

# The Dynamics of Cross-Cultural Management Knowledge Transfer: from Taiwan to the Philippines

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**Abstract.** This study explores the under-researched phenomenon of cross-cultural management knowledge transfer. Although knowledge has been recognized by management scholars as a critical base of competitive advantage [13], it is not clear how firms could effectively manage the transfer of management knowledge, especially in a cross-cultural context. Twelve Taiwanese multinational companies (MNCs) in the Philippines are interviewed to approach an understanding of the dynamics of cross-cultural transfer of management knowledge from Taiwan to the Philippines. The results of data analysis echo prior research [1] that the cross-cultural transfer of management knowledge may take long time to implement, is not a straightforward process, and is culture-bound in nature. It is also found that, while large MNCs may adopt formal approaches of knowledge transfer, the multinational SMEs are more flexible and interactive in their management practice. Over time, adaptation and localization are seen with the Taiwanese both in their management practice and personal lives. This research contributes to the understanding of the cross-cultural transfer of management knowledge processes in the ASEAN region, where a new regionalization is coming into formation with a lack of management talents to ensure the success of the MNCs in the region, which demands effective cross-cultural transfer of management knowledge.

**Keywords:** cross-cultural management, cross-cultural knowledge transfer, knowledge management

## 1. Introduction

In this globalizing world, knowledge is of critical importance and the ability to engage in transferring management knowledge internally has become a source of competitive advantage of the firm [2]. While blurring the boundaries between the countries, globalization is enabling businesses to engage in internationalization to meet the challenges and take the opportunities it brings along. The transnational transfer of knowledge therefore becomes a critical aspect of business operations. However, the mechanisms of how to effectively transfer management knowledge still lack systematic investigation [1].

Taiwan and the Philippines are neighbouring countries and were both the Asian newly industrializing countries (NICs) in the 1950s. By the 1990s, Taiwan has developed into a dynamic economy investing in ASEAN countries with its Southward policy [3]. From 1993 to 2011, the trade between Taiwan and ASEAN has a 457% growth while only 54% with North America. In 2010, more than 54,000 Filipino workers, or 14% of the total foreign labour, are employed in Taiwan [4]. In 2011, the Philippines is ranked Taiwan's 14<sup>th</sup> trade partner [5] while Taiwan being the 8<sup>th</sup> foreign investor [6] with more than 800 companies operating in the Philippines [7]. The Philippines has been known as encouraging foreign direct investment (FDIs) and is offering promotion investment opportunities to multinational companies (MNCs). However it is learned that there are negative factors for investment in the Philippines: 1) government regulation on company and land ownership; 2) social system such as security and corruption; 3) small domestic market size and strong external competition; 4) lack of infrastructure; and 5) strong labour union and strikes [8].

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Being geographically and economically close has attracted Taiwan MNCs to invest in the Philippines. With the emerging of ASEAN regionalism as context, the researchers aim to understand how the Taiwanese MNCs transfer their management practice to the Philippines to sustain and develop their business. In the meantime, how the cross-cultural aspects affect the transfer will be addressed.

## 2. Literature Review

Taiwan and the Philippines each have unique cultural heritage and historical backgrounds. The colonial legacies is said to have important consequences on the difference in development [9]. According to Hofstede's 5 dimension model, Taiwanese and Filipinos score very different in long-term orientation (LTO dimension (87 vs. 19, world average 45.2) and power distance index (PDI scores: 58 vs. 94, world average 59.6) dimensions [10]. Hofstede also pointed out that management concepts differ among cultures [11]. Research also attests that cultural compatibility could play critical role in the MNC knowledge transfer efforts. Research has indicated that the transfer is most likely to succeed if the cultures are aligned [12].

Knowledge transfer is a source of the competitive advantages in firms [1], [13]. The transfer of knowledge of MNCs has been of interest of researchers. However, the contextual factors and causal mechanisms are in lack of understanding. In terms of contextual information, the transfer of knowledge might take different forms in different types of investment projects such as international strategic alliances, joint venture, foreign direct investment (FDI), and offshore outsourcing [14][15][16]. In research of knowledge transfer, much has been done on expatriates as they play a critical role in knowledge transfer across organizations [17].

Cultural variation between nations and organizations are considered major influencing factors of knowledge transfer [18]. It is recognized that the transfer of management knowledge is difficult because it involves the interaction among people [13]. Research also indicates that, as a process, knowledge transfer has the characteristic of stickiness or embeddedness [19] that can prevent it from being easily transferred. Due to the contextual nature, the cross-cultural transfer of management knowledge can be unstructured [20]. To sum up, the tacit nature [21] of management knowledge can make it difficult to transfer across national borders. It is therefore proposed that knowledge transfer is about people and the trust among them.

Fink and Holden [1], after an overall examination on the global transfer of management knowledge, preliminarily concluded that 1) it is not a straightforward process, 2) it may take years to transfer, 3) it requires a reduction on corporate complexity, 4) it is heavily dependent on the values, attitudes, competences of the people involved, and 5) flexibility for subsidiaries. It is also emphasized that global transfer of management knowledge needs to be seen as a form of experimentation with people and processes, namely: the initial resistance, the socialization and negotiation between the expatriate and the local managers, and the establishment of interaction framework and trust. These issues represent dynamic nature of cross-cultural transfer of management knowledge.

## 3. Methodology

This research uses qualitative case study methodology [22] to explore the phenomenon of cross-cultural transfer of management knowledge of the Taiwanese companies in the Philippines. Comparative analysis of cases is used while data is collected and analyzed when interviewing 12 Taiwanese companies recommended by the Taiwan Association Philippines Inc. (TAP), the major Taiwanese business association in the Philippines. When possible, the peer Philippine managers are also interviewed. In total, 15 Taiwanese and 6 Filipino managers were interviewed. For data analysis, a three-dimension model is used as analysis framework: 1) the cultural concept, 2) the methodical approach, and 3) the generalization [23].

## 4. Findings

### 4.1. Profile

It is noticed that the interviewed Taiwanese have stayed in the Philippines for an average of 17 years with the majority (8 out of 12) in manufacturing. The 12 companies interviewed vary in the ways entering the Philippines: All are direct investment except for one large MNC joint venture. Albeit the regulation on

foreign ownership of company shares, in reality the Taiwanese are either owners or major shareholders. One thing related to ownership is strong entrepreneurship: eight of the 12 Taiwanese actually started their own businesses instead of being MNC expatriates. That's said, these Taiwanese companies are different from the typical MNC-subsidiary scenario. Those with strong yet less formal connection to Taiwan are MNCs by definition [24] but loosely coupled. Over the years, the Taiwanese companies have retained close link to Taiwan while deeply rooted into the local culture and market. On one hand, Taiwan is still the base for financing, technology, and management knowledge. On the other hand, much local management resources are identified and the Taiwanese companies have adapted and engaged in localizing their management practice as a business strategy.

## **4.2. Cross-Cultural Management**

Cultural difference has contributed critically to the management practice of the Taiwanese case companies in the Philippines. In general, the Taiwanese have portrayed the Filipino as kind-hearted people and docile employees, probably due to the Catholic religion. The Taiwanese also appreciate the way the Filipinos address and respect them, which they do not find in other Asian societies. There is a tendency that the longer they stay; the more they appreciate Filipino culture and engage in charity and community participation. Although economy-wise not as strong as some other ASEAN countries, the easier life style and better quality living environment are attractive to Taiwanese. From the interviewed Filipino managers, the general observation being the Taiwanese are into details and restrictive about the quality of management practice and the company's products/ services.

In contrast to Taiwan, the status difference between managers and subordinate is quite clear and the Filipinos are not ambitious in becoming managers or business owners. This could be explained by their being high in Hofstede's power distribution index, that they accept the unequal power distribution better. However, when it comes to the need for managers, this cultural dimension becomes a disadvantage for Taiwanese since the Filipino employees are generally not interested in taking more responsibilities. Probably by this line of attitude, it takes a lot more time than in Taiwan for training and development for the employees to deliver by the satisfactory quality.

Labour unions and strikes are the most discouraging factor for the Taiwanese when managing business. Most Taiwanese companies have experienced unionization and strikes and still very conscious about this issue, which is very rare in Taiwan. In addition, the public sector can be discouraging as well. To deal with the corruption, the Taiwanese would designate an employee to take care of the negotiation to reduce the unneeded external costs. Sometimes, instead of local Filipino, the Chinese-Filipino employees can play this role well. Since only one Taiwanese interviewed speaks Tagalog and English command is generally not high, it is understandable that the Taiwanese have given mixed information about the national trade unions.

## **4.3. Transfer of Management Knowledge**

Mentoring is the most used strategy to transfer management knowledge and none of the companies has used formal knowledge management system to manage their knowledge beyond the level of documenting SOPs. For mentoring, a common practice is to pair Taiwanese manager as primary with Filipino manager as secondary in a position. For management practices, quality management is one of the core concerns.

The lack of management talent is an issue for all the case companies and expatriates from Taiwan has been a solution. The sources of expatriates are from headquarters, alliance company, or the job market. However, the use of Taiwan expatriates has decreased over the years. They are expensive and it is difficult to find qualified and experienced managers to work in the Philippines. In addition, the knowledge to local culture and market has given the Filipino managers advantage. This is especially true when the companies are localizing and focusing on creating domestic marketing channels.

Two formal management knowledge transfer cases happened in two of the large companies interviewed: A 3C (computer, communication, and consumer electronics) product distribution company and an aqua-feeds manufacturing company. The 3C distributor, the largest 3C distribution channel in the Philippines, recently hired a consultant from a Taiwanese distribution MNC alliance to implement a management by objective (MBO) project. The aqua-feeds manufacturer, a member of the largest feeds and

food group in the Philippines, sought help from Taiwan's China Productivity Center since 10 years ago. They have used the Center as source of productivity and quality management until two years ago. Now they are relying on local staff and consulting firms for a competence-based management project.

For the SME entrepreneurs, the form of management knowledge transfer is more flexible. They tend to retain a small group of Taiwanese, usually including the owner, to direct the core technical and management operations. The local knowledge sources would come into play at early stage of operation for the purpose of marketing channels, for example. Unlike the larger case companies, the SMEs lack sufficient support from their headquarters for structured management knowledge transfer.

## 5. Conclusion

With ASEAN emerging as a new regionalism, this research has served as an early attempt to understand the dynamics of MNC's cross-cultural management knowledge transfer in the region. There are certain limitations of this study: The availability of the profiles of Taiwan MNCs would help with the data collection. Deep interviews with long periods on-site for participation of management and knowledge transfer activities would certainly add to the understanding of the subject. Also, the Taiwanese companies interviewed are all successful ones since the failed cases are not accessible.

In the process of transferring the knowledge, the Taiwanese have worked closely for years with the Philippines. The Filipino interviewees have pointed out that the Taiwanese have developed not only a working relationship, but also a personal relationship with the Filipino staff. This is not common for the Filipino and yet natural to the Taiwanese as part of the culture that could be explained by Hofstede's PDI. With the personal layer of relationship and localization, the Taiwanese managers see the transfer of management knowledge through mentoring and training as teaching, and they do so with patience, passion and affection.

As learned from the case companies and the literature, the cultures between Taiwan and the Philippines are different yet compatible. It is the misalignment that has caused the transfer to take long time and requires researchers' attention. While the embeddedness of knowledge has made the transfer of knowledge difficult, the design of mechanisms for such transfer should take the cultural elements into consideration. As seen from the case companies, MNCs investment can be accompanied by immigration. This has increased the complexity of knowledge transfer because the transfer is a scenario between short term expatriates and local staff; rather, it has become an encounter between two cultures. In addition, the introduction of SMEs further adds to the dynamic nature of cross-cultural management knowledge transfer in ASEAN region.

The Taiwanese companies have transferred management knowledge through mentoring and as a cultural process. This research echoes Fink & Holden's [1] conclusions on the cross-cultural transfer of management knowledge. From the cases of formal cross-cultural management knowledge transfer, it is found that the MNCs have no problem with technology transfer but do not possess sufficient know-how for management knowledge transfer. The development of such know-how and design of transfer models through future research would benefit the MNCs. Due to the lack of management talents, the research on cross-cultural transfer of management knowledge would have practical implications for the MNCs coming to the Philippines. As for the case companies not using formal knowledge management system, future research on the role of information technology and systems [25] in the knowledge transfer context would be needed.

Future studies should focus on the cultural and human factors of cross-cultural management knowledge transfer. Researchers could further explore the Philippines and also other ASEAN countries to come up with a knowledge system of the region. The SME aspects and the systematic study of different industry sectors would also contribute to more integrated knowledge on cross-cultural transfer of management knowledge. For pragmatic business application, a descriptive framework of such transfer would enable the design of mechanisms for successful cross-cultural transfer of management knowledge of MNCs in ASEAN region.

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