Global integration versus local adaptation: a case study of Austrian MNCs in Eastern Europe

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Abstract: Institutionalists argue that the successful transfer of knowledge depends on a firm's ability to adapt to its local environments. Jensen and Szulanski (2004) take a different perspective, focusing on global integration. While both approaches have received considerable attention their relationship has been less discussed. Using an extended case study method exploring 15 Austrian MNCs, we propose that there are two models to explain the relationship. One model puts local adaptation and global integration at two ends of a continuum. According to this interpretation there is a trade-off between the two. A second model sees local adaptation and global integration in an orthogonal relationship. They do not exclude each other but can be achieved at the same time by emphasising different aspects of an organisational practice. The Austrian MNCs we explore have a tendency towards the second model. They combine strong personal relationships with standardisation of products and processes, using training as a link between them.

Keywords: stickiness; knowledge transfer; institutional theory; Eastern Europe.

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1 Introduction

The successful exploitation of existing knowledge is essential for companies in their quest to achieve competitive advantage. For Multinational Corporations (MNCs) this means that they need to find ways to successfully transfer knowledge, products, technologies and management approaches to multiple locations (Buckley and Casson, 1976; Hymer, 1976; Dunning, 1977; Kogut and Zander, 1993; Zaheer, 1995). While this is always a challenging task the hurdles are particularly high when knowledge needs to be transferred to countries where a firm had no previous engagements.

In order to achieve a successful transfer, knowledge-related factors, such as absorptive capacity, causal ambiguity, and arduous relationship between source and recipient, as well as motivational factors need to be taken into consideration. Traditionally, many scholars concentrated on motivational factors by exploring the need for adaptation. They argue that firm-specific assets need to be adapted to fit with the new local environments (Sorensen and Weichmann, 1975; Bartlett and Goshal, 1989; Samiee and Roth, 1992; Morosini et al., 1998; Luo, 2000; Sorge, 2004; Fink and Holden, 2005; Kayes et al., 2005). Some of the main reasons why companies need to adjust are the variance in culture (Buzzell, 1968; Hannon et al., 1995; Lemak and Arunthanes, 1997), consumer preferences (Douglas and Wind, 1987; Prahalad and Doz, 1987; Bartlett and Goshal, 1989; Lemak and Arunthanes, 1997), legal frameworks (Kostova and Roth, 2002), and labour markets (Rosenzweig and Nohria, 1994). When organisational practices from other institutional environments are introduced without any adaptation, recipients are not necessarily willing and able to implement them in their subsidiaries. To increase their motivation and enable an efficient exploitation of knowledge, practices are therefore adjusted to the local environment (Kostova, 1999; Kostova and Zaheer, 1999; Kostova and Roth, 2002). This is particularly important where the institutional distance is large.

Szulanski added an additional dimension to our understanding of knowledge transfer across borders by taking a different angle. He argues that it is the knowledge-specific factors rather than the motivational factors that have the greatest impact on the transfer of best practices within firms (Szulanski, 1996). Causal ambiguity and limited absorptive capacity result in stickiness – the difficulty to transfer knowledge. Other than those scholars who concentrate on motivational factors, Jensen and Szulanski (2004) therefore argue that adaptation is counterproductive to the transfer as it increases stickiness. Instead they propose a ‘McDonald’s approach’, the creation of a large number of similar outlets that deliver the same product or perform the same service. This makes the replication of organisational practices easier.

While both approaches have received considerable attention in the literature the relationship between the institutionalist’s focus on local adaptation and Szulanski’s emphasis on global integration has received little attention. We propose that there are two ways to explain their relationship. One interpretation would see local adaptation and global integration as two ends of a continuum. According to this model, there is a trade-off between the two. A second model sees local adaptation and global integration in an orthogonal relationship. They do not exclude each other but can be achieved at the same time by emphasising different aspects of an organisational practice. Using an extended case study method we study 15 Austrian MNCs and discovered that local adaptation and global integration can successfully be reconciled through a combination of strong personal relationships and standardisation of products and processes. We also discovered that training opportunities are important to link the two.

The paper has four major sections. In the first section, we explain some of the concepts we build on and try to explain why we think that they can be interpreted as complementary rather than opposing views. In the second section, we will explain the qualitative research approach we took in our empirical study. In the third section, we will present some of the ideas and concepts that we observed from Austrian firms trying to transfer their knowledge to Eastern European subsidiaries linking them to contributions by other scholars. In the fourth section, we will then discuss our findings in the light of those theoretical concepts we introduced in Section 2.

2 Theoretical background

Building on institutional theory and other recent literature on knowledge transfer (Kostova and Roth, 2002; Jensen and Szulanski, 2004) we want to draw attention to asset related and motivational factors of knowledge transfer. The former point us in the direction of global integration and the latter towards local adaptation. While the relationship between global integration and local adaptation can be interpreted as a continuum it is also possible to see them in an orthogonal relationship. This implies that the two aspects do not necessarily compete for scarce resources but can be viewed as complementary approaches. A trade-off might therefore not be necessary as both can be achieved at the same time by paying attention to different aspects of the knowledge transfer. The standardisation of products and certain processes and structures mitigate causal ambiguity. They also present an efficient way to increase absorptive capacity when combined with training. At the same time motivation can be increased through the adaptation of communication and interaction between workers, signaling cultural empathy.

2.1 Knowledge transfer and motivation

Institutional theory has been widely applied in the study of knowledge transfer in organisations (Meyer and Rowan, 1977; Dimaggio and Powell, 1983; Tolbert and Zucker, 1983; Abrahamson, 1991; Scott, 1995; Kostova and Roth, 2002; Kostova and Roth, 2003; Kayes et al., 2005). Institutionalists posit that organisations will be influenced by the environment they share. Firms become 'isomorphic' with each other as they adopt similar practices to succeed in an institutional environment shaped by regulatory, cognitive and normative 'pillars' (Scott, 1995). Laws and rules which encourage or discourage specific behaviour in an institutional environment are regulatory components. Cognitive components refer to the way how people notice, categorise and interpret stimuli they receive from the environment. Although individuals are the carriers, cognitive programmes are social in nature (Berger and Luckman, 1967). The normative component refers to the values held by indivduals in a given country (Kostova, 1999). This introduces a prescriptive, evaluative and obligatory dimension into social life (Scott, 1995). As regulatory, cognitive and normative institutional characteristics vary in different countries we can assume that organisational practices will also vary in different countries (Hall, 1986; Cole, 1989; Campbell and Lindberg, 1990; Jepperson and Meyer, 1991; Orru et al., 1991; Strang and Meyer, 1993; Whitley, 1992a; Whitley, 1992b; Gooderham et al., 1999). The institutional context shapes the social meaning of organisational practices and provides them with legitimisation from the society's point of view. For example Fabry and Zeghni (2003) explain that habits of the employees in CEE countries were heavily influenced by the communist system. To change these habits, to create the willingness to acquire new skills, and to improve productivity, Western companies had to be aware of the institutional characteristics. They needed to take these characteristics into account when they set up wage and non-wage policies, recruitment policies and career opportunities tied to productivity. Western firms could not simply implement Western organisational practices but had to provide on-the-job and off-the-job training programmes, to enable an efficient transfer of knowledge.

It is important to note at this point that country differences are often studied from a cultural perspective (e.g. Hofstede and Bond, 1988). In this paper, we take an institutional perspective though. This does not exclude cultural elements. As Rosenzweig and Singh (1991) remark, culture and legal systems shape the institutional environment. Following this proposition we see culture as an element reflected primarily in the normative component.

Returning to a more abstract perspective, firms achieve legitimacy in a specific environment through three different types of processes:

1. when more powerful authorities (i.e. the government) force specific organisational patterns on a firm we observe coercive isomorphism
2. mimetic isomorphism occurs when firms imitate patterns applied by more successful organisations in this environment
3. normative isomorphism refers to the application of practices which are deemed to be appropriate in a specific environment (Meyer and Rowan, 1977; Dimaggio and Powell, 1983; Scott, 1987).

Although the three dimensions present facets of the same institutional environment they may lead to different forms and levels of adoption.

Looking at the coercive isomorphism it is obvious that foreign subsidiaries might come under direct pressure to adopt certain structures and procedures. For example subsidiaries of oil companies operating in the USA are not allowed to be in contact with other subsidiaries operating in Iran, a country under US embargo. Despite the pressure to adapt to the local environment, MNCs, however, are less restricted by government regulations than local companies. They are able to negotiate a number of exceptions particularly when we think of subsidiaries of relatively powerful firms which are less dependent on the host country (Zucker, 1987; Meyer and Zucker, 1988). In the oil industry, for example non-US oil companies operating in the USA are still able to do business in Iran – as long as they ensure that no communication takes place between the US and Iranian subsidiary – while US oil companies are not allowed to operate in Iran at all.

Looking at mimetic and normative isomorphism the role of employees comes to the fore in the sense that they bring institutional elements into an organisation when they enter it (Zucker, 1977; Westney, 1993; Scott, 1995). The norms, values and behaviours they bring with them to work are shaped by the external institutional environment. The role of employees implies that even subsidiaries which operate in relative independence of a local economy have to acknowledge the institutional context and adapt in order to increase motivation. For example the promotion of women to high-level positions might not be feasible in Saudi Arabia while a lack of female managers is perceived as discriminatory in Scandinavia.

While the work of institutionalists is convincing in the sense that awareness and adaptation to the environment increases motivation we are not sure if adaptation is always the most effective way to ensure that relevant knowledge is transferred efficiently. Assuming that at least in an initial stage the parent company has superior practices when it enters a territory previously not accustomed to market economies, a high level of adaptation would endanger the competitive advantage firms can gain by applying the superior practices. It is therefore not only the external institutional environment but also needs to be considered. Cyr (1997), for example suggests that the success of Joint Ventures in Eastern Europe is related to control, process, and the support of learning and change through the prevailing corporate culture. When foreigners delegated authority to local managers and workers, these were required to accept the new challenges and discard old ways of thinking which were dominated by the cognition under communism and a planned economy (Wiley, 1994). Effective communication and opportunities for learning resulted in greater levels of shared responsibility provided that a supportive corporate culture exists.

We propose that MNCs need to consider the institutional environment of host countries and make adaptations to ensure motivation. At the same time, the benefit of the increased motivation is pointless when the adaptation of organisational practices distorts these practices to such an extent that their content no longer increases the knowledge of the recipient. This means that firms need to act in a way that isomorphism is taken into account without hindering the transfer of knowledge. In regards to foreign oil companies, operating both in the USA and Iran, for example this means that the same knowledge can be transferred to both countries from headquarters but not between the countries. Whether such a 'simple' solution is feasible in more general terms will be discussed in more detail after the actual transfer of knowledge is described in more detail.

2.2 Knowledge transfer and stickiness

Institutional theory explains that motivation increases when organisational practices and knowledge are adapted due to increased legitimacy (Kostova, 1999; Kostova and Zaheer, 1999; Kostova and Roth, 2002). The work of Cyr (1997) and Ghoshal et al. (1994), however, suggest that adaptation of knowledge is counterproductive when firms want to transfer knowledge. While according to their view adaptation increases the motivation of recipients of knowledge it does not necessarily facilitate the transfer. Crucial aspects might be lost due to adaptation and the transfer might be complicated. Szulanski concentrates on this issue in a number of papers (Szulanski, 1996; Szulanski, 2000; Jensen and Szulanski, 2004; Szulanski et al., 2004; Szulanski and Jensen, 2006). Looking at 122 international and domestic knowledge transfers of US-based companies Jensen and Szulanski (2004) analysed which effects 'adaptation' (differences introduced between the original practice and the replica), 'recipient motivation', and 'institutional distance' [building on the Kogut and Singh (1988) Cultural Distance Index] have on stickiness, the difficulty to transfer knowledge (Szulanski, 1996).

Their analysis showed "that, contrary to expectation, adaptation significantly increases the difficulty of transferring organisational practices rather than decreasing it. Recipient motivation does not mediate the relationship, and institutional distance, also contrary to expectation, does not lessen the impact of adaptation" (Jensen and Szulanski, 2004). So instead of increasing the success of knowledge transfer the adaptation actually threatens meaningful replication. One of the main reasons is causal ambiguity. Firms are often unable to explain even ex post, why a certain organisational practice was successful. The replication of a capability is obviously difficult when no unambiguous list of factors can be produced. This is particularly true as tacit knowledge (Polanyi, 1962) is a central attribute when transferability is considered (Spender, 1993; Nonaka, 1994; Grant, 1996). But even in cases where causal ambiguity is small, the transfer of knowledge is limited by the absorptive capacity of the subsidiary (Cohen and Levinthal, 1990). As the absorptive capacity is a function of an organisation's prior stock of knowledge (Dierickx and Cool, 1989), it becomes a matter of serious concern in CEE countries. To overcome causal ambiguity and limited absorptive capacity and increase the efficient exploitation of existing knowledge Jensen and Szulanski (2004) suggest the replication oft best practices rather than their adaptation. This avoids complication as firms are able to apply a 'Mcdonald's' approach. Nonetheless the relationship between source and recipient is critical. As various aspects of an organisational practice are explained in numerous personal exchanges (Nonaka, 1994) the quality of the relationship can positively or negatively influence the transfer. To facilitate the communication between source and recipient MNCs often use expatriates (Harzing, 2001; Hocking et al., 2004).

Szulanski's argument is convincing. He shows that the success of knowledge transfer is more significantly influenced by barriers to internal knowledge transfer than motivational factors. At the same time, he acknowledges that his research (Jensen and Szulanski, 2004) concentrates on the actual transfer. This does not mean that successful implementation would not depend on motivational factors. In fact the attention he pays to the relationship of source and recipient also points in this direction. We therefore propose to leave adaptation to a later stage of the transfer process and always keeping the original practice in mind when adaptations are made.

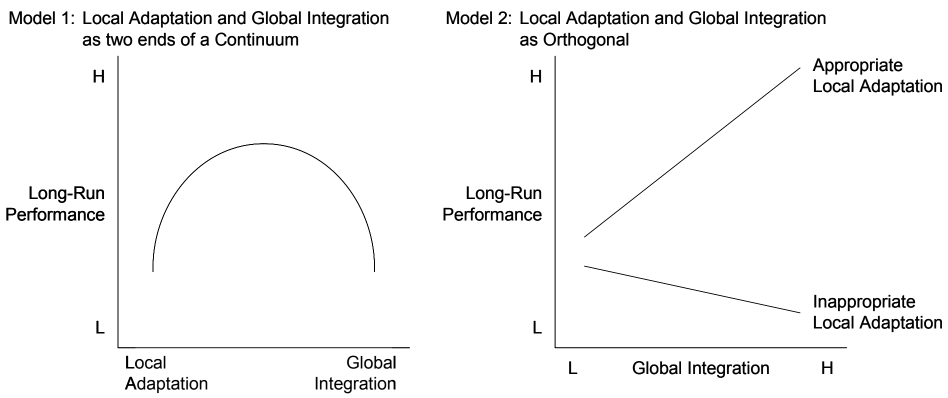
2.3 Continuity and orthogonality: two models describing the relationship between local adaptation and global integration

The adoption of a practice in subsidiaries of MNCs is influenced by two factors: the external institutional environment of the host country and the internal institutional environment set by the parent. Knowledge which is transferred from the parent to the subsidiary was created under the influence of the home country's institutional environment. Kostova and Roth (2002) refer to these two isomorphic pressures as institutional duality. Considering institutional duality firms are faced with the dilemma whether global integration or local adaptation is more appropriate. Motivational considerations seem to point at local adaptation while the stickiness of knowledge would suggest global integration. We propose that there are, however, two different ways how the relationship between local adaptation and global integration can be interpreted.

The more conventional interpretation would see local adaptation and global integration as two ends of a continuum (Model 1). This means that there is a trade-off between the two. While motivation would increase with adaptation, Szulanski would point at the stickiness of knowledge which suggests that global integration should receive more attention. Long-term performance in this model is most likely achieved by finding the middle ground, possibly by taking a more standardised approach during the transfer and adapting towards the end (Jensen and Szulanski, 2004).

A second model (Model 2) sees local adaptation and global integration in an orthogonal relationship. They do not exclude each other but can be achieved at the same time by emphasising different aspects of an organisational practice. This interpretation is reflected in a special issue of AME when Fink and Holden (2005) summarise the findings of the various contributions. They notice that the transfer of knowledge involved uniform procedures as the complexity within firms had to be reduced. At the same time some adjustments were made at the local level to respond to values, attitudes, competencies and personality traits according to Fink and Holden (2005). For example French retailers entering the Polish market (Hurt and Hurt, 2005) initially wanted to apply Western management practices. When this failed they displayed more cultural empathy and started to adopt some procedures. Eventually, when trust was established the retailers once again resorted to more standardised processes. At the same time they continued to display high levels of adaptation in the way they communicated (and socialised) with locals. In other words, while they were globally integrated in some ways they were at the same time locally adapted. This is bound to resonate with many practitioners when they consider the standardisation of, e.g. financial reporting systems going hand in hand with, e.g. locally adapted recruitment processes.

Figure 1 Relationship between local adaptation and global integration



While both models have their merits we prefer the latter interpretation. Standardisation of certain products and processes enhances their efficient exploitation. At the same time, the local institutional pressures will require some adaptations if employees should internalise organisational practices. In terms of adaptation, we expect cultural empathy (Kayes et al., 2005) and communication to be of particular importance. We therefore propose to combine cultural empathy with global integration.

3 Method and research approach

The intention of our empirical work was to extend our understanding of knowledge transfer within MNCs. We studied 15 Austrian MNCs in their attempt to transfer knowledge to their subsidiaries in Eastern Europe, using publicly available data, archival material, and interviews and linking our observations to the insights from other scholars. The observation period was 1989 (fall of the Iron Curtain) to 2004. We also hope that the examples provided from the case studies will illustrate our findings, making them more accessible for the reader (Siggelkow, 2007).

3.1 Research approach

The transfer of business practices provides a good setting to observe transfers of knowledge within organisations (O'Dell et al., 1998). As our intention was the analysis of the process of knowledge transfer a qualitative approach is more suitable than economic and formal modelling (Eisenhardt, 1989). More precisely we followed the tradition of extended case study method. Prominent examples using such an approach include Danneels' studies of US high tech (Danneels, 2002) and Belgian apparel retailing firms (Danneels, 2003), Burgelman's (1991, 1994, 2002) studies of Intel, Rosenbloom's (2000) study of NCR, Sull's (1999) study of Firestone, Tripsas and Gavetti's (2000) study of Polaroid, and Stadler's (2007) study of long-living European companies.

Other than the grounded theory approach (Glaser and Strauss, 1967), the extended case method (Burawoy, 1991) does not try to build new theory but extend existing theory. Empirical case study data is used to re-conceptualise and extend existing theory. The researcher confronts data and theory in many cycles. In each cycle new data and additional concepts and theories are identified to be explored further. While the data analysis points to relevant concepts and theories in the literature, at the same time the literature provides conceptual frameworks to support the data interpretation. The analysis of initial data points at additional information to be collected (Danneels, 2002; Danneels, 2003; Danneels, 2007).

3.2 Sample and data

We observed 15 large Austrian companies and their Eastern European subsidiaries (Table 1) during the period of 1989 to 2004.

Table 1 Company sample†

Company name	*Revenue 2004 (mio Euro)*	*Employees 2004*	*# of countries in Eastern Europe*
Baumax*	186	1770	6
Bramac	135	1150	9
BBAG	2100	15,000	13
Erste Bank		35,862	4
Kapsch*	476	1977	6
Mobilkom*	1582	2475	2
Mondi business paper	1765	16,881	3
OMV	9880	6475	11

Table 1 Company sample† (continued)

Company name	*Revenue 2004 (mio Euro)*	*Employees 2004*	*# of countries in Eastern Europe*
Philips	1023	1900	19
Porsche holding*	7900	13,676	8
Raiffeisenbank		10,292	15
Rauch*	486	1000	8
Strabag	3787	10,495	11
Wienerberger*	1879	12,237	11

Notes: †Siemens did not publish data on the Austrian subsidiaries we studied.
*Data from 2003.

Three types of data were analysed:

1 *Publicly available data:* We conducted a search of EBSCO host and three Austrian business magazines (*Wirtschaftsblatt, Gewinn and Börse Express*) using keywords such as 'knowledge transfer', 'Eastern Europe', 'technology transfer', etc. to identify articles providing information on the 15 firms we observed. 60 articles were identified which were of importance in the context of their knowledge transfer to Eastern Europe. We also scanned annual reports of the firms we observed.

2 *Archive material:* The companies we observed provided additional material which was relevant for our research such as organisation charts and internal memos.

3 *Interviews:* Our interview sample included 22 top executives from the 15 firms we analysed. The interviewees were either the company's CEO, i.e. Mr. Hameseder for Raiffeisen Holding NÖ-Wien, or the person who was responsible for the Eastern European business. We decided to interview top executives as we wanted to understand the approach Western firms took when dealing with subsidiaries rather than the perception of these policy decisions from the subsidiary point of view. The interviews which were conducted in 2004 and 2005 lasted between one and three hours. On average an interview lasted 90 minutes. While we did not conduct structured interviews we had a number of questions in mind which we wanted to answer.[1]

We are aware that the choice of our interview partners presents a limitation to our findings but hope that publicly available material and archival data we used compensated for that. We were also careful to link our insights to other theorists.

4 Results

The intention of our research was an exploration of knowledge transfer from Austrian MNCs to their subsidiaries in Eastern Europe. Building on recent research on the topic and empirical data gathered through interviews, archival research, and publicly available data we discovered that Austrian firms combined standardisation of products and procedures with strong personal relationships that indicate cultural empathy. Before we discuss the various ways how they tried to transport knowledge we will briefly describe the historical context to provide an impression of the institutional environment the new subsidiaries operated in.

4.1 Austrian firms in CEE countries

During the cold war Austria already had a mediating role between Western and Eastern Europe. Austria had cultivated its role as a gateway to the Eastern bloc in economic as well as in political aspects. In spite of trade restrictions, several Austrian companies had managed to maintain their (business) relations to the East.

When the political changes that led to the removal of the Iron Curtain began to materialise, these connections from the past proved to be a fertile soil for Austrian companies. Not only they were able to realise opportunities early on, but also they had the advantage of local, cultural knowledge.

The collapse of the communist system and the economic liberalisation that followed provided new opportunities for Western firms. Fast growing markets and low production costs attracted western investors. Many Western companies entered these markets with strategies to take over existing companies (including their brands and infrastructure) or to establish new affiliates and bring in their international brands.

Besides the opportunities Austrian firms still needed to be aware of uncertainties and risks: entering the Eastern European markets at an early stage meant stepping into a different world, a world heavily influenced by the socialist system and the planned economy; a world that was in turmoil (at least in the beginning with all the political instability); a world that was very different to the one the western companies were used to.

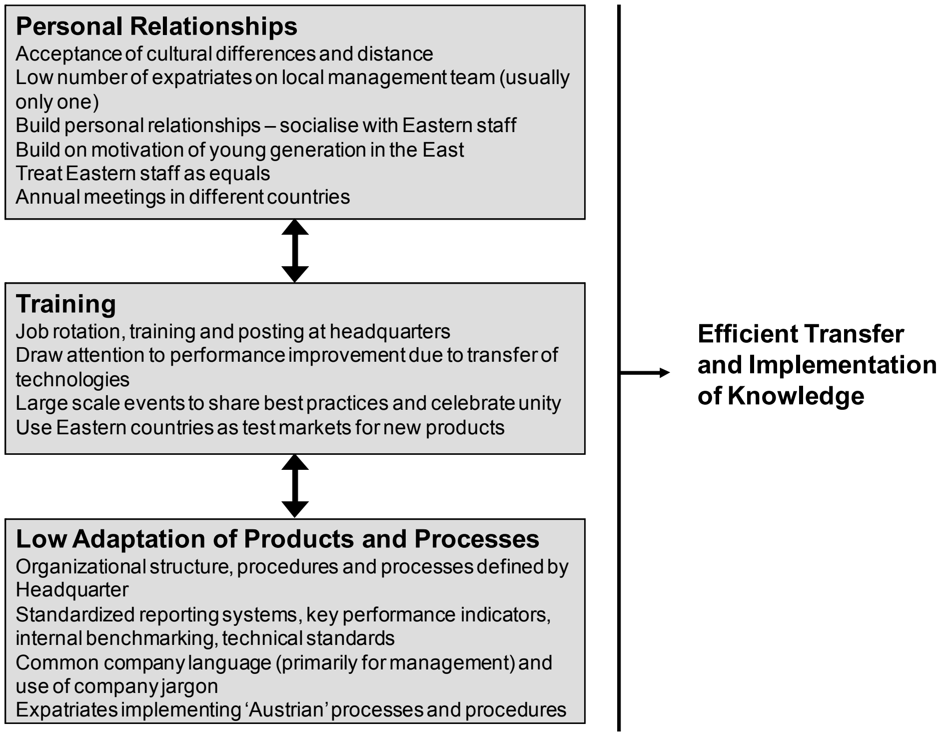
The old system had also left profound imprints on people and culture in Eastern Europe. Staff were heavily influenced by central planning tools and communist ideology (Kayes et al., 2005). Centralised, hierarchical organisations had produced authoritarian managerial styles. Staff were used to obeying authority, showed a lack of trust in outsiders, paid much attention to rank and status, and believed in a powerful, punitive legal system (Prokopenko, 1992). In contrast, in the new liberalised market, managers in the East had to develop expertise in fields such as strategic planning, marketing, accounting and finance, as well as radically alter their values and practices (Wiley, 1994).

As Western companies tried to enhance the productivity of their Eastern affiliates, they had to find ways to facilitate knowledge transfer from the West.

4.2 A model for knowledge transfer

Based on the interviews and secondary material from the firms we studied we will describe how 'Western knowledge' is transferred to Eastern Europe. After some interviews a common pattern emerged (Figure 2): Combining low adaptation of products and work processes with a deep respect for the local institutional environment. Training functioned as a bridge between the two aspects. Being aware of the institutional distance successful Austrian managers took great efforts to build personal relationships with local managers. Displaying great cultural empathy they were able to limit the effects of a common inferiority complex of Eastern staff who felt that 'nothing they had done for the past few decades seems good enough for the Austrians'. Essentially it was also these strong personal relationships which allowed them to introduce Western products, processes and procedures as they were met with limited resistance. As absorptive capacity was a major concern Austrian MNCs had to provide a wide range of training to enable the introduction of Western organisational practices. Lacking the trust of local staff they would have been much less willing to listen and learn. One additional aspect that was particularly helpful in this regard was the role of the younger generation in Eastern Europe. They were more interested and capable to follow the new rules. Relying on their enthusiasm and willingness to learn was crucial.

Figure 2 Knowledge transfer from Austrian MNCs to their Eastern European subsidiaries



In the following pages, we will describe in more detail how personal relationships, standardisation of products/processes, and the provision of training was used to facilitate knowledge transfer from Austria to Eastern Europe. We will use a descriptive approach to provide an overview that facilitates the discussion of our insights in the subsequent section. Table 2 summarises the manifestation of the three aspects of knowledge transfer in the firms we studied:

Table 2 Knowledge transfer of Austrian firms in our sample

	Cultural Empathy and Personal Relationships	*Training*	*Low Adaptation of Products and Processes*
Baumax	Social competence is key criteria when managers are chosen to be transferred to Eastern Europe Pilot projects in Eastern Europe emphasises trust in local staff Annual meeting with top managers has strong emphasis on relational aspects	Standardised training programme Training programme which brings employees from newly opened countries to Austria In countries where firm is already present, employees are sent to existing store for training Cross-country trainings in Eastern Europe	Standardisation of shop design and products is seen as crucial success factor While not fully achieved in the past the firm has made significant progress more recently Standardised advertising works well
Bramac	Firm started to present products at trade fares as early as 1984 to gain first impressions Local consultants were hired as they understood Western business practises but ensured that locals were not offended When decision are taken leaders from Eastern Europe are included	Eastern leadership receives training in Austria to facilitate knowledge exchange A leadership council with Austrians and representatives from each Eastern European country meets four times a year	Same products and processes worldwide Global quality standards for products Each project is evaluated according to global standards Benchmarking
BBAG	Relied heavily on personal relationship and developed understanding of their value system Acquired small local brewers to rely on their local expertise	Transfer of personnel particularly technicians to transfer knowledge and train locals	Global integration was less visible as local products are kept but Austrian process knowhow is adopted Local CEO always Austrian to ensure Austrian oversight
Erste Bank	Early experience of predecessor firm Leadership in new countries is a mix of locals and expatriates but locals take the lead while expatriates are in consulting role – this ensures understanding of local practices	3 day training programme for all employees as an introduction to the bank Specialised training for different roles, e.g. treasurer Train the trainer concept	Project controlling to ensure that global standards are met Same consulting firm supports all market entries in Eastern Europe
Kapsch	Built personal relationships before formal aspects were considered Formed JV in early phase to gain better understanding of local customs		
Mobilkom	CEO is from Eastern Europe – a powerful symbol Decades of experience of some expatriates in respective countries (e.g. Croatia) Top management stresses geographic proximity to cross-cultural barriers, e.g. Zagreb is closer to Vienna than Innsbruck	Extensive use of staff transfer – both short and long term Annual meeting of top 120 people Steering groups hold phone conferences every 2 weeks to exchange ideas	Handbooks and service level agreements to facilitate implementation of global standards Centralisation of important decisions Infrastructure often has to be built from scratch – this makes it easier to use Western standards

Table 2 Knowledge transfer of Austrian firms in our sample (continued)

	Cultural Empathy and Personal Relationships	*Training*	*Low Adaptation of Products and Processes*
Mondi Business Paper	Establishment of Integration Boards	Several events a year where top managers exchange experiences	Process and products were not adapted
	Local management was left in place		Benchmarking was used to achieve same standards
	Never fired anyone from the local management	Best practice sharing	Centralised logistics to foster integration
	Austrian managers take a very calm and understanding approach		
OMV	Started to operate with local partner to gain understanding of local practice	Staff transfer is vital as people who build up one location move on to the next one	Established reporting system ensures transfer of tested practices
	Local consultants were hired as they understood Western business practices but ensured that locals were not offended		Internal benchmarking enfosters this
	Cultural openness of transferred staff		
Philips	Relationships were built extending beyond the usual workday – meeting at many social occasions	Know-how centre in Vienna coordinates exchange of best practices	Selection of contract manufactures is based on a standardised checklist and selection criteria
	In some countries (e.g. Czech Republic), firm could rely on a local who had worked in Philips Austria already	Intercultural trainings	General design aspects are decided centrally
Porsche Holding	Strong emotional tie of Austrian teams to success of local subsidiary	Staff transfer particularly in the beginning	Standardisation relatively low
		Trainers are brought from Austria	IT is centralised
	Stronger local adaptation than other firms in sample	Knowledge exchange very informal	Finance always headed by an Austrian
	No attempts to provide strong guidance from Austria but focus on local independence		
Raiffeisenbank	To develop better understanding of local culture firm went into large cities and worked primarily with business customers first	New directors and high-level managers spend a week at the Vienna headquarter with the intention to get to know each other	Standards were developed in the centre that are
			applied throughout Eastern Europe
			Large customers are managed across the entire region ('no borders' apply)
	Leadership keenly aware of importance of trust	People at lower levels attend introductory events and join standardised training programmes	
	Leadership keenly aware never to been seen as 'colonialists'		Same technologies as in Austria (standardised)
		Specific department coordinates training	
	Quick handover to local managers	Strong emphasis on training programmes	

Table 2 Knowledge transfer of Austrian firms in our sample (continued)

	Cultural Empathy and Personal Relationships	*Training*	*Low Adaptation of Products and Processes*
Rauch	Considerable efforts were taken to learn the language Attempts to establish local managers able to take the lead	Training provided by parent company Staff was brought to Austria for training Specialists from Austria travelled to Eastern Europe frequently to train locals	Products and production process is standardised
Siemens	Siemens was able rely on a fast group of executive with international experience – they displayed cultural sensitivity and tried to build strong local relationships	Transfer of substantial numbers of Austrian staff to Eastern Europe in the beginning Large groups receive training in Austria	Process and products were not adapted Transferring people from host country with experience in Austria was a good way to ensure accurate implementation
Strabag	Very strong personal relationships at the top Modesty when dealing with Eastern partners/staff	Annual strategy meeting with 400 people Transfer of staff	Global quality standards
Wienerberger	Acquired four plants near Budapest initially as closeness to Austria provided environment where management could develop understanding of local culture and practices Senior locals were 'ambassadors' which ensured that Austrian rules were not misunderstood Involved local right from the start to ensure their integration	Training for local staff and managers Promising staff is posted in a well-established plant to learn Wienerberger approach Training extended to retailers	Process and products were not adapted unless legal requirements forced them to do so Reporting and Benchmarking to support common practices Extended rules to retailers who had to meet certain criteria (Wienerberger helped them to achieve them)

4.3 Develop strong personal relationships

When Austrian firms entered Eastern Europe, they were aware of the challenges they would face. Some firms had prior experience even before market entry was possible. Bramac for example presented its products in Hungary – which was more open than other countries at the time – as early as 1984. At the time firms were not able to open subsidiaries but they were permitted to sell to state-run firms. This way they gained first impressions of the markets and of the local practices. Most importantly they started to build personal relationships. When Bramac started to think about doing business there, it noticed that it did not have the competences to do so internally and hired three senior managers from VOEST Alpine. They had done a number of projects for the Austrian steel manufacturer in Eastern Europe already. This provided Bramac with leaders for the future Eastern European business who understood local practices. After the fall of the Iron Curtain and the scaling up of business their personal relationships and local experience proved to be crucial. In an institutional environment which is characterised by an unreliable legal system, personal relationships were the most effective way to avoid unexpected surprises. Our interview partner in Bramac describes it the following way:

> "Finding the right partners is crucial. It is easy to find a partner who signs an agreement but this does not ensure that the implementation is done accordingly. For those who lack local experience this presents a significant entrance barrier while for others it is simply a reality that has to be dealt with." [Interview Bramac]

Other firms in our sample emphazised the same issues. Building solid relationships was crucial under the circumstances. It did not prevent issues from arising but did mitigate the problem:

> "The legal framework is still a huge problem. Personal contacts can be very useful but you need to be careful. … Their mentality is much more emotional and you have to be careful not to attack people. Otherwise they might just leave." [Interview BBAG]

> "You have to approach people, see them as partners, don't look down on them. Respect the cultural differences and build trust." [Interview Philips]

While the initial motivation to emphasis personal relationships and trust was often driven by considerations as we described for Bramac, they also turned out to provide a fertile ground for the exchange of know how. Yong and Young-Ryeol (2004) for example argue that a positive social interaction between partners of cross border joint ventures accentuates the transfer of process knowledge. Other factors are the recipient's capacity to learn and articulated goals, and the sender's ability to provide training, technology and managerial assistance (Lyles and Salk, 1996). Taking the barriers inherited from the communist legacy into account this is all the more important. Such an approach might be costly and time intensive but drives up efficiency and competitiveness in the end (Fabry and Zeghni, 2003).

Our research supports these claims showing that relationships played an important role in Eastern Europe. When Erste Bank first moved into Eastern Europe managers did not see this as an attractive personal opportunity. Consequently not the most talented managers were posted. Following the disappointing results the approach quickly changed. With strong communicators in place the Bank develop an approach where steering committees were formed consisting both of locals and expatriots. The expatriots had primarily a consulting role, helping the locals who were in charge of operations. This presented a strong signal to the local organisation that the Austrian bank is aware of local capabilities and respects local talent. In Eastern Europe that was particularly important as many locals felt that the Westerners saw themselves as being better than them. Besides setting up structures that signal respect for local partners and employees, relationships in Eastern Europe were also built outside work. This was unusual for many Austrian managers but turned out to be crucial. During the communist era people had to create ties outside the work environment to get by. They were used to spending substantial time together before they were prepared to trust their partners and be open for suggestions from them. Austrian managers spent time together with local partners and managers and sometimes also their families to signal to them that they are interested in understanding them and not simply telling them what to do. This also meant that managers had to move outside their comfort zone, eat things they do not like and appreciate the welcome they receive. One interview partner from Philips explained that particularly in the beginning they had to spend a lot of time with future partners and employees. In this introductory period they built the trust that helped them to overcome later on. In their case as for many other firms that meant spending their evenings and weekends together:

> "Communication is the most important thing, not only in business but also in the evening. Then you really get to know the people in order to be able to meet their expectations and to understand their problems. That's the way to build up trust." [Interview Philips]

> "You have to be patient during negotiations. Endless lunches and chatting about personal stuff is part of it. During these lunches you can sometimes refer to the actual purpose of the negotiations. 5 to 6 meetings is the minimum requirement." [Interview Kapsch]

> "You have to regard the different mentalities not only within Eastern Europe but even the differences between cities. … You need to learn the local language when you go there, as we have to take people seriously there. The greatest danger is to see people as second class people there, as you would never be able to develop them into highly valuable employees then." [Interview Siemens]

Although this was particularly pronounced in the beginning the personal ties continued to be crucial. The most successful Austrian managers took great care to adjust their personal behaviour and conduct. That did not mean that they adjusted business practices but simply that they listened and took time to explain why certain processes and procedures had to be kept in a certain way. In some countries such as the Czech Republic this approach worked very well. In others, namely Hungary it was much more difficult. Philips for example had previously managed Hungary from Singapore. The working style in Singapore relied heavily on written documentation, which did not play well with staff in Hungary. Austria sent a manager for the first two years who had a very authoritarian style but eventually failed. It reinforced the impression that foreigners saw themselves as superior. In all cases where personal relationships existed, they helped to counter some of these problems. Particularly relationships with middle management are crucial as they make sure that things get done.

Ghoshal et al. (1994) argue in a similar way. Studying a Japanese and a Dutch company they show that interpersonal relationships developed through lateral networking mechanisms such as joint work in teams, taskforces, and meetings have significant positive effects on the frequency of both subsidiary-headquarters and inter-subsidiary communication. Kayes et al. (2005) take a similar position when they argue that an understanding of the complexities of cultural norms contributes to cross-cultural knowledge absorption. Expatriates need to build personal relationships if they want to be accepted and heard in their host countries (Thomson and English, 1964; Hurt and Hurt, 2005). Unstructured social events provide a great opportunity to build such relationships (Yamazaki and Kayes, 2004).

4.4 Avoid adaptation of products and processes (*when possible*)

While the personal relationships and the cultural empathy increase motivation and trust, they also enable the transfer of standardised organisational practices. Although none of the companies was explicitly aware of the concept of stickiness and its influencing factors, their approaches produced the effects shown in the research of Jensen and Szulanski. Initially some of them were prepared to adapt to local tastes and practices. The shops of Baumax, a home improvement chain, for example were designed differently in different locations and offered different product sortiments. Also internal practices differed widely. Different email programmes and intranet solutions were used. This increased costs and hindered internal communication. The firm has adopted a more standardised approach recently. This turns out to be possible without major resistance. Even on the customer side more standardisation is possible than expected. Our interviewee put it the following way:

> "We need to take a more standardised approach. This is possible. Our experience is that this is even possible in advertising as customer expectations in different Eastern European countries are compatible." [Interview Baumax]

Baumax in other words realised that it has to avoid the adaptation of business processes and practices. Local adaptation threatens the value of best practices. In fact while in the entrance phase some companies like Baumax were prepared to adapt more strongly, all of them have since moved to a more standardised approach. Austrian firms tried to transfer the business logic and rules of the parent company through standards, process definitions and structures. This obviously presents a challenge initially, when the local know-how was not sufficient to produce technologically advanced products. Wienerberger dealt with this by introducing simpler products in the beginning. The production facilities in Hungary for example started to manufacture simple bricks. Once they had the absorptive capacity to handle more advanced products they moved to Porotherm (large industrial bricks). Although the product mix became more sophisticated, the company used the same standardised approaches in production as well as management process unless regulation required them to make some adaptations:

> "In principle each country receives the same treatment and support from corporate services. Different rules and regulations, i.e. regarding the environment, can result in differences." [Interview Wienerberger]

In fact a standardised approach was even extended to their main customers, the home-improvement shops. They had to meet certain standards in terms of warehouse and logistics. Wienerberger also trained their sales people to ensure that they understood its products.

Standardisation in Eastern Europe was facilitated in several ways. One common way was benchmarking. Mondi Business Paper for example established production first in Hungary where two production sites were acquired. These sites already had modern equipment but were not used efficiently. Mondi left local management in place but provided them with training to establish Western production knowledge. A crucial decision was the introduction of benchmarking which provided a transparent measurement of the performance and drove unification:

> "Benchmarking helps each plant to clearly understand the performance of each 21 machines. Everyone knows where they are. We also do this for sick days, etc." [Interview Mondi Business Paper]

Mondi established a Production Board and a Quality Board. They noticed that standardisation is best achieved by introducing performance indicators and sharing the data regularly. They adopted a SAP system which allowed the monthly exchange of this data and noticed significant efficiency improvements over time.

Another approach to support standardisation was the transfer of Austrian top managers to new subsidiaries. In some cases companies were able to deploy managers who were originally from Eastern Europe but had worked in Austria for many years. This was ideal in the sense that they would transport Austrian standards but at the same time understand which aspects local staff would have difficulties with. Once the subsidiaries developed the capability to replicate Austrian practices it was possible to replace them with local managers. Bramac and Siemens were two companies that followed this approach:

> "In principle the country manager was always Austrian, with the exception of Slovenia, where this was legally not possible. … After a few years some people had developed the trust and know-how which allowed us not to always take an Austrian for the top job." [Interview Bramac]

> "The ideal solution is when you have people who were born in these countries but also worked in Austria long enough. This way your own corporate culture and practices can be transported to the subsidiary." [Interview Siemens]

The findings of other researchers support our argument that firms in Eastern Europe moved towards standardisation as they became more established. Hurt and Hurt (2005) for example observed that French supermarkets tried to introduce the French retail system in the Eastern market. Although they were met with major resistance in the beginning they were able to take a more standardised approach once they had built the necessary personal relationships.

4.5 *Provide training for your staff* (*taking a stepwise approach*)

A wide range of knowledge creation and knowledge transfer tools were used in the companies participating in the study. Knowledge about Eastern Europe initially had to be acquired and established primarily at the parent companies. During the set-up phase of the Eastern European subsidiaries, the on-site project teams played a central role within their parent companies as knowledge developers and repositories. The exchange and use of the knowledge and experience available in the project teams took place predominantly through training of Eastern European leaders in Austria. Bramac and Siemens for example brought large groups of staff to Austria for training:

> "Eastern Subsidiaries are in a different stage of their development. … We train the local leadership in Austria to ensure that they fit our criteria and to make exchange and learning possible." [Interview Bramac]

> "In the beginning when we made our first experiences a large number of Austrian employees was sent there. They typically stayed for half a year to a year but never exceeded 5% of staff there. A much larger group was brought from there to Austria, for example 30% between one and three years." [Interview Siemens]

As part of the market development process in Eastern Europe, a great deal of highly specific knowledge had to be transferred from the respective firm headquarters to the new subsidiaries. Furthermore, the staff there had to be equipped with basic knowledge of various aspects of business studies and economics, knowledge that had not been necessary in a planned economy under a communist regime. By implementing Western processes and standards mainly explicit knowledge was transferred. Besides the leadership training in Austria seminars and training courses were organised in the East. Baumax for example trained people in Austria in the beginning but also established staff exchange locally to facilitate local knowledge exchange. More senior people continue to receive training in Austria as it is also seen as an integration mechanism:

> "We have a trainee program and bring employees in newly entered countries to Austria. In countries where we have a presence already we sent employees from a new store to an existing store for training. The leading employees are brought back to the center. In addition we transfer employees from existing stores to new stores." [Interview Baumax]

Raiffeisen also brings senior staff for training to Austria while lower levels receive training in their home country. These different training options were helpful not only to transfer explicit but also tacit forms of knowledge, e.g. organisational culture.

> "A new director spends about a week at our headquarters to get to know the people and the bank. … The people one level below also come to Vienna. … For the lower levels we have introduction events for new employees … and they receive handbooks. … 2003 we developed standards at the centre. Training programs are part of this." [Interview Raiffeisen]

Other formal methods which dealt with tacit knowledge such as project debriefings, lessons learned, good practices, job rotation, mentoring and sponsoring systems, quality circles, communities of practice, etc. were also used. OMV for example used staff transfer as a mode to exchange knowledge:

> "People who built up one location, move to the next one. Despite different legal systems, etc. this is great transfer [of knowledge]." [Interview, OMV]

Also structural approaches were taken to facilitate the knowledge transfer process, i.e. through the establishment of specific councils or the introduction of reporting systems as Bramac, Raiffeisen OMV, and Philips for example stated:

> "There is a Bramac leadership council with Austrians and representatives from all countries. Strategy and implementation is developed together. The leaders from the subsidiaries are included in all stages, can discuss and decided. This is clear to everyone. The leadership council meets four times a year." [Interview Bramac]

> "There is a department in charge of educating the Eastern directors, including locals." [Interview Raiffeisen]

> "We have a well established reporting system to share knowledge about market developments. Internal benchmarking was done. External benchmarking was not an option in the beginning due to a lack of comparable data." [Interview, OMV]

> "When we were looking for contract manufacturers, checklists and selection criteria were developed. These checklists are in principle also available to others. Lately we put more structure around this. There is a know-how-center in Vienna. … A platform was established and we developed a reputation to have fast experience in outsourcing manufacturing." [Interview Philips]

Above all, conscious attempts to externalise and transfer available tacit knowledge, i.e. knowledge that is difficult to communicate, were extremely rare. The deliberate transfer of knowledge of social or cultural factors seems to take place only at an informal level (Nonaka, 1994), in particular, among those groups of employees able to participate in specific transfer forums, e.g. trans-regional meetings. If such communication possibilities are not widely available and this kind of communication is not an 'official' requirement, it seems that informal knowledge exchange across different locations currently takes place primarily at higher hierarchy levels.

5 Discussion and conclusion

Literature has long acknowledged the importance of knowledge transfer. In MNCs this presents a particularly challenging and crucial task (Hymer, 1976; Dunning, 1977; Kogut and Zander, 1993). Whether firms should adapt their organisational practices or not is one of the most discussed question in this context (Jensen and Szulanski, 2004). This article hopes to contribute to this question by building on prior literature.

More specifically we discuss the contribution of institutionalists and Szulanki. Institutional theorists argue that firms need to adapt their organisational practices to fit the local environment in their host countries. By doing so they increase the recipient's motivation making it more likely that new practices will be implemented in the new context. Szulanski on the other hand sees adaptation as an obstacle to successful knowledge transfer. He argues that modification threatens the underlying logic of knowledge assets. Even a moderate change of a template (Nelson and Winter, 1982) might make it incomparable with the original. This in turn makes the transfer itself much more difficult.

Our research on Austrian firms in Eastern Europe indicates not only that both institutionalists and Szulanski provided valuable insights for transferring knowledge but also that the two concepts are not mutually exclusive. We discovered that sensitivity about culture and context is necessary when managers build up relationships and trust. In an environment where the legal framework remains weak this is a prior condition to do business. The sensitivity on a personal level, however, does not mean that business and organisational practices are adapted. So while local adaptation is important in personal communication, it is often counterproductive when it comes to products and processes. The trust created through cultural empathy enables managers to create the openness necessary for Eastern European staff to engage in training required to increase absorptive capacity. Only if managers have a learning intent and ability will they be able to implement new knowledge (Wang and Nicholas, 2005). This is evident when we look at the Western orientation of the young generation which made knowledge transfer much easier. Compared to the beginning the transfer no longer was mainly a push-process, but increasingly became a pull-process. Demonstrating the limited influence of top managers it draws attention to the rank and file (Stadler and Hinterhuber, 2005). The young generation was eager to learn and willing to accept Western knowledge, and to live and work according to the principles of the market economy. In other words the recipient motivation had risen not only due to the work of the Western companies but also due to a shift in mindsets, influenced by education, media, etc.

Our work does not present a radical departure from Szulanski or institutional theory but allows a new interpretation of the relationship of the two conceptual frameworks. Jensen and Szulanski (2004) themselves explain that they do not reject institutional theory. They understand that there is probably some ultimate need to establish a fit with the local environment to avoid rejection of new knowledge. Such an adaptation they suggest should be delayed as long as possible though, ideally after transfer and implementation have been completed. This indicates that Jensen and Szulanski see local adaptation and international integration in a kind of trade-off. Finding the right balance would therefore ensure long-run performance. While this is a possible explanation our research indicates that there is a second model explaining the orthogonal relationship of local adaptation and global integration. Rather than emphasising one or the other at specific times both can be achieved at the same time. Local adaptation is reflected in cultural empathy and enhanced through strong personal relationships. Global integration results in standardised products and processes. Two recent special issues on global transfer of management knowledge edited by Fink and Holden (*Academy of Management Executive*, 2005; *Journal of Managerial Psychology*, 2005) also fit in this model.

We would also like to caution our reader in regards to the limitations that our work faces. Our findings are exploratory in nature and need further testing. Considering that we did case study research we are reluctant to make any universal statements. We would like to encourage other researchers to further develop our model in two different directions. Firstly testing the ideas based on survey data would provide a better understanding of how valuable our findings are on a broader base. Secondly, it would be helpful to better understand some of the instruments and mechanisms that make the co-existence of global integration and local adaptation possible.

Another question that received little attention in our work but deserves further studies is how entry strategy and conditions influence knowledge transfer. Buckley et al.'s (2003) research of knowledge transfer in China's telecommunications manufacturing industry found that the entry choice may lock firms into constraints from which it is difficult to escape. As secondary and reverse knowledge transfer are also conditional to the success of the primary transfer this has serious long-term implications.

Finally, we would like to encourage scholars to study the transfer of knowledge also in the light of learning literature. The relationship between exploration and exploitation (March, 1991) has important implications for the study of global knowledge transfer. As Lyles and Salk (1996) point out in their study of international joint ventures in Hungary, there is a close link between knowledge acquisition and learning. While the application of certain organisational processes is exploitation from the firm's point of view, it presents the exploration of new knowledge from the perspective of the subsidiary. A further extension of this observation can be a significant contribution both to the learning literature and our understanding of knowledge transfer.

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Note

1 Which experiences and insights did Austrian organisations gain from their activities in Eastern Europe?

How did these Austrian companies manage their knowledge-transfer, either from west to east, from east to west or within headquarters?

Which practices were established to induce organisational learning and knowledge transfer between headquarters and subsidiary companies and among the subsidiary companies in foreign countries?

Did the 'Go East' strategies have any impacts on the Austrian headquarters? If so, which changes did these strategies trigger in the long run (10+ years)?

Do cultural aspects influence people's ability and willingness to cooperate and transfer knowledge? Do cultural differences have any influence on learning processes?

Which strategies have been chosen by companies to cope with uncertainty, and the different cultural surroundings?

Did companies adjust their processes and products in Eastern Europe?