

A processual analysis of knowledge transfer: From foreign MNEs to Chinese suppliers

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Abstract

This paper investigates vertical knowledge transfers from inward-invested multinational enterprises to indigenous Chinese suppliers in the electrical and electronics industry in Wuxi, China. Through 16 dyadic case studies, a three-stage pathway of relationship development is established in which the types of knowledge transferred evolve as the relationship and the cooperative activities within it, deepen. Contingency factors are found to either accelerate or prolong the relationship development at each stage. We conclude with implications of our findings for academic scholars and managers.

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1. Introduction

For over quarter of a century, the Chinese government has encouraged inward foreign direct investment (FDI) in the hope that it will contribute to the increased competitiveness and productivity of domestic industries. The realization of this hope, however, hinges upon the assumptions (a) that knowledge transfers take place and (b) upon the depth and types of knowledge transferred. However, uncertainty associated with an unfamiliar and risky

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environment may lead MNEs to be cautious about what they transfer and how they do it. We, therefore, examine the process and types of knowledge transferred from inward invested multinational enterprises (MNEs) to their indigenous Chinese suppliers. Specifically we ask:

- What is the nature of the knowledge transfers to Chinese suppliers by MNEs?
- What are the processes by which they transfer this knowledge?
- Does the nature of the knowledge and processes by which they are transferred, change as the supply relationship matures?

An analysis of 16 dyadic case studies, using a process-oriented approach, leads us to identify the types of knowledge transferred, and the means by which they are transferred at each stage. In combination they lead us to establish three stages of relationship development—the initiating, developing and intensifying stages. The dynamics of inter-firm cooperation demonstrate how, with the improvement of the supplier's capability and an increasing degree of mutual trust, the relationship can shift from being an arms-length transaction to one that involves the development of firm-specific capabilities. This has important implications for managers of both MNEs and supplier firms as to what types of knowledge are, and can be, transferred.

The paper takes the following format. Following the literature review, we present details of our methodology and data collection process. The findings from our cases are advanced and used to develop two conceptual devices: a pathway of relationship development between inward-invested MNEs and their local Chinese suppliers, and a typology of knowledge which is transferred at each stage of the development pathway. We conclude with implications of the research findings and acknowledge the limitations of our research.

2. Literature review

With respect to the international business context, studies of knowledge transfer occur at two basic levels: *intra*-firm knowledge transfers and *inter*-firm transfers. The first mainly focuses on MNEs, which face increasing pressure to both integrate and disseminate knowledge (Foss & Pedersen, 2004; Persson, 2006). Indeed it is popular to conceive the MNE as a network through which knowledge may be transferred across time, space, culture and language (Schlegelmilch & Chini, 2003) with knowledge moving from parents to subsidiary, subsidiary to parent (Ambos, Ambos, & Schlegelmilch, 2006) and inter-subsidary (Persson, 2006). Within this literature, scholars found that despite belonging to the same corporate group, there are many barriers to the transfer of knowledge. Gupta and Govindarajan (2000) and Lord and Ranft (2000a,b) found that incentives were a significant factor affecting the effectiveness of knowledge transfer; additionally, Lord and Ranft (2000a,b) found organizational structure to be influential whilst Li (2005) found that shared vision (as distinct from trust) was important for intra-firm knowledge transfers. Others found internal rivalries for resources and managerial attention meant that subsidiary units within an MNE lacked the motivation to share knowledge. These have been manifested as the 'not invented here syndrome' (Katz & Allen, 1982) and the presence of a 'corporate immune system' (Birkinshaw, 2000). Away from motivational factors, Szulanski (1996, 2000) identifies variables that create knowledge 'stickiness' at different stages of the knowledge transfer process as the primary barriers to knowledge transfer.

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