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Organizational Learning About New International Markets: Exploring the Internal Transfer of Local Market Knowledge

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This study examines the transfer of local market knowledge within the diversified firm as its divisions expand into a new host country. Within the U.S.-based corporations in our sample, both the nature of local market knowledge itself and differences in organizational struc-

tures significantly influence the extent of internal knowledge transfer among divisions. The results suggest that as firms expand into new international markets, their organizational learning processes differ significantly.

INTRODUCTION

When firms venture outside their home markets, they confront a number of obstacles to success. These “liabilities of foreignness” (Zaheer, 1995) include high levels of uncertainty that impede effective decision-making, difficulties in dealing with local governments and local partners, and the myriad challenges of adapting products and processes to different cultural and national requirements. Diverse local tastes and prefer-

ences, languages and cultures, and business systems and practices increase the odds that foreign firms will make costly errors, encounter substantial delays, or otherwise struggle with their attempts to establish operations abroad. Many attempts to enter new host countries consequently result in prolonged poor performance or even eventual withdrawal. At the root of many of these difficulties is a foreign firm’s lack of local market knowledge regarding the new country

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context (Johanson and Vahlne, 1977). Local market knowledge is knowledge that is specific to a host country regarding its language, culture, politics, society, and economy (Inkpen and Beamish, 1997; Makino and Delios, 1996). Acquisition of local market knowledge is critical for the successful planning and implementation of almost all aspects of entry into a new host country.

Because of the central importance of acquiring local market knowledge during international expansion, a number of authors have described internationalization as a rich and complex process of organizational learning (Andersen, 1993; Barkema, et al., 1996; Barkema and Vermeulen, 1998; Chang, 1995; Erramilli, 1991; Inkpen and Beamish, 1997; Johanson and Vahlne, 1977; Pennings et al., 1994). In this literature, however, the organizational learning process is typically discussed in broad, illustrative terms and is usually inferred rather than directly and empirically examined (Barkema et al., 1997; Makino and Delios, 1996). Learning processes that are described as being complicated and arduous in theory most often are operationalized and measured using simple proxies – firms are treated as singular, homogeneous entities that ‘learn’ about a new international market as a function of the overall elapsed time or resources spent in a new country context.

As a result, local market knowledge that is described as extremely difficult and costly for a foreign firm to acquire initially is implied to be costlessly and effortlessly utilized *throughout* the firm once it is internalized by one of its divisions. As Makino and Delios (1996) note, firms have incentives to internalize valuable intangible assets, such as local market knowledge, such that they, “once internalized, have the characteristics of a

public good . . . and can be [internally] transferred at zero marginal cost to the firm” (p. 909). However, Makino and Delios also suggest that only a portion of local market knowledge can be treated as a public good that is readily transferable across divisions within a firm; some local knowledge likely must be obtained through a division’s direct experience or through partnering with another firm. Other authors have even more heavily stressed the importance of direct experience in a host country and have therefore suggested that little or none of the local market knowledge acquired by one division can be meaningfully transferred to other divisions within the same firm (Eriksson et al., 1997). In either case, there is a scarcity of empirical evidence. These issues remain of theoretical and practical significance because the processes by which firms learn about new international markets are likely to have significant impacts on their international expansion behaviors and outcomes, including their performance (Lord and Ranft, 1999).

The effective internal transfer of knowledge – the dissemination of knowledge from one division to another division within the same firm – is not likely to be easy or automatic (Hedlund, 1994; Nonaka and Takeuchi, 1995; Szulanski, 1996). Such internal knowledge transfers might be effected through a range of different mechanisms, such as exchange of printed or electronic documents, e-mail messages, telephone or in-person conversations, team meetings or task forces, mentorship activities, and temporary or permanent exchange of personnel across divisions. Effective dissemination of valuable organizational knowledge is especially likely to be problematic within the diversified, multidivisional firms that have been such prominent foreign investors in a variety of

markets around the world (Bartlett and Ghoshal, 1992; Hedlund, 1994). For example, if a firm has different divisions producing abrasives, aircraft engines, appliances, financial services, lighting products, medical equipment, plastics, power turbines, and television programming, to what extent is one division's learning in a new host country (e.g., China) *transferable* and/or actually *transferred* to other divisions? As this example illustrates, our use of the term *division* refers to a major product- or service-based subunit within a diversified, multidivisional firm (Hill, 1988; Hill and Hoskisson, 1987).

In the following sections, we investigate the extent and determinants of local market knowledge transfer among different divisions of a diversified firm as they undertake international expansion into the same new host country. Hypotheses are developed from the literature and are illustrated using examples from our background interviews. We test our hypotheses by analyzing survey and archival data from 104 divisional entries of diversified, U.S.-based corporations into three new host countries (China, India, and Russia).

HYPOTHESES

As firms grow and diversify, they characteristically deal with increases in their organizational and environmental complexity by adopting some sort of multidivisional form of corporate structure (Hill and Hoskisson, 1987). Adoption of a multidivisional form (M-form) helps corporate executives cope with increased complexity by giving strategic, operating, and financial responsibility to subordinate managers who handle their own divisions' affairs (Hill, 1988; Hill et al., 1992). In the diversified M-form corporation, each division focuses on a particular set of products or services. Divi-

sional managers decide how to allocate resources within their own division and, in turn, are ultimately held responsible for their own division's profit-and-loss results. The task of corporate-level executives is simplified because they can supervise and control a diversified firm's various businesses through periodic (e.g., quarterly or annual) review of each division's budget and financial performance.

A central problem with this classic multidivisional form of corporate organization, however, is that it inherently entails the separation and division of knowledge (Hedlund, 1994). As a result, potential benefits that might be realized through the sharing of knowledge and other resources between different divisions are made difficult to realize at best. To facilitate greater cross-divisional cooperation and coordination, and to facilitate flows of valuable product-, process-, and market-related knowledge across different divisions, a number of authors have suggested the need for modified configurations of the M-form corporate structure (Bartlett and Ghoshal, 1992; Hedlund, 1994). Consistent with these authors, the central theoretical premise in this study is that organizational structure significantly influences flows of knowledge within a firm, and thereby fundamentally shapes the nature of its organizational learning processes. The existing international management literature contains little consideration of how internal organizational structures and processes influence how multinational firms acquire and process local market knowledge (Barkema et al., 1997); instead, it generally assumes that all firms are alike in their organizational learning about new host countries.

In this study, we focus our attention on the transfer of local market knowl-

edge among a firm's different divisions that operate in varied lines of business. Our primary focus is on the transfer of local market knowledge between different corporate divisions (division-division) that are at various stages of entry and expansion into the same new host country. We first discuss the nature of local market knowledge to highlight the inherently problematic nature of its transfer. We then explain the effects of organizational (corporate) structure for determining whether, and to what extent, local market knowledge is actually transferred among divisions within the same diversified, multidivisional firm.

The Nature of Local Market Knowledge

Tacitness. The local market knowledge necessary for firms to operate successfully in a new host country ranges from explicit or "objective" information such as demographic data, macroeconomic statistics, or other codified market research, to more tacit and experientially-based forms of knowledge necessary to navigate the intricacies of different cultures, political regimes, and socioeconomic systems (Andersen, 1993; Eriksson et al., 1997; Johanson and Vahlne, 1977). Even relatively explicit forms of market knowledge can be difficult to obtain in many host countries because well-developed and widely-available sources of market information, produced by credible public and private sources, may not exist. During our background interviews, one manager discussed her frustrations in this regard as her division attempted to do a market assessment of Russia: "The information simply did not exist. We had to go out and do first-hand interviews. It was a lengthy and difficult process, but this was the only way to get real, meaningful

data about the market." Explicit forms of market knowledge that do exist may be of dubious quality or may become quickly obsolete because of rapidly changing political and economic conditions.

Despite the necessity to obtain explicit forms of local market knowledge, many authors have argued that richer, more tacit forms of local market knowledge are ultimately a more critical resource for a foreign firm entering a new host country. These types of knowledge, however, tend to be even more difficult to acquire (Barkema et al., 1996; Johanson and Vahlne, 1977). Extensive market research statistics and published country reports might be helpful to a foreign firm, but they cannot substitute for more finely-developed experience and skills regarding how to navigate the complexities of language, culture, politics, and society in what are often very unfamiliar host country economies. Despite extensive pre-entry market research and planning, for example, Disney's theme park expansion into Europe struggled for years because the company lacked a deeper understanding of the nuances of local culture and their impact on human resource management and marketing (Etienne-Benz, Bertoneche, and Leonard, 1996).

Apart from simply formulating an entry strategy, successfully *implementing* a new host-country entry critically depends on process-oriented skills and capabilities ('know-how') that are inherently more tacit in nature (Andersen, 1993; Li, 1995). Possessing a compilation of market research data and formal regulations that explain how to create a subsidiary does not translate into knowing how to effectively establish operations in a new host country. One experienced executive in China observed, "We don't have any sort of book or manual on what

we've learned. [Instead] I spend most of my time on the ground in China to make sure what we've learned is transferred to other new ventures."

As this comment suggests, tacit local market knowledge may be more difficult to transfer because it is largely accumulated through personal experience and is not easy to separate from the individuals who possess it. Even the possessors of valuable tacit knowledge may not be able to consciously deconstruct and articulate it to others (Polanyi, 1962). On the other hand, explicit forms of local market knowledge by definition can be captured, and therefore more easily transmitted, in forms such as paper documents or electronic databases (Inkpen and Dinur, 1998; Spender, 1996). The tacitness or explicitness of different types of knowledge is not likely to be a dichotomous function (tacit or explicit), however, but a matter of degree on a continuum from tacit to explicit (Inkpen and Dinur, 1998; Winter, 1987). The more that knowledge is complex, difficult to codify, and difficult to teach, the greater is its degree of tacitness and the more difficult it will be to transfer (Zander and Kogut, 1995).

Extending this logic to consider international expansion, the more that the local market knowledge needed by a newly-entering division is complex, difficult to codify, and primarily acquired through first-hand experience in a new host country, the more difficult it will be to transfer across divisions within the same firm. We therefore hypothesized that the degree of tacitness of local market knowledge significantly influences the extent of its transfer among a firm's different divisions as they enter and expand into the same new host country:

Hypothesis 1: The degree of tacitness of local market knowledge is negatively associated with its transfer from other divisions already operating in the host country to a newly-entering division.

Corporate Structure and Organizational Learning

Though barriers to knowledge transfer may arise from the tacitness of local market knowledge itself, a firm's organizational structure also is likely to influence the extent to which knowledge is internally transferred (Hedlund, 1994). One fundamental aspect of corporate structure is the nature of the formal reporting relationships by which a firm's various divisions are organized in a new host country. Typically, they are organized in one of three ways: (1) a *corporate* country headquarters office to which each division reports; (2) a regional or global *divisional* office to which each division reports; or (3) some version of both in a matrix-type of reporting structure (Davis, 1992). For example, a firm like General Electric could have a GE-wide corporate-level office in China, with each product or service division reporting to it in that country (e.g., GE Lighting-China reports to GE China). Alternatively, GE's various businesses in China could have separate reporting channels in which each division reports only to a higher divisional office (e.g., GE Lighting-China reports only to GE Lighting-Asia Pacific).

These types of formal structural arrangements have direct implications for knowledge flows within the diversified, multidivisional firm (Bartlett and Ghoshal, 1992; Hedlund, 1994). Formal organizational structures that constrain reporting solely within divisional channels limit each division's access to knowledge accumulated by other divisions of the corporation. Such

'vertical' structures (sometimes referred to as "silos," "chimneys," etc.) raise barriers to knowledge transfers between different divisions because each division is operated largely as if an independent firm, both in a new host country as well as globally.

By providing a formal, horizontal structural mechanism that links a firm's various businesses, the use of a corporate country headquarters office to which different divisions report may enhance the transfer of local market knowledge among these divisions as they expand into a new host country. Even though local market knowledge is primarily acquired by operating divisions that have 'on-the-ground' experience starting and running businesses in a particular host country (Eriksson et al., 1997), a formal corporate-level representative office may play an integrating role to help bring the knowledge of different divisions together. In terms of more tacit, experiential forms of local market knowledge, for example, a corporate country headquarters might serve as a locator and conduit to help an inexperienced division identify and communicate with relevant personnel in more experienced divisions. Without such a formal structural mechanism to span across divisions, the communication of knowledge is much less likely. Similarly, a corporate country headquarters also can serve as a link to identify more explicit forms of local knowledge (regulations, contracts, etc.) accumulated by one division during its entry and expansion and can facilitate its transfer to another division. Accordingly, we predicted that the use of a corporate-level country headquarters office positively influences the internal transfer of local market knowledge:

Hypothesis 2: Use of a corporate-level country headquarters office is posi-

tively associated with the transfer of local market knowledge from other divisions already operating in the host country to a newly-entering division.

Formal reporting relationships alone, however, are rarely sufficient indicators of how a diversified, multinational firm is actually managed. Two diversified corporations may both formally be designated "multidivisional," implying a decentralized management structure, yet the effective level of decentralization in each can vary quite widely (Markides and Williamson, 1996). Regardless of formal designations of organizational structure, the extent to which corporate executives actively monitor and coordinate divisional affairs is an important indicator of how the corporation is managed in practice. Hill and colleagues (1987, 1988, 1992) have dubbed the actively monitored and controlled form of multidivisional corporation the "CM-form" or "centralized M-form [multidivisional]." With a greater corporate-level role, the CM-form is proposed to be a more effective facilitator of cross-divisional cooperation and resource-sharing (Hill and Hoskisson, 1987; Markides and Williamson, 1996). The degree of corporate centralization represents actual corporate-level management involvement in division-level decisions and actions, rather than formal reporting structures.

In a strong CM-form corporation, divisional decisions about whether and how to enter a new host country are likely to be influenced by a corporate-level strategy process that can help facilitate cross-divisional knowledge transfers. Among other mechanisms, active corporate-level engagement in the entry process might result in the creation of *ad hoc* cross-divisional teams or task forces or reassignment of personnel from more-ex-

perienced to less-experienced divisions. In our interviews, for example, one senior corporate executive described such cross-divisional country 'brainstorming' teams and emphasized the role of corporate headquarters by noting: "There's much more of a corporate role needed to make the whole thing work."

In other firms, however, there was little or no such active corporate role, even in those firms with a formal country corporate headquarters office. Instead, divisional managers had basically pursued various country initiatives on their own. These firms were more typical of the classic M-form corporation, in which divisions set and execute their own independent strategies (Hill, 1988; Hill and Hoskisson, 1987). If each division acts autonomously, formulating and implementing its own entry strategy, cross-divisional knowledge transfers are less likely to be realized. Variations in corporate-level involvement in divisional strategy and operations, even in firms with similar formal structures, suggest that formal reporting relationships alone may not be sufficient indicators of the effects of corporate structure on the internal transfer of local market knowledge. We therefore proposed the following hypothesis:

Hypothesis 3: Corporate centralization is positively associated with the transfer of local market knowledge from other divisions already operating in the host country to a newly-entering division.

Another key aspect of organizational (corporate) structure is the design of a firm's managerial reward and incentive systems (Nayyar and Kazanjian, 1993). Where there are few or no incentives for managers to contribute their time and efforts across divisional boundaries, the

joint (cross-divisional) utilization of resources is both more difficult and less likely. Managers who are rewarded solely for the success or failure of their own divisions have less motivation to cooperate and communicate with their colleagues in other parts of the firm (Hill and Hoskisson, 1987; Kerr, 1985).

In the context of entry into a new host country, if there is little or no incentive for experienced divisional managers to share their local market knowledge with managers in other, less-experienced divisions, the potential benefits of their prior learning may go unrealized. Without any incentives to help their colleagues in other divisions, even such a relatively simple knowledge transfer process such as sharing accumulated market research may not occur, especially given a myriad of more urgent and competing priorities. A lack of incentives is especially problematic when considering the internal transfer of more tacit forms of local market knowledge. The effective transfer of such knowledge might require involved personal interactions such as extensive phone conversations, face-to-face meetings, on-site visits, 'mentorship' activities, or personnel reassignment across divisions – demanding activities that are unlikely to flourish in the absence of any linkage of incentives between different divisions.

Improved cross-divisional communications and cooperation might be achieved to some degree by linking managerial rewards and incentives to criteria that reflect the success or failure of divisions other than the managers' own. Divisions are less likely to compete with each other and more likely to work together productively if there are greater inducements that link their interests with the common performance of the firm as a whole (Lorsch and Allen, 1973).

This can be done by at least partially tying the incentives of key divisional personnel to overall, corporate-wide performance measures (Gupta and Govindarajan, 1986; Kerr, 1985). Reflecting this logic, we hypothesized that the cross-divisional linkage of incentives plays a significant role in determining the extent to which local market knowledge is transferred among divisions:

Hypothesis 4: Linkage of managerial rewards and incentives to overall corporate performance is positively associated with the transfer of local market knowledge from other divisions already operating in the host country to a newly-entering division.

METHODS

On-site interviews were conducted with thirty-one corporate and divisional managers from seven diversified, U.S.-based firms. The interviews ranged from one to seven hours in length. These seven firms also served as sites for pre-testing and refinement of a survey instrument. After the survey pre-testing, we identified a sample of 133 divisional entries of diversified, U.S.-based firms into three host countries (China, India, and Russia) through a comprehensive search of *Business NewsBank*, *Nexis*, *The Wall Street Journal*, *Business Eastern Europe*, and *Business Asia*. Each entry event in the sample was a new, initial entry for that particular division, but not for the corporation as a whole.

Our sample selection was guided by three criteria. First, all divisional entry events were publicly announced during a recent two-year period (1994-1995). Using a sample of recent cases increased the likelihood that appropriate respondents would be able to be identified and would provide accurate information

(Huber and Power, 1985). Second, the size of the markets chosen enabled generation of a sample that was sufficiently large to allow for statistical testing of the hypotheses. Third, the use of countries from different geographic and cultural contexts allowed for greater inferences about the generalizability of the resulting data and findings.

We identified at least two key managers in each company who were knowledgeable about each divisional entry process. These managers were identified through multiple and direct personal contacts with each of the companies in the sample. Each respondent was directly involved in the planning and implementation of their division's entry into the respective country. All were experienced, mid- or senior-level managers, with a variety of titles (e.g., president, executive or senior vice president, director of country operations, etc.). We contacted all potential respondents by telephone, both to describe the study and to solicit their participation. Once their agreement was obtained, we sent a survey directly to them.

Measures of Variables

Tacitness. The tacitness of local market knowledge was evaluated by asking survey respondents a series of scaled, seven-point items designed to assess the codifiability, complexity, and teachability (Zander and Kogut, 1995) of the knowledge they needed to operate in that particular market, based on their general assessments of the macro-environment in the host country. Because existing measures were oriented towards measuring technological knowledge (Zander and Kogut, 1995), we adapted our survey items to focus on the nature of local market knowledge needed in each of the target host countries. The

final measure consisted of five items that loaded on a single factor (Appendix). The raw scores were negatively skewed, so they were transformed by taking the square root of their reflection.

Corporate HQ Office. If there was a corporate-level country headquarters office to which each division reported in the host country, this variable was coded as 1. If there was no corporate-level country headquarters office and each division reported solely to a regional or global office within its own divisional channels, this variable was coded as 0.

Corporate Centralization. We adapted established survey measures to indicate the extent of active corporate involvement in divisional affairs – i.e., corporate centralization (Hill, 1988; Hill et al., 1992; Markides and Williamson, 1996). We asked survey participants a series of scaled, seven-point items assessing the degree to which corporate-level executives were involved in their own division's strategy formulation and implementation, and to what extent corporate-level executives monitored and coordinated each division's operations in the target market. The final measure consisted of five items that loaded on a single factor (Appendix).

Linkage of Incentives. The extent to which managerial incentives in one division were linked to the performance of other divisions was assessed by using a percentage-scaled measure adapted from prior research (Gupta and Govindarajan, 1986; Hill et al., 1992). The survey asked respondents to indicate the percentage of rewards and incentives for key divisional personnel that was linked to overall corporate performance, versus the percentage of rewards and incentives that was linked solely to their own division's performance. Both potential and actual case values ranged from 0-100, indicating that in some firms there was

absolutely no linkage of managerial incentives with overall corporate performance, while in other firms the linkage was 100 percent. The raw scores were positively skewed and were transformed by taking their square root.

Control: Corporate Experience. Greater overall corporate experience in a host country increases a firm's total stock of market-specific knowledge and may thereby enhance its relative capacity to assimilate and apply additional knowledge about that particular market (Cohen and Levinthal, 1990). We therefore controlled for the time elapsed (in years) since the first entry of any part of the parent corporation. This measure is consistent with prior research that assesses organizational learning about a new host country as a function of elapsed time (e.g., Barkema et al., 1996, 1997; Erramilli, 1991; Makino & Delios, 1996).

Control: Division Experience. A specific division's own direct experience in a new host country may influence the transfer of local market knowledge to it because its absorptive capacity (Cohen & Levinthal, 1990) – the division's ability to effectively assimilate and apply local market knowledge from other divisions – will likely be enhanced as it gains greater first-hand experience there. We controlled for each division's experience in a new host country using the number of years elapsed since its entry.

Control: Relatedness. Diversified firms that operate in unrelated businesses may have difficulty in realizing the transfer of knowledge among their different divisions; knowledge transfers across dissimilar businesses may be either less relevant and useful, or more difficult to communicate, due to differences in how businesses are managed across different industries (Markides and Williamson, 1996). Conversely, when a firm's busi-

nesses have greater relatedness, cross-divisional attempts at knowledge transfer are likely to be more easily and accurately received and more readily understood and applied (Cohen and Levinthal, 1990). We assessed the relatedness of each firm's businesses using a measure based on the total number of two-digit Standard Industrial Classification (SIC) segments within which each corporation operated (Lubatkin, Merchant, and Srinivasan, 1993). A higher number indicated greater diversity of the firm's businesses. These data were drawn from the *Directory of Corporate Affiliations*.

Control: Firm Size. Total annual corporate revenues was included as a control variable for firm size. Larger firms may experience diseconomies of scale when attempting to transfer resources internally because of difficulties with communications, control, and logistics that tend to accompany greater organizational size (Barkema and Vermeulen, 1998; Hitt et al., 1997). These data were collected from the *Directory of Corporate Affiliations*.

Control: Country Effects. Two country control variables (China=1/0, India=1/0) were used to control for any effects that might be due to specific country-level factors.

Internal Transfer of Local Market Knowledge. Because no existing measure was available from the literature, we assessed the internal transfer of local market knowledge by using multiple scaled (seven-point) items developed specifically for this study. We developed and pre-tested a series of survey items, first assessing their validity with three colleagues, and then with managers in the seven firms that participated in the background interviews. The final measure consisted of seven items that loaded on a single factor (Appendix). The items

were designed to gauge the extent to which local market knowledge had been transferred to the respondent's division from other divisions (division-division) within their parent corporation as the respondent's division planned and executed its entry and expansion into the target host country. As a result, the transfer was assessed from the *receiving* division's perspective; this was done primarily because to try to measure knowledge transfer from the sender's perspective is inherently problematic – e.g., knowledge that is 'sent' is not always 'received' (Szulanski, 1996). Another limitation regarding our measure is that we assumed that most of a firm's valuable local market knowledge is acquired and retained by divisions that have actual operating experience in a particular host country (Eriksson et al., 1997); we therefore did not explicitly focus on measuring any knowledge transferred to a division from the corporate level itself (corporate-division).

RESULTS

Managers representing 104 of the 133 cases returned usable survey responses. The 104 cases represented 41 different parent corporations and a variety of industry sectors: automotive, 12; electronics, 9; consumer foods, 9; heavy equipment, 9; consumer goods, 8; chemicals, 7; industrial machinery, 7; consumer durables, 7; energy, 7; office equipment, 6; aerospace, 6; building products and paper, 5; biomedical, 4; semiconductor, 4; and telecommunications, 4. Fifty-two of the divisional entries were joint ventures, 17 entries were new wholly-owned 'greenfield' operations, 4 entries were acquisitions, and 31 entries employed mixed modes (e.g., a combination of a wholly-owned 'greenfield' operation for production and a joint venture for

either supply or distribution). We screened for response bias by management position (seniority level), firm size, industry type (manufacturing/service, consumer/industrial), target country, and entry mode (joint venture/other mode). T-test comparisons revealed no significant differences between respondents and non-respondents along these dimensions. At least two managers provided information for each entry event, allowing us to draw independent and dependent variables from different respondents for each case in order to avoid common method variance problems that might result from the use of a single data source (Podsakoff & Organ, 1986).

The 104 cases included 52 divisional entries into China, 23 into India, and 29 into Russia. All the companies involved were U.S.-based, almost all of the respondents were both U.S. nationals and native English-speakers, and all the surveys were administered in English. The

homogeneous nature of the respondents and of the instrument used precluded a variety of measurement issues that might arise in cross-national research that compares companies or managers from different countries, cultures, and languages (Mullen, 1995; Singh, 1995).

Descriptive statistics and correlations are provided in Table 1. To assess the effects of the hypothesized variables and control variables on the internal transfer of local market knowledge, we analyzed our data using multiple regression analysis. The regression model was significant overall (adjusted $R^2 = .33$, $F = 5.97$, $p < .001$) (Table 2). All the hypothesized variables were significant predictors of the internal transfer of local market knowledge; none of the control variables was significant.

Consistent with Hypothesis 1, the tacitness of local market knowledge was negatively associated with its internal transfer ($\beta = -.29$, $p < .001$). The use of a corporate

TABLE 1
DESCRIPTIVE STATISTICS^A

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. Tacitness	5.23	0.89												
2. Corporate HQ	0.56	0.49	.09											
3. Centralization	4.16	1.14	.18	.21										
4. Linkage of incentives	20.4	27.8	.19	.10	.24									
5. Relatedness	5.03	1.96	-.02	.04	-.01	.01								
6. Corporate size	11.9	8.74	-.10	-.03	.02	.09	.11							
7. Corporate experience	5.01	3.54	-.04	-.01	-.07	.02	.06	.05						
8. Division experience	3.00	.769	.00	.16	-.09	.11	-.06	-.14	.28					
9. China	—	—	.19	.15	.07	-.03	-.07	.01	-.23	-.14				
10. India	—	—	-.23	-.16	-.03	-.22	.02	.10	-.01	-.01	-.52			
11. Russia	—	—	.01	-.01	-.05	.20	.07	.03	.25	.19	-.60	-.31		
12. Knowledge transfer	4.22	1.32	-.16	.33	.28	.37	.01	.15	.20	.11	-.04	-.17	.17	

^A $N = 104$. Correlation coefficients greater than .19 are significant at $p < .05$; those greater than .27 are significant at $p < .01$; and those greater than .32 are significant at $p < .001$.

TABLE 2
REGRESSION ANALYSIS

Variables	β	T-ratio	Significance
Tacitness	-.29	3.32	.001
Corporate HQ	.27	3.14	.002
Centralization	.22	2.49	.014
Linkage of Incentives	.30	3.28	.001
Relatedness	-.01	-.16	.870
Corporate Size	.11	1.26	.211
Corporate Experience	.17	1.93	.057
Division Experience	.01	.11	.917
Country Control 1	-.09	-.91	.368
Country Control 2	-.18	-1.75	.083
	Adjusted R ²	F	Significance
	.33	5.97	.001

country headquarters ($\beta=.27$, $p<.002$), corporate centralization ($\beta=.22$, $p<.014$), and the cross-divisional linkage of incentives ($\beta = .30$, $p<.001$) all were positively associated with knowledge transfer, lending support for Hypotheses 2, 3, and 4. The results provide significant support for the overall model and for all four individual hypotheses.

CONCLUSIONS

The results suggest that organizational learning about a new host country is not a smooth and seamless process that is homogeneous across firms. Instead, organizational learning about new host countries appears to be a complex process that varies significantly from firm to firm, due to variations in internal flows of local market knowledge. These variations stem from both the nature of the knowledge itself and from differences in firms' organizational structures. In some firms, each division learns about a new market largely, if not wholly, on its own, whereas in other firms there is a great deal of internal knowledge transfer, resulting in significant shared learning

across different divisions. Our findings therefore offer some insight into why certain firms appear to learn from their international experience, while others do not (Barkema et al., 1997).

The findings for tacitness provide additional support for key assumptions in the international expansion literature which suggest that much of the host country knowledge needed by foreign entrants is highly tacit, and therefore difficult to acquire (Barkema et al., 1996; Li, 1995; Johanson and Vahlne, 1977). The corresponding implication is that, rather than being a public good that is freely and costlessly disseminated within a firm, local market knowledge remains problematic to internally transfer and utilize even after its initial acquisition by one part of the firm. Because local market knowledge cannot be easily and costlessly acquired, however, the very difficulty of its acquisition might increase the relative benefits that accrue to those firms which are able to transfer it effectively internally (Andersen, 1993).

Both formal and informal aspects of organizational structure also appear to

be significant determinants of whether, and the extent to which, internal knowledge transfers occur. For example, a formal corporate-level country headquarters appears to positively influence a firm's ability to transfer local knowledge across divisions. The results also suggest that corporate executives' active engagement in divisional strategy formulation and implementation also is significant for effecting knowledge transfers. Some managers in the sample noted that they had frequently engaged in a number of corporate-inspired communications and exchanges, including country-specific teams and task forces, explicitly for the purpose of bringing together personnel from different divisions to share their host-country experiences and ideas. Many firms also noted that they had rotated or transferred (either temporarily or permanently) managers who had host country experience to relatively inexperienced divisions, in order to take advantage of their accumulated market knowledge. As Bartlett and Ghoshal (1992) and Hedlund (1994) note, such rich boundary-spanning communications play a critical role in facilitating knowledge flows within the diversified, multinational firm. Alternately, however, other respondents noted that they had *never* communicated with their counterparts who managed other corporate divisions in the same host country.

Both the determinants and consequences of knowledge flows within the diversified, multinational firm deserve additional research consideration (Barkema et al., 1997). While this research focused on the direct effects of the nature of local market knowledge, as well as on the direct effects of organizational factors, future research should examine the interaction between these two elements. For example, does corporate structure influence the

transfer of knowledge regardless of the nature (tacitness) of that knowledge? In addition, none of our controls (relatedness, size, experience, country) were significant. These results are worth further consideration, both because relatedness among a firm's different businesses has been assumed to facilitate internal knowledge transfers and also because firm experience has often been used as a proxy for organizational learning. The effects of organizational structures and processes are likely to mitigate the effects of factors such as experience and relatedness. Finally, additional research should examine how the variations and complexities of firms' organizational learning processes shape their internationalization efforts, including their international expansion strategies and performance. For example, are greater internal knowledge transfers associated with superior performance during the process of international expansion and, if so, how and why is this the case? Are entry strategies likely to be improved and performance thereby enhanced, as much of the organizational learning literature implies will be the case?

The effects of such internal organizational relationships are scarcely researched in the internationalization literature, yet these complex interrelationships are likely to be critical influences on new market entry behaviors and outcomes, at both the corporate and divisional levels of analysis (Fowler and Lord, 1998; Lord and Ranft, 1999). More specific investigation of the causes and effects of internal knowledge flows will help provide greater insight into both the processes and performance of firms' international expansion efforts.

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APPENDIX					
Variable	Measure	Scales	Factor	Reliability	
Tacitness	Adapted Zander and Kogut's (1995) measure to include items focusing on codifiability, teachability, and complexity of local market knowledge. – <i>It has been a challenge for us to understand how to do business in [country] because of the complexity of the political and legal environment.</i> – <i>We spent (or are still spending) a long time learning how to do business successfully in [country].</i> – <i>We had a lot to learn when this division entered [country] because the [country's] economy is so complex and difficult to understand.</i> – <i>Doing business in [country] is especially challenging because of many important, but often subtle, cultural differences.</i> – <i>We were readily able to identify and quantify the key information we needed to know in order to do business successfully in [country].</i>	1 = Strongly Disagree, 7 = Strongly Agree	Eigenvalue = 2.045, one component > 1 extracted .787	$\alpha = .71,$ $r_{wg} = .66$	
					.645
					.617
					.604
			[reflected]		.521
Corporate centralization	Adapted measures by Hill (1988), Hill et al. (1992), Markides and Williamson (1996). – <i>This division's decision to enter [country] was heavily influenced by strategic guidance from the corporate headquarters office.</i> – <i>Corporate-level managers were actively involved in helping actually implement this division's entry into [country].</i> – <i>Corporate managers like to take an active role in the strategy-making processes of the firm's various divisions.</i> – <i>Corporate-level executives monitor and supervise this division's operations on a continuous basis.</i> – <i>For the most part, each division within this company sets its own strategy, largely independent of the other divisions' strategies.</i>	1 = Strongly Disagree, 7 = Strongly Agree	Eigenvalue = 2.420, one component > 1 extracted .861	$\alpha = .78,$ $r_{wg} = .75$	
					.802
					.645
					.562
			[reflected]		.551

APPENDIX (Continued)

Variable	Measure	Scales	Factor	Reliability
Linkage of Incentives	Adapted measures from Gupta and Govindarajan (1986) – [In the respondent's company] Divisional managers are awarded incentives or bonuses based on: — % The individual division's performance — % Overall corporate performance (including the performance of other divisions)	Percentage	Objective %	
Transfer of local market knowledge	Developed from in-depth background interviews and subsequent generation, pretesting, and refinement of items. – This division was able to avoid some potentially serious mistakes by taking advantage of other divisions' knowledge about [country]. – If other parts of the company had not already had some experience in [country], this division's entry into [country] would have been more difficult. – The fact that the corporation already had a presence in [country] greatly helped this division execute its entry into the [country] market. – This division's evaluation of [country] as a potential market was more accurate because of what we learned from other parts of the company. – There is very little sharing of knowledge about the [country] market among the various divisions of this company that operate in [country]. – The parts of this company that had already entered [country] helped facilitate the subsequent entry of other divisions of the company. – Each division shares intelligence about the economic and political situation in [country] with other parts of the corporation.	1 = Strongly Disagree, 7 = Strongly Agree [reflected]	Eigenvalue = 4.352, one component >1 extracted .844 .823 .815 .803 .771 .744 .709	$\alpha = .92$, $r_{wg} = .88$