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Expatriates as a Knowledge Sharing Mechanism **- A Case Study of a Professional Service Firm**

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Abstract

Professional service firms are gaining more attention in the academic field today due to the improved importance of the sector in the developed world. When professional service firms internationalize, expatriation is a common tool for transferring company specific tacit and explicit knowledge, unique for the firm. Previous scholars have however not, to our knowledge, taken the transfer of knowledge back to the home office into consideration; this thesis aims at describing the flow of knowledge in both directions, managed by the expatriates.

To investigate the management of knowledge in internationalizing PSFs, one management consultant firm is studied and three qualitative, in-depth interviews are held with personnel from both the home office as well as the subsidiary, situated in China. Thereafter, this is analyzed with theories regarding transnational corporations, knowledge, knowledge management, expatriates and professional service firms.

The main findings suggest that expatriates do function as an important knowledge sharing mechanism for mainly explicit knowledge. Tacit knowledge is also accumulated by operating on a foreign market, however our findings indicate that this knowledge is too difficult to spread throughout the whole organization, hence it is kept embedded in the expatriates.

These findings are finally discussed and suggestions for future research regarding the transfer of knowledge with the use of real-time information technology, retention of expatriates, choice of knowledge sharing strategy and firm size as an influence on knowledge sharing, are put forward.

Keywords: *transnational organization, professional service firms, expatriation, knowledge management, knowledge transfer, tacit knowledge, explicit knowledge.*

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1. Introduction

1.1. Background & Problematization

In the dynamic world economy of today, transnational corporations characterized by interdependence, integration and competitiveness on a global scale (Bartlett & Ghoshal 1989) are gaining more attention by management scholars. In addition, as economies evolve from industrialized manufacturing to post-industrialized service economies, knowledge intensive firms gain more importance (Alvesson 2004). As described by Alvesson (2004), knowledge intensive firms can be divided into R&D firms and professional service firms (PSFs). This thesis will put its focus on the latter. As of today, PSFs account for a large proportion of the GDP in advanced economies, being one of the fastest growing sectors, showing an annual increase of revenues and profits (Business Wire 2012; Qfinance 2012). PSFs are, as set out by Nordenflycht (2010), characterized by knowledge intensity embedded in the workers in the form of tacit knowledge (Alvesson 2000), low capital intensity and a professionalized workforce. Moreover, as distinguished by Alvesson (2004), employees in PSFs interact directly with the market on high frequency, making the physical presence cardinal.

As business clients leave the comfort of their home markets seeking new opportunities abroad, PSFs feel the urge to follow in order to sustain the highest standard of their services delivered (Løwendahl 2005). By following the clients abroad, PSFs gain access to the tacit knowledge of the specific international market that is hard to transfer (Nonaka & Konno 1998; Beaverstock 2004; and Alvesson 2004), thereby reinforcing their competitive advantage (Løwendahl 2005; Empson & Morris 1998; and Hocking et al. 2007).

As a mean of smoothening the knowledge transfer between the home headquarter and the established international subsidiary, many firms use expatriates (Beaverstock 2004), since these individuals possess the knowledge needed to manage business and successfully integrate the operations into the new country (Fang et al. 2010). Since PSFs are highly characterized by tacit knowledge embedded in the workers (Alvesson 2004), Nonaka & Takeuchi (1995); and Bonache & Brewster (2001) argue that the only way for this knowledge to be transferred is by socialization and interaction between the employees from the headquarter and the new subsidiary. Thereby, many PSFs choose to

use expatriation as a way to set up shop on an international market. Moreover, these expatriates are living bearers of the corporate culture and as stated by Chang, Gong & Peng (2012): *“Expatriates act as agents to transfer corporate culture to subsidiaries and to develop subsidiary employees' perceptions about and attitudes toward headquarters”*

Taken the above discussion into consideration, we pose the three following research questions:

1. *How do professional service firms transfer knowledge when operating on international markets?*
2. *What role do expatriate managers take in this process of knowledge transfer?*
3. *How do these expatriates transfer knowledge back to the home office?*

In line with our research questions above, *our purpose of this thesis is to get a better understanding of how knowledge is managed in the internationalization process of a PSF and the use of expatriates as a mechanism for knowledge transfer in this process.* Since these expatriates evidently are cardinal assets for PSFs internationalizing, we also want to increase our knowledge of how the tacit knowledge of expatriates is transferred back to the headquarters, something that to our knowledge has not been covered in earlier research to a large extent. Moreover, international business is a complex and multidisciplinary field, however there is a lack of new theoretical development, this due to a domination of quantitative research approach (Doz 2011, pp 583-584). By combining the theories of international business with the academia of knowledge management with the use of a qualitative approach, our ambition is to provide the related academic field with insights of a topic that previously has not been frequently studied, as well as suggestions for future research. We want to notify that the use of knowledge transfer and knowledge sharing will be defined as equal during this thesis.

1.2. Delimitations

To make our study as succinct as possible, several delimitations have been made throughout the process.

Firstly, we have focused on knowledge management as part of the internationalization process rather than on the internationalization process itself. Secondly, since knowledge

is a complex concept hard to define, we will not try to further develop this definition or provide any new insights related to the concept.

Thirdly, as given in our third research question, we investigate the subject of expatriates as a knowledge sharing mechanism in PSFs during their assignments abroad. Earlier research has solely focused on knowledge transfer back to the head office through repatriation, meaning to reassign the expatriates back to the head office, something we will not take into consideration when conducting our study.

1.3. Disposition

As illustrated in Figure 1.1. below, we present a model indicating the disposition of our thesis. Chapter 2 will present the methodological approach used in order to conduct the study. Following this is chapter 3 where we bring forth the relevant theoretical framework used to analyze the empirical findings presented in chapter 4. In chapter 5 we will analyze the results of our study and answer the research questions. Thereafter we will come to a conclusion and put forward suggestions for future research in chapter 6.



Figure 1.1. Thesis disposition model.

2. Methodology



In this section we describe how the study has been brought out and motivate the research design used. We further present the measures taken in order to secure the quality and how we strived to sustain objectivity throughout the process.

2.1. Connection between Theory and Method – the Abductive Approach

In order to gain a deeper understanding of a problem, the researcher should go “back and forth” between empirical findings and theory (Dubois & Gadde 2002). In the inductive method, theory is derived from empirical data. The deductive method, on the other hand takes its starting point in existing theories (Dubois & Gadde 2002). According to Patel & Davidson (2003), the inductive and deductive method should be

treated as two extremes on a continuum. Hence, empirical findings might result in yet unexpected findings that need to be further looked into. This requires adjustments and changes in the theoretical framework that can only be done by going “back” to the theory. This interplay between inductive and deductive method is referred to as an abductive method.

In our study, the abductive method helped us to get a comprehensive understanding of our research problem. As a result of unanticipated empirical findings but also of new insights of our theoretical understanding, we have throughout the process of our study modified our theoretical framework.

Following is an illustration of our iterative research process using an abductive approach.

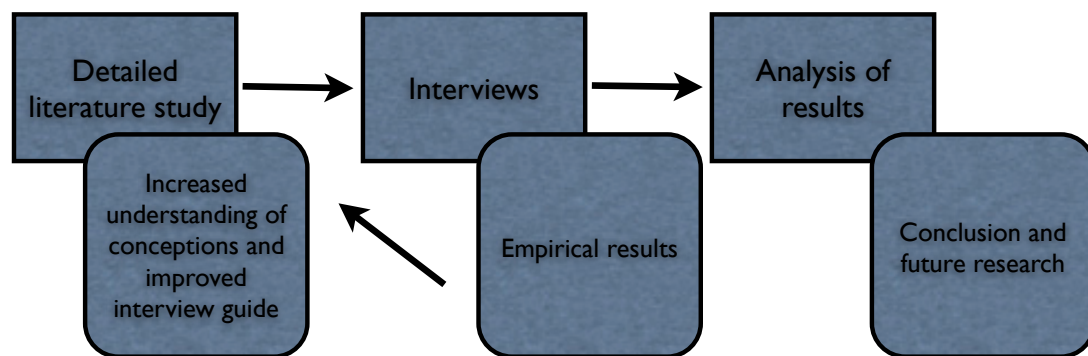


Figure 2.1. Illustration of iterative research process of our study (Norderyd & Nolgren 2013).

Initially a thorough literature study was conducted covering the four areas related to our topic: transnational corporations, the concept of knowledge & knowledge management, expatriates as a knowledge sharing mechanism and PSFs. With the knowledge acquired, we developed an interview guide and conducted three interviews with our case company described in section 4. As these empirical findings were analyzed, new perspectives were acknowledged, making it necessary to go back and adjust our theoretical framework. This clearly illustrates our use of the abductive method.

Finally, analyzing the empirical results derived from the interviews leads to a number of conclusions and suggestions for future research.

2.2. A Qualitative Approach

Research can be conducted either qualitative or quantitative. In contrast to quantitative research – emphasizing statistics and predictions, findings from qualitative research are obtained through analysis and observation (Hoepfl 1997). Although International Business is a complex and multidisciplinary field, quantitative research has been the dominant approach, leading to a lack of new theory development (Doz 2011 pp 583-588). Jacobsen (2002) describes three characteristics of a qualitative research approach that makes it more relevant for our study than a quantitative approach. Firstly, this approach is suitable when earlier research in the field is limited, as in our topic. Secondly, in comparison, qualitative research is more nuanced and comprehensive than quantitative research. This is especially relevant for our aim, involving the complex, intangible concept of knowledge. Thirdly, qualitative research is more flexible and facilitates the possibility of adjusting theoretical findings to gathered empirical findings, or as Doz (2011, p 584) puts it, protects you against “*seeing what you are already believing*”. With the discussion above and our purpose in mind, we see the clear advantage and necessity to use a qualitative approach.

2.2.1. Case Study

The type of research design used depends on the research purpose (Merriam 2009). According to Yin (2009), a case study is especially suitable when the research questions are designed as *how* and *why*. These characteristics correspond well to our research questions presented in section 1.1.

Further, Merriam (2009, p 40) defines a case study as “*an in-depth description and analysis of a bounded system*”. Yin (2009, p 18) makes a similar definition; “*a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.*” The analyzed company and its expatriates in our case, represent the bounded system.

Yin (2009) further describes a case study as essential when it is difficult to separate a phenomenon’s variables from the context. In line with this, Eriksson & Kovalainen (2008) state that a case study helps the researcher to present complex business issues in an easy-to-grasp and accessible format. In our study, focusing on tacit knowledge tied to individuals in a PSF, such an approach seems appropriate. Additionally, according to

Bromley (1986), a case study enables access to subjective factors, for instance thoughts and feelings. Taking the above discussion into consideration, we find a case study most suitable for our study.

Our use of a single case study approach, instead of a multiple case study approach, is motivated by two reasons. Primarily, in the trade-off between depth and breadth we choose the former. Confined by time, we believe a second company would have compromised the depth and quality of our study. In line with Dyer & Wilkins (1991, p 615), we believe that a single-case study will provide a deeper result compared to a multiple-case study, taking “*the tacit and less obvious aspects of the setting under investigation.*”

Yin (2009) divides case studies into three categories; exploratory, descriptive and explanatory. *Exploratory* case study can be used in order to formulate hypotheses and new questions. *Descriptive* studies focus on describing a real-life phenomenon. *Explanatory* research has its emphasis on explaining cause and effect (Khairul & Mood 2008). Since our aim is to increase our knowledge of how PSFs transfer knowledge with the use of expatriates, our study can be labeled as descriptive. Thus, considering the lack of research related to this field, especially regarding the transfer of knowledge through expatriates back to the headquarters, our study can also be labeled as partially exploratory.

2.2.2. Company Selection

According to Eisenhardt (1989) the process of selecting cases is of high importance when it comes to analyzing and drawing conclusions derived from theory and empirical findings. When selecting a suitable case company, two criteria had to be taken into account for the purpose of this thesis. Firstly, it had to be a PSF, preferably Swedish. Secondly, they needed to have expatriates on international assignments. Since we, already at the beginning of our study, had established contact with our case company and they fulfilled these certain requirements, the choice was natural. Being a Swedish management consulting firm with expatriates in China, they appeared to fulfill these prerequisites. A more detailed description of our case company will be provided in section 4.1.

2.3. Qualitative Methods

Interviews are in general the most common way to gather data in a qualitative case study (Langemar 2008). Yin (2009) identifies five other methods of collecting data: direct observation, documentation, archival records, participant observation and physical artefacts. Although we see advantages of using some of these methods as complements we, due to restriction of time, focused solely on interviews and secondary data collection from the company homepage, this in order to reach a triangulation effect (Yin 2009).

2.3.1. Interviews

All in all three guided and semi-structured interviews, with open-ended questions, were conducted (Eriksson and Kovalainen 2008). In line with Ryen (2004) we focused on gathering accurate information, or “thick descriptions” as Geertz (1973), cited in Merriam (2009) puts it, rather than a focus on quantity of information. In contrast to a small sample, when conducting qualitative research, a large sample does not necessarily provide the researcher with a deeper understanding of an issue (Ryen 2004). Besides, compared with highly structured interviews, this form allows follow-up questions and also allows the interviewer to adjust the questions to the situation (Bryman 2002).

Naturally, before the interviews were held we developed an interview guide (see Appendix 1). The questions were derived from our research questions and the connected theoretical framework.

In our ambition to cover all the relevant parts of our study, some questions were general and asked to all our interviewees while some questions were specifically related to the interviewee’s role in the company. This provided us with a more comprehensive knowledge and gave us several new angles that we followed up both during and after the interviews. Accordingly, as new interesting ideas and angles appeared during the interviews, our interview guide should be seen as dynamic rather than a static document.

The interviews were held both face-to-face and via Skype. A face-to-face interview has many advantages. According to Jacobsen (2002), a face-to-face interview enables the interviewer to observe the interviewee and establish a more informal, personal contact with this person. Although we agree with Jacobsen, our limited time and finite financial

resources constrained us to conduct face-to-face interviews with the company's expatriates in China, hence they were held via Skype.

2.3.2. Interviewee Selection

Our first research question aims at understanding how a PSF transfers knowledge when entering a new market. In order to answer this question, we interviewed an office manager, an expatriate consultant and an expatriate intern within our case company. The office manager is involved in more strategic decisions related to the overall performance of the firm, compared with the expatriate consultant and the expatriate intern. A further presentation of the expatriates will be outlined in section 4.3.

In order to answer our second question: “What role do expatriate managers take in this process of knowledge transfer?” we interviewed both higher management from the home office and expatriates in China. By combining the two perspectives, we could gain a deeper understanding of the knowledge transfer process as a whole and see if the self-perceived role of the expatriate differed from the role perceived from the home office, related to knowledge transfer.

To answer our third research question: “How do these expatriates transfer knowledge back to the home office?” We focused on interviewing expatriates currently on assignments in China but also the head office manager at the headquarters.

In order to protect sensitive company information, the name of the company is, throughout the study, referred to as Company A. In order to gather more earnest answers and a wider access to our company we have guaranteed all our interviewees full anonymity (Yin 2009). We believe that, if not given full anonymity, the interviewees might have been reluctant to share their true opinion of their situation and practices. Hence, the names of our interviewees have been referred to their position in the firm, namely “Expatriate 1”, Expatriate Intern” and “Office Manager”.

2.3.3. Secondary Data

In addition to conducting interviews, we also gathered useful basic knowledge of our case company from the company homepage and databases. This research allowed us to

triangulate our knowledge about the company and its knowledge transfer processes. According to Yin (2009), researchers can create a triangular effect by using information from multiple data, thus enhancing the validity of the study.

2.3.4. Data Processing, Presentation and Analysis Approach

Langemar (2008) divides the qualitative analysis into three types of processes that often occur at the same time: interpretation, structuring and compression. *Interpretation* is the codification of an issue in order to make it understandable. *Structuring* occurs when the material is arranged and sorted in certain categories. Finally, *compression* equals the process of summarizing the data. These processes have guided us when collecting and analyzing data throughout our study.

All our interviews were recorded and relevant data was then transcribed and presented in section 4. Eriksson and Kovalainen (2008) describe several ways of recording interviews: videotaping, recording or notes written during and after the interview. Since recording is most convenient, and often accepted by the interviewee, we have chosen this method. Since the interviews were held in Swedish we first transcribed the interviews and thereafter translated them into English. In line with Svenning (2003), we recognize the risk of leading the interviewee hence receiving the answer wanted, this being called the *Interview Effect*. To minimize this effect we have taken several measures, described in section 2.4.1.

Yin (1994, p, 20-26) underlines the usefulness of pattern matching in order to process data in case study research. Firstly, relevant theory is gathered in order to function as a benchmark against empirical data. From this theory the researcher makes predicted patterns. Secondly, empirical data is gathered and organized. Finally, empirical patterns are matched against the predicted patterns, derived from the theory. If these patterns are coherent, the theory can be used in order to forecast a situation in the studied case. This pattern-matching procedure has guided us when conducting our analysis, as presented in section 5

2.4. Quality of Case Study Research

When measuring the quality of a proceeded case study research, Yin (2009) acknowledges four tests significant to conduct. These tests can be divided between the two concepts of validity and reliability. Validity relates to whether a study has been brought out with objectivity, if the results have been explained with relevant causes and if the study can be generalized to a larger context. Reliability, on the other hand, deals with the ability to repeat the study and once more get the same results.

2.4.1. *Validity*

To test the validity of a study, one must first divide the test into three parts: *construct* validity, *internal* validity and *external* validity.

Construct validity, as described by Yin (2009), sees to minimize subjectivity in the study and set up adequate measures for the studied phenomena. Yin (2009) points out that a common issue when conducting studies is that data is collected in a subjective manner. In order to minimize the subjectivity in a study, Yin (2009) suggests three tactics, used in order to withhold objectivity throughout the process of the study. Firstly, using multiple sources of evidence will bring more nuances to the study. Secondly, establishing a chain of evidence is also useful. Lastly, by letting a key informant review the draft of the study, one will hopefully get inputs valuable to sustain objectivity. We took this into consideration when conducting our study, for instance by doing multiple interviews in order to get several angles of incidences, this to secure a more nuanced result. It is important to mention that all interviews were held in Swedish and thereafter transcribed and presented in English. By letting our informants review the transcribed and translated interviews we hope that the possible elements of subjectivity have been reduced, thereby strengthening the objectivity of the study. Lastly, by using data from several sources, we ensured a triangulation of our empirical findings, thereby further reinforcing the validity of our study (Yin 2009). Moreover, these measures see to minimize the Interview Effect (Svenning 2003), as described in section 2.3.4.

Internal validity, on the other hand, deals with securing that the study research design adequately supports the conclusion. It investigates whether the results have been influenced by factors not described in the study. As described by Yin (2009), internal

validity is only applicable for explanatory research; thereby we will not apply it to our study, since it is mainly descriptive.

External validity, being the third test, analyzes whether a study can be generalized and applied to other situations. In order to secure the external validity, Yin (2009) states that for single case studies, it is highly important to use a set of theories making it possible to generalize the specific results. In pursuance of further generalizability, the test should however be repeated on a second or third sample. Alvesson & Sköldbberg (2008), argue that the results from qualitative studies are hard to generalize, although some patterns and tendencies can be found. Due to the constraints mentioned in section 2.2.1., we did only perform our study on a single sample. On the other hand, we have strived to enhance the generalizability by carrying out a thorough review of the related academia. Also, we have constructed a generally applicable model during our study, this to further amplify the generalizability.

2.4.2. *Reliability*

The objective of *reliability* refers to the possibility of repeating the study, using the same methods and reaching the same conclusions as a result (Langemar 2008; Yin 2009). Langemar also states that this criterion is more important in quantitative studies being more confirmative than qualitative studies. Although reliability is desirable in qualitative studies, the purpose of identically repeating a study reaching the same conclusions from an identical analysis is questionable (Langemar 2008). However, in order to improve reliability, a reduction of errors and bias is important during the research process as well as a detailed description of every step throughout this process (Yin 2009). Accordingly, we have taken several measures to increase the level of reliability. Measures that are consistent with Ryens recommendations of what researchers can do to increase the level of reliability (Ryen 2004).

Firstly, both authors have been present when conducting the interviews. Secondly, the same interview guide has been used during all interviews, only small adjustments have been made. Thirdly, both authors have been present during the process of transcribing relevant data from the recordings. Furthermore, we have used both primary (recorded interviews) and secondary data (company homepage and databases) to enhance the study's reliability. What is more, we have tried to be as detailed as possible when

documenting the different parts of our research. We find it important to mention that more interviews would have been desirable in order to further increase the level of reliability, not to mention with the CEO of our case company, being the designer of the company's expatriate strategy.

3. Theoretical Framework



In this section we present the theoretical framework used to structure, interpret and analyze our empirical findings. First we link our topic to the relevant academic theories of TNCs. Secondly, we describe applicable theories of knowledge and some definitions of knowledge management, since these are cornerstone assets in transnational organizations. Thirdly, we explain the pertinent theories of expatriates, being a well-used mechanism for knowledge transfer. Fourthly, we present the characteristics of PSFs and how they manage knowledge. Finally, we describe our model of expatriates as a knowledge-sharing mechanism.

3.1. The Transnational Organization

In their seminal study, Bartlett and Ghoshal (1989) define four categories of organizations within the MNC context, differing in the manner they create and transfer knowledge. *Multinational* firms develop and retain knowledge within each specific unit, this leading to almost no transfer of knowledge being realized. *Global* firms, as a second category, create knowledge at the center of the organization and spread this on a global scale. This since the global firms see the world market as an integrated whole, instead of numerous diverse ones.

International firms, being the third category, create knowledge at the home headquarter. This knowledge is thereafter transferred to the international subsidiaries and adapted to the local market. This meaning that these subsidiaries have less independence than the ones of a multinational firms, since the international firms set up local replicas of the parent organization. Lastly, and with most relevance for our study, are the *transnational* firms, where knowledge is created on a collective basis and shared among all

organizational units. The characteristics of a transnational organization will be described in the following section.

Transnational organizations, as defined by Bartlett and Ghoshal (1989), are interdependent, dispersed and specialized organizations, where national units contribute in different ways to strengthen the integrated global operations. Moreover, knowledge is developed collectively and spread throughout the whole organization.

Further, Bartlett and Ghoshal (1989) recognize the fact that a transnational organization seeks efficiency in order to reach competitiveness on a global scale. Also, it strives to gain local responsiveness, this in order to accomplish flexibility in its international operations. Innovations are often created through a larger process, where numerous parts of the organization contribute with intelligence and local knowledge. It can be created both at a local subsidiary as well as at the home office, however the new knowledge is always spread to all units of the organization. Also, the allocation of assets is rather complex, where some are centralized at the headquarters and some spread out on a local-for-local basis. Nonetheless, there is a strong interdependence between the various subsidiaries, leading to a deep integration among the organizational arms. All this contributes to building a self-enforcing organization where cooperation among units is substantial in order to cope with the unexpected changes of the market.

In a transnational organization, Bartlett and Ghoshal (1989) recognize three crucial flows necessary to manage in order to secure a viable and successful organization. First, they see the flow of parts, components and finished goods. Secondly, the flow of skills, funds and other scarce resources is acknowledged. Thirdly, they point out the flow of intelligence, ideas and knowledge as of high importance. In our study, the main focus will be on the third flow: the flow of intelligence, ideas and knowledge.

To manage these flows, transnational corporations (TNCs) apply three coordinating processes in order to build a portfolio for managing their assets. First and foremost, *centralization*, such as substantive decision making by senior management, is used. Moreover, *formalization*, namely institutionalization of systems and procedures in order to guideline decisions, is also recognized. Lastly, *socialization*, meaning to build up a context of common purpose, values and perspective in order to influence the thinking and

judging of managers, is emphasized. Significantly important when analyzing TNCs, it is crucial to note that the organization uses all these processes in order to manage its operations, although some parts of the organization might use one of the processes more frequently. We argue that formalization and most importantly socialization are fundamental tools of management in the knowledge-intensive organizations, analyzed in our study. Thereby, we will put less focus on centralization, seeing that it is not of any essential relevance for our case.

Martinez & Jarillo (1989), further explored the different mechanisms of coordination present for multinational organizations, nonetheless, these might also be applied to transnational organizations. Dividing the mechanisms into formal and informal ones, Martinez & Jarillo (1989) totally introduced eight coordination tools, starting with *Departmentalization*, meaning to shape the formal structure of the organization. *Centralization or decentralization*, being the second mechanisms, deals with the structure of decision making, setting a hierarchical framework. Following this is *formalization and standardization*: incorporating written policies, manuals and standard procedures. For our study, we see standard procedures as an important coordination tool, since these may secure a certain level of quality. Fourthly, *planning of strategies, budgeting and scheduling* is named. Lastly mentioned as a formal coordination mechanism is *output and behavior control*, incorporating technical reports as well as sales and marketing data.

The informal mechanisms for coordination, being more difficult to define, consist of *lateral or cross-departmental relations* such as committees, direct management contact and temporary or permanent teams. Secondly, *informal communication* is also mentioned, meaning personal contact among managers, conferences and meetings. As a last tool of coordination, *socialization* is put forward, aiming at building a corporate culture through training, transferring managers and constructing a reward system. Generally, we see the informal mechanisms as being more substantial for our study since they enhance the transfer of tacit knowledge discussed in section 3.2.1.

3.1.1. Role of the Subsidiaries

The role of the subsidiary, as described by Bartlett & Ghoshal (1989), differs substantially from the traditional categorization of a dependent or independent one, where the head office is the dominant partner. Instead, the subsidiary of a transnational

organization is seen as a *strategic business partner*, supplying the entire organization with knowledge and local experiences, strengthening the overall global competitiveness of the TNC. In their study, Bartlett & Ghoshal (1989) acknowledge four different classifications applied to categorize subsidiaries. The art of the organization varies with regard to the importance of the local market in comparison to the global operations as well as the sophistication of the market, for instance the technological development.

The most strategically important subsidiaries are named *strategic leaders*, this since they are situated on markets fundamental for the success of the organization as a whole. This implies that the subsidiaries in mind will be classified as equals to the headquarters, participating on equal basis when developing and implementing broad organizational strategies.

Not nearly of such a substantial importance is the subsidiaries classified as *contributors*, nonetheless, these subsidiaries possess some certain benefits implemented in the whole organization. For instance, the subsidiaries might feature some specific competence or knowledge, albeit the local market is not of any essential strategic importance.

The third class of subsidiaries are branded *implementers*, this since they are positioned on a non-strategically important market, however they possess the required competence to maintain operations, or as described by Bartlett & Ghoshal (1989), they are deliverers of the company's value added.

Lastly, a subsidiary situated on a highly strategic market, however with fragmental capabilities, are called *black holes*. In order to sustain a global competitive position, a strong presence on this market is paramount, thus this is not an acceptable position for the TNC to hold. For our study, we see it as important to categorize the subsidiaries of the company studied, this in order to gain a more comprehensive understanding of the frequency and magnitude of the flows of knowledge between the subsidiary and headquarter.

In conclusion, what is relevant for all these organizational constellations is the importance of knowledge, this being the cornerstone for all transnational organizations, being spread to all branches of the transnational network.

3.2. The Concept of Knowledge and Knowledge Management

As mentioned in section 1.2, we do not aim at investigating the complex definition of knowledge, or to provide new insights related to the concept. We will however present the germane theories explaining different types of knowledge and how it can be spread.

Nonaka and Konno made the distinction between different kinds of knowledge in their cardinal work *The Concept of “Ba”* (1998), distinguishing *explicit* and *tacit* knowledge. Explicit knowledge is expressed in words either orally or in a written source or material, therefore it can be spread and assimilated by the masses. Tacit knowledge, on the other hand, is something unuttered and not shared by the community. It is highly personal and based on individual experiences and intuitions.

Empson & Morris (1998) further made the distinction between *individual* and *collective* knowledge. Individual knowledge only being carried by a single subject while collective knowledge is shared among the masses.

Fang et al. (2010) argue that there is yet another way to classify knowledge, namely its *location specificity*. This is defined as to what extent the application of knowledge is limited to a specific geographic area, at high values making it herculean to apply to areas other than its original one.

Knowledge management is a complex and multifaceted complex concept, being the subject of numerous definitions; we present two of the more relevant ones. Alavi & Leidner (2001, p 113) defines knowledge management as: *“identifying and leveraging the collective knowledge in an organization to help the organization compete.”*

Another definition is provided by Schultze & Stabell (2004, p 551): *“the generation, representation, storage, transfer, transformation, application, embedding and protecting organizational knowledge.”*

3.2.1. Transferring Knowledge - the SECI Model

Nonaka & Konno (1998) presented the SECI model, firstly introduced by Nonaka (1994), as can be seen in Figure 3.1, to explain and formalize how knowledge is created and shared in a bigger context, from the individual level all the way to the organizational

level. Chini (2004) further developed the model by suggesting numerous tools for each process of the model, used to manage the knowledge.

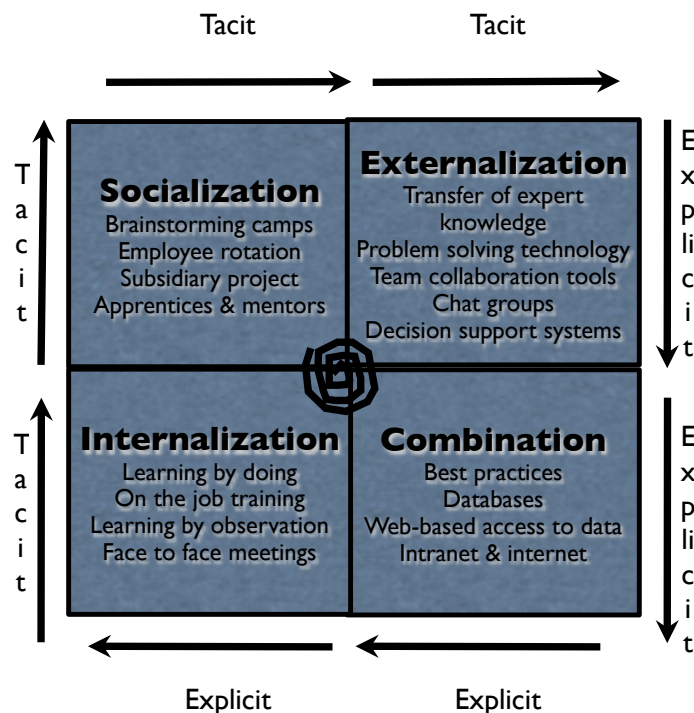


Figure 3.1. The SECI model (Nonaka 1994) and Chini's (2004) suggested tools for knowledge management

The model is based on the four levels of knowledge creation and sharing: *Socialization*, *Externalization*, *Combination* and *Internalization*. This involves both the creation and sharing of tacit as well as explicit knowledge. *Socialization*, being the first step, involves the conversion of new tacit knowledge through interaction between two individuals. This is created by socializing, spending time together or living in the same environment. Worth noticing is that since tacit knowledge is not formalized, the conversion of new knowledge requires physical proximity of the two individuals, even more advantageously if physical interaction occurs. In order to manage this process, Chini (2004) suggests the use of brainstorming camps, employee rotation, subsidiary project and apprentices & mentors.

Following this is the *Externalization* phase, where the tacit knowledge created in the former step is articulated and turned into explicit knowledge, this leading to it being apt for spreading and transferring to others. This phase is supported by two key factors: first, the tacit knowledge must be converted into explicit knowledge; this is helped with the use of explanatory techniques such as words, concepts and metaphors. Second, the tacit knowledge needs to be translated into understandable forms. For this phase, Chini

(2004) puts forward transfer of expert knowledge, decision support systems, analogies and metaphors, team collaboration tools and chat groups.

The third phase of the SECI model is called *Combination*, in this phase the now explicit knowledge is converted into more complex sets of explicit knowledge. This is executed by accumulating organization internal or external inputs of explicit knowledge that is forged into the already existing one to form new explicit knowledge that is later disseminated. This phase consists of three steps: first, new data and knowledge is gathered from either inside or outside the organization and then combined with the already known one. Thereafter, this knowledge is spread throughout the organization during meetings or presentations. Lastly, the explicit knowledge is edited, this in order to make it more usable for the organization. Chini (2004), makes her contribution by suggesting best practices, databases, web-based access to data and intranet & internet as useful tools.

Finally, the *Internalization* step occurs, during this phase the new explicit knowledge is transformed into the new tacit knowledge of the organization. This phase involves two dimensions necessary in order to convert the explicit knowledge into tacit. First, the knowledge needs to be embodied in actions and practice. For instance, training programs are a common way to embody the knowledge and make it more concrete for the trainees. Secondly, it is common to offer simulations or experiments in order to create something much similar to a learning-by-doing scenario. For this last step, Chini (2004) suggests learning by doing, on the job training, learning by observation and face-to-face meetings as sufficient tools.

This model should be seen as a spiral process, where the creation of new organizational tacit knowledge in the Internalization phase encourages the process to start all over again, thereby further developing the knowledge of the individual and hence the organization. By starting the process once again, a new, larger spiral of knowledge is created and the level of knowledge in the organization becomes deeper.

Gourlay (2006) poses critique against Nonaka's conceptual framework. Firstly, Gourlay (2006) argues that knowledge is created through human practices and experiences rather than by interaction between two types of knowledge, explicit and tacit. Instead, the transformation of tacit-to-tacit and tacit-to-explicit knowledge is simply the same as

learning-by-doing. Thirdly, he criticizes Nonaka's unidimensional description of tacit knowledge, omitting inherent tacit knowledge that might be impossible to transfer due to its complicated art. This since inherent tacit knowledge can be created without interaction with others. Moreover, Gourlay (2006), is critical toward the fact that the process of knowledge conversion seemingly only can begin at the socialization stage. As argued by Gourlay (2006), new knowledge conversion should rather have the ability to start in any of the four stages.

When acting on a global spectrum, the conversion of the company culture and knowledge inevitably becomes one of the primary necessities for the viability and success of the organization. Thereby, many firms nowadays make use of expatriates as a tool for the transfer of cardinal corporate themes and the knowledge embedded in these.

3.3. Expatriates as a Knowledge Sharing Mechanism

In the study "*Managing across borders: knowledge management and expatriation in professional legal service firms*" Beaverstock (2004) describes expatriation as a key strategy for knowledge development and management across borders in PSFs. Since client interface is essentially important for the operations of a PSF, as Alvesson (2004) also concludes, the tacit knowledge of expatriates needs to be shared and transferred directly with clients, preferably face-to-face. Therefore, when PSFs operate across national borders, demanding transnational knowledge management, they use expatriates as a knowledge sharing mechanism.

3.3.1. Motives behind the Use of Expatriates

Edström & Galbraith (1977) describe three motives behind the deployment of expatriates. First, firms send expatriates to an international office in order to *fill a position*. This due to a lack of expertise or experience among the workforce on the host market, for instance shortage of managerial talent, something that commonly is a driving force for international firms to send managers to developing markets.

Second, certain professionals may be sent abroad as an incentive or opportunity for them to *develop managerial skills and gain international experience*. This can almost be viewed upon as a training program, providing corporate talents with the chance to gain further

knowledge, hence becoming suitable for more leading roles in the near future at a subsidiary or the headquarter (Edström and Galbraith 1977).

Third, the motive behind the transfer is not to develop a certain individual prospect, but rather to *develop the organization* as a whole and link the organization together by implementing a controlling and coordinating strategy in order to connect the different organizational units. This strategy is founded on two elements: the socialization of expatriate and local managers into the corporate culture and the creation of a verbal communication network linking the home office to the subsidiary (Edström and Galbraith 1977).

3.3.2. *The Role of the Expatriate*

Building on the three motives of Edström & Galbraith (1977) and a number of German scholars, Harzing (2001) constructs three expatriate profiles, describing the varying role of the expatriates deployed internationally. Expatriates bringing out a system of pure control and surveillance are branded as *bears*, this since they are dominant in their nature and are, in some cases, perceived as a threat to the organization.

Other expatriates are instead focused on the control of socialization, meaning to educate the subsidiary about and integrate it into the corporate culture. These individuals are branded *bumblebees*, this due to as described by Harzing (2001), them flying from plant to plant creating cross-pollination between the different shoots. Lastly, expatriates emphasizing the creation of an informal communication network are named *spiders*. This since they focus on integrating the organization by encouraging communication between the business units, and “weaving a net of communication”, this leading to a more integrated organization. (Harzing, 2001)

Beaverstock (2004) found differences in the role of expatriates, depending on the different locations they were assigned to. Expatriates assigned to *East Asia* tended to have a more managerial role, managing teams and local staff. This resulted in a “one-way flow” of knowledge, from the country of origin to the host country. These findings are coherent with Bartlett and Ghoshal’s (1998) *Multinational model*. Although, expatriates delegated assignments in *Western Europe and North America* also tended to have managerial positions, however they were perceived to be more on the “same level” as the local

employees. Compared with the multinational model, this resulted in flows of knowledge through networks of relations in many directions, both upwards and downwards but also sideways. This can be referred to Bartlett and Ghoshal's (1998) *Transnational model*.

In Bonache and Brewster's (2001) case study of a large investment bank, they found that the duration of an expatriate's assignment depends on the skills of the expatriate. Since managing knowledge is more complex to teach than technical skills, an expatriate inhabiting technical skill tend to be assigned shorter international assignments than for example managers. By dividing the internalization of knowledge into two categories, one based on transferring *specific assets* and one transferring *generic assets*, the authors also explain why expatriates are used as mechanism of knowledge transferring, even if the labor market in the host country contains plenty of talents. Compared with generic assets, specific assets such as company-specific knowledge are tied to employees within the firm, explaining an expatriate strategy.

3.3.3. *Expatriates as Movers of Tacit Knowledge*

In "*Knowledge Transfer and the Management of Expatriation*" (2001), Bonache & Brewster identify a clear linkage between expatriates and a firm's competitive advantage. If tacit knowledge, tied to individuals, is a competitive advantage and the internationalization of a firm is based on the transfer of this tacit knowledge, it can be stated that expatriation is of critical importance in a firm's internationalization.

Expatriates are a unique mechanism for transferring knowledge across borders within a TNC. In contrast to other mechanisms, their mobility and ability to transport tacit knowledge is an effective tool for transferring knowledge internally and, at the same time, prevent the risk of transferring knowledge externally, to competitors (Argote & Ingram 2000).

This strategy is supported by Subramaniam & Venkatraman (2001), stating that tacit knowledge tied to individuals in a company provides the firm with a sustainable competitive advantage. Explicit knowledge on the other hand is easier to transfer with other mechanisms than expatriates. Meetings, telephone calls, e-mails and reports have traditionally been used but are increasingly being replaced by real-time information technology (Suutari & Brewster 1998).

Being characterized by knowledge intensity thus highly dependent on the creation and conversion of tacit and explicit knowledge (Nordenflycht 2010; and Alvesson 2004), PSFs regularly make use of expatriates as knowledge sharing mechanisms. In the following sections we will further explore the main characteristics of a professional service and PSFs, gaining more attention in the academia as well as witnessing a steadily growing proportion of the world economy (Business Wire 2012; Qfinance 2012), and describe why knowledge management is of high importance for these firms.

3.4. Managing Knowledge in PSFs

In this section we will describe the characteristics of a professional service followed by a presentation of the particular attributes of a PSF. Finally, a description on how these firms manage and transfer knowledge within their organizations will be brought out.

3.4.1 Professional Services

As presented in “*Strategic Management of Professional Service Firms*” (2005), Bente R Løwendahl noted the five defining features of professional services. Firstly, the service delivered is *highly knowledge intensive*, executed by craftsmen holding a degree of higher education.

Secondly, the service is based on a high degree of *customization* especially constructed for the specific case, this due to the uniqueness and complexity of each case, demanding a customized solution in order to ensure the most sufficient solution. Thirdly, by hiring a consultant to execute a certain mission, the client accepts the involvement of *discretionary efforts and personal judgment* by the expert, this since the solution presented in the end will be based on a large amount of subjective inputs from the expert.

Fourthly, in order to reach the most sufficient solution, there has to be substantial amounts of *interaction* between the client and the consultants, this in order to assure that the consultant acquires the right knowledge about the client as well as to enable the client to provide much needed input. Finally, the service is delivered within the borders of *professional norms of conduct*, for instance prioritizing client needs before profit seeking, this to ensure the quality of the service delivered.

3.4.2. The Characteristics of PSFs

According to Alvesson (2004), a *knowledge-intensive firm* is an organization where numbers of employees deal with complex tasks that demand autonomy and judgment. Additionally, the complex nature of these tasks makes them difficult to submit under traditional forms of control. Alvesson (2004) divides knowledge intensive companies into two groups, *PSFs* and *R&D firms*. In comparison, PSFs offer customized services and their employees often interact directly with the market, while R&D firms, in general, offer standardized products and where there is a low degree of interaction between its employees and the market.

Alvesson (2004) identifies the following characteristics central when describing knowledge intensive firms:

- Intellectual and symbolic skills play a major role
- Self-organization and a low level of hierarchy
- Organized in ad-hoc constellations
- Involved in complex tasks demanding coordination, communication and problem solving, often in groups
- Customized solutions according to client's needs
- Complex tasks demanding subjective solutions
- The expert position of a professional creates an unbalance between them and their clients, favoring the latter

Nordenflycht (2010), recognizes three characteristics applicable to PSFs, according to him PSFs are: *knowledge intensive*, *low capital intensive*, and *consisting of a professionalized workforce*. Considering the knowledge intensity, Nordenflycht (2010) acknowledges the different interpretations as to what parts of the firm are embodied in the knowledge intensity. Alvesson (2000), sees knowledge intensity as only being embodied in individuals while Morris & Empson (1998); and Starbuck (1992) also recognize that knowledge intensity can be embedded in equipment, products and organizational routines. Nordenflycht (2010) agrees with the former one, meaning that knowledge intensity refers to complex knowledge being embodied in the individuals of an organization.

According to this definition of knowledge intensity, and with the SECI-model of Nonaka and Konno (1998) in mind, the only way for this knowledge to be shared is by face-to-

face interaction, something that is also argued by Hedlund & Nonaka (1993); and Nonaka & Takeuchi (1995).

3.4.3. Managing Knowledge within PSFs

Empson & Morris (1998) created a framework, as seen in Figure 3.2, incorporating the main types of knowledge used in PSFs. The authors make distinctions between *individual* knowledge and *collective* knowledge (vertical axis), on one hand and *codified* (equal to explicit) and *tacit* knowledge on the other (horizontal axis). In a management consulting firm, individual knowledge could for instance be an employee's expert skills in a certain business system (individual codified knowledge) or the personal business relations of an employee (individual tacit knowledge). Collective knowledge, on the other hand, is for instance general knowledge of a product that the firm sells (collective codified knowledge) or the routines and culture of the everyday work (collective tacit knowledge).

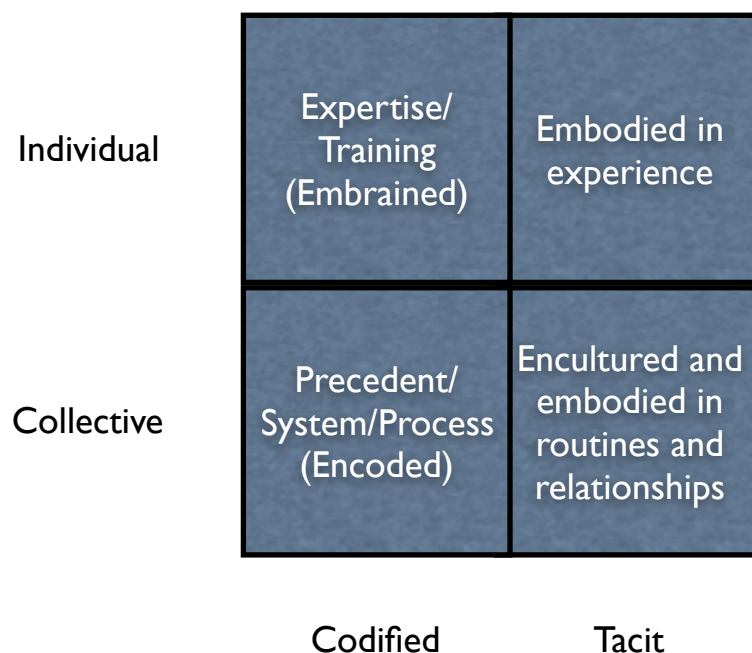


Figure 3.2. Framework of main types of knowledge used in the PSF. Empson & Morris (1998)

To acquire knowledge that individuals generate on the market and in interaction with clients, knowledge has to be appropriated through codification and drawn to the bottom left hand box. Such codification and standardization of knowledge can be done through the use of databases, training, manuals etc. Thus, the appropriation of knowledge depends on the strategy of the firm. For different reasons, some firms do not make attempts to codify tacit knowledge, for instance for firms offering customized and

unique solutions (Alvesson 2004; Ambos & Schlegelmilch 2009). The aim for these firms is to collectivize tacit knowledge, moving it to the right hand bottom of the box (Empson & Morris 1998).

3.4.4. *A Codification and a Personalized Strategy*

The certain characteristics of PSFs call for certain strategies when transferring knowledge within and outside the firm.

Hansen et al. (1999) describes two dominant strategies for knowledge sharing in knowledge-intensive firms: a *codification* strategy and a *personalized* strategy. In the codification strategy, companies adopt a "people to document" approach where knowledge is stored and codified in information systems and databases. This strategy facilitates an easier access of information; it opens up opportunities of reusing information and, as a result, saves time.

On the other hand, in the personalized strategy, knowledge is tied to the individual and transferred through socialization with others. This is a common strategy in management-consulting firms where the tasks often have a complex nature and need to be customized according to the needs of clients. Naturally, this strategy enables higher prices thus being more time-consuming and expensive, in terms of salary to employees. Although management consulting firms adopt both approaches, the companies that use knowledge most effectively tend to focus on one approach with the other functioning more as support, commonly an 80/20 per cent split. Hansen et al. (1999) describes further, how an overuse of a document-driven system could be fatal for management consulting companies and states several examples of large companies failing by overusing a codification strategy. However, the study showed that the usage of one strategy exclusively is inexpedient. A personalization strategy should be complemented by an information system in two ways, they argue. A provision of background information related to a topic but also by connecting people and their different skills. On the other hand, a codification strategy ought to be complemented by face-to-face communication in order to make sure that documents and guides are used in the right context (Hansen et al. 1999).

In addition, when choosing a strategy, the firm's competitive advantages in terms of how they create value for customers, how that value supports their economic model and how the employees deliver value, should be taken into consideration (Hansen et al. 1999).

In consulting firms dealing with similar problems in their daily operations, a codification strategy is preferable. On the contrary, for firms offering highly customized solutions to their clients' unique problems, a personalization approach is more suitable. Since the codification strategy includes a reuse of information, these firms tend to grow faster than firms focusing on a personalization strategy. Thus, firms adopting the latter strategy, offering highly customized solutions, can charge much higher prices for their products (Hansen et al. 1999).

In a study on international consulting firms by Ambos & Schlegelmilch (2009), the authors found that the consultant firms, regardless if offering customized or standardized solutions, exhibited a 60/40 per cent split between a codification versus a personalization approach, rather than the 80/20 per cent split suggested by Hansen et al. (1999). They also found that the usage of these two different strategies varies across the different phases of the project-lifecycle. In line with Hansen et al. (1999); and Ambos & Schlegelmilch (2009), Alvesson & Kärreman (2001) come to the conclusion that knowledge-intensive firms mix the two strategies described above, rather than solely focusing on one single strategy.

Alvesson (2004), however, is critical against the traditional view of equating knowledge and information and the following credence and usage of IT-solutions as a tool for transferring and reusing knowledge. Although there is some knowledge that is easier to store and codify, social interaction, individual judgment and the ability of interpretation is essential in the concept of knowledge, hence making it difficult to be codified and stored in databases and IT-systems. In contrast to information, knowledge inhibits a more process-like structure, as can be seen in section 3.2.1. Furthermore, Newell et al. (2002) cited in Alvesson (2004) identifies several arguments why knowledge is not suitable to codify. Firstly, knowledge is hard to express in words. Secondly, knowledge has a dynamic character. Thirdly, knowledge is to a large degree dependent on the context. The codification of knowledge is also related to costs and there may sometimes be

incentives to not share knowledge, for instance to protect a certain expert position within a firm.

When companies actively try to manage and control knowledge there is an apparent risk of transforming the knowledge into information: the more management, the larger risk of transforming knowledge into information (Alvesson 2004).

3.4.5. The Size as an Influence

Greenwood et al. (2003) argues that there are challenges related to the size of a PSF and management of knowledge. The sharing of knowledge through face-to-face becomes more time-consuming and difficult in larger firms. Larger size also requires more formal control, leading to an apparent risk of replacing individual initiatives. Since formal control has a tendency to decrease motivation among employees there is also a risk of losing engagement in decision-making.

In line with this, Davenport & Prusak (1998) describe how smaller PSFs avoid creating formal organizational structures in order to support the transfer of knowledge. Since individuals manage knowledge through informal networks and teams, a more formal organizational structure may hinder involvement and spontaneity in these networks. Swan et al. (1999) supports this opinion by stating that there is a too strong belief that IT-systems can be used to link knowledge between individuals and groups in geographically dispersed locations. Instead they argue that IT-systems can undermine their purpose of sharing knowledge since they decrease social interaction among employees.

From a study of two management consulting firms Empson & Morris (1998) draw different conclusions. The form of knowledge and the extent of codification are not predetermined by the size of the firm even if firms of similar size tend to share the same type of bureaucracy and formalization. The reason for this conclusion is found in the decentralized characteristic of PSFs. The cases in this study also imply that the type of strategy chosen, instead, is determined by senior management and their believes in what creates value for the firm, not taking the size of the firm into consideration. Thus, we believe that the size of the firm may exert certain influence over the strategy chosen by managers. Compared with smaller firms, larger size requires a higher degree of

formalization in order to function effectively. Another proposition by Empson & Morris (1998) is that the knowledge base of the firm determines the way in which knowledge is managed. A high degree of tacit knowledge requires a more personalized way of transferring knowledge while a codification approach is more suitable in firms where the knowledge base is easier to codify and where the organizational structure is defined by a high leverage (Empson & Morris 1998).

3.4.6. Organizational Culture and Values as an Influence on Knowledge Sharing

Alvesson (2004) points out organizational culture as a critical factor in the knowledge transfer process. The cultural values of relations, belongings and reciprocity within a firm are crucial for its members in their decision of sharing knowledge or not. According to Empson & Morris (1998) knowledge transfer in a firm is not inevitable since it requires a common set of values, structure and a will for employees to cooperate. Impediments may occur if a professional wants to secure his or her position and unique expertise. These impediments can be avoided through several initiatives. One of the consulting firms in their study had created a *Think Tank* where ideas were shared among its members. An invitation to the *Think Tank* was associated with prestige, thus avoiding the impediments of sharing knowledge. Löwendahl (2005, p 58) further investigates this area, citing a senior professional of a large law firm claiming that: “*A big problem with the “stars” is that they do not want to share the applause...*” In order to facilitate a more flexible organization with low prestige where knowledge is shared, Löwendahl (2005) argues that it is of utmost importance to employ the right type of people.

To sum up, the choice between a personalization and a codification strategy should be based on a firm's competitive advantages and the nature of its operations. Since there are difficulties in codifying and storing tacit knowledge, a personalization strategy is recommended for the knowledge-intensive PSF, offering its clients complex and customized solutions. Although, such a strategy should be supported by a system-based strategy, for instance by providing background information or by bringing expertise together. Company size, degree of formal control and organizational culture and values all exert influence on the knowledge transfer process in a PSF.

To sum up, we have listed the key concepts presented in section 3.1.-3.4.6., as seen in Table 3.1. These concepts will later be analyzed in chapter 5.

Table 3.1. Summary of the theoretical framework (Norderyd & Nolgren 2013).

The Transnational Organization	The Concept of Knowledge and Knowledge Management	Expatriates as a Knowledge Sharing Mechanism	Managing Knowledge in PSFs
<ul style="list-style-type: none"> •Bartlett & Goshal: <ul style="list-style-type: none"> •The transnational corporation •Three flow management tools •Classification of subsidiaries •Martinez & Jarillo <ul style="list-style-type: none"> •Eight mechanisms of coordination 	<ul style="list-style-type: none"> •Nonaka & Konno <ul style="list-style-type: none"> •Distinguishing explicit and tacit knowledge •The SECI model •Chini <ul style="list-style-type: none"> •Adds tools for knowledge management in the SECI model •Empson & Morris <ul style="list-style-type: none"> •Individual and collective knowledge •Fang et al. <ul style="list-style-type: none"> •Adds a location specific dimension to knowledge •Gourlay <ul style="list-style-type: none"> •Critique against the SECI model •Alavi & Leidner <ul style="list-style-type: none"> •Definiton of knowledge management •Schultze & Stabel <ul style="list-style-type: none"> •Definition of knowledge management 	<ul style="list-style-type: none"> •Edström & Galbraith <ul style="list-style-type: none"> •Three motives behind the deployment of expatriates •Beaverstock; Alvesson <ul style="list-style-type: none"> •Expatriation as a key strategy for knowledge transfer across borders in professional service firms •Harzing <ul style="list-style-type: none"> •Three expatriate profiles •Beaverstock <ul style="list-style-type: none"> •Location influences the role of the expatriate •Bonache & Brewster <ul style="list-style-type: none"> •Clear linkage between the use of expatriates and a firm's competitive advantage •The duration of an expatriate's assignment depends on the skills of the expatriate •Hocking <ul style="list-style-type: none"> •Managing context-specific tacit knowledge through expatriates •Argote & Ingram <ul style="list-style-type: none"> •Expatriates are a unique mechanism for transferring knowledge across borders within a TNC •Subramaniam & Venkatraman <ul style="list-style-type: none"> •Tacit knowledge tied to individuals - a competitive advantage. This knowledge is best transferred through cross-national teams. •Suutari & Brewster <ul style="list-style-type: none"> •Explicit knowledge is easier to transfer with other mechanisms than expatriate. 	<ul style="list-style-type: none"> •Löwendahl <ul style="list-style-type: none"> •Five defining features of a Professional Service •The importance of hiring the right people •Alvesson <ul style="list-style-type: none"> •Characteristics of a PSF •Defining knowledge intensity •Morris & Empson; Starbuck <ul style="list-style-type: none"> •Another definition of knowledge intensity •Nordenflycht <ul style="list-style-type: none"> •Three characteristics of a PSF •Hedlund & Nonaka; Nonaka & Takeuchi; Nonaka & Konno <ul style="list-style-type: none"> •Knowledge sharing requires face-to-face interaction •Empson & Morris <ul style="list-style-type: none"> •Framework incorporating the main types of knowledge in a PSF •Hansen et al. <ul style="list-style-type: none"> •Two strategies for knowledge sharing: codification or personalization •Ambos & Schlegelmilch; Alvesson & Kärreman <ul style="list-style-type: none"> •A mix of codification and personalization necessary in knowledge sharing •Newell et al.; Alvesson <ul style="list-style-type: none"> •Difficult to codify knowledge •Greenwood et al.; Davenport & Prusak; Swan et al. <ul style="list-style-type: none"> •Difficult to manage knowledge in large firms •Empson & Morris <ul style="list-style-type: none"> •The knowledge base of the firm and senior management determines knowledge management practices •Alvesson; Empson & Morris <ul style="list-style-type: none"> •Organizational culture and values critical in the knowledge transfer process

3.5. A Conceptual Framework for Knowledge Transfer within Transnational PSFs

After reviewing numerous theories regarding transnational organizations, knowledge and knowledge management, expatriates and PSFs, we will now present our model for the management and transfer of knowledge inside these organizations, using the expatriate as a vector. The objective of this model is hence to build a simple framework in order to illustrate how PSFs accumulate and transfer knowledge inside the organization with the use of expatriates.

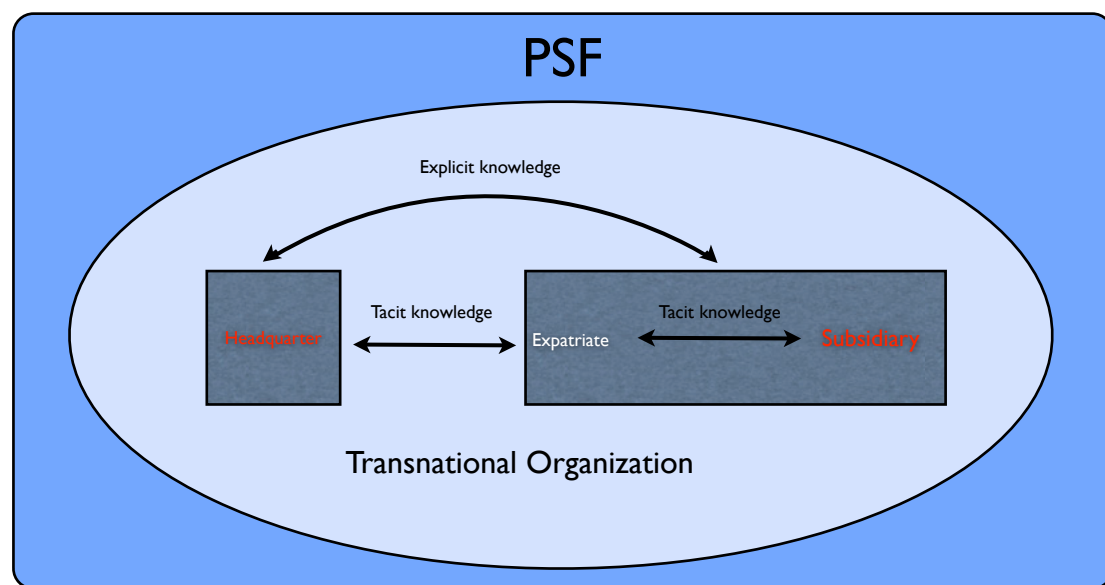


Figure 3.3. A conceptual framework for knowledge transfer within transnational PSFs with the use of expatriates (Norderyd & Nølgren 2013).

As can be seen in model 3.3., there are three involved parts in our knowledge transfer model, namely: *Headquarter*, *Expatriate* and *Subsidiary*. These three players transfer knowledge inside the transnational organization in order to ensure and enhance the building of competitive advantages. Additionally, they are part of one unique PSF. When an expatriate is deployed to a new location, we argue, in line with Argote & Ingram (2000); Subramaniam & Venkatraman (2001); and Bonache & Brewster (2001) that expatriates are tools, ensuring that the tacit knowledge of the organization is transferred to the new unit, without any of it being spilled outside the organization. According to Nonaka & Konno (1998); Alvesson (2004); and Beaverstock (2004), the only way for tacit knowledge to be efficiently shared is by face-to-face interaction, something that the expatriate will realize, thereby functioning as a bridging tool between the headquarter and the subsidiary.

In line with Empson & Morris (1998); and Hocking et al. (2007), the context-specific tacit knowledge of the expatriate, gathered from the host market, can thereafter through different means of codification be transferred back as explicit knowledge to the collective, in this case the headquarter. Moreover, the expatriate can, by interacting with the headquarter, transfer substantial amounts of tacit knowledge accumulated at the subsidiary back to the home base, thereby further reinforcing the organizational knowledge base and the competitive advantage of the firm. Since the model covers a transnational PSF, we predict that the expatriate functions as a *spider* (Harzing 2001), building a net of informal communication throughout the whole organization.

4. Empirical Findings



In this section we present our empirical findings based on three interviews conducted with employees of our case company – as well as secondary data from the company homepage and other databases. Due to the granted anonymity of the case company, no secondary references will be presented. This data is however gathered from the company homepage as well as databases such as LinkedIn.

4.1. Case Company Background

Company A is a management consulting and recruitment firm, with experience of 800 missions, helping Scandinavian companies with recruitment and operations in China. The home office is located in a large Swedish city, with a subsidiary in a large city in China. Operations in Sweden began in 2003, thereafter spreading to China in 2010. As of today, the company has a team of nine employees; among these three are assigned to the subsidiary in China. Being a global management consulting and recruiting firm, the company's mission is to revolutionize the recruitment industry providing companies with motivated people and hence making the whole organization more efficient.

4.2. The Role of the Chinese Subsidiary

The subsidiary in China is described as being of highest strategic importance for the company's overall business. When commencing business in 2003 the company had its

entire focus on the Scandinavian market. Albeit, the growing importance of the Chinese market was recognized and accordingly the company decided to put up a subsidiary in China 2010, built up by junior consultants with Chinese and Swedish backgrounds. Today, 80-90 per cent of the company's business is related to Scandinavian clients operating on the Chinese market, hence being of greatest importance. Thereby, Expatriate 1 recognizes the enormous advantages of being present in China, thus enabling interaction with the clients' local personnel. As put by Expatriate 1: *"Our establishment here is very important. It's basically our thing. We perform recruitments specialized for the Chinese market"*

The Office Manager in Sweden confirms the importance of the Chinese subsidiary by stating:

"I would say it is very important. It enables our clients to purchase the services from us here in Sweden and feel the comfort of talking to a person of Scandinavian origin who understands them and their problems. Thereafter, through our platform we can deliver in China. So to us, it is strategically decisive."

While functioning as the operational arm in China, the Swedish headquarter of the company studied, is responsible for the contact with the Scandinavian clients' head offices and management. Nonetheless, clients are gathered both through the home office as well as the subsidiary. Office Manager further states: *"We see the Chinese subsidiary as a partner."*

4.3. The Role of the Expatriates in China

Expatriate 1 has a mixed educational background incorporating two years of IT-studies, two years of Chinese language studies as well as two years of studies in business administration. Before the current position, Expatriate 1 has work-related experiences from sales and marketing, IT and visual media, as well as entrepreneurial experience from operating his/her own consulting firm. In our case company, Expatriate 1 functions as a business consultant, currently on assignment in a large Chinese city. The tasks involve recruitment of personnel for Scandinavian companies operating in China, as well as assessing the needs of these clients. Expatriate 1 also functions as a sales representative for the company searching for new clients and has been in China for one year. The

current assignment is permanent. Expatriate Intern is a student in the field of International Business at a well-known Swedish University. In line with Expatriate 1's background, Expatriate Intern had a relatively good pre-understanding of China before the internship, as well as good Chinese language skills, derived from two exchange semesters in China. The internship in Company A extended for four months.

Expatriate 1 states that the local-specific knowledge of China is accumulated over time by living in the country, working in different projects and through interaction with people. Expatriate Intern supports this view. While conducting recruiting assignments for clients in their daily work, Expatriate 1 meets a lot of people from different client organizations. Expatriate 1 further states that one gains substantial knowledge about the Chinese market through simple business meetings.

Moreover, Expatriate 1 once again emphasizes the great significance of them having consultants of Scandinavian origin present in China. This is greatly appreciated by the clients since it simplifies the understanding of client needs as well as the candidate profile wanted for the specific project. In line with this Office Manager argues:

"The reason why there are Swedes managing our subsidiary is in order for us to secure that our staff will deliver according to Swedish quality norms based on the Swedish question at issue – the personnel over there must understand how a Swedish or Scandinavian client argues. But in order to simultaneously understand the people you handle and work with over there, one must also understand the Chinese culture. Therefore, they are Swedish/Chinese, or whatever you like to call them."

A view that is confirmed by Expatriate 1: *"For us, this is of utmost importance."*

Despite the numerous meetings held between the two offices (described in section 4.4), Expatriate 1 recognizes the complication of transferring local-specific knowledge to the home office. Instead they are only able to transfer specific project-related knowledge, considering the progress of work, sales figures etc.

"Everything we experience here in China is very specific and hard for the personnel in Sweden to assimilate. It can refer to small details, for instance how to perform a recruitment in China. Small details that are difficult to transfer, in this way an information gap appears."

This is a view confirmed by the Office Manager:

“On one level it is easy for them to tell us about what they know and what they have experienced, thereby we can use it and refer to it in various client meetings. But when it comes to creating the real confidence, the client will always put more faith in the person who has actually experienced something. In this way, it is harder transfer it – I mean you can transfer it – but it might not be as valuable as when the first person states it.”

Expatriate 1 only travels back to Sweden for family reasons, once a year. However, the CEO frequently travels between the home office and the Chinese subsidiary.

4.4. Managing Knowledge in PSFs

When taking on a recruitment mission on the Chinese market, the expatriates use a standardized and quality secured model developed by the CEO. As described, a well-developed model will take you far in recruitment projects. This is taught to junior expatriate consultants and thereafter implemented on the projects conducted in China. Nonetheless, since all clients differ in terms of their characteristics, there will always be a degree of customization, hence leading to an accordingly unique end result for each case.

When recruiting in China, knowledge is primarily assessed through initial face-to-face meetings with clients. In order to gain sufficient amounts of knowledge, two to three introductory interviews with the clients are held, giving the expatriates a proper understanding of the needs and the profile of the clients. These interviews are in-depth interviews with key personnel in connection with the position to be recruited, conducted mainly face-to-face, however due to the size of China, some may be held via telephone. Moreover, external research is conducted in the sales phase, as well as gathering of business data and presentations from the clients when a projects is in its pipeline. In contrast to other Scandinavian recruitment firms operating in China, Company A designs its own job specification profile instead of receiving it from the clients, thus demanding a longer project process time. Additionally, the longer project facilitates a higher pricing. As stated by Expatriate 1: *“...of course we try to accumulate business presentations and some forms of available data, however I would say the largest share is through personal meetings.”*

On average, Expatriate 1 estimates that only a fraction of the knowledge, maybe as small as one or two per cent, is gathered through databases and such alike. The rest, varying around 98-99 per cent, is accumulated through personal interviews and meetings. Expatriate Intern contradicts this picture by guessing at a 50/50 split. When recruiting in China, face-to-face interaction is identified as essential for the expatriates in order to develop reasoning and to be able to ask the right questions, based on the client's needs. In line with this Office Manager states:

"I believe it is more favorable to have a personal meeting with the client. This since it enables you to ask more supplementary questions that you might ponder about based on the knowledge already accumulated. However I think the combination is very useful. This since we do some external research before our client meetings. This way we know where to start. So I think they complement each other very well."

Further, Expatriate 1 describes the competitive advantage of being present on both continents, enabling them to meet their clients face-to-face throughout the whole recruiting process.

Being a fast growing one, the firm is characterized by a high level of entrepreneurship and work towards clear goals, defining the whole culture of the organization. Further the company has found a very clear niche market and it is everyone's individual responsibility to roll up their sleeves and seize the opportunities present on the lucrative Chinese market. Expatriate 1 describes the most important organizational traits as following: *"There are structures apparent but we see ourselves as entrepreneurs since the design of our work is very unregulated"*. Expatriate Intern further validates this picture when stating: *"As long as you do what you're supposed to do, it's fine. When given a task by the office manager he didn't say how I should do, just the expected results."*

The company is characterized by a flat organization with a high influence of Scandinavian management practices. For instance, the organization is described as open minded, letting everyone express his or her opinion. Expatriate Intern affirms this by stating: *"I never felt any hinders to express my opinion, not even when talking to the CEO. In fact we used this Scandinavian approach as a sales argument in meetings with clients."*

Despite the small headcount, there are organizational structures apparent, defining the spheres of responsibility. Additionally, Expatriate 1 sees advantages of such a structure since it enhances the growth of the organization as well as knowledge sharing among employees. This is advantageous since the two branches often work simultaneously on the same projects. The Swedish headquarter employs six consultants while the Chinese subsidiary contains two expatriate consultants and one back office researcher of Chinese origin, supporting the two consultants with background research.

The small size enables employees in each office to interact casually on a daily basis, enabling unofficial meetings and communication in both offices. Moreover, every week at least three Skype meetings are held between the Swedish headquarter and the Chinese subsidiary. During these meetings, the expatriates at the Chinese subsidiary update the home office on the ongoing projects and the status of business on the Chinese market. The meetings, which extend from ten minutes to one hour, are divided into weekly start-up meetings, production meetings and weekly follow-up meetings, aiming at keeping the business knowledge up-to-date, something that is emphasized by Expatriate 1: *“Without this things would not run so smoothly.”*

These Skype meetings are complemented by frequent e-mail communication and a mutually shared business system where everyone is interconnected regardless of their geographical location. This is supplemented by a mutual “Dropbox” server database, containing project documents and reports, enabling instant knowledge sharing. Expatriate 1 continues: *“Commonly both offices work on the same projects, thereby we share the information in this manner, enabling everyone to take part of the status, presentations and such alike.”*

5. Analysis & Answering Research Questions



In this section we analyze our empirical data, based on the theoretical framework, in order to answer our three research questions. Moreover, we seek evidence for the relevance of our conceptual model and present a modified version of it.

5.1. The Transnational Organization

Our case company is well coherent with Bartlett and Ghoshal's (1989) definition of a transnational corporation. It is a specialized organization, helping Scandinavian companies with recruitment and consulting on the Chinese market. Its Chinese subsidiary acts as a global unit, gaining local responsiveness on the Chinese market. The fact that knowledge is created both in the subsidiary and at the Swedish headquarter and then spread between the two units, underlines its transnational profile, as described by Bartlett and Ghoshal (1989).

As pointed out in the theoretical framework, Bartlett and Ghoshal (1989) identify three crucial flows; we put our emphasis on the flow of intelligence, ideas and knowledge. In order to manage this flow, TNCs make use of *centralization*, *formalization* and *socialization*. Being more relevant for our study we focus on number two and three.

In our company, *formalization* tools incorporate a shared business system, a mutually shared database and a quality secured recruiting model, as well as three weekly Skype meetings between the two offices. Our case company uses *socialization* in terms of employees from different offices working simultaneously on the same projects, meetings on a regular basis as well as intensive e-mail correspondence, thereby converging the line of thinking and project perspectives.

When considering Martinez & Jarillo's (1989) eight coordination mechanisms, we find one formal mechanism as being relevant while two informal mechanisms can be seen as being used in the case company. The only formal coordination tool applicable is *formalization and standardization*. Especially relevant in our case company is the use of standardization procedures. Company A uses a standardized recruiting model, developed by the CEO, when carrying out recruiting projects. Being a small management consulting

firm, characterized by informal structures and entrepreneurship, *departmentalization* is not an applicable coordination tool for our company. Probably due to the high level of entrepreneurship, we find little evidence for the use of *planning of strategies, budgeting and scheduling*. In addition, *output and behavior control* is not a common practice in PSFs, especially not in our case company where the mentioned level of hierarchy is low.

For the informal mechanisms, we see evidence of *lateral or cross-departmental relations*, for instance direct management contact in terms of Skype meetings and e-mail communication between management in Sweden and China. Moreover, we see strong evidence for *informal communication*, not to mention through the trips carried out by the CEO between the offices, but also the mentioned weekly Skype meetings. Since the company is characterized as flat, adopting a Scandinavian management approach, we found numerous proofs of informal communication on a daily basis, where meetings are held ad hoc at need and where opinions are shared regardless of title. Regarding *socialization*, we see no real proof of the use as defined by Martinez & Jarillo (1989).

In line with the TNC framework provided by Bartlett & Ghoshal (1989), the subsidiary in China can be characterized as a *strategic business partner*, creating and sharing knowledge with the whole organization. The Swedish office manager also recognizes this: "*We see the Chinese subsidiary as a partner.*"

With reference to our empirical evidence, we argue that the subsidiary in China can be seen as a *strategic leader* (Bartlett & Ghoshal 1989), this since it is situated on a market paramount for the viability of our case company. Moreover, the subsidiary is equal to the home office, making important strategic decisions and gaining clients on an equal frequency.

To sum up, we argue that our case company is well coherent with the definition of a transnational corporation, where the Chinese subsidiary should be viewed as a strategic business partner, equal to the headquarter and situated on a market vital for the overall performance of the firm. To manage the flows of intelligence, ideas and knowledge, the company focuses on socialization and communication tools, mostly informal, though elements of formalization are apparent, for instance the use of a standardized recruiting model.

5.2. The Concept of Knowledge and Knowledge Management

Nonaka & Konno's (1998) distinction between tacit and explicit knowledge can be applied to the types of knowledge identified within our case company. In this context, *tacit* knowledge refers to the location-specific knowledge (Fang et al. 2010) of the expatriates operating on the highly unique Chinese market, with strong characteristics, differing widely from the Scandinavian one. As described by our interviewees, and in line with Empson & Morris (1998), this knowledge is embedded in the workers, thereby making it *individual*.

Explicit knowledge in our case refers to specific knowledge about projects, clients and candidates. This knowledge is shared and appropriated by the company as a whole, through a shared "Dropbox" database, an integrated business system, weekly Skype meetings and e-mail correspondence, thereby making it *collective* and drawn to the bottom left hand box in Figure 3.2, as defined by Empson & Morris (1998).

Nonaka's SECI-model (1994), complemented by Chini's tools (2004) may be used when analyzing the creation and transfer of knowledge in our case company.

In the first phase, *Socialization*, new tacit knowledge is created by the expatriate through physical interaction with clients and candidates, or simply by dwelling in the highly unique environment that China is. Since physical interaction enhances the creation of new tacit knowledge, we see the strong advantage of having personnel present in China. Regarding Chini's (2004) suggested tools, we identify subsidiary projects as being used. This goes hand in hand with the role of the subsidiary as a strategic leader (Bartlett & Ghoshal 1989), giving it a high degree of autonomy and responsibility.

In the next phase, *Externalization*, tacit knowledge is articulated and turned into explicit. To make this possible, Company A utilizes one tool suggested by Chini (2004). With the use of a standardized recruitment model, being a decision support system, the employees can, to a certain degree, articulate and make use of the tacit knowledge gathered in meetings with clients and candidates.

In the third phase, *Combination*, our case company makes use of coordination tools such as a "Dropbox" server database, an integrated business system, e-mail correspondence, and regular Skype sessions.

In the last phase, *Internalization*, explicit knowledge becomes embedded in the organization as organizational tacit knowledge. In our case company, with two geographically dispersed offices, this is only appropriated through face-to-face meetings by the CEO, occasionally travelling to China. Since the expatriates are permanently assigned to China, no repatriation occurs. One can argue that a Skype meeting equals face-to-face meetings and thus should be included in this phase. Yet, according to our empirical findings, a Skype meeting is a somewhat insufficient tool for transferring tacit knowledge.

As a concluding remark to the SECI-model, we argue that the model is somewhat abstract and hard to implement to our case, despite the several tools presented by Chini (2004). Additionally, the model is of age, being almost 20 years old and thereby not adapted to the interconnected world of today, where knowledge can be shared by the second of its creation, regardless of spatial and temporal dependence. Furthermore, as we saw in our study, the company recognizes the difficulty in transferring all too location-specific, tacit knowledge to the home office. This view goes hand in hand with Gourlay's (2006) critique against the SECI-model, stating that some tacit knowledge is simply too complicated to transfer.

5.3. Expatriates as a Knowledge Sharing Mechanism

"The reason why there are Swedes managing our subsidiary is in order for us to secure that our staff will deliver according to Swedish quality norms based on the Swedish question at issue – the personnel over there must understand how a Swedish or Scandinavian client argues. But in order to simultaneously understand the people you handle and work with over there, one must also understand the Chinese culture. Therefore, they are Swedish/Chinese, or whatever you like to call them."

Expatriation is evidently a key strategy for transferring knowledge in our case company, as described in the quote above (Beaverstock 2004). Furthermore, expatriates are seen as a necessity in order to meet the clients face-to-face in China (Alvesson 2004).

Edström & Galbraith (1997) present three motives behind the use of expatriates. In our case company, we identify two of the motives being especially relevant and suggest a mix of these two.

First of all, expatriates are sent to the Chinese subsidiary in order to *fill positions* demanding a very specific set of knowledge, namely knowledge of the Scandinavian market, knowledge of the company as well as knowledge of the Chinese market. This corresponds well to the first motive. Before their assignment in China, the expatriates in Company A already had some pre-understanding of the Chinese market and culture, along with certain Chinese language skills. Since the Chinese market is of highest importance for Company A, these expatriates enable the company to focus on a highly niched service, and connect the Scandinavian market to the Chinese, thereby *developing the organization* as a whole.

In our case company, the role of the expatriate is harder to identify, since the Chinese subsidiary only contains two expatriates and one employee of Chinese origin. Nonetheless, when branding the role of the expatriates, according to Harzing (2001), our expatriates should be viewed as *spiders*, this since their main task is to link the Chinese subsidiary to the Swedish headquarter as well as establishing a formal and informal communication network.

Despite Beaverstock's (2004) findings that expatriates assigned in East Asia take on a more managerial role, resulting in a "one-way-flow" of knowledge, and in line with the *Multinational Model* (Bartlett & Ghoshal 1998), we come to a different conclusion. Instead, the expatriates assigned to the Chinese subsidiary resemble the *Transnational Model*, described by Bartlett & Ghoshal (1998), since they also transfer knowledge back to the home office. We believe a probable explanation could be Company A's relatively small size, the lack of hierarchy and the high level of knowledge embedded in all employees. Additionally, the fact that the Swedish headquarter and the Chinese subsidiary work on the same projects simultaneously, makes knowledge and communication between the two offices substantial in order to secure a result of high quality.

The high level of specific knowledge such as company knowledge, language skills, cultural knowledge etcetera embedded in Company A's expatriates, is one explanation for their long-term assignments in China. As mentioned in the section of empirical

findings, these expatriates are currently assigned permanently to China. Compared to technical skills, this type of knowledge is more complicated and time consuming to transfer, thus demanding long term assignments (Bonache & Brewster 2001).

The empirical findings in our study corresponds well to the conclusions of Bonache & Brewster (2001); Argote & Ingram (2000); and Subramaniam & Venkatraman (2001), stating that *tacit* knowledge tied to expatriates is a strong competitive advantage for a firm internationalizing. Having Scandinavian expatriate consultants present in China is seen as a strong advantage for the firm and furthermore greatly appreciated by the Scandinavian clients - thereby we see it as a clear competitive advantage. On the other hand, we recognize in our study, in line with Suutari & Brewster (1998), that *explicit* knowledge is easier to transfer with mechanisms other than expatriates. In our case company, explicit knowledge about projects is transferred through internal business systems, databases and e-mails. For Company A, we identify Skype meetings as the most important tool for transferring explicit knowledge inside the organization, increasingly replacing older forms of information technology (Suutari & Brewster 1998).

5.4. Managing Knowledge in PSFs

Relying on Løwendahl's (2005) definition of a *professional service*, as well as Alvesson's (2004) characteristics of a *knowledge intensive firm* and Nordenflycht's (2010) definition of a *PSF*, we can, with large confidence define our case company as a PSF, providing professional services to its clients, since it corresponds with all the characteristics mentioned in section 3.4.1.-3.4.2.

Relating to the knowledge intensity discussion, we find that the tacit knowledge intensity in our case company is embedded in the workers, thereby supporting the opinion stated by Alvesson (2000); and Nordenflycht (2010). This also corresponds with Hedlund & Nonaka (1993); Nonaka & Takeuchi (1995); and Nonaka & Konno (1998), concluding that tacit knowledge can only be shared through face-to-face interaction.

On the other hand, we also see proof supporting Morris & Empson (1998); and Starbuck (1992), claiming that knowledge intensity can be embedded in equipment, products and organizational routines. We see that some knowledge is in fact embedded in equipment,

for instance in Company A's "Dropbox" database. However, this should be seen as explicit knowledge (Alvesson 2004).

When analyzing knowledge management in our case company with the use of Empson & Morri's (1998) framework incorporating the main types of knowledge in a PSF, we find that our case company does not make any qualified attempt to appropriate individual tacit knowledge into the collective, thereby transferring it between the two offices. However, as mentioned earlier in section 4, attempts are being made of appropriating individual explicit knowledge into the collective, with the use of information technology, connecting the two offices.

In accordance with Hansen et al. (1999) and the described two dominant strategies for knowledge sharing, the *codification* strategy and the *personalized* strategy, we clearly see a favor for the personalized strategy in our case company. Although varying from 50 to 99 per cent, we see clear proof of dominance by the personalized strategy. For instance, one of our interviewees stated that the recruiting process time is almost the double compared to the competition, being a product of the high degree of customization and focus on face-to-face interaction.

Furthermore, in line with Hansen et al. (1999); and Ambos & Schlegelmilch (2009), a focus on a personalization approach is suitable for PSFs offering customized solutions and this customization also facilitates a higher pricing level, as in our case. Additionally, Hansen et al. (1999) argues that a too strong focus on one strategy is inexpedient. Instead, the personalization strategy should be complemented by a codification strategy, something the Swedish Office Manager supports when stating:

"I believe it is more favorable to have a personal meeting with the client. This since it enables you to ask more supplementary questions that you might ponder about based on the knowledge already accumulated. However I think the combination is very useful. This since we do some external research before our client meetings. This way we know where to start. So I think they complement each other very well."

This statement from the Office Manager, underlining the importance of individual judgment and the ability of interpretation when meeting clients, corresponds well with Alvesson's (2004) description of knowledge as a dynamic process but also to Newell et al.'s (2002) description of knowledge being heavily dependent on the context. Some

knowledge is easier to codify, while some knowledge is harder to codify due to its dynamic character, the authors argue. In our case, we believe the background research carried out before client meetings, from the internet or from databases, is easier to codify, store and share, while a deeper understanding of the clients' needs demands face-to-face meetings.

Being somewhat contradictory, while conducting almost all of the research through face-to-face interviews, the company uses a strong model when finding a candidate suitable for the client in question. Here we see a clear contradiction since face-to-face interviews and information gathering corresponds to the personalization strategy, while the use of a standardized model is more tilted toward the codification strategy. We argue that the strategic combination of each approach depends on the different phases of the project life cycle, and is coherent to the findings of Ambush & Schlegelmilch (2009). Considering the percentage division between the two strategies in our case company, and with the suggested ideal split of 80/20 presented by Hansen et al. (1999), and 60/40 by Ambos & Schlegelmilch (2009) in mind, we see no clear advantage for any of these two suggested ideals for Company A.

Being a small PSF with nine employees, our findings indicate that the degree of formalization is low, for instance, meetings are often held ad hoc and opinions are uttered regardless of hierarchical position. Expatriate 1 confirms this description: *"There are structures apparent but we see ourselves as entrepreneurs since the design of our work is very unregulated."*

Expatriate Intern further confirms this when stating: *"As long as you do what you're supposed to do, it's fine. When given a task by the office manager he didn't say how I should do, just the expected results."*

This corresponds well with Greenwood et al. (2003); and Davenport & Prusak (1998), who argue that the size of the firm determines the degree of formalization. We argue that the small size of the firm facilitates a more informal structure and spontaneous knowledge sharing. By conducting several Skype meetings, the company avoids the creation of a rigid formal structure where knowledge is simply put into an IT-system without being discussed. We see clear evidence for the proposition put out by Empson & Morris (1998), claiming that the high degree of tacit knowledge requires a higher

degree of interaction in order to spread the knowledge. On the other hand, we must also recognize the fact that our study contains only one case company, thereby not giving validity to Empson & Morris's (1998) suggestion that the senior management determines the structure. This since we have only studied one art of management.

Moreover, we argue in line with Alvesson (2004); and Empson & Morris (1998), seeing that the organizational culture and values facilitate knowledge sharing among the employees. We see no clear evidence of impediments of knowledge sharing, probably due to the low hierarchical structure in our case company. In order to secure a working flow of knowledge between the consultants, we see proof of the suggested strategy by Löwendahl (2005), employing personnel with strong entrepreneurial skills, thereby creating a good base for knowledge sharing. Expatriate Intern supports this by stating: *"I never felt any hinders to express my opinion, not even when talking to the CEO. In fact we used this Scandinavian approach as a sales argument in meetings with clients."*

5.5. A Conceptual Framework for Knowledge Transfer within Transnational PSFs

Looking at our conceptual framework developed after the literature review, in the light of our empirical findings, we see proof for our model and the relevance of its design. In line with Argote & Ingram (2000); Subramaniam & Venkatraman (2001); and Bonache & Brewster (2001), we find that expatriates are used as a substantial tool for transferring tacit knowledge to the Chinese subsidiary. In our case, the expatriates transferred the company specific knowledge as well as Scandinavian market understanding and cultural understanding of the Scandinavian clients.

Moreover, when living and working abroad, our findings indicate that expatriates accumulate tacit, local-specific knowledge (Fang et al 2010) about the environment, market and culture they operate in. This tacit, local-specific knowledge is cardinal in order to create a competitive advantage for the PSF, better understanding the client needs and the circumstances present. Additionally, by being present on the local market, they can in fact meet the clients and the candidates face-to-face, hence building a solid ground to stand on, leading to more informed decisions, probably leading to a better and more long-lasting result. The Office Manager in Sweden confirms the importance of local presence with expatriates by stating:

“On one level it is easy for them to tell us about what they know and what they have experienced, thereby we can use it and refer to it in various client meetings. But when it comes to creating the real confidence, the client will always put more faith in the person who has actually experienced something. In this way, it is harder transfer it – I mean you can transfer it – but it might not be as valuable as when the first person states it.”

Adding to this, the subsidiary transfers vast amounts of explicit knowledge back to the home office, this being complemented by a steady flow going in the opposite direction. This flow of information is founded on the *transnational network*, connecting the two organizational arms. Helping the flow of explicit knowledge, we found that our case company works in a joint mutual business system, has a joint “Dropbox” database, e-mail correspondence and Skype sessions.

On the other hand, as can be seen in our model, we argued in line with Empson & Morris (1998); and Hocking et al (2007) who stated that the context-specific tacit knowledge accumulated on an international deployment can be codified and thereafter transferred back to the headquarter as explicit knowledge. Our findings, however, contradict these statements since Expatriate 1 recognizes the difficulties in transferring such local-specific knowledge.

“Everything we experience here in China is very specific and hard for the personnel in Sweden to assimilate. It can refer to small details, for instance how to perform a recruitment in China. Small details that are difficult to transfer, in this way an information gap appears.”

With this in mind, we argue that local-specific, tacit knowledge can only be transferred face-to-face, hence corresponding to Nonaka & Konno (1998); Alvesson (2004); and Beaverstock (2004). Nonetheless, we see a solution to the issue of transferring tacit knowledge. As our empirical findings show, the CEO sporadically travels between the two offices, thereby enabling a transfer of tacit knowledge. The expatriates only travel home once a year for family reasons, hence no repatriation occurs. By letting the expatriates at the Chinese subsidiary travel home occasionally, the case company can facilitate a transfer of local-specific, tacit knowledge that can be integrated into the organization. Nevertheless, we are aware of the financial dimension of such business trips.

Taking our analysis above into account, based on the empirical findings, we extend our conceptual framework for knowledge transfer within transnational PSFs, by adding the tools Company A uses for transferring knowledge between the two offices, as well as adjusting the “two way flow” of tacit knowledge into a “one way flow” of tacit knowledge from the headquarter to the Chinese subsidiary. What is more, we add the environmental settings from where the expatriate gains and creates new tacit knowledge.

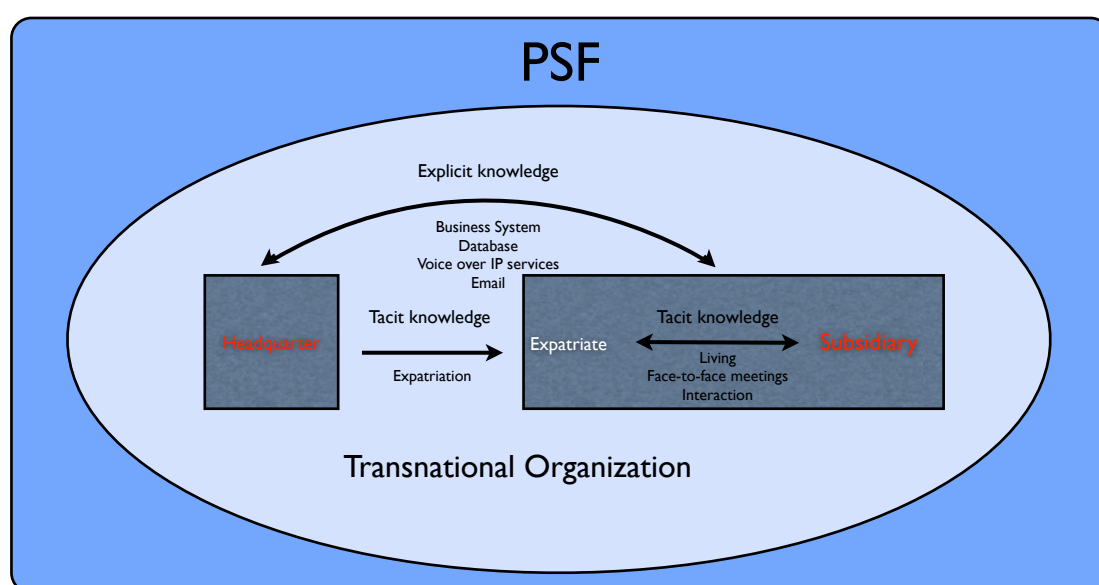


Figure 5.1. A conceptual framework for knowledge transfer within transnational PSFs with the use of expatriates (Norderyd & Nølgren 2013).

5.6. Answering Research Questions

We will now answer the research questions posed in section 1.1 based on the analysis brought out in section 5.1-5.5.

5.6.1. How do Professional Service Firms transfer knowledge when operating on international markets?

Our study revealed that *PSFs* are characterized by high knowledge intensity where *tacit* knowledge is embedded in the workers and *explicit* knowledge is embedded in equipment, products and routines, for instance databases and business systems.

In order to transfer tacit knowledge, our case study reveals that an *expatriate strategy* is necessary for *PSFs* internationalizing. By putting up a subsidiary abroad, *PSFs* gain more *local-specific* knowledge about the local market of the subsidiary, thereby enhancing the *competitive advantage* of the firm.

On the other hand, our study implies that the easiest way to transfer explicit knowledge for these firms is through the use of *information technology*, for instance, information systems, shared databases, e-mail and Voice over IP services (Skype).

5.6.2. *What role do expatriate managers take in this process of knowledge transfer?*

Since this tacit knowledge is only shared face-to-face, the case study implies that expatriates become a strong competitive advantage for PSFs internationalizing. Therefore the expatriate should be seen as a major tool for transferring tacit knowledge to a foreign subsidiary.

In order to further understand the role of the expatriate in the process of knowledge sharing, we find it paramount to define the role of the subsidiary they are operating in. In our case, being assigned to a subsidiary treated as a *strategic business partner*, being of highest strategic importance where knowledge is shared throughout the organization, the expatriate becomes a key player in linking the subsidiary to the headquarters and establishing a formal and informal network.

We found that expatriates transfer company specific knowledge, home market and cultural understanding as well as the understanding of clients, to the subsidiary. What is more, since tacit knowledge is only created through physical interaction with people or an environment, the expatriates accumulate tacit, local-specific knowledge related to the market and culture they live and work in.

Accordingly, the use of this local-specific knowledge becomes a clear competitive advantage when meeting clients face-to-face and understanding clients' needs on the foreign market. This is especially relevant for PSFs working with clients on their domestic market as well as their foreign markets simultaneously, as in our case.

Our study also supports earlier research, suggesting that for PSFs offering customized solutions, face-to-face interaction with clients is a necessity and emphasizes the importance of having expatriates located near clients.

However, we found that this *personalization* approach should be complemented with a *codification* approach, preferably in the beginning of a project, for instance with the use of standardized models.

In order to ease knowledge sharing with the use of expatriates, the importance of informal structures (probably related to small size), and organizational values, such as a high level of entrepreneurship, are illustrated.

5.6.3. How do these expatriates transfer knowledge back to the home office?

Our study stresses the difficulties in transferring back *tacit*, location-specific knowledge, accumulated by expatriates, to the headquarter. We come to the conclusion that the tacit, location-specific knowledge only can be transferred through *physical interaction*, namely *repatriation*, but also by travelling in both directions. Without repatriation or travelling, an information gap appears. In other words, without these measures taken, the tacit knowledge of the expatriates cannot be turned into explicit knowledge, through codification, and appropriated into the company as a whole.

Explicit knowledge, on the other hand, can easily be transferred through the use of information systems; for instance shared databases, integrated business systems, e-mail correspondence and Voice over IP services. Our findings indicate that Voice over IP services, such as Skype, are the most efficient. This means that the explicit knowledge of the expatriates could easily be appropriated and reused by the company as a whole.

6. Conclusion & Discussion



6.1 Conclusion

In a PSF internationalizing, knowledge is mainly accumulated and transferred through face-to-face interaction. This is especially the case for location-specific, tacit knowledge gathered by expatriates living and operating in a specific geographical area. Explicit knowledge, on the other hand, is often managed through databases and various information technology systems.

In the process of internationalization, expatriates play a crucial part in the management of both tacit and explicit knowledge. Through meetings with clients on a local basis, expatriates gather tacit knowledge about client profiles and the specific needs as well as market specific knowledge. Moreover, they accumulate explicit knowledge, such as general project knowledge, that can be transferred to the home office.

Knowledge transfer back to the home office is mainly done by interaction through various information technology systems such as business programs, shared databases and Voice over IP services (Skype). Tacit knowledge is however recognized as too hard to fully transfer back to the home office.

6.2. Discussion & Future Research

Even though a lot of research has been undertaken about knowledge transfer within PSFs and expatriates as a significant tool, we see a research gap regarding the transfer of knowledge back to the headquarter. Previous studies have mainly focused on repatriation as a measure of knowledge transfer from the subsidiary to the home office. With this in mind, we find our study highly relevant since PSFs build their competitive advantage on knowledge embedded in their employees, therefore the ability to transfer this to the organization as a whole should be seen as a strong advantage.

On the other hand, our study has several weaknesses. The empirical findings are based on three interviews solely and simply one company has been studied. This may have reduced the level of generalizability. Thus, in line with Alvesson & Sköldbberg (2008), we argue that some tendencies and patterns can be identified in the gathered and processed material. Nonetheless, we see strength in our study since the interviews have been conducted with personnel on both sides of the knowledge flow, both operating in the Chinese subsidiary and the Swedish headquarter. It would have been advantageous, however, to get the possibility to interview the company CEO, being the designer of the expatriate strategy as well as the only possible transferee of tacit knowledge. In addition, there is always an apparent risk that interviewees try to idealize their company as well as their daily work and practices. By granting our interviewees full anonymity we have hopefully avoided this problem.

6.2.1. Suggestions for Future Research

Although contradictory to our findings, we ask ourselves if tacit knowledge tied to expatriates is possible to transfer through other means than physical interaction. For future research it would be interesting to further investigate the creation and sharing of knowledge with the use of Voice over IP services, for instance Skype, something that is becoming more and more frequent in the business world of today.

In addition, since expatriates and their embedded knowledge is a key competitive advantage for PSFs, we find it interesting to further investigate how these firms work with retention of these expatriates. If expatriates move to another firm, or starts their own consulting business, as described by Alvesson (2000), the company loses one of its most important resources and likely also the expatriate's clients.

Further, Hansen et al. (1999) investigates the link between the choice of knowledge sharing strategy and the degree of knowledge sharing in a PSF. We see the need for more research regarding this matter, especially with a focus on the role of the expatriate.

What is more, our study implies that the size of a PSF imposes certain influence of knowledge sharing among employees in general and expatriates in particular. Further research investigating this matter has to be conducted before any generalization can be made.

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8. Appendixes

8.1. Appendix 1: Interview Guide

8.1.1 Specific Questions to Managers

8.1.1.1 General Questions

- Briefly describe your current job.

8.1.1.2. TNC and Subsidiaries

- Briefly describe how your company is organized.
- What strategic role does your subsidiary in China play for the company as a whole?
- Of what strategic importance is the Chinese market for your company?

8.1.1.3. Knowledge Management in PSFs

- Does your company offer standardized or customized solutions to your clients?
- When involved in a project: How do your employees obtain knowledge? (Databases vs. face-to-face)?
- Please estimate the split between the use of databases/information systems and socialization with others, in your daily work.
- Do you see any advantages or problems with such a split? If so, please elaborate.
- Please describe the Organizational Culture of your company. What are the most important traits of the culture (knowledge-sharing, openness)?
- Is knowledge sharing assessed in any way? If so, please elaborate.

8.1.1.4. Expatriation as a Mechanism for Sharing Knowledge

- Are you using expatriates as a knowledge sharing mechanism?
- Please describe the strategic roles of the expatriates currently on assignments in China. (knowledge, skills etc.)
- Do you see advantages of sending out teams of expatriates rather than individuals?
- In what way do the expatriates transfer knowledge back to the headquarters?
- In what means is this knowledge appropriated by the headquarter?
- Do you see any difficulties in appropriating the knowledge of your expatriates into the organization as a whole?
- How often do the expatriates travel between the headquarters and the host country?
- What are the most important work-related reasons for these trips?

8.1.2. Specific Questions to Expatriates

8.1.2.1. General Questions

- Please describe your working experience and education
- Briefly describe your current job

8.1.2.2. TNCs and Subsidiaries

- What strategic role does your subsidiary in China play?
- Of what strategic importance is the Chinese market for your company?

8.1.2.3. Knowledge Management in PSFs

- Does your company offer standardized or customized solutions to your clients?
- When involved in a project: How do you obtain knowledge? (face-to-face or IT-systems)
- Please estimate the split between the use of databases/information systems and socialization with others, in your daily work. (in per cent)
- Do you see any advantages or problems with such a split?
- Please describe the organizational culture of your company. What are the most important traits of the culture (knowledge-sharing, openness)?
- Is knowledge sharing assessed in some ways? If so, please elaborate.

8.1.2.4. Expatriation as a Mechanism for Sharing Knowledge

- Do you see advantages of working in expatriate teams or do you rather work with local employees? Please elaborate.
- How do you obtain local-specific knowledge?
- How do you transfer knowledge back to the headquarters? (face-to-face or IT-systems)
- In what means does the headquarters appropriate this knowledge?
- How often do you travel between the headquarters and the host country?
- What are the most important work-related reasons for these trips?
- How long is the duration of your assignment?