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Relationships, the role of individuals and knowledge flows in the internationalisation of service firms

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Abstract

This article develops a new conceptual model of knowledge flows within international service firms. Our model takes explicit account of the critical role of relationships and the individual as being central to the process of knowledge transfer for service firms. The model is then validated with data collected from five international service firms using critical event analysis techniques. The findings reinforce our contention that the individual plays a critical role in the process of knowledge transfer and that relationships form an integral part of this process. The implications of this finding are also discussed.

Keyword(s): Knowledge transfer; Service operations; Individual behaviour.

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Introduction

Many internationally oriented service firms, such as financial service firms, utilities, legal and consulting firms, have grown rapidly by mergers, acquisitions and franchising. Nevertheless, we know very little about how knowledge is generated, developed and transferred within these organisations during the establishment of foreign operations. There is also little distinction made between different types of service firms in this regard, such as between educational or financial services or telecommunications. This study explores some key issues relating to the process of knowledge flows between parent firms and their foreign market operations. In particular, we focus on the role of the individual as a facilitator in this process (Andersson, 2000). Knowledge transfer and the role of the individual have particular relevance for multinational service firms for two reasons. First, the higher human knowledge involvement embodied in the service industry creates a higher need for relationship development with the parent company, as well as customers, to facilitate knowledge flows (Buckley et al., 1992). Second, services in foreign markets often require more adaptation than goods, and, therefore, a greater need for involvement of the parent company in facilitating the adaptation. Thus, service firms have not only a higher dependence on knowledge flows, but also on individuals within the firm as relationship builders and creators and transmitters of knowledge. This article adds to the literature on knowledge transfer in two ways. First, our approach considers a post entry examination of the internationalisation process of service firms from the perspective of the foreign market operation. Second, we investigate the role of
the individual in the foreign market operation and parent company in the process of knowledge transfer. From our understanding of these two components, we develop a conceptual model of the knowledge-based interaction between parent company and foreign market operation in relation to mutual organisational learning and competency development.

The structure of the article is as follows. First, we review the literature on the internationalisation of services and the role of relationships, knowledge and the individual in the process of internationalisation. Second, based on our assessment of the literature, we develop a conceptual model, which explicitly incorporates the individual as a key element of knowledge transfer in the internationalisation of services. The conceptual model integrates and builds on two models, one, developed by Gupta and Govindarajan (2000), relating to knowledge transfer in MNCs and the other, developed by Andersson (2000), highlighting the role of the entrepreneur in the internationalisation process. Third, using a qualitative case study method, a brief synopsis of each of five case studies and the main findings from their analyses are presented, and discussed in relation to the conceptual model. The conclusions and implications of the study are contained in the last section.

Review of the literature

The study focuses on knowledge flows between foreign market operation and parent company in the internationalisation of services, and the role of individuals and their relationships in this process. The literature contributing to this research derives from the following distinct, but overlapping, areas: the internationalisation of services, relationships, and knowledge and organisational learning. We also make the distinction between the firm and the individual as a unit in the transfer of knowledge. Research on the individual is often part of the entrepreneurship literature, and some even define internationalisation as an entrepreneurial act (Burgelman, 1983; Lumpkin and Dess, 1996). However, we do not determine the particular nature or characteristics of the individuals involved in the study, and, therefore, use the term “individual” rather than “entrepreneur”. Similarly to Andersson (2000), we take a Schumpeterian (Schumpeter, 1934) view of the “individual”, where the focus is on the function of the individual, not the specific person, regardless of their position in the company. Specific “entrepreneurial” involvement in knowledge transfer in services internationalisation, however, is clearly an area warranting further research.

Internationalisation of services

This brief discussion of the services internationalisation literature highlights the distinctive characteristics of trade in services and the key role that relationships and knowledge play in supporting services internationalisation.

With some exceptions (e.g. Clark and Rajaratnam, 1999; Eriksson et al., 1999; Erramilli and Rao, 1993; Patterson and Cicic, 1995), there has been only limited contribution towards the development of theory, and conceptualisations and constructs that are generalizable across service industries (Knight, 1999). Clark and Rajaratnam (1999) suggest that it may not be possible to develop valid theories because the international services domain is so complex and diverse.

Most research in services trade and internationalisation has focused on determining similarities and differences between services and the manufacturing sector (Bodewyn et al., 1986; Cowell, 1986; Vandermerwe and Chadwick, 1989), the internationalisation process
Edvardsson et al. (1993), foreign market entry strategies (O’Farrell et al., 1998), specific industry or country studies (Winsted, 1999), and classification of service industries (Lovelock, 1983). More recently, studies on various behavioural aspects of international services have been reported. These include research on cross-cultural differences in service customer satisfaction (Winsted, 1999), strategic market development (O’Farrell et al., 1998), global sourcing of services (Kotabe et al., 1998), services innovation (Windrum and Tomlinson, 1999), services quality (Eriksson et al., 1999), and communication, both internal and external to the service company (Lievens et al., 1999). Research on knowledge and knowledge transfer has generally only occurred indirectly, in relation to other aspects of services internationalisation (e.g. Windrum and Tomlinson, 1999; O’Farrell et al., 1998; Edvardsson et al., 1993), but is a central feature of the behavioural perspective of services that is called for in the literature.

Some conceptualisations attempt to capture the strategic nature of international services, considering the motivation to internationalise, the foreign market entry decision and foreign market development. For example, O’Farrell et al. (1998) propose a strategic choice framework, which encompasses the strategic complexities that arise when new opportunities need to be balanced by higher risks of international market development. Edvardsson et al. (1993) have developed a conceptual strategic framework that emphasises a dynamic, rather than functional interplay between functional elements involved in international services, and that employs a creative, rather than planning perspective. Key to this process is the role of the entrepreneur, particularly in the early stages of internationalisation, when information and knowledge gained through the entrepreneur’s networks is translated into strategy development.

Services internationalisation research has generally explored pre-entry aspects of internationalisation, and taken the perspective of the home-based parent firm (headquarters – HQ), rather than the firm’s foreign market operations (e.g. subsidiary). However, the need for post market entry research is increasingly recognised (Erramilli and Rao, 1993; Holm et al., 1995; Forsgren and Pahlberg, 1992), and this should specifically consider the perspective of the foreign market firm actors, and their external market-based networks (Forsgren and Pahlberg, 1992). Ghoshal and Bartlett (1991) consider an MNC as an interorganisational network of differentiated units, and the effectiveness of this internal network relies on good communication and knowledge flows right across the organisation (de Brentani, 1989; Edvardsson et al., 1995).

Samiee (1999) notes a number of fundamental features of services, the most important of which are the separability of the service and its spatial features. The degree of separability of a service from its associated physical good influences the deployment of people in the marketplace and thus the market entry strategy (Boddewyn et al., 1986; Vandermerwe and Chadwick, 1989; Buckley et al., 1992). The extent to which production and consumption of service can be spatially separated also influences the location of activities abroad (Buckley et al., 1992). The lower the degree of separability of the service on both these dimensions, the greater the need for close relationships and effective knowledge flows between the foreign market operation of the service firm and its parent body.

Knowledge and management of cultural differences are important for international service firms, as the social encounters that services entail are likely to vary across different cultures (Winsted, 1999). Foreign market culture impacts on the acceptability and adoption pattern of services (Samiee, 1999), due to the high involvement of people. O’Farrell et al.’s (1998)
strategic choice framework highlights the need for firm-related cultural expertise in responding to expanding foreign demand. This includes language skills, international strategic know-how and cultural and regulatory knowledge and experience, all requiring relevant knowledge flows into and out of the firm’s foreign market operations and parent company.

**Relationships**

The high level of human interaction and communication involved in international services highlights the importance of relationships. Relationships also facilitate knowledge flows (Boisot, 1998). In service MNCs, relationships and knowledge transfer between foreign market operations and parent company increase knowledge accumulation in the whole organisation, heightening the effectiveness of the organisation’s interactions with its internal and external network. Buyer-seller relationships are especially important in service MNCs because of the relative inseparability of production and consumption.

International service firms are typically involved in different types of relationships. Internal relationships (Edvardsson et al., 1993) between parts of the organisation enable dynamic interplay between the functional elements of the organisation involved. External relationships (Edvardsson et al., 1993) incorporate Mattsson’s (1985) vertical and horizontal relationships, including those with customers (Edvardsson et al., 1993), other service suppliers, particularly of supplementary services (Kotabe et al., 1998), and other companies in the same industry (Edvardsson et al., 1993). The internal and external networks of international service firms tend to be geographically dispersed, and should, according to Gupta and Govindarajan (2000), be part of relational research.

Relationships between various actors in international services are important determinants of knowledge transfer (Windrum and Tomlinson, 1999), competency development and perceived service quality (Eriksson et al., 1999). Service quality is created in relationships between suppliers and customers (Eriksson et al., 1999; Holmlund and Kock, 1995; Majkgard and Sharma, 1998), where both are active participants (Håkansson, 1982). Relationships also enable the sharing of resources, including technical or functional resources (Eriksson et al., 1999), knowledge, capital, products and other services. The service supplier and service buyer adapt to each other through these relational processes (Eriksson et al., 1999). Effective relationships between the parent and foreign market operation facilitate information and knowledge flows (Gupta and Govindarajan, 2000; Buckley and Carter, 1999) that are necessary for superior service provision, especially when a service is standardised.

**Importance of knowledge in services**

Differential advantage accrues to firms endowed with competencies associated with knowledge acquisition, accumulation, utilisation and dissemination (Grant, 1996). This is particularly evident where knowledge is tacit (Nonaka and Takeuchi, 1995), for example, in knowledge-intensive service (KIS) firms (Strambach, 1997). Even though knowledge competencies are more critical for service firms than manufacturing firms, the process of knowledge transfer within services MNCs is less well understood. Windrum and Tomlinson (1999) note how the innovativeness of knowledge-intensive services (KIS) can contribute to national innovation, through their interaction with non-service sectors. Through interaction with their clients, knowledge-intensive firms also engage in the co-production of knowledge with their clients (Windrum and Tomlinson, 1999). Organisational routines (Winter, 1995)
and culture, including practices, beliefs and values (Ciborra, 1993) have been associated with the adoption and absorption of new knowledge, and development of new competencies.

In their study of knowledge flows within multinational corporations, Gupta and Govindarajan (2000) have considered the factors that influence the flows of knowledge to and from subsidiaries. While they looked only at the nodal unit (subsidiary), their conceptualisation of knowledge flows is applicable to the dyadic parent-subsidiary organisation and broader MNC network structures. Building on the elements recognised in communication theory (Krone et al., 1987), Gupta and Govindarajan (2000) conceptualise knowledge flows as a function of the following five factors:

1. (1) the value of the source unit’s knowledge stock;
2. (2) motivational disposition of the source units;
3. (3) existence and richness of transmission channels;
4. (4) motivational disposition of the target unit; and
5. (5) absorptive capacity of the target unit.

The conceptual framework of Gupta and Govindarajan (2000) provides a useful lens through which to view knowledge flows between parent company and foreign market operations, where either organisation can be the source or target unit. Our study utilises and extends the conceptual basis described by Gupta and Govindarajan (2000) to observe the process of knowledge transfer between parent company and foreign market operations in case studies of five international service firms.

Role of the individual

According to the resource-based view of the firm (Barney, 1991; Wernerfelt, 1984), knowledge is a resource embedded in the firm. Conceptualising knowledge as a firm level property (e.g. Gupta and Govindarajan, 2000) largely overlooks the fact that knowledge resides in and between individuals within the firm (Arthur et al., 1995; Boisot, 1998), particularly when knowledge is tacit (Nonaka and Takeuchi, 1995). In the process of knowledge transfer, individuals are usually seen in the role of the facilitating entrepreneur (Nonaka and Takeuchi, 1995). The utility of knowledge is also affected by the propensity of individuals to move from firm to firm during their careers (DeFillippi and Arthur, 1996). Individuals, therefore, play a significant role in the process of knowledge creation, accumulation, flow and utilisation within and between firms. The individual thus occupies a focal role in knowledge transfer between parent companies and foreign subsidiary operations.

Cultural differences in the country in which the foreign market operation resides add complexity to its environment. Service MNCs may encounter unfamiliar cultural contexts, which may significantly influence the acceptability and adoption pattern of services by customers (Samiee, 1999). Cultural incompatibility represents a higher risk for service MNCs than manufacturing MNCs because service industries usually have a higher involvement of people (Samiee, 1999). The success of the firm relies on the individual’s ability to adapt to the foreign culture in which the firm operates. The individual is particularly important in generating acceptance and trust in local networks where strategic and tacit information is usually shared only at arms length. When cultural barriers are also present in a foreign market operation, the successful transfer of information and knowledge depends on the individual’s ability to interface between parent company, foreign market operation and customer.
Despite its importance, the role of the individual in international business research was largely neglected until the 1990s (Andersson, 2000). Recent studies of internationalisation and foreign market development in service firms have considered this role, but mainly in the context of entrepreneurship (for a review see McDougall and Oviatt, 1997). For example, Edvardsson et al. (1993) suggest that individual actors and entrepreneurs drive internationalisation processes of service firms, especially in the early stages. The extent to which these people adopt an international perspective is important.

Andersson’s (2000) conceptual framework of internationalisation of the firm, from the perspective of the entrepreneur, highlights several features. First, while the internationalisation environment consists of the firm, the industry, and the macro environments (national and international), Andersson recognises the entrepreneur, or individual, at the centre. The three environments constitute “structure” in his model. A firm’s ability to compete in these environments relies on “process”, the second part to Andersson’s framework. Process comprises the firm’s strategy, of which internationalisation is a part. The entrepreneur in Andersson’s framework provides the critical link between process (strategy) and structure (environments) and is central to decisions about international market choice and entry mode selection. The entrepreneur’s ability to access and transfer relevant information and knowledge is crucial. Linking structure and process also generates organisational learning and competency development (Grant, 1996).

This brief review of the relevant literature exposes two research gaps concerning knowledge flows between a parent company and its foreign market operations in service MNCs. First, the critical importance of the individual and relationships has only recently been acknowledged and these are, as yet, relatively poorly understood in the context of service MNCs. Second, research on relationships and knowledge flows has tended to emphasise the perspective of, and impact on, the headquarters or parent company, and often neglected that of its operations in foreign markets (Gupta and Govindarajan, 2000; Holm et al., 1995). We attempt to address these gaps in the literature by developing a conceptual model of knowledge transfer between parent and subsidiary units of service multinationals, building particularly on the work of Andersson (2000) and Gupta and Govindarajan (2000). Our study involved foreign operations that were subsidiaries and franchises, and included acquisitions and greenfield sites; we use the terminology “foreign market operation” or “foreign operation” to cover these variations in organisational form.

**A conceptual model of relationships and knowledge flows in international service firms**

The extant literature on services internationalisation suggests that knowledge is a critical element of competitive advantage for service firms and that the role of individuals in building relationships is an integral part of the process of knowledge transfer. In this section we develop a conceptual model, which takes explicit account of the role of the individual and relationships in the process of knowledge transfer. We do this by incorporating elements of Gupta and Govindarajan’s (2000) model of knowledge flows within multinational corporations, and Andersson’s (2000) model of the entrepreneur in the internationalisation process. For reasons already noted, we use the term “individual” in preference to the term “entrepreneur”. Key elements of the conceptual model are shown in italics in the following discussion, and the model is illustrated in Figure 1. Throughout the article, the elements relating specifically to Gupta and Govindarajan’s model are italicised and underlined, to indicate their specific contribution to our conceptual model. We have combined the two
“motivational disposition” elements from their model, as we consider the parent-subsidiary relationship to involve two-way knowledge flows (i.e. both are target and source units).

Although relational aspects are implicit in both of these models, our conceptual model includes an explicit role for relationships, because they play a significant part in the knowledge transfer process. In contrast to Gupta and Govindarajan’s (2000) model, which concerns knowledge flows into and out of the subsidiary, our conceptual model includes the two-way flows between parent and foreign operation (see Figure 1). Our model includes outcomes of knowledge transfer, specifically learning and competency development in both parent and foreign market operation. These outcomes also depend on the integration of environmental knowledge with strategy (“structure” and “process” respectively, in Andersson’s framework) in the parent company and foreign market operation, and show how both of these elements impact on inter-firm knowledge flows.

The individual is a central element in our model of knowledge transfer, acting as creator, transmitter and utiliser of knowledge (Nonaka and Takeuchi, 1995; Boisot, 1998). Individuals embody the behavioural elements associated with knowledge creation and knowledge transfer. The model shows how individuals link the parent firm and its foreign subsidiary through dyadic relationships. They create an effective knowledge transmission channel through relationships, which are trusting, open and informal (Rogers, 1995). Individuals also create the strategic environment in their own firms, where acquired knowledge is translated into organisational learning and competency development (Nonaka and Takeuchi, 1995; Hamel and Prahalad, 1994). The individual’s role in converting tacit knowledge to explicit knowledge (Nonaka and Takeuchi, 1995) is an important contribution to the company’s learning process.

Individuals strongly influence the motivational disposition of the parent and subsidiary to share and receive knowledge. Personalities impact on this in a number of ways, some of them negatively, as, for example, with ego defence mechanisms (Allport, 1937; Sherif and Cantrill, 1947), jealousies and territorial protection, etc. Similarly absorptive capacity (Cohen and Levinthal, 1990) depends on the degree to which values and characteristics are shared between individuals in the parent company and subsidiary operation. Shared knowledge about personal characteristics facilitates the development of relationships between the people concerned. The development of relationships and associated communication processes are also influenced by the existence and richness of the knowledge transmission channels.

The value of the knowledge stock is a perceived quality, another predominantly individual characteristic. Perceptions may vary between individuals in the parent company and its foreign operations, and may be influenced by aspects such as the quality of their relationship and shared values. The value of the knowledge stock relates to the parent company strategy, particularly its degree of globalisation and cross subsidiary learning, and the potential value of the knowledge on a global level. The parent company’s strategic understanding of the foreign operation’s knowledge stock depends largely on the other components of the model – relationships, motivational disposition, richness of transmission channels, and absorptive capacity.

In summary, the conceptual model explicitly recognizes the role of the individual and the importance of relationships in the process of knowledge transfer between parent company and foreign market operations. Knowledge acquired from flows between parents and foreign operations contributes to the strategy development processes of these companies, with
individuals creating bridges between the companies’ environments (“structures”) and strategies (“processes”), in accordance with Andersson’s (2000) model. Important outcomes from these knowledge-based inputs are organisational learning and competency development. These are critical determinants of a firm’s competitiveness (Hamel and Prahalad, 1994), and reflect the collective knowledge of individuals in the firm. In the following sections, we provide an exploratory assessment of the conceptual model, based on the internationalisation experience of five service firms.

**Methods and data collection**

The data used for this study are drawn from the internationalisation experience of five service firms of US and Scandinavian parents. We selected the foreign market operations in England, Australia and Sweden where the development of the foreign operations had taken place within three years of the interview. The four key selection criteria were that:

1. (1) we could have total access to all key informants;
2. (2) the ventures were of significant size;
3. (3) they depicted modern technology and service development in an international context; and
4. (4) English could be used and understood by all respondents.

In our approach we studied internationalisation from the perspective of the new unit instead of the conventionally taken view from the home country. Contacts with senior managers of these ventures led to other key informants who all agreed to participate. Table I shows the names used for the companies and the characteristics of their internationalisation process.

Data were collected on five recent service internationalisations using a standard case study approach (Yin, 1994) with a rather focused data collection procedure, the critical incident technique (CIT) (Flanagan, 1954). The aim was to concentrate on deeper-level experiential data generated by those directly involved. Personally relevant information that in retrospect was considered highly important or even vital during internationalisation was sought out. CIT was considered a suitable to accomplish this. CIT was originally developed to study actual behaviour with the purpose of finding behaviours that were critical for success or failure in a given situation. In general terms, for an incident to be defined as critical, it must deviate significantly from what is expected either positively or negatively. Thus, only the deviant incidents are studied. Recently, CIT has been used in a number of studies related to service quality (see for example Bitner et al., 1990; Edvardsson, 1992; Johnston, 1995; Mattsson, 1993; 2000). CIT can be used as an inductive method based on interviews with and observation of respondents to generate incidents that form patterns from which the researcher can generate concepts and theories (Nyquist et al., 1985). In practice, the interview is mostly preferred as a data collection procedure as it is superior to other methods when it comes to establishing how an individual experienced a given incident (Olsen and Thomasson, 1992). Respondents normally recapitulate fairly detailed descriptions of an incident and the processes surrounding it. Key professionals with first hand knowledge of the initial setting up of the foreign market operation were selected as respondents. Before the interview an introductory discussion with each respondent was held to gauge possible incidents. Respondents then selected those incidents (a few) that were considered most important and memorable.
To be eligible, a respondent must have experienced the event personally and also considered it to be critical during internationalisation. The respondent should also be able to place the event in time and give a rather detailed account of it. No indication was given as to the type of information required and no leading questions were asked. Rather, respondents were encouraged to talk undisturbed, openly and freely while being taped.

Analysis of the taped and transcribed data was then carried out using the computer assisted qualitative analysis software programme, NUD*IST (non-numerical unstructured data indexing searching and theorizing). This enabled a logical path of data coding and interpretation to be followed (Yin, 1994), using within-case and cross-case analysis (Miles and Huberman, 1994). Interview data were initially coded and then grouped into within-case themes and patterns in the process of pattern-coding. Pattern-matching (Miles and Huberman, 1994) was used to compare patterns and themes across cases, where patterns derived from within-case analysis could be matched across the wider number of cases. For example, data relating to events concerning individual managers’ involvement in key decision-making or in the development and maintenance of key relationships between the parent and foreign operation, were entered into a code (or node, in NUD*IST), named “individual”. Further iteration and sub-coding occurred where the case study data revealed specific aspects relating to the code, using a process known as system closure (Miles and Huberman, 1994). For example, data concerned with the communication processes used by individual managers in managing relationships were coded as “individual/communication”. Associated patterns within and between the cases were noted, for example, where ineffective relationships were evident in the context of poor communication processes.

Data not directly associated with the conceptual model were coded in the usual way, and scrutinised for patterns or associations with other codes that were relevant to the model. Since the analytical process actively seeks integrative patterns to provide a holistic understanding of the cases, most of the data proved to be relevant. Those that were not (such as the mechanism for accessing sub-franchisees in a foreign market, in one case, or technical descriptions contextualising related technological events, in another), were stored in the database, and provide access for further scrutiny or ongoing explorative research.

Since the study sought to examine the application of the conceptual model to services internationalisation, a literature review and the resulting conceptual model provided a basis for prior conceptualisation of the data, an approach recommended by Miles and Huberman (1994). Thus, while not excluding other issues that emerged from the data, patterns and themes relevant to the components of the model were explored. Modification of theory and conceptual models is possible by iteration between the data and the theory or model as analysis progresses. The main findings from the case studies are discussed below.

**Discussion of main findings from cases**

In this section, the internationalisation process of the case firms is first briefly discussed. Then, a more detailed discussion takes place in the context of the conceptual model, using the following four headings from the model: relationships, knowledge flows, the role of the individual, and learning and competency development (representing the outcomes). These headings represent the main factors underlying the knowledge flow process, and the outcomes. Components of the knowledge flow process in Gupta and Govindarajan’s (2000) model are also discussed in the context of these four main headings. Tables II and III provide
illustrations from the case studies of some aspects of the model, notably, relationship development and knowledge flows between parent company and foreign operations.

**Internationalisation process**

The case companies used different approaches to internationalisation and market entry strategy, a feature noted in the literature for different types of services sectors (O’Farrell et al., 1998) and different entrepreneurial types (Andersson, 2000). The service sectors involved in the study differ from one another in a number of important respects, including the degree of separability and spatial characteristics (Boddewyn et al., 1986), which are likely to influence internal knowledge flows. However, we are unable to comment specifically on the influence of service sector type, since the study utilises a small number of cases – appropriate for qualitative analysis, but insufficient for cross-sector comparisons. Since there is little research developed to compare the service encounter across different industries (Winsted, 1999), this area justifies further research.

Four of the five cases used a formal or planned approach to internationalisation. Edvardsson et al. (1993) have noted, however, that most service companies, particularly smaller firms, seldom adopt a systematic approach to internationalisation, but tend to favour a creative perspective. Northtel demonstrated the most systematic approach for internationalisation, planning their market entry and expansion from the outset. However, their approach in their first market was less formal and more subject to ad hoc developments than their later markets. Compute also followed a planned approach, by franchising first in the domestic (USA) market, and then internationalising the franchise model. The Australian franchisee, however, perceived minimal planning by the parent company for broader international development, suggesting that the parent lacked appreciation of the strategic complexities of services internationalisation (Edvardsson et al., 1993).

Two companies adopted a partially planned approach to internationalisation, but in both cases, the initial trigger was a passive event (O’Farrell et al., 1998) that evoked a responsive strategy. Tempsearch was internationalised after one of the partners inherited the business from his mother. Teleserve responded to a government tender for non-contract, telecommunications related business, and subsequently internationalised. Callmark adopted one of the most common methods of services internationalisation, that of client followership (Patterson and Cicic, 1995). A major US client had a large subsidiary in the UK, which wanted to use the services of Callmark, leading to the establishment of a UK-based operation.

Foreign market entry strategies also varied among the cases, incorporating subsidiaries and franchising, through acquisition and greenfield development (Root, 1987). Over the period of the case studies, the companies retained the same method of market entry for the development of new markets, with the exception of Northtel, which utilized greenfield development, acquisition, joint venture and franchising for market entry into different European countries. O’Farrell et al. (1998) have noted that mode changes are rare for service firms, and more often associated with larger firms. Northtel’s exception may reflect the company’s response to different social and cultural environments (Winsted, 1999) that impact on customers’ acceptability and service adoption patterns (Samiee, 1999).

**Relationships between foreign market operations and parent company**
Relational theory suggests that successful relationships are built upon trust and mutual consideration for potential outcomes from the relationship (Dwyer et al., 1987). Dyadic and network relationships form the basis for knowledge flows between nodes, be they individuals or firms (Boisot, 1998; Kogut, 2000). The cases were analysed for relationships between foreign market operations and their parent companies, and they reflected a variety of different relational situations (Table II) that influenced their internationalisation experience. The investigation of relationships accords with the espoused need for more behavioural approaches to the study of services internationalisation (e.g. O’Farrell et al., 1998).

Managers of the parent companies that were not involved in initial greenfield foreign market developments all stated the importance of finding an appropriate partner with whom to establish a foreign market presence. The partners involved in the Swedish company, Tempsearch, travelled extensively throughout Europe in search of a potential strategic partner, but did not initially succeed. Recognizing the importance of partner selection (noted by Edvardsson et al., 1993), they continued their search until eventually establishing a partnership with an American businessman. Although there was no prior relationship, both parties felt comfortable about their mutual involvements in the business, even though the early negotiations were, at times, tense. As the personal relationships developed, there was a strong motivation to cooperate (Dawes et al., 1988).

Part of the learning process in a cross-organisational setting involves an understanding of relationship dynamics (Rogers, 1995). When another US company acquired Tempsearch, both parties had to overcome initial cross-cultural difficulties and inter-organisational differences before mutual learning occurred. Understanding cross-cultural issues in services internationalisation is important (O’Farrell et al., 1998). Once trust had developed, information and knowledge flowed freely between the US parent and Swedish operation. Trust, commitment and adaptation are key elements of business-to-business relationships (Hallen et al., 1991; Morgan and Hunt, 1994).

Callmark had already developed a strong relationship with a major customer in the USA before entering the UK. This relationship continued to the benefit of both parties. Strong dyadic buyer-seller relationships are known to create service quality (Eriksson et al., 1999; Holmund and Kock, 1995; Majkgard and Sharma, 1998), and this was evident in the case of Callmark. The general manager of Callmark also noted the importance of good parent and foreign operation relationships, and the regular use of normal communication channels (e.g. e-mail, phone) facilitated the relationship and the flow of information and knowledge between them, highlighting the value of effective and rich transmission channels. This case clearly illustrates the motivational dispositions of the parent company and foreign operation to share and receive knowledge.

A number of Northtel’s foreign operations resulted from early personal network contacts and subsequent ongoing relationships between the founder, and CEO, and individuals in other markets. These relationships enabled continuing exchanges of knowledge between the parent and its foreign operations, important throughout the latter’s development. Personal networks are important for obtaining know-how and other resources (Andersson, 2000) – aspects necessary for Northtel’s successful internationalisation process.

Relationships between the parent company and the Australian franchise of Compute were strained, particularly at an operational level. There appeared to be little interest by the US parent in its international franchise businesses, resulting in poor communications and limited
transfer of knowledge. Effective internal communications are critical for the success of service firms (de Brentani, 1989; Edvardsson et al., 1995). Compute is an example of a company with weak and ineffective transmission channels. The case also illustrates the lack of dynamic interplay between the parent and foreign operation, and the lack of an evident strategic process (Edvardsson et al., 1993) in the parent company.

**Knowledge transfer**

Knowledge transfers between parent companies and foreign operations afford a valuable learning opportunity for both units (Buckley and Carter, 1999; Gupta and Govindarajan, 2000). The case companies demonstrated varying abilities to capture learning opportunities from shared knowledge. Three of the cases demonstrated high motivational dispositions of both subsidiary and parent company to receive and share knowledge.

Mutual learning between Tempsearch and its earlier US franchisor parent led to an optimal operating system, superior to the original systems in either country. The potential to standardise this system across the industry was an attractive outcome for both parties, and highlights the benefits of interorganisational knowledge creation (Nonaka and Takeuchi, 1995), where “the body of explicit knowledge becomes enriched and systematised” (Osterloh and Frey, 2000, p. 546). The case also illustrates the parent’s recognition of the value of the knowledge stock of the foreign operation. Another US company later acquired Tempsearch, but it was permitted to retain its basic autonomy. This new arrangement allowed Tempsearch to develop competences by learning from the parent company and its extensive business network. The close relationship with its US parent helped Tempsearch to overcome difficulties in implementing a US-designed system in Sweden. In this situation, the US parent helped to arrange a special training course for personnel and provided a facility for parent and foreign operation to learn from one another. A corporate socialisation mechanism (Edstrom and Galbraith, 1977; Van Maanen and Schein, 1979) such as this is known to have a positive impact on the richness of transmission channels (Daft and Lengel, 1986).

The GM of Callmark’s UK operation was an American who had worked for the US parent company for 20 years. His appointment in the UK transplanted existing parent company knowledge into that environment. Future flows of knowledge relied on a continuing knowledge sharing relationship between the US parent and the UK operation, capitalising on strong communication skills and internal networks (Gulati et al., 2000) of the new UK GM. Callmark’s GM noted that business knowledge translated more easily between similar cultures (USA and UK) than between dissimilar cultures (USA and other European countries), and most difficulties were due to language differences, a situation noted by O’Farrell et al. (1998). This suggests that some components of the conceptual model, e.g. motivational disposition, relationships and transmission channels may be influenced by country-related cultural differences between parent and foreign operation. Cultural factors are known to impact on the quality and performance of services delivery (Samiee, 1999).

Northtel developed a strong global perspective of its business, recognising the need to provide standard, high quality information (e.g. from manuals and procedures). It also supported a company-wide philosophy that applied to each of its country operations. This attribute ensures a consistent, high-quality approach to the business, reflective of a strong corporate socialisation mechanism (Edstrom and Galbraith, 1977; Van Maanen and Schein, 1979). Learning and knowledge generated in individual country operations were shared across the whole organisation, reflecting a high perceived value of knowledge stock of the
foreign operation by the parent company. This company is an apt illustration of the view of an MNC as an “interorganisational network (Ghoshal and Bartlett, 1991) of loosely couples entities, rather than a hierarchical monolith” (Birkenshaw and Hood, 1998, p. 776). Forsgren and Pahlberg (1992) and others refer to the network form of MNC as a multi-centred structure.

In contrast to Northtel, Teleserve sought relative independence from its US parent, except when specific expertise was needed. It appears that the motivational disposition of the Australian operation to receive knowledge from, and share knowledge with, its parent company was limited. This did not appear to result from any desire of Teleserve to seek power from a knowledge monopoly (Pfeffer, 1981), but was possibly a desire for resource-independence from its parent (Astley and Zajac, 1991).

In Compute’s case, the parent company appeared to have a low motivational disposition to receive knowledge from and share knowledge with its foreign franchise operations. Compute was represented in more than 40 countries, and recognised the opportunity to build on this foundation. However, the manager of one foreign franchise indicated that the parent company did not capitalise on the opportunity to share knowledge, suggesting a more hierarchical perspective of the parent company (Doz and Prahalad, 1981) than the network, or multi-centred approach seen in the other cases. The GM of the Australian franchise operation considered the sharing of knowledge to be a key competitive advantage. Many of its sub-franchises operated as a closely linked network, with the main Australian franchise operation at its centre. Compute, therefore, utilised its external networks (Gulati et al., 2000) to generate and share new knowledge and learn new capabilities when unable to do so with its parent company. This is a good illustration of foreign market operation adapting, or establishing the foundation for, a position of structural or systemic power (Astley and Zajac, 1991), by occupying a central role in a wider business network (Forsgren and Pahlberg, 1992), in this case, independently of the parent company.

Knowledge transfers between parent company and foreign operations may be influenced by the relative ethnocentricity (Wind et al., 1973) of the parent company. This was evident in Compute. The Australian franchise operation’s GM perceived the parent company culture to be heavily US-focused, and inattentive to the specific needs of its foreign operations. Similarly, the failure of the US-developed personnel systems in the early stages of Tempsearch’s Swedish operations was thought to be associated with the US focus of these systems. In the case of Teleserve, the operations manager avoided the possibility of US parent dominance, apparently by seeking resource independence.

The individual

The role of particular individuals in relationship development, knowledge flows, and learning, features strongly in all of the cases. Individuals contributed significantly to the success, or otherwise, of the relationships and subsequent knowledge transfer between the parent companies and their foreign operations. This is illustrated in the following discussion.

The successful relationship that facilitated knowledge flows between the UK subsidiary of Callmark and its US parent was largely due to two individuals in the UK operation. First, the GM used his experience with, and contacts in, the US parent company to generate information and knowledge for the UK operation. The GM’s use of personal networks (Andersson, 2000) and strong dyadic relationships (Dwyer et al., 1987) contributed to the
accumulation of knowledge in the UK operation. Second, a senior manager in the UK operation also strongly emphasised relationships with the US parent company. A particular US contact had hastened her learning and improved her effectiveness in the business in a variety of ways. In accordance with Schumpeterian interpretations (Schumpeter, 1934), it is the function of the individual that matters, rather than his or her position in the company. A US-based liaison person helped to facilitate communications and relationship building with the UK operation of Callmark, showing the parent company’s motivational disposition to share and receive knowledge, and to develop efficient and rich transmission channels. The GM perceived the importance of corporate socialisation mechanisms (Edstrom and Galbraith, 1977; Van Maanen and Schein, 1979) that encouraged informal transmission channels (Daft and Lengel, 1986; Krone et al., 1987) with the US parent. The informality of the relationships enabled quick access to information and helped avoid the red tape usually associated with formal methods of communication.

Both the GM and CEO of Northtel had key roles in connecting the company with a large number of relevant external networks. This resulted from their many years of experience in the area of business and illustrates the importance of experience in service firm behaviour and development (Erramilli, 1991). Also, the individual’s interpretation of the firm and its environment (Weick, 1969) helps to determine how he or she acts. Developing and documenting good relationships, and knowing when to draw on them were considered by the CEO to be important entrepreneurial skills.

Two key individuals were also evident in relationship development and knowledge transfer in Teleserve. These were the founder and the operations manager. Both of these people had high levels of embedded knowledge from extensive careers in business start-ups and development, and in technical aspects of the business, respectively. Both demonstrate the importance of knowledge accumulation from earlier career investments (DeFillippi and Arthur, 1996). The operations manager and founder complemented each other’s skills very effectively, and were able to draw on their respective contacts and networks as required. The chance meeting of the founder with earlier contacts from the US parent company led to the establishment of the Australian operation. Passive encounters of this kind are important triggers for services internationalisation (O’Farrell et al., 1998). Over time, the founder utilised his entrepreneurial skills to develop the Australian business as a more autonomous unit of the US company.

In the case of Compute, both the parent company CEO and the Australian GM were key individuals in establishing the foreign operation, demonstrating the importance of the individual in the initial stages of services internationalisation (Edvardsson et al., 1993). In the early stages of the Australian franchise development, they built a trusting relationship, which contributed significantly to the motivation of the Australian GM to become involved. Later, management of the international franchises, including the Australian operation, was delegated to a different senior manager in the US company. Relations between this manager and the Australian GM were poor, with the result that knowledge transfer between the parent and the Australian operation virtually ceased. This highlights the importance of strong relationships for effective knowledge transfer (Edvardsson et al., 1993). The motivational disposition of the US manager to share and receive knowledge from the Australian operation was low, even though it was high for the Australian GM. The absorptive capacity of the US parent was also low, probably because there were few, if any, shared values between the managers concerned (Ciborra, 1993).
**Learning and competency development**

Organisational learning and competency development are outcomes of knowledge transfer processes (Kogut, 2000; Nonaka and Takeuchi, 1995). Interactions among constituent units underpin organisational learning (Sorenson and Sorensen, 2001). In the process of creating firm-specific knowledge individuals convert tacit to explicit knowledge (Nonaka and Takeuchi, 1995). At the same time, the tacit knowledge is converted into routines, which are modified in response to environmental changes, and thus lead to organisational learning (Cyert and March, 1963). These processes of organisational learning were evident with Callmark. The company’s software technology was relatively standardised, and other technologies and systems and their associated knowledge were readily transferable from parent to foreign operation. Nevertheless, some adaptation of systems was necessary for the different markets. This was successfully facilitated by well-developed relationships between the US parent and the UK operation. The resulting increase in learning for both operations illustrates the enactment of a knowledge spiral (Nonaka and Takeuchi, 1995), in which tacit and explicit knowledge interact, leading to a body of explicit new shared knowledge. In order to increase learning across parent and foreign operations, Callmark frequently transferred staff between the two parts of the company, enabling the transfer and conversion of individual tacit knowledge to firm-specific explicit knowledge, valuable right through the organisation. Strong informal channels of communication (Daft and Lengel, 1986) between parent and foreign market operation facilitated the knowledge flows.

Because of cross-cultural differences in acceptance and adoption of services (Samiee, 1999), local adaptation was also needed for another software based service company, Compute. However, poor relationships between the US parent and the Australian franchise resulted in limited knowledge flows and learning opportunities, making this difficult. The Australian franchise company undertook the adaptation process predominantly on its own. While the US parent was reluctant to offer its training package for franchisee use, the Australian franchise perceived the US training package to be inadequate. Poor communication channels (Lievens et al., 1999), and the perceived potential for the parent company to gain power from a knowledge monopoly (Pfeffer, 1981) exacerbated the problem. The Australian franchise’s adaptation of the training method for its own environment created an approach to training that was potentially valuable for the organisation worldwide. However, the US parent did not perceive the value of this knowledge stock and missed an important global learning opportunity. The low absorptive capacity of the US management was perceived to be associated with this limited experience in international business.

Tempsearch realised the importance of learning in enabling it to access and successfully exploit opportunities. The partners acknowledged the importance of individuals throughout the organisation in the learning process, consistent with research on knowledge and organisational learning (e.g. DeFillippi and Arthur (1996) and Nonaka and Takeuchi (1995)). Good relationships and rich transmission channels between the Swedish Tempsearch and its US franchise parent facilitated a strong two-way flow of knowledge. For example, the partner owners of Tempsearch initially knew little about managing their inherited business, and relied heavily on training and mentoring from their US franchisor parent. This contrasts markedly with the relationship of Compute’s Australian franchise with its US parent company.

Tempsearch also adopted a new business concept from its original US parent, developing strategic competences from the learning process. During the US-hosted training programmes,
Tempsearch’s staff suggested improved system efficiencies, such that they prompted the parent company to learn from the Swedish operations. This interaction between parent and foreign market operation led to improved perceived service quality, and knowledge and competence development (Eriksson et al., 1999). The high perceived value of the subsidiary’s knowledge stock resulted in successful cross-cultural exchange and a successful cross-organisational learning experience. Over the longer term, two separate learning environments stimulated Tempsearch’s growth and development – first, that associated with its original US franchisor, and later with its US acquirer. In each case, good relationships between parent and the foreign operations enabled bi-directional knowledge flows and learning for both firms – again, examples of the knowledge spiral process (Nonaka and Takeuchi, 1995), leading to the development of organisational competencies (Hamel and Prahalad, 1994).

A similar outcome was evident in Teleserve, which was able to provide technical expertise to assist its US parent with an important contract. In the early stages of its development in Australia, Teleserve gained considerable learning from its US parent, particularly by employing expatriates from the US company. In time, however, the Australian company sought greater autonomy. Even though the US parent’s motivational disposition to share and receive knowledge continued, Teleserve only sought knowledge when specifically needed. The learning outcomes for both parent and foreign market operation (Teleserve) were potentially compromised by the uni-, rather than bi-directional flow of knowledge.

These case illustrations provide tentative support for the conceptual model. They have illustrated the four main components of the model and the five characteristics of knowledge flows associated with it. The interactions between the components of the model highlight the perspective of foreign market operations and the importance of two-way knowledge flows between the foreign operation and parent company. The next section briefly discusses the conclusions inferred from these findings and their implications.

Conclusions and implications

The study builds on Gupta and Govindarajan’s (2000) model of knowledge transfer and extends it in two ways. First, drawing from Andersson’s (2000) work, the conceptual model incorporates the role of individuals in facilitating knowledge flows, particularly through relationship building. Second, the model considers relationships and associated knowledge flows between the foreign market operation and its parent firm, from the perspective of the foreign operation. In framing the two-way knowledge flows between parent and foreign operation, a number of key points emerged from the conceptual model. These points are summarised as notes to Figure 1.

Consideration of the component, value (perceived by the parent company) of source unit’s (foreign market operation) knowledge stock in the context of services, highlights a potential paradox. This arises because of the greater need for adaptation and customisation in foreign markets for services than for goods. According to Gupta and Govindarajan’s (2000) model, the parent company values information and knowledge from its subsidiaries when these can be shared strategically amongst other subsidiaries, for benefit of the whole organisation. However, when local markets demand specific adaptation of services, and often customisation to individual customer needs, the services will have correspondingly lower global utility. The parent company may, therefore, place a low value on the foreign operation’s information and knowledge, and participate less fully in the knowledge transfer
process. In practical terms, the parent company’s involvement in facilitating the adaptive responses needed by the foreign operation may be limited. In turn, this may impact on the ability of the foreign operation to service its local market and maintain close customer relationships. Both Compute and, to a lesser extent, Teleserve appear to illustrate this situation, although the data is not conclusive, particularly with regard to the parent companies’ perspectives.

The paradox may also be explained by differences in types of knowledge. For the value of the foreign operation’s knowledge stock to be high, the knowledge needs to be of a kind that can be generalised across different markets. “Knowing how” types of knowledge, that is knowledge of a more tacit (Nonaka and Takeuchi, 1995) or uncoded (Boisot, 1998) nature, will be more important than “knowing what” types of knowledge, which are more informational in nature (Gupta and Govindarajan, 2000). Also, “knowing whom” knowledge, associated with high levels of networking and relationships (DeFillippi and Arthur, 1996), may have more generic value than other types of knowledge. The study of knowledge generation and transfer and management thus requires different types of knowledge to be considered.

The motivational disposition of the parent company to share and receive knowledge is strongly influenced by the parent’s perception of the value of the knowledge. As demonstrated in the case studies, it is not unusual for the motivations of the parent company and the foreign operation to differ. For example, in Compute, a high level of motivation on the part of the foreign operation to share and receive knowledge was not apparently shared by the parent company. Reasons for this may include a low perceived value of the knowledge, or may reflect an ego-defence mechanism, recognised in these situations (Allport, 1937; Sherif and Cantrill, 1947). With Teleserve, however, the foreign market operation chose to retain its knowledge, even when it was clearly of value to the parent company.

Communication channels between the parent and foreign operation represent the transmission channels for knowledge flows between the two parties. The effectiveness of these channels depends largely on the perceived value of the knowledge stock and the motivation to receive and share knowledge of the parent concerned. The existence and richness of these channels are driven largely by the quality of the relationships between the parent company and foreign operation. Relationships characterised by informality and openness appear to enrich the transmission channels. The case study companies with rich and effective transmission channels emphasised the importance of individuals in creating and maintaining such relationships.

The absorptive capacity of the target units (parent company and foreign operations) is also strongly influenced by individual relationships. These help to determine inter-unit homophily – that is the sharing of common meanings, and personal and social characteristics, which enhance communication and have greater effects in terms of knowledge gain (Rogers, 1995).

The conceptual model attempts to provide an integrated approach to two developing research strands that are increasingly important in international business – knowledge transfer, and the role of the individual in the internationalisation of services. Given the developing interest in the literature of the role of knowledge in firm competitiveness (Wernerfelt, 1984; Barney, 1991; Grant, 1996), the development of conceptual frameworks for understanding the dynamics associated with this process is important. This understanding is especially critical for service firms, which tend to rely much more intensely on knowledge and its transfer than
manufacturing firms. While the conceptual model presented here undoubtedly requires refinement and empirical validation, we believe that it brings together some of the key elements addressing the issue of knowledge transfer across international service firms.

The study has not quantitatively operationalised the components of the model, but has developed a qualitative perspective on relevant events and activities in international service firms using a case study approach. The conceptual model has been developed from existing research and illustrated by case studies of international service industries. Until further validation, it is not possible to generalise the model, although the underlying concepts are likely to apply to settings involving knowledge flows across dyadic and network relationships of companies. Testing of the model across a variety of settings should be an early follow-on from this work. Although some causal possibilities between components of the model were identified in this article (e.g. between individuals, relationships and knowledge flows), these have not been established empirically, although further research could explore causality aspects of the model quantitatively.

The implications for further research touch on three main areas. First, further insights are needed into the behavioural aspects associated with services internationalisation, particularly in the context of knowledge transfer, building on a rapidly developing literature. Second, the dual relationships between services-based parent firms and their foreign subsidiaries, in terms of knowledge transfer, learning, and competency development, need considerably more investigation. Third, further explanation of the influence and role of the individual in relation to these two research foci is required. This is especially important in light of contemporary views of the firm and increasing mobility of human capital, as noted above. These three research areas should further enlighten researchers on the dynamics of knowledge transfer across multinational service firms, and the way that both parent firm and foreign operation influence these dynamics.

Managers of firms involved in international service industries could benefit from a greater understanding of these three problem areas. Undoubtedly, an understanding of how the components of our conceptual model are integrated should enable managers to determine how knowledge flows between parent and subsidiary operations can be both promoted and inhibited. The model also exposes some key organisational issues associated with the components, such as employee motivation and reward systems, and strategic issues relating to globalisation and the organisational environment. Furthermore, the model should help managers to perceive the key role of individuals and their relationships in knowledge flows and knowledge transfer processes between different parts of the organisation.
<table>
<thead>
<tr>
<th>Internationalisation features</th>
<th>Callmark</th>
<th>Compute</th>
<th>Northtel</th>
<th>Teleserve</th>
<th>Temppearch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent company location</td>
<td>USA</td>
<td>USA</td>
<td>Norway/Sweden</td>
<td>USA/NZ</td>
<td>Sweden</td>
</tr>
<tr>
<td>Main post-entry market(s) (foreign operation location)</td>
<td>UK</td>
<td>Australia</td>
<td>Europe</td>
<td>Australia</td>
<td>Europe</td>
</tr>
<tr>
<td>Internationalisation process</td>
<td>Systematic (client fellowship)</td>
<td>Formal/semi-systematic</td>
<td>Formal/systematic</td>
<td>Formal/systematic</td>
<td>Formal/systematic</td>
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<tr>
<td>Market entry method (initial)</td>
<td>Greenfield</td>
<td>Franchise</td>
<td>Acquisition/JV</td>
<td>Greenfield</td>
<td>Franchise/greenfield</td>
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*Table 1. Internationalisation characteristics of the five international service firms*
<table>
<thead>
<tr>
<th>Company</th>
<th>Example from case study data</th>
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<tbody>
<tr>
<td>Callmark</td>
<td>The decision to go to the UK was based on an existing long-term relationship with a US client. On the strength of the relationship, the GM explains: “We signed the contract and 90 days later we were operational and doing business for them”</td>
</tr>
<tr>
<td>Compute</td>
<td>The international manager (of the parent firm) lists the difficulties of internationalising the operation as: finding the right partners to work with and securing an appropriate legal arrangement, training of international people and adaptation of the product and trademarks. They (the foreign market operation – franchisees) spent about 15 months researching this type of business, travelling to the USA, doing business plans, trying to get finance and negotiating with the Americans. An agreement was signed in late 1991, which made them the third country to sign with Compute</td>
</tr>
<tr>
<td>Northtel</td>
<td>The CEO explains some of the considerations involved in entering a new country: “Normally it is based on individual relations. You need to have people that you have trust in and they have confidence in you. That could mean then that we could buy a company, we could buy a customer base, we could build it up around an individual, etc.” The offer was to buy the Austrian company for $150,000. That represented 83 per cent equity for Northtel, leaving 15 per cent equity for Mr A. The CEO recalls: “He was looking at me and said alright, I know you for two years and you always keep your word so I’m going to consider it . . . The Austrian agreed to the offer. They shake hands and one month later, Northtel was operating in Austria with Mr A. as general manager of operations”</td>
</tr>
<tr>
<td>Tempsearch</td>
<td>The relationship between the Swedes and the Americans had developed in a very positive manner. The time had come to do business and sign a contract that set out the formal aspects of their relationship. The negotiation of the contract was not without some anxiety for the partners</td>
</tr>
<tr>
<td>Teleserve</td>
<td>The operations manager recalls: “It’s been a very unusual period of time because we’ve been doing all the things that telecommunications requires not only from the stand point of shopping and buying but we’ve been able to use the telecommunications expertise from the other countries especially the United States”</td>
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*Table II. Early relationships between foreign operations and parent company*
<table>
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<tr>
<th>Company</th>
<th>Example from case study data</th>
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<tr>
<td>Callmark</td>
<td>The GM points out that: “I have also been part of our sales organisation for a number of years and have a broad understanding of the business and a knowledge of what we do, the strategy, and then taking this forward and building it into our new business as well as trying to develop the group of people in the organisation. I am the only American in the UK operation. I understand the business – the challenge was, can you translate this into a new environment?”</td>
</tr>
<tr>
<td>Compute</td>
<td>Compute is represented in more than 40 countries, which affords the opportunity for it to build on the foundation of the learning centres and have additional presence in the communities. He believes it would not matter where they were based, they must have a corporate culture that is of a global perspective. He believes the parent company does not have this to the degree that the international franchisors want. He comments that the corporate culture is heavily US dominated and US based and internationals are not listened to and almost not supported or pushed to do what they need to do.</td>
</tr>
<tr>
<td>Teleserve</td>
<td>“Once in a while when we need some real expertise especially if we're getting into a new areas. Then we'll bring some guys over on short term contracts but we're very much focussed on being an Australian company”</td>
</tr>
<tr>
<td>Tempsearch</td>
<td>In 1992 after intense negotiations, the partner firm signed contracts with the American firm over a franchise arrangement. This arrangement provided the partner firm with access to critical information and business systems “know-how” However: Some staff expressed comments such as “typically American” and had feelings of being overwhelmed by the volume of material, as well as confusion in not understanding why things had to be done a certain way.</td>
</tr>
<tr>
<td>Northtel</td>
<td>The staff member points out: “We make sure that every country has the same sort of manual from the beginning with the colours and the standard letters and how you should do this and how you should talk on the phone and so on... all the countries comes to visit Sweden and Norway to make sure that they get the spirit that we have here” “And that is a very important issue I think” “That you should really make sure that you are not one single local company, but you are a global – or at least European, a big organisation with a lot of possibilities to cross-border sell and cross-border learn”</td>
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*Table III.* Two way knowledge flows between parent and subsidiary units.
Figure 1. Conceptual model of knowledge flows between parent and subsidiary

Notes
(1) Knowledge stock has local value for services that create and utilise embedded local knowledge. Integration of global knowledge facilitates adaptation and learning at the local level.
(2) Integration of localised subsidiary knowledge into global strategy increases the value of knowledge stock for the parent and other subsidiaries.
(3) Strong and effective relationships create effective transmission channels.
(4) Existence of rich and effective transmission channels increase the strength and effectiveness of relationships.
(5) Motivational disposition and absorptive capacity are increased when relationships are strong and effective.
(6) The individual is a central actor in the creation and transfer of knowledge, through his/her relationships involving parent and subsidiary.

References


**Further reading**

