

**ORGANIZATIONAL LEARNING IN THE CEE REGION – AN
EMPIRICAL STUDY ON EXPANDING COMPANIES**

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The collapse of the communist system and the economic liberalization that followed have provided new opportunities for western companies. But there were many uncertainties and risks: entering the eastern European markets at an early stage meant stepping into a different world. For this reason it was crucial for the western companies to acquire and transfer knowledge about

markets, cultures, infrastructures, etc. As western companies tried to enhance the productivity of their eastern affiliates they also had to transfer knowledge from the West to the East. Transferring the Western knowledge embedded in standards and practices to the East was one approach, providing staff in the East with a great deal of training another. This paper summarizes theoretical foundations and findings from an empirical study on companies entering Eastern European markets.

1. Knowledge transfer to other cultures

Institutionalist theory argues that organizations are embedded in a specific social, legal, economic and technological environment, which influences their activities. Therefore, the specific history of an organisation and the culture that surrounds them should also be considered when companies are expanding towards different cultural contexts and are trying to increase productivity there. This task requires different types of knowledge such as standardized knowledge (e.g. processes), personal and embedded knowledge (e.g. capacity to negotiate) and relational knowledge (e.g. contacts,) among others. In general some of these types of knowledge are easier to transfer, others are not. One way of overcoming these obstacles might be to focus on creative teamwork leading to organizational adaptation. However, such teamwork depends on the cultural and institutional context from which the workforce is hired. For this reason, the possible bases for knowledge generation should be regarded as culturally dependent (Spender, 1992).

2. Background of the Study

In the times of the iron curtain Austria already played a privileged role in trade relations 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 finally led to the removal of the iron curtain began to materialise, these connections from the past proved as a fertile soil for Austrian companies. Not only were they able to realize opportunities early on, they also had the advantage of local, cultural knowledge.

The collapse of the communist system and the economic liberalization that followed have provided new opportunities for western companies. Fast growing markets and low production costs have 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.

But there were also uncertainties and risks: entering the Eastern European markets at an early stage meant stepping into a different world, a world heavily influenced by the communist 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 shaped the people in these countries. As a consequence, western companies had to deal with a workforce whose logic was based on a centrally planned economy and the ideology of the

communist party. The centrally controlled, hierarchical organizations had produced authoritarian managerial styles. Staff was 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 (see Prokopenko, 1992 quoted in Wiley, 1994). In contrast, in the new liberalized 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 overcome such hurdles. Transferring the western knowledge embedded in standards and practices to the East was one approach, providing staff in the East with a great deal of training in previously unnecessary aspects another.

3. Methodology and Sample

The transfer of business practises (O'Dell et. al., 1998) provides a good setting to observe transfers of knowledge within organisations. Our research is based on an in-depth, inductive case study of 20 large Austrian firms' transfer of knowledge to and from their subsidiaries and partners in Eastern Europe between 1989 and 2004.

In an initial step we analysed the publicly available material from the companies. This included annual reports and articles, i.e. a study of Austrian firm's Eastern European business in Gewinn, 2004. In a second step we conducted interviews with top executives from the firms. Given the open-ended nature of our question we felt that this was the most

appropriate method (Strauss and Glaser, 1967, Miles and Huberman, 1994, Yin, 1984).

Our interview sample included 18 top executives from the 14 firms we analysed. The interviewees were either the company's CEO or the person who was responsible for the Eastern European business. The interviews lasted from one to four hours. On average an interview lasted one and a half to two hours. While we did not conduct structured interviews we had a number of questions in mind which we wanted to answer:

- 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 organizational 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?

We stopped interviewing and collecting material when a level of saturation was reached (Strauss and Glaser, 1967, Tripsas and Gavetti, 2000).

In the context of this project we are regarding the notion of knowledge transfer as a multi directional process (Fig. 1). First of all the most important task for companies has been to acquire and establish knowledge about Eastern European markets, infrastructure, workforce, cultures, etc. (1). After purchasing or/and setting up affiliates in the East they aimed at transferring knowledge, practices, processes, etc. (2). A backflow allows it to be able to use eastern knowledge and experiences (3). As an advanced step the establishment of a group wide knowledge management could be the basis for a comprehensive knowledge flow (4).

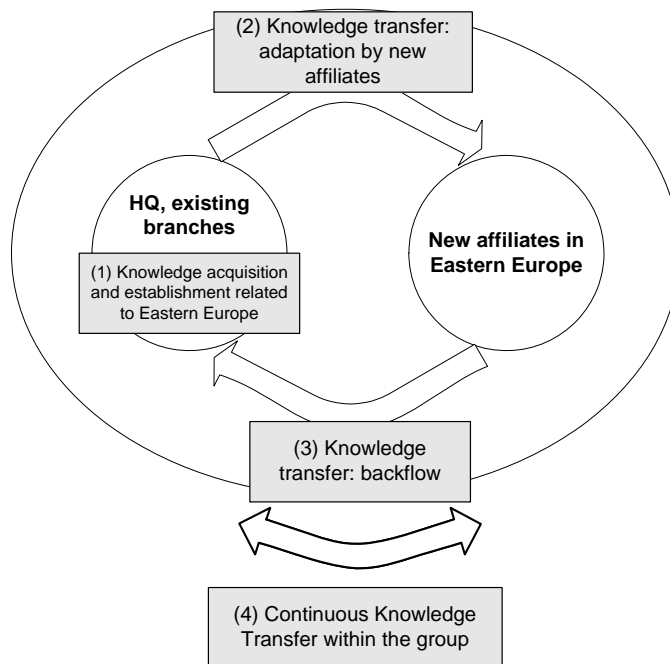


Fig. 1 Knowledge transfer during and after expansion towards the East

4. Results

In this paper we discuss some major findings of this project. From what we found, there are several issues that call for further research. We will outline some ideas at the end of the paper.

4.1 Dealing with Knowledge

50 % of the companies we have interviewed exclusively or at least predominantly have taken over existing Eastern European companies. A main reason not to set up new companies (“greenfield”) lied in the knowledge which is necessary for being successful in the specific region. By buying local organizations this context specific knowledge could be bought as well. However the drawback of this approach frequently has been that they also had to bear obsolete structures, processes, technologies, habits, etc. In order to improve the efficiency of the companies overtaken relevant competencies and knowledge had to be transferred.

A wide range of knowledge creation and knowledge transfer tools were used in the companies participating in the study. Knowledge of 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 on a personal basis and not via documentation or other media:

“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.” [managers statement]

Knowledge gained in starting up the new operations, knowledge on the Eastern European countries, insights in how to deal with people in eastern affiliates, etc. was to a very large extent handed on only through “Personalization” (Hansen *et. al.*, 1999).

As part of the market development process in Eastern Europe, a great deal of highly specific knowledge had to be transferred from the respective company 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 and a communist regime. Great importance was placed on providing different training options and developing the necessary knowledge of processes and standards. In comparison, other methods, such as project debriefings, lessons learned, good practices, job rotation, mentoring and sponsoring systems, quality circles, knowledge communities, etc. were used more rarely.

Based on the information received in the interviews, the focus in any company-wide knowledge transfer activities lay primarily on processes and technology based knowledge (e.g. knowledge transfer through centralised support units). The use of any specific information and communication technology based instruments was relatively rare.

Only in isolated cases could any attempts be identified in the interviews to formalize knowledge transfer, i.e. through the establishment

of appropriate organisational structures to enable or promote such activities. Above all, conscious attempts to transfer and externalise 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, 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 informal knowledge exchange across different locations can only take place primarily at higher hierarchy levels.

4.2 Effects on the parent companies

According to the interviewees, expanding in/to Eastern Europe did not result in any real threat to the identity of the parent company. Indeed, it seems more common for staff in the parent company to be proud of its internationalization activities and increasingly recognize the fact that the subsidiaries in the East contribute significantly to corporate success.

The consolidation steps already being considered in many places also seem to have had an influence on corporate identity and cohesion, and have already resulted in some resistance from the workforces. It is to be feared that the planned cost-cutting measures still to be implemented could also offer further potential for tension in the years to come.

As a result of the number of different languages now spoken in some companies, the question of a single corporate language had often become relevant. In general, the language options were either German or English,

with various points considered for each of the two variations. However, the long-term effects of issues such as language on corporate identity were not really discussed or reflected upon by the companies researched. Most of the companies were just on the way to find their best ways with corporate language.

4.3 Dealing with greater complexity

The survey reveals that an adaptation of corporate structures to address the rapid increase in size and complexity, for example, through organisational and personnel development measures, often takes place with some delay. A "gap" of 10 to 15 years is not uncommon in larger organisations, underlining Chandler's "structure follows strategy". Only a few individual organisations were identified who – either as part of their strategic planning process or through a subsequent decision that turned out to be correct – had created structures to facilitate the way their organisations dealt with the increase in complexity.

As far as the question of how far any experiences gained through activities in Eastern Europe had been leveraged company-wide, it also became apparent that the organisations either (a) saw no need to do so or (b) rarely possessed the ability or knew how to go about consciously initiating organisational change processes based on these experiences.

4.4 Dealing with different cultures

Our research indicates that context and culture did play an important role for Austrian companies when they went to Eastern Europe. Not in the sense that knowledge assets were adapted but in terms of building personal relationships with locals. A working relationship was possibly only if a high level of trust was established in a setting where the legal framework was not offering sufficient protection:

“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.” [managers statement]

“You have to approach people, see them as partners, don’t look down on them. Respect the cultural differences and build trust.” [managers statement]

When asked to what extent their own corporate culture should be transferred to the subsidiary companies, many of the interviewees emphasised that the subsidiaries should establish or maintain their own local identity, e.g. "they should stay Hungarian". On the other hand, attempts were also made to transfer the business logic and rules of the parent company through standards, process definitions and structures. The commonly practised combination of transferring centralised standard components with an appropriate and deliberate level of freedom for the subsidiaries seemed to offer a practical and acceptable alternative in many

companies. In the interviews, it was not possible to identify the way companies actually deal/dealt with the different views and attitudes of their staff and organisational units. This would probably be easier to identify using the observation method.

5. Further issues

Our research also points towards further areas of research. Due to the explorative nature of our analysis we chose a qualitative approach. This creates limitations in terms of universality of our findings. Testing our findings with quantitative methodologies would therefore be a logical next step. In addition firms from other companies doing business in Eastern Europe could be included. The study also revealed a number of further issues, which provided some interesting and valuable insights both for the current research project and for business practices. When we take into consideration the fact that some companies are now considering expanding even further East, it would seem logical to assume that a systematic analysis of experiences to date would be a worthwhile exercise. Yet it was in this area in particular, i.e. the systematic processing of experiences and related knowledge, that very few systematic attempts could be found from a knowledge management perspective. There would seem to be reasonable potential for development in many companies in this respect.

Consequently, the results indicate the following possible relevant issues for companies:

- Driving knowledge management: Does, and if, how does the growth of a company based on the expansion to the East, foster the awareness for the specific requirements of knowledge transfer and knowledge management within their organization?
- How is it possible to communicate the stickiness of knowledge to managers?
- Leveraging experiential knowledge: How can companies leverage their experiences so that the knowledge gained can be evaluated, shared and developed to form new knowledge?
- Consolidation, adaptation of organisational structures: In many cases, corporate growth through expansion into Eastern Europe took place without any significant change to organisational structures. Some companies dedicated little time to considering whether their existing structures still suit their company's current situation.
- Corporate identity: The various different languages and mentalities in the organisations affects corporate identity. Companies did not reflect on this issue (which is difficult to both pinpoint and measure).
- Management styles: Did the experiences gained in Eastern Europe lead to a change in management style among expatriate staff? What effects did this have on their success in Eastern Europe and what use is being made of this knowledge?
- Stickiness of knowledge: Which experiences do companies make when transferring knowledge to Eastern European countries? Can the findings of Jensen and Szulanski, 2004 on the factors influencing stickiness also

be found in the context of our research?

- Organizational factors: Which factors are influencing the internal knowledge transfer in an international context?

6. Foresight: The impact of the organizational environment on knowledge transfer and workplace learning

Addressing the question above, we already started to work on the impact of the organizational environment on knowledge transfer and workplace learning. Using activity theory, organizational theory and didactics as theoretical foundations, a comprehensive model of the organizational dimensions relevant for workplace learning will be developed. As part of the European Integrated Project "Process-oriented Learning and Information Exchange" (PROLIX), this model of organizational prerequisites for learning and knowledge transfer will be empirically tested in four profit and non-profit organizations in Great Britain, Germany and France. In a second step, a Learning Assessment Guideline will be developed. This guideline is designed to permit a targeted analysis of organizations to identify the status quo in those areas crucial to the implementation of workplace learning. In addition, this self-analysis tool will enable learning managers to select adequate didactic models for e- and blended learning. The findings concern not only the capability of the model of organizational dimensions, but also the predominant perceptions of and obstacles to workplace learning in organizations.

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