

Chapter 119

The Study of Knowledge Management in Chinese Enterprises Overseas M&As

Jia-kang Wang, Xue-meng Guo and Hong-chang Li

Abstract In the era of knowledge economy, knowledge management has become an important part of the core competitiveness of multinational corporations (MNCS). The Chinese enterprises go abroad for overseas mergers and acquisitions (M&As) inevitably involving two or more different cultures. In this context, the study of knowledge management with Chinese characteristics not only has important theoretical values but also has important practical significance. This paper firstly reviews the definition of knowledge management and M&As; secondly, this paper points out that it is necessity and urgency to implement knowledge management in MNCS; thirdly, this paper analyzes the factors affecting the knowledge management from four aspects: the characteristics of knowledge, the transfer side of knowledge, the recipient of knowledge and the transfer channels of knowledge; finally, this paper puts forward some proposals to the knowledge management of Chinese enterprises in overseas M&As.

Keywords Influencing factors · Knowledge management · Mergers and acquisitions · Multinational corporations · Strategy

119.1 Introduction

119.1.1 The Definition of Knowledge Management

Different scholars from different perspectives give different definitions of knowledge management.

J. Wang (✉) · X. Guo · H. Li
School of Economic and Management, Beijing Jiaotong University,
Beijing, China
e-mail: wjksunny@126.com

Wiig (1997): the overall purpose of knowledge management is to maximize the enterprise's knowledge-related effectiveness and returns from its knowledge assets and to renew them constantly. Knowledge management is to understand, focus on, and manage systematic, explicit, and deliberate knowledge building, renewal, and application—that is, manage effective knowledge processes (EKP)

Saffady (1998): the systematic, effective management and utilization of an organization's knowledge resources.

Carayannis (1993): knowledge management can be viewed as a socio technical system of tacit and explicit business policies and practices.

Summing up the above point of views, this article believe that knowledge management comprises a range of strategies and practices used in an organization to identify, create, represent, distribute, and enable adoption of insights and experiences. Such insights and experiences comprise knowledge, embodied in individuals, groups or teams of the organization as processes or practices.

Generally speaking, knowledge can be divided into two categories: tacit knowledge and explicit knowledge. So knowledge management is divided into explicit knowledge management and tacit knowledge management. Explicit knowledge (also known as obvious or coding knowledge) is that people can get through oral, textbooks, reference materials, periodicals, magazines, patent documents, audio-visual media, software and databases. It also can be spread through the encoding of language, books, text, database etc. and it is easy to learn. Its management is relatively simple. However, tacit knowledge is difficult to be described by the way of the text. It often exists in human brain and in the manual skill. It is represented by human behaviors. Tacit knowledge includes the aspects of human's values, beliefs, foresight, experiences, skills, abilities etc. Judging from this angle, tacit knowledge contains cultural factors, emotional factors and cognitive factors. It is the invisible wealth of knowledge. Its management is relatively complex.

119.1.2 The Definition of M&As

M&As generally refers to mergers and acquisitions. Mergers refer to the combination of two or more independent companies into a single company. The dominant company usually absorbs other companies. Acquisitions refers to a company buy the stock or assets of another company by the way of cash or securities for the purpose of obtaining all or part of the ownership of the company.

119.2 The Necessity of Knowledge Management for Chinese Enterprises' Overseas M&As

119.2.1 It May Lead to Collaborative Human Capital Blocked and the Loss of Core Human Capital

Human capital refers to workers by investment in education, training, practical experience, health and other aspects so as to acquiring the accumulation of knowledge and skills, also known as “non-material capital”. The owner has such knowledge and skills can bring extra wage earnings. It forms a specific capital—human capital. Human capital has a greater value-added space and appreciation potential than physical capital or monetary capital, especially in the post-industrial period and in the early knowledge economy period. Tacit knowledge is a vital part of human capital. Such as knowledge and skills owned by the employees. It attached to individual employees by the way of potential and not encoded form (Zhong and Xu 2007).

However, The people who owned company's key technology and customer resource may leave the company because of the difference education, culture background, business philosophy between China and other countries, and patriotic complex of the host country staff, resistant emotion to M&As brought by the unequal status, distrust of the new manager dispatched by China company, the inappropriate human arrangements and incentive programs, etc. This will cause an inestimable impact on company.

119.2.2 It May Cause the Loss of Customer Capital

Customer capital is an important part of the enterprise intellectual capital, refers to the value of organizational relationships between enterprise and its business partners. It is the possibility to maintain relationships between customers and enterprises.

Generally speaking, customer database, marketing channels, enterprise reputation, the quality of the service and customer loyalty is the basis of customer capital. It is the right way to achieve the enterprise market value. Functions of management must be subordinate to the enterprise values. Regardless of what values the enterprise follows, the value of the enterprise must ultimately be achieved through customer. Customers are not only the source of profit but also the carrier of enterprise's social responsibility.

On one hand, enterprise is prone to neglect the original customer's implied needs in M&As, and their cooperative relationship is not timely established. The relationship is unstable.

On the other hand, existing customers may interrupt the original relationship of cooperation due to enterprise's potential strategic adjustment. At this time competitors will squeeze the market. Therefore, the continuity of the relationship of mutual trust between the customer and the enterprise has important strategic significance.

119.2.3 It May Cause the Loss of Enterprise Brand Equity

Brand equity is associated with the brand, brand name and logo which can increase or decrease the value of products or services. It includes changing market share, profit margins, consumer recognition of logos and other visual elements, brand language associations made by consumers, consumers' perceptions of quality and other proprietary assets (e.g. trademarks, patents, channel relationships, etc.). It provides value to consumers and companies through a variety of ways. Brand capital is an important part of the implicit market capitalization. Under normal circumstances, M & As can greatly increase the economic benefits of the acquired company by the effect of brand advantage.

However, in reality, the expansionary effect of the brand has not been well implemented. A lot of brand equity has shrunk. If the acquired company in terms of its technical level and quality assurance system cannot guarantee the quality of the brand, the effect of the expansion of the brand become a negative effect. If the correlation degree of both products is not significant, the possibility of synergistic is very small, because in the field of non-association, the technology and cultural superiority behind the brand is difficult to transfer (Jiang and Yang 2007).

119.2.4 It May Cause the Loss of Tacit Knowledge Embedded in the Supply Chain

The nature of the supply chain is a learning system containing acquisition, sharing and use of knowledge. The stock and structure of knowledge is the decisive factor of corporate performance in the supply chain. The competition of modern enterprises is the competition between the supply chain and supply chain, the core knowledge and capacity of the supply chain is the source of long-term competitive advantage, and this long-term competitive advantage is endogenous.

After M&As, many companies are not timely to re-optimize the supply chain from a global perspective. It lead to supply and demand network of raw material suppliers, manufacturers, wholesalers, retailers and ultimately consumers in the production and circulation lack of coordination, resulting in a huge loss of tacit organizational capital (Chen and Xue 2005).

119.2.5 The Different Accounting Standards

Accounting standards is the objective needs of the market economy development. The content of the accounting standards are different due to different political, economic and legal system between China and other countries.

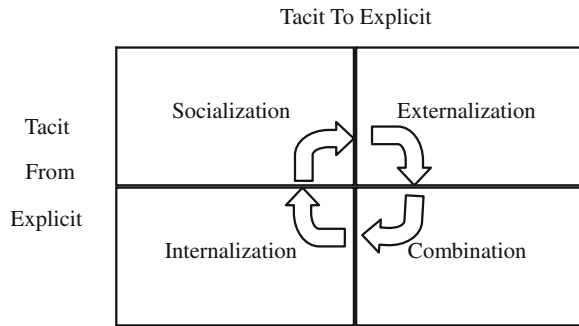
As a developing country, China's capital markets are developing, the legal system needs to be perfect. Although in the building of Chinese accounting standards system China learn more from the international practice, but still in the adopted scope of the fair value, the accounting treatment of business combinations, accounting treatment of impairment of assets, disclosure of related party relationships and transactions, government subsidies and several other aspects are quite different with the international accounting standards. Thus, it objectively requires that the business-related personnel must be familiar with China Accounting Standards and the International Accounting Standards. Therefore, accounting information disclosed are in line with domestic and international legal requirements (Feng 2001; Tian and Gao 2006).

119.3 The Influencing Factors of Knowledge Management in Chinese Enterprise in Overseas M&As

In order to study the factors affecting knowledge management, we should know the relationship between the explicit knowledge and the tacit knowledge. We also should study its communication process.

Knowledge that flows, by being shared, acquired and exchanged, generates new knowledge. Existing tacit knowledge can be expanded through its socialization in communities of interest and of practice, and new tacit knowledge can be generated through the internalization of explicit knowledge by learning and training. New explicit knowledge can be generated through the externalization of tacit knowledge, for instance, when new best practices are selected among the informal work practices of an organization. Existing explicit knowledge can be combined to support problem-solving and decision-making, for instance through the application of data mining techniques to identify meaningful data relationships inside corporate databases. These four different phases of the knowledge life-cycle—socialization, internalization, externalization and combination—have been formalized by Nonaka and Takeuchi in the diagram in Fig. 119.1. Under this view, “knowledge management” can be explained as the management of the environment that makes knowledge flow through all the different phases of its life-cycle (Borghoff and Pareschi 1997).

Fig. 119.1 Knowledge conversion as proposed by Nonaka and Takeuchi



119.3.1 The Characteristics of Knowledge

Kogut and Zander (1993) have studied the relationship between the characteristics of multinational internal knowledge and the choice of knowledge transfer mode. The results show that: The more complex of the knowledge is, the more difficult to encode the technology is, and it is more difficult to disseminate the knowledge (Kogut and Zander 1993).

Simonin’s Empirical method proved that the reason of ambiguity knowledge is caused by the tacit, asset specificity, complexity, experience, partner protectiveness, cultural distance and organizational distance. He thinks the main reason of the ambiguity knowledge is the tacit. The higher the degree of tacit knowledge, the higher the degree of fuzziness of the knowledge, thus, it is more difficult to transfer knowledge (Chen 2002; Gupta 2000).

119.3.2 The Transfer Side of Knowledge

Usually, the transfer of knowledge is bidirectional in multinational. That is the transfer of corporate strategy and corporate values from the parent company to the subsidiaries of host country and the transfer of know-how, proprietary culture, and proprietary business philosophy from the subsidiaries of host country to the parent company. The influencing factors of knowledge transfer are the willingness of the sender’s and the value of the knowledge. The willingness of knowledge transfer from the parent company to the subsidiaries of host country is related to the subsidiary’s strategic position and the relationship between the parent company and the subsidiaries. The higher the strategic position of the subsidiary is the stronger willingness of knowledge transfer from the parent company is.

However, the willingness of knowledge transfer from the subsidiaries of host country to the parent company is related to the value of the knowledge. The higher the value of proprietary knowledge is, the more difficult to transfer it from a subsidiary of host country to the parent company.

119.3.3 The Recipient of Knowledge

Szulanski (1996) thinks learning and absorptive capacity are the important factors for success of knowledge transfer.

Zahra and George (2000) thinks past literature reveals company's absorptive capacity from acquisition (Zahra and George 2000; Kim 1998; Lane and Lubatkiu 1998), digestion (Dodgson 1993), conversion and use of the knowledge (Nonaka 1994; Leonard-Barton 1995). Knowledge transfer success in person is decided by the willingness to learn, ability to learn and existing knowledge structure.

Hamel (1991) proposed the willingness of joint venture partner to learn the skills of other partners is the decisive factor in knowledge learning. The stronger the subsidiary's learning ability is, the better the effect of knowledge transfer will be. If the structure of existing knowledge and receiving knowledge are similar, the knowledge will transfer easily.

119.3.4 The Transfer Channels of Knowledge

Knowledge can transfer from one organization to another organization through many channels. The most common is through the transfer of personnel, technology and organizational structure to the recipient organization, or by changing the personnel of the receiving organization, technology or organizational structure to achieve knowledge (Argote 1999).

The amount of knowledge transfer channels will obviously affect the quality of knowledge transfer. The more channels are, the more stimulation subject to the same kind of information in different ways will be, and thus the knowledge is more likely to be accepted.

119.4 Recommendations

119.4.1 Build a People-Centered and Inclusive Corporate Culture

Chinese enterprises' overseas M&As is related to two or more completely different cultures. The corporate culture is the embodiment of the competitiveness of enterprises and it is the basis of the knowledge management. It not only includes the organization's expectation for the members, but also contains the members' expectation for the organization. To speed up the dissemination and sharing of the tacit knowledge between the parent company and its subsidiaries, we must build people-centered, inclusive corporate culture. People-oriented corporate culture refers to the company's culture should be established upon the ability of human's,

protect enthusiasm and creativity of their employees, and give full play to their ingenuity and pioneering spirit. So the company can discover talents, cultivate talents and make good use of talents. It continuously enhances the competitiveness and potential for further development of the company, better achieves management objectives, and accelerates the pace of health and overall corporate development of the company. The construction of people-centered and inclusive corporate culture requires that the enterprise and its managers should provide a good system and an effective competition mechanism (Liu and Ouyang 2005).

119.4.2 Construct an Incentive System

Multinational M&As may cause the increase of the number of employees, but it does not necessarily bring about company's performance improvement. Because parent company and its subsidiaries have their own unique resources, so knowledge-sharing is contrary to the behavior of maximizing the interests of the subsidiaries in a certain extent. Therefore, it is necessary to establish the mechanisms of motivation and authorization to encourage the enthusiasm and initiative of the staff in order to provide institutional guarantees for knowledge sharing and innovation. Maslow use the terms physiological, safety, belongingness and love, esteem, and self-actualization needs to describe the pattern that human motivations generally move through. The needs are different for different employee. Therefore, it requires the establishment of a wide range of incentive programs.

The incentives contain material rewards and spiritual rewards (Yang and Chen 2007).

The material rewards include salary, bonus, stock etc.

The spiritual rewards, such as to give the employees a full voice, to allow the employees to participate in the management and decision-making process involved in decision-making, to give the employees more responsibility, to provide a wealth of training and promotion opportunities for the employees, and to give the employees greater freedom and permissions are also necessary.

119.4.3 Establish a Learning Organization

Traditional enterprise's organizational structure is designed and implemented in accordance with the requirements of the rigid management. This design led to a lack of communication between different departments. It reduces the overall strength of the organization, and more importantly, it keeps focus on only immediate problems, while ignoring the long-term, fundamental, structural problems.

While learning organization motivates employees to learn, so as to continuously acquire and transfer knowledge resources. It advocates the multi-feedback and open

learning, so as to form of a shared and interactive atmosphere in the organization. It gives full play to the high efficiency of the knowledge team. The structure of the organization does the conditions for sharing of the tacit knowledge. It will form a common vision of the staff through regular training, communicating and learning activities. It will promote the exchange and dissemination of knowledge through the establishment of appropriate organizational culture (Wang et al. 2010).

119.4.4 Appoint the Chief Knowledge Officers

In many organizations, a new position has emerged in recent years that will significantly affect the knowledge management activities in the enterprise. The title of this position is the Chief Knowledge Officer (CKO). It refers to a company or internal administrative officials that responsible for knowledge management. The establishment of CKO is conducive to promoting the exchange and sharing of the tacit knowledge of business organization (Wang 2006).

His duty is to re-integration the scattered, isolated knowledge and information, to formulate a unified policy to constrain the organization's knowledge management activities, to establish and create the environment which can contribute to the accumulation and share of knowledge, to ensure the normal operation of the knowledge base facilities, to promote knowledge integration, knowledge production and knowledge-sharing process, to supervise and ensure the quality and style of the knowledge base consistent with the company's culture.

119.4.5 Change the Management Model

Knowledge becomes the core competitiveness of enterprises only if the knowledge is mastered by employees of the enterprise. After the merger is completed, enterprises must fundamentally change, rather than simply restructuring or "slimming". The company should break the traditional vertical, linear level management, and establish the flexible, knowledge-service-centric management model. The organizational structure should be changed from the traditional "pyramid" type of management structure model into a flat, team, and network management model. The flat management can accelerate the speed of transmitting information. It is conducive to the exchange of knowledge. It also can stimulate initiative and creativity of employees. Management team can contribute to the effective transfer of the knowledge, especially the tacit knowledge, and it can develop a sense of mutual trust between employees of the company. Company executives should be more concerned about the status of enterprises in the entire value network, and constantly adjust the enterprise development strategy. The executives should look for strategic resources to support the strategic objectives (Chu et al. 2006; Zhang 2005).

References

- Argote L (1999) *Organizational learning: creating, retaining and transferring knowledge*. Kluwer Academic Publishers, pp 143–189
- Borghoff UM, Pareschi R (1997) Information technology for knowledge management. *J Univ Comput Sci* 8(3):835–842
- Carayannis EG (1993) Fostering synergies between information technology and managerial and organizational cognition: the role of knowledge management. *Technovation* 19(4):219–233
- Chen G (2002) Studies on the process model, design principles and nature of learning organization. *Chin J Manag Sci* 10(4):86–94 (in China)
- Chen X, Xue H (2005) The strategic model of supply chain process integration. *Ind Eng Manage* 4:66–69 (in China)
- Chu J, Zhou S, Guo C (2006) Knowledge grid: the new driven force of transform for knowledge management. *Sci Res Manage* 27(3):55–60 (in China)
- Dodgson M (1993) Organizational learning: a review of some literature. *Organ Stud* 14(3):375–394
- Feng S (2001) Issues on internationalization of Chinese accounting standards. *Account Res* 11:3–8 (in China)
- Gupta AK, Covindarajan V (2000) Knowledge flows within multinational corporations. *Strateg Manag J* 21(4):437–496
- Hamel G (1991) Competition for determinant and interpartner learning within international strategic alliances. *Strateg Manage J* 12:83–103
- Jiang X, Yang Y (2007) Analysis of infiltration mode of cultural integration. *J Anhui Univ Technol (Soc Sci Ed)* 24(2):60–61 (in China)
- Kim L (1998) Crisis construction and organizational learning: capability building in catching-up at Hyundai Motor. *Organ Sci* 9:506–521
- Kogut B, Zander U (1993) Knowledge of the firm and the evolutionary theory of the multinational corporation. *J Int Bus Stud Fourth Quarter*:625–645
- Lane PJ, Lubatkiu M (1998) Relative absorptive capacity and interorganizational learning. *Strateg Manag J* 19:461–477
- Leonard-Barton D (1995) *Wellsprings of knowledge*. Harvard Business School Press, Boston
- Liu F, Ouyang L (2005) Study on knowledge transfer process, influencing factors and countermeasures within MNS. *Sci Sci Manage S. & T* 26(10):40–43
- Nonaka I (1994) A dynamic theory of organizational knowledge creation. *Organ Sci* 5:14–37
- Saffady W (1998) *Knowledge management: a manager's briefing*. ARMA International, Prairie Village
- Szulanski G (1996) Exploring internal stickiness: impediments to the transfer of best practice within the firm. *Strateg Manag J* 17:27–43
- Tian J, Gao H (2006) Chinese and foreign accounting criteria for enterprises-comparison and study of consolidated financial statement. *J Shenyang Jianzhu Univ (Soc Sci)* 8(4):377–380 (in China)
- Wang M (2006) Influencing factors and countermeasure for sharing knowledge. *Aerosp Ind Manage* 11:31–32 (in China)
- Wang X, Du X, Ma Y (2010) Post-M&A competence integration model based on knowledge management: a Case from Baosteel group ltd. *Sci Technol Manage Res* 30(8):172–174 (in China)
- Wiig KM (1997) Knowledge management: an introduction and perspective. *J Knowl Manage* 1(1):6–14
- Yang S, Chen G (2007) Tacit knowledge management of a M&A enterprise based on psychology leases. *Career Horiz* 3(11):1–2 (in China)
- Zahra SA, George G (2000) Absorptive capacity: a review and reconceptualization. *Acad Manag Proc*

- Zhang C (2005) Management transform based on enterprise eco-system in knowledge society. *Sci Manage S. & T* 26(2):144-149
- Zhong GS, Xu N (2007) Tacit knowledge sharing mechanism in post merger integration. *J Shandong Univ (Philos Soc Sci)* 1:92-98 (in China)