the MNC management is overlapping the position of an organizational structure.

The knowledge structure of the MNC is complex with shared elements and those are not shared but exist within a given subsidiary. These elements include the taste of local customer, technologies, government regulation, suppliers and corporation framework. In order to efficiently utilize the local elements of knowledge, local subsidiary management will be necessary. This position involves the rights of making decisions within local knowledge to <https://assignbuster.com/challenges-facing-multinational-organizations-transferring-knowledge-between-subsidiaries-management-essay/>

those used to turn the relevant knowledge to productive uses. The benefit of this is to improve the incentiviveness for the subsidiaries to engage in the accumulation of local knowledge (Aghion & Tirole 1997). Moreover, specific knowledge is more likely based on headquarters direct to the subsidiary's acquisition due to the knowledge asymmetry (Jensen & Mackling 1992), which positively influences to the degree of autonomy granted to the subsidiary. Although this combination stimulates the improvement of local strategies and product development, and comprising a higher degree of independency to the subsidiary level, the existing cost of employed managers will be increased due to the local subsidiary management.

Independency of subsidiaries' knowledge may be built from internal knowledge inputs through other MNC units. However, the development of internal knowledge is likely to be concerned more on transferring goods and services rather than other knowledge elements such as marketing strategies and human resources management. This is because the process of building internal knowledge in subsidiaries will positively and directly influence to the revenue between focal subsidiary and other MNC units. Also, this development of internal knowledge is likely to be stimulated by the goods and services transactions between MNC units as it becomes a pulling force and will be widening of communication channels. However, the lack of communication between headquarter and MNC units will be existed as headquarter has no rights to make decisions.

Conclusively, MNC knowledge structures may be composed in two ways.

First, it is characterized by their sources. Second, the new benefits and

relatedness between internal and external knowledge elements will be <https://assignbuster.com/challenges-facing-multinational-organizations-transferring-knowledge-between-subsidiaries-management-essay/>

conceptualized in terms of complementarities. Thus, both the transfer of existing knowledge and the creation of new knowledge will be discovered which allows MNC to simplify the problems of decision making, and the control of knowledge transfer may achieve competitive advantages from knowledge flows between MNC units.

Difficulties of transferring knowledge are differentiated in a number of ways. First, understand the factors which influence MNCs structure. Second, dimensions of knowledge transferred are categorized and developed to complementarity and source of knowledge elements. Third, the argument of knowledge transferred has directly affected to the costs and benefits. Last, the argument of knowledge transferred is influenced by knowledge management which the knowledge sources MNC units have undertaken.

The argument of this theory is the understanding of knowledge transfer between MNC units is not an explicit and a coherent view of what it means of difficulties. Sourcing knowledge is mainly when an internal basis has a direct positive effect; however, creates a negative effect on subsidiary knowledge transfer on an external basis. Also, the extent of indirect effect can be complex and imperfect which may not be considered. This is due to the negative effect on internal transformation may still have a positive effect on subsidiary knowledge transfer. The difficulties in this theory need to be briefly raised. In somehow, it is unclear to show what kind of MNC's organizational structure represents and it is an unavoidable limitation of the theory.

## 2) Personal Reflection

It is no doubt that the theory (in part 1) has indentified the situation of the organization, but the business theory has only covered partly to understand the real-world business activities. It is still in the early stages of understanding the difficulties of knowledge transfer in the process of managing knowledge in MNCs. Sometimes, it is difficult to understand the real business world even the international business theory works in certain aspects. A weakness of this theory is that transferring knowledge has only emphasized on inter-firm knowledge heterogeneity rather than on intra-firm knowledge heterogeneity. This is due to the lack of comparison between independent firms and the effectiveness when transferring knowledge. Also, this theory has much more concerned to the knowledge management of joint ventures and strategic rather than managing knowledge in the MNC. In fact, the relationship between the transferred knowledge elements and the MNC knowledge structure only implicates for the costs and benefits of knowledge transfer, but not emphasizes other important circumstances. The argument of this is how importance of transferring knowledge helps understand the business world.

One gray area of this theory does not exist is to indentify cultural aspects, which causes to failure or allow, endorse, and unacceptable ethical situations while dealing business with foreign nations. Difficulties of transferring knowledge become less important in today's business activities. It is due to the advanced technologies can help resolve certain major problems when communicate with other nations. The information systems are designed to support organizational knowledge and complement the communication

ability of the firm (Alavi & Leidner 2001). In particular, electronic-based tools are effective for transferring standard data and well understood messages and information when more codified knowledge transferred (Daft & Lengel 1986; Pedersen et al 2003). The use of electronic based tools can disperse across distance, timing, and lead to the spreading of diverse and incompatible documents more efficiently. The use of electronic-based tools may also reduce the costs by translating and understanding of rational knowledge. This is because the use of internet can immediately read up-to-date information in particular countries. Moreover, it allows business to communicate via electronic mails rather than face-to-face meeting, which reduces the costs of transportation.

Although understanding the difficulties of transferring knowledge between organization and subsidiaries is still an important issue, understand the cultural difference has become more important when doing business in a global society. As the business world has become flattened, firms doing business in other countries require an understanding of foreign culture and norms. The culture of business is the environment in which it operates, including its philosophy, values, group standards, religions, behavioral patterns, etc. This encourages the business to use correct ways to perceive, think and act when dealing business and may be received higher revenue through the local and/or international sales.

Cultures have always been different and always will be. The importance of understanding cultural different is to analysis business lives. As the MNCs have located across the globe, it is not possible to have staffs from the same race, culture or country, even in the same country employees may come

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from different groups. Different groups of employees will have different attitudes and behavior which can break the motivation, it is therefore culture understanding cultures will help businesses to avoid problems and guiding them to become more successful and efficient.

At least, it is not possible to have a successful business without being aware of cultural differences. In order to become more successful, there are important aspects to analyze culture between internal and external business environment. Internal business environment is the corporate culture in the strategic management process which makes a direction of the organization can do in the event of a business-related exigency. In common, MNC have international staff working within the organization. The different sets of believes, ethics can bring difficulties to the working environment. Some culture may even take offense of certain comments. This affects the role of organizations and relations between employees. Apart from this, different countries may have different languages. A bad communication between employees cause worse team work and less motivated within organizational units.

To be aware of corporate culture, it may help to achieve business objectives such as improving team working and to become more motivated. This is due to the working environment allows the development of different perspectives and powerful brainstorm, and people with difference cultural background usually have different thought and opinions to problems solving. This creates a greater opportunity to work with teammates and leverage the team work and results. Understanding the differences between nations may also help avoid misunderstandings. This creates a better working condition to the <https://assignbuster.com/challenges-facing-multinational-organizations-transferring-knowledge-between-subsidiaries-management-essay/>

employees and brings them to work together more efficiently towards the business objectives in a positive and motivating environment.

External business environment relates to the strategies of providing products or services in local and/or global society. As the business have clients and customers all over the world, understanding the cultural differences can directly reflect the sale volume of the company. One of the ways to understand their culture is to take a survey on how the local live in their countries and their countries and their general beliefs. The understand of local markets can achieve higher sales by understanding their interests, affordability, background, etc, in order to improve the efficiency and making strategies in particular places. Understand cultures can also be a major issue causes mergers and acquisitions. This is due to the eliminated differences between nations can avoid potential problems by having partnership, especially those companies never materialize. The cultural aspects can seriously clash or award benefits from their relationship that the value and benefits in both sides of those businesses.

Understanding cultural differences cannot be easily changed or overcome, but it is important for the business be aware of them and how they impact their business. Understanding well will positively affect the business to improve productive efficiency, profitability and increase the reputation within the industry. However, in reality the business world seems more complex. It is not enough to understand the difficulties of transferring knowledge and cultural differences in order to become successful. There are more aspects should be taken into consideration, including accountancy, economies of scale, political background, national laws, technologies, etc. These aspects

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are taking parts to influence the business performance, and guiding them the ways to develop competitive advantages by exploiting differences in national resource endowments, economies of scale, and the ways of learning.