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# Organizational Knowledge Transfer - a study of a Foreign Company in China

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## Abstract

The purpose of this thesis is to look at what kinds of motives are driving the company Pegasus, and its Chinese partners, in the quest of establishing themselves on the Chinese market. Furthermore it seeks to understand what kinds of problems are present for the company in regards to organizational knowledge transfer. As for method the main form of data gathering interviews were conducted. All the key players at Pegasus China were interviewed. Besides this internal documents from Pegasus were reviewed and observations were made at some points in the organization. It so happens that most of the main elements regarding the motives studied seemed to be present at Pegasus as well. Besides this some fascinating problems regarding organizational knowledge transfer were identified.

## Acknowledgements

I would like to thank my family, friends and travel companions in Shanghai. Furthermore I would like to thank the kind people at Pegasus China who despite being very busy found the time to answer my many questions. My supervisors at Lund University and at Fudan University (Shanghai) are not to be forgotten. I would also like to thank Fia for much needed support during this strenuous time and the kind influenza infection that is making the writing process a whole lot easier. I would like to conclude this foreword with a quote from the first interview I conducted on location in Shanghai...

When asked about how he foresaw the situation in 20 years time...:

*-“In 20 years time I will be Chinese, we will be having this interview in Chinese and we would be talking about what Europe can do to catch up with China!”*

General Manager of Pegasus China

Hope that you, dear reader, find this thesis interesting.

Respectfully

Gustav Hofgren

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# 1. Introduction

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*In this part I give a short description of the thesis's background, present my research questions and state what limitations that have been made.*

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## 1.1 Personal background

This thesis is the final examination part of the Masters Programme in East and South-East Asian studies at Lund University in Sweden. As a part of the Programme the students were tasked with going abroad, to their respective countries and regions of interest, and conduct field studies for the purpose of attaining data that later on would be processed and analyzed in the masters thesis.

My special field of interest is China, and my previous academic degree is in business administration, particularly organizational theory and management. It seems logical to me that a combination of the two areas of focus would be profitable as a basis for the studies at the end of my academic career.

## 1.2 Problem orientation

The situation for foreign companies establishing themselves in the Peoples Republic of China when it comes to studies of contemporary management issues<sup>1</sup> is not very well developed<sup>2</sup>. This is especially prominent when compared to the masse of studies and such being made in America and Europe. What kinds of driving forces are behind the choices to get in league with each other for both the Westerners and the Chinese? I have had the opportunity to be able to study a European automobile manufacturer and its Head office in Shanghai.

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<sup>1</sup> From here on my use of the term management will also entail organisational theory, albeit the two areas not being synonymous. For a deeper discussion of the differences between the two areas see for instance Hatch (1997).

<sup>2</sup> See for instance Farhang p.5

### 1.3 Ethical considerations

I have chosen to give the studied company, the European automobile manufacturer, full anonymity in my Thesis. This is something that I promised them when I first made contact and presented my ideas for the study. To maintain their anonymity I will refer to them as Pegasus. This is in no way, shape or form any kind of reference to their identity as the name was picked at random. I would like to add to this by saying that certain figures in the text concerning characteristics of Pegasus's organization are kept intentionally general. Furthermore it should be noted that all items in the list of references concerning documents owned by Pegasus is kept general intentionally.

### 1.4 Problem discussion and limitations

What I have focused on studying is how a European company manages the transfer of organisational knowledge to their partners in China, furthermore I am looking at the kinds of motives that are present for the European company and its Chinese partners. To elaborate on this I will test the points in a doctoral thesis concerning the motives the author found for various Western companies and their Chinese partner. What I am hoping to find out is how the situation for Pegasus compares to what Farhang writes in regards to motives. My research questions are as follows:

- How do Farhangs motives compare to Pegasus's?
- What problems in regards to knowledge transfer can be identified at Pegasus?

## 2. Methodology

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*This part describes the scientific standpoint of the thesis and what data collection methods were used.*

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The abductive approach is one that I believe is appropriate for my study as it both gives way for the connection to theory as well as opens up the possibilities of interpretation<sup>3</sup>. It is my belief that the implementation of existing theory is a necessary part of the understanding of the research that I will be conducting. This is true both for the legitimacy of the thesis but also, perhaps even more importantly, for me personally as I am in need of a solid basis of theory as a tool for understanding my findings. The need for interpretation is, as slightly touched upon above, an important factor in the conducted research. The studied problems are complex and intricate in nature, thereby limiting the potential for finding and making any claims of an absolute truth in a perhaps positivist sense.

As for the choice of perspective when the actual research is concerned I would like to think that I am oriented towards the “Symbolic-interpreting” perspective<sup>4</sup>. This means that the researcher, when studying an organisation, strives towards interpreting and understanding the organisation in favour of analyzing and measuring it. This can be achieved through for instance observation of a particular phenomenon, either actively or passively. Apart from said perspective I would also point to the possible application and relevance of Habermas’ teachings<sup>5</sup>. Many situations when studying organisational theory are, like most of social sciences, intricate and ambiguous at best, this would imply that studying these situations will prove to be difficult. Because of this I believe it is important to take heed of Habermas’ theory of communicable action. This stipulates that a statement is expected to be valid and true, and if that expectation is not reasonably fulfilled the statement in itself is useless. For me this is something that is important to keep in

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<sup>3</sup> Farhang, P. 42ff

<sup>4</sup> Hatch, M *Organisationsteori* Studentlitteratur (1997) P. 70f

<sup>5</sup> Alvesson, M & Sköldböck, K *Tolkning of reflektion* Studentlitteratur (1994) P. 185f

mind as I believe it is easy as a young inexperienced researcher to become overwhelmed by the many interesting statements made during observations and interviews for instance. Perhaps one could say that to some extent this is an advanced form of source criticism.

## 2.2 Practical implementation of method

Depending partly on how the situation with a defined research question plays out, the practical "field methodology" may in actuality change. But I believe that it will not differ to any larger extent. In this early stage of planning I find it reasonable to assume that interviews will play an important role for my research. Interviews are a nice and effective way of gathering data given the existing constraints in time and resources. Furthermore I am of the opinion that for the empathy, as noted above, to be a proper factor in the study meetings between people are necessary. Furthermore I would also make a slight push towards observations. Practically this means that I would move around in the physical space of the company and watch and observe what is being done, and how those activities are completed. This is, some might argue, from a certain perspective quite vague, but I do not believe that a thorough in-depth presentation of my future undertakings is all that relevant. Contrary to the theoretical background the actual undertakings may take on many varying forms when it comes to actually performing the research.

## 2.3 Secondary data

Even though I believe that primary data will play a large role for the sake of my research, it is not unimaginable to think that there can be relevant secondary sources. From one perspective previous research can be very valuable if it turns out that a kind of comparative study is appropriate, see for instance Alvesson<sup>6</sup> and Alvesson & Köping<sup>7</sup>. Moreover I would imagine that for an organization that is spread around the globe a certain amount of policy documents would be present. As an organization expands both geographically as well as employee wise, it is

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<sup>6</sup> Alvesson, M *Kommunikation makt och organisation* Norstedts Juridik (1990)

<sup>7</sup> Alvesson, M & Köping, A-S *Med känslan som ledstjärna* Studentlitteratur (1993)

quite common to employ some forms of documentation to streamline policies and practices.

### **2.3.1 Potential problems**

The major problem I foresee when it comes to secondary sources, apart from reliability is accessibility. In many cases internal policy documents are classified and not open, even to an honest researcher



## 3. Theoretical Framework

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*Here the applicable theory is presented, this including the doctoral thesis that is a part of the study as a whole*

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### 3.1 Theoretical division

When exploring the theoretical framework, that is part of the very foundation of my thesis, I believe it to be important to make a slight division. As I have previously argued for me there are two major academic areas that are involved.

As I am exploring a management related research area, the use of existing academic literature on such subjects is most valued. Furthermore as the actual location geographically of the studied research environment is China, it seems to me applicable to involve research that has been focused on that particular area. But why a division here, one might argue. It is my belief that the research focused on China, is of course valid for my study, but the downside being that it is not that numerous when compared to the first area in my division. The quantity of management research conducted around a western type setting, with western organizations is vast and numerous. This western type management research is the basis, in my argument, for the paradigm communicated in western universities and business schools. To sum up the western literature is perhaps to be seen in more general terms when the Chinese setting is concerned and the Chinese related literature is for more obvious reasons applicable in this setting, but may lack some of the larger conclusions drawn in the western kind.

### 3.2 Western-style management theory

#### 3.2.1 Organizational learning

The term organizational learning is a popular one in the relatively new management field of knowledge transfer and learning. Sandberg & Targama<sup>8</sup>

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<sup>8</sup> Sandberg & Targama p.77

define learning at work as “Learning work skills is seen as the acquisition of a certain set of knowledge and skills that in turn constitute a certain competence.” This implies that the whole of the organization can learn, and will do so as a unit thereby in practicality perhaps circumventing the employees. This is not really the case as it can quite possibly turn out in the way that certain individuals are learning and attaining knowledge, but the level of knowledge in the organization as a whole remains relatively stagnant. It is argued that learning on an individual level does not become organizational until the memory of the organization is affected<sup>9</sup>. The organizational memory is thought of as the organizations collective understanding, mental maps, values and knowledge. The learning organization is an organization that creates incentives and possibilities for individual learning and is constantly adapting to its environment. This is an ongoing process that is always in motion, so to say, and is characterized as individual development and organizational renewal<sup>10</sup>. Here the two levels, the organizational and the individual, are joined together and play more or less an equal role in the strive for the ultimate goal of a successful and fruitful learning environment.

### **3.2.2 The role of knowledge**

According to two prominent scholars, knowledge can be divided into two parts, explicit and implicit knowledge<sup>11</sup>. Explicit knowledge can be articulated by people in the form of sentences, mathematical problems, specifications, documentation and manuals. It is often the case when a perhaps more traditional view of learning is concerned. If you absorb the information material at hand you will more or less automatically gain the desired level or form of knowledge. Explicit knowledge can relatively easily be transferred between people. Implicit knowledge on the other hand is rather different from the former, maybe not diametrically, but still different as its characteristics are quite dissimilar. This kind of knowledge is primarily different in the sense that it is a lot more difficult to transfer it between individual thru the use of discourse and writing. From this perspective the use of manuals and documentation as discussed above is

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<sup>9</sup> Rohlin et al p.94

<sup>10</sup> ibid p.98

<sup>11</sup> Nonaka & Takeuchi 1995

potentially not the most efficient way of addressing knowledge and learning initiatives. The concept of implicit knowledge contains such personal factors as beliefs, conviction(s) and perspectives. Perhaps one could say that this is somewhat similar to the concept of pre-understanding in general scientific theory. The main focus in contemporary western management tradition, and has been historically, is on the role played by explicit knowledge and the role played by knowledge in the sense that it can be organized formally and systematically.

### **3.2.3 The creation of knowledge**

Knowledge as a sociological and/or physiological entity plays an important role for the individual, and as we previously have touched upon it is also the case for the organization. As a consequence of this it should perhaps be argued that the understanding of and the subsequent attempts at mastering the knowledge creation process can prove to be a key concept for the modern organization. To better understand the birth of knowledge, it can be crucial to look at the differences between key knowledge concepts<sup>12</sup>. Those key concepts are data, information and knowledge itself. Data, as defined by Nonaka and Takeuchi, is a discreet fact about a particular event. Information on the other hand has a sender and a receiver. When somebody, individual or organization, sends out information regarding lets say a particular event, they want to alter a perception or understanding with the receiver, again individual or organization. Data, in itself might be considered rather basic as a concept, but as the creator of the data adds some form of meaning to it, it transforms into information. In short information has entities involved, sending and receiving, and has a certain purpose<sup>13</sup>. Lastly we should address knowledge. As one might suspect, knowledge derives from information, and thereby in a longer linkage from data. A very nice definition is as follows:

*“Knowledge is a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating*

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<sup>12</sup> Nonaka & Takeuchi 1995

<sup>13</sup> Rohlin et al 1994 p.25

*new experiences and information. It originates and is applied in the mind of knowers. In organizations, it often becomes embedded not only in documents and repositories but also in organizational routines, processes, practices, and norms.”* (Davenport & Prusak 1998 p.5)

This implies that knowledge is not a simple thing to conceptualize, and subsequently handle and work with. Its form here is something intuitive and flowing meaning that it is dynamic as it will change form as it takes up residence in the conscious mind of individuals. In being intuitive and quite immaterial it is perhaps a daunting task trying to formulate it into words and logical reasoning. To put it somewhat more clearly it is terribly difficult to communicate implicit knowledge. It is argued that explicit and implicit knowledge is not to be seen as opposite sides of a coin, but rather as two entities that interact with each other in the creation of new knowledge<sup>14</sup>.

As stated, the creation of new knowledge derives from the interaction of existing knowledge, both explicit and implicit. If seen thru this perspective, what is the nature of this interaction? Harryson writes about four forms that this interaction can take<sup>15</sup>. The first form is thru socialization. Here implicit knowledge is transformed thru the interaction between individuals. A prerequisite here is that these individuals have common experiences. This form is often the case when new knowledge, and perhaps even more so when a new *area* of knowledge is to be built. In an organizational setting this demands that the different individuals from different parts of the organization are able and willing to share their knowledge with each other, without hindrances. After this we come to the form of combination. Here explicit knowledge is transmitted between for instance individuals thru social processes like meetings and gatherings. It should be noted that physical contact is not a prerequisite for this form as also meetings like telephone conversations are also included. After looking at the first two forms it has perhaps become apparent that they are separate from what has been discussed in the previous page. Here the creation of explicit and implicit knowledge is separate form each other. This is not the case with the two and last forms of

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<sup>14</sup> Nonaka & Takeuchi 1995

<sup>15</sup> Harryson 1994 p.151

knowledge creation. Number three is articulation. In this form implicit knowledge is morphed into the explicit kind. This is achieved thru the use of reoccurring dialogues where members of a team, if in an organizational setting, are given opportunity to articulate their own views freely and thereby enabling the expression of implicit knowledge. Articulation as a form has some similar characteristics to brain storming sessions that are not a totally uncommon thing when team and project work is concerned. Finally we have reached the last form which is internalization. This is the opposite from articulation as here the explicit is transformed into implicit knowledge. The achievement of this comes from repeated action, or perhaps more commonly referred to as “trial-and-error” and “learning-by-doing”. It is in this way for instance how a concept is articulated and developed into a concrete form. Perhaps it should be pointed out that there are some problems that are not all that difficult to imagine when you for instance consider what could happen thru combination, if the participants are not able to be frank and open, and even more so when you consider articulation. Internalization initiatives would be hampered efficiency-wise if the individuals did not believe that it would be acceptable to make mistakes, a not all that uncommon side effect when you pursue “trial-and-error” learning.

### 3.3. The doctoral thesis

#### **3.3.1 Motives behind technology transfer in China**

After the Cultural Revolution and at the beginning of the opening up of the nation, China did not allow the establishment of wholly owned foreign subsidiaries. Furthermore its laws and regulations regulating patents and copyrights were severely lacking. Despite this the Chinese, when getting in touch with foreign companies for business purposes, expected that they were to have a deeper cooperation, than what was perhaps the case in other developing countries. Mainly this was to enable the Chinese to attain up-to-date techniques of production that they in turn could use throughout the country<sup>16</sup>.

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<sup>16</sup> Farhang p. 5

Furthermore Farhang argues that this was the general situation for foreign companies at the time the first Swedish ones entered into the Chinese market. The Swedish companies are traditionally, as with most of the smaller nations, stuck so to say with a small home-market. This has forced them to broaden their horizons and seek the global customer base fairly intensely. So it should be noted that the general case of entering into foreign markets, and specifically transferring knowledge to foreign parties, was not a new experience for them. Their motives for doing this included enabling international expansion and also the more practical question of successfully handling the ongoing enterprises throughout the world market. It should here be noted, according to Farhang, that the companies that became involved with the Chinese were not primarily seeking to involve themselves with the industrial development of the country, or not even familiar with the specific local requirements. Their motives should in light of this be seen as purely commercial.

### **3.3.2 The task of transferring knowledge in practice.**

When looking at the transfer of knowledge, and seeing it from the Chinese perspective, one important common factor seems to be present. The Chinese wanted to have access to new technology, but had no real and structured idea on how this best could be achieved. The forming of joint ventures was at that time a new idea for the managers of Chinese companies, and was perhaps more of a national policy from the table of the central economic planners, which yet had to be tested in actuality<sup>17</sup>. Watson<sup>18</sup> argues that "...among managers...one not only learned from one's own successes and failures but by looking at other's ..."

The training of management level and other skilled personnel is something that can be a key factor for any joint venture. In the cases described by Farhang several interesting examples are described. When company A wanted to train and thereby transfer knowledge to the employees of their Chinese partner company groups of 2-6 people were sent to A's management training facility in Europe.

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<sup>17</sup> Farhang p.169

<sup>18</sup> Watson p.162

Besides this they were also sent to various other training centres around the world. During the development phase more than 60 Chinese, during the span of 6 years, were trained by A for periods of up to 3 months in fields such as production, maintenance and quality control. After a while experience taught them that it was more effective to hold the training courses in company A's country, than in China. The main reason for this was that as training progressed the Chinese students could visit various plants and factories and see for themselves what they were aiming for in the end<sup>19</sup>. In this case training and education was not limited to the technological field. When company A needed to introduce a new accounting system that would more closely match their own global system the Chinese employees need first be educated into the western accounting system. During the scope of several years an appointed Chinese manager was trained both in Europe, as well as around company A's worldwide locations, in corporate accounting.

Company B had somewhat similar experiences and, perhaps more notably, similar solutions to the questions and problems regarding knowledge transfer<sup>20</sup>. Their education and training process began with the transferring of all relevant training materials in the form of documentation. The Chinese students, in this case managers and other high level chaps, would then study the material, learn it and subsequently prepare all the questions they might have. The time frame here was roughly three months. When this was completed satisfactory company B would send a group of 4-6 people to the head office back home in Europe for training. This phase of the training was intended both as more general education, meaning that they would look at more documentation, visit relevant production plants and workshops. But also as a more specific one that included instruction in quality and quality control, general design, production engineering, general planning, hydraulics and various other production related topics. Upon completion the group was returned to China and started the practical portion of the training as manufacturing of the intended product(s) began. Later on engineers and experts in small groups would visit the Chinese students at their plant(s) for periods of 2 to 3 weeks and offer any assistance that the Chinese managers would demand.

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<sup>19</sup> Farhang p.144f

<sup>20</sup> *ibid* p.179

The endeavours of Company C are similar in the sense that they also were involved in knowledge transfer to their Chinese partners, but dissimilar in the sense that what is most interesting here is that this mainly entailed unskilled workers<sup>21</sup>. For them, with few exceptions, the lion share of the locally hired personnel was made up of unskilled industrial workers, and they had because of practical reasons to be trained on the spot. The foreign managers perceived that worker discipline was the main area for them to begin working on improving, and not employee skills which perhaps could have been expected. Tasks like maintenance, reporting failures and repairs were much more difficult to teach than the actual mechanical work that was to be performed.

### **3.3.3. Lessons from foreign managers, regarding technology transfer in China**

The situation for foreign corporations wishing to get involved in business with China is, as touched upon above, somewhat different than what is perhaps what said corporations are used to. Farhang argues<sup>22</sup> that to be able to manufacture goods that both can be competitive when price is concerned and also meet the quality demands of the relevant market, not uncommonly the global one requires the transfer technology. Furthermore it demands that substantial education efforts for both the Chinese workers as well as the managers need to be addressed. In practical terms this means that the foreign corporation will have to involve itself deeply with its Chinese counterpart. Moreover it should be stressed when motives for the different parties, as has been touched upon above, are concerned as when the foreign company's main focus is towards an increase in revenue on the large Chinese market, the Chinese company primary aim when cooperation is concerned, is to attain advanced technology, expertise, manufacturing capability as well as up-to-date management systems. The author further develops various motives that he has encountered in his study<sup>23</sup>.

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<sup>21</sup> *ibid* p.207

<sup>22</sup> Farhang p.287

<sup>23</sup> *ibid* p.288



### *Technology Supplier*

- Access to the Chinese domestic market with a view to the future development potentials.
- Short-term financial revenues, through direct sales of machinery or plant in the form of turnkey or components and parts, or license fee.
- Utilization of low labour costs and improving access to certain resources.
- Long-term financial revenue from the equity investment in the joint venture.

### *Technology Receiver*

- Acquisition of advanced technology, reputable trademark, technical and managerial know-how from the supplier firm.
- Access to international markets through export of the product of the acquired technology and earning of foreign exchange.
- To become competitive on the local Chinese market and to obtain technological base for long-term profits.
- To develop research and development capacity.
- To benefit from Government subsidies which encourage technical cooperation with foreign firms.

## 4. Empirical background

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*Here the empirical findings are presented which in turn are the basis for the analysis and the conclusion, furthermore a more thorough description of the study object is present*

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### 4.1 Short look at Pegasus and the localization to China

The company Pegasus is an automotive manufacturer of European origin. It has since the start of the company developed and expanded to all parts of the Globe. It maintains wholly-owned manufacturing capability meaning that they are to be considered a large player in their chosen fields. They are present in many of the different fields associated with automotive manufacturing and maintain a good reputation among their clients and the market as a whole.

When Pegasus decided to gain entry into the Chinese market they quickly found that the only viable alternative they could think of was to set up a representative office<sup>24</sup> in the country. At the time in question Chinese legislation meant that simply setting up a wholly owned organization at that time was not an alternative, also the future development of legislation on the subject was uncertain to both Pegasus and western businesses as a whole. In short a representative office acts as a liaison office, thereby being the link between the Chinese market and Pegasus Global. In more practical terms they would be responsible for putting a face to the company and its products.

#### 4.1.1 Pegasus China (HQ)

When the endeavour with the representative office seemed turn out well and they had gained a foothold in the Chinese marketplace, the next step was setting up a

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<sup>24</sup> The role of, and reasons for, setting up a representative office is more complex than this. But as this has no real bearing in the scope of my thesis I will avoid a deeper explanation and discussion of the subject.

proper office in the country. As they were already present in Shanghai it seemed the logical step to choose this city. At present the Pegasus China HQ employs a bit less than 100 people and is structured organizationally under Pegasus Hong Kong.

#### **4.1.2 The Dealer resale system**

In combination with setting up a Headquarters in the country, a viable way of handling the sales process would have to be set up and organized. Pegasus came to the conclusion that a network of dealers localized in most of the provinces around the country would be the best alternative both for economical reasons (as it would take considerable financial resources setting up wholly owned dealerships in a multitude of locations) as well as for more practical reasons (China is a vast country and differs culturally from one part to the next thereby it would be impractical, if at all possible, to attain the amount of localized cultural knowledge making the endeavour possible).

#### **4.1.3 The Service School**

For Pegasus China to be able to integrate the dealers around the country into the Pegasus way of doing things, a form of School has been set up. The main focus of the school is educating the employees of the dealers into the Pegasus way on a theoretical level, and more practically on how to handle and service both clients and machines. The school is geographically connected to the Pegasus office in Shanghai.

### **4.2 The Role of Pegasus China**

As it stands now Pegasus China, to simplify matters, acts as a form of governing body that manages and develops the entire China organization (including the dealers) more thru incentives and suggestions than actual hands-on leadership.

When it comes to the machines, they are brought in from mainly other nations in Asia where the production facilities are located. A problem here for the company

is that when in the pre-customs state, the machines are kept in a form of isolation at the dockyard. It's not allowed to remove the machines from there until a buyer has been found. This is problematic when handling damages are concerned as it is not really possible to properly inspect, and certainly not to repair any damages discovered. One way of alleviating this is the set-up of a wholly-owned production facility in eastern China. Still parts and such will have to be brought in from other production centres, but the final product will be assembled here under the direct control of Pegasus China. Furthermore the new production plant is playing a part when the service school is concerned, but more on this later on.

Besides the importation and production of the machines to be sold, other areas of importance are also handled by Pegasus China. When it comes to problems arisen thru the communication between the dealers and their customers it is sometimes prudent for the parent organization to step in and help resolve the situation. By far the most common conflict is that of whether or not the warranty should cover repair costs. The flow of information between the dealers and clients is monitored and help in the form of advice is handed out when so needed. Moreover, the role of the legal system and framework is a growing in China. More often people will resort to contacting a lawyer when a conflict around, for instance, warranty repairs arise. As the level of security when handling legal questions can vary among the dealers, it is sometimes called for by Pegasus China to give out legal advice and also arbitrate in a prolonged conflict.

### 4.3 The Role of the Dealers

The dealers, as you hopefully are somewhat knowledgeable about by now, are located around China at the rate of almost one to every province. Upon attaining the status of Pegasus dealership they are required to maintain their product focus towards the Pegasus brand exclusively. Usually the dealers, even before allying themselves with Pegasus, are involved with selling automobiles in one way or the other.

As for the motives behind the dealers choice of Pegasus as their choice of foreign partner it is somewhat more unclear. This seems to vary somewhat between the individual dealers. For some it could be argued that perhaps there were not very

many other choices. But perhaps more common is that the specific traits of the Pegasus brand adhered to their own interests and values. Furthermore it should be noted that a common characteristic of almost all of the dealers is that they are oriented towards getting in league with western companies, and learning from them. Some areas that are in particular demand are quality education, modern technical knowledge and corporate training.

#### 4.4 The Role of the Service School

The school is staffed by employees from the head office of Pegasus China, and is located in Shanghai with offices at both the head office and the production plant. During the set-up period instructors were brought in from the Pegasus Global, which in the home nation of Pegasus runs a similar Service School responsible for setting up branch schools around the globe and furthermore developing training materials for all machines, both existing as well as those under development. The instructors that were brought in were responsible for training the Chinese employees at Pegasus China; they are in turn responsible for educating the individuals sent in for training in cooperation with the dealers. Practically this is no small matter as the selection process at the different dealers when picking employees for training can be somewhat tricky. Factors such as qualifications and necessity have to be weighed against personal interests and organizational politics, and this sometimes creates a need for the Service School to actively partake in the selection process.

The classes or courses being held at the Service School are initially standardized for all attendees, as most of the dealers are quite new, the level of the courses are fairly basic. Besides the Pegasus orientation course, quality education, knowledge transfer, corporate training, and an introduction to quality culture and practical operations courses are also held. When this is completed the participants are sent back to their respective home dealerships to continue their work, and after some months are brought back to the School for more advanced training. Now the training is generally focused towards the engines. Usually the service manuals are read thru together and there are plenty of opportunities for questions and discussion. The capacity for a typical course is 15 people. Initially the dealers are

asked what courses they believe are needed at this stage and their replies are then analyzed. The time involved is usually one week per course. Upon completion they are again returned to their dealership to practice what they have learnt, and as importantly they are required to teach their new found skills to their fellow colleagues.

Geographically the courses at the more basic level are held at the Pegasus China head offices in Shanghai and at the production plant in the vicinity. A couple of reasons for these are to create a solid learning environment and also that all of them will receive the same level of basic skills.

## 5. Analysis

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*This chapter contains an analysis of the empirical findings using relevant theory*

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### 5.1 The western perspective

The situation for Pegasus China when they first set up shop in the country, in regards to the question of knowledge transfer and organizational learning, differs slightly from what is happening now. As they were establishing their company in Shanghai a number of local talents were hired for the head office. They would later on be responsible for training the Dealers thru the Service School, but more on that later on. I would like to argue that there is a slight difference between the two stages of organizational development. At first the actual learning and knowledge transfer was internal, meaning that they were educating their own employees, thru the aid of the Global service school in Europe. What would come next is in actuality intra-firm knowledge transfer, as the Dealers and their employees are not apart of Pegasus organization per say. They are more loosely based partners, as one can be stripped of the Dealership privileges if needs be.

When the new employees were to be educated into the Pegasus way of doing things it can be assumed that this was primarily done thru the transfer of Pegasus related information. They did need some form of common basis<sup>25</sup>, before any further deeper learning would be enabled. Apart from simply getting the low-down on Pegasus, they would later on have to learn, and learn very well how to handle all of the relevant Pegasus products. As the people from the Global service school were brought in, the nature of the learning process took on a slightly different form. As they by this time had some amount of explicit knowledge from what they had taken in from the information, it was time to embed that deeper into their collective organizational memory as implicit knowledge. They themselves would now have to practice handling and repairing the products, and from this the process of internalization had started.

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<sup>25</sup> For a deeper discussion of shared/common knowledge see for instance Kotter (1990)

Eventually, when the Service School was set up, it was time for them themselves to start, in a sense, an even deeper level of internalization. Now all their knowledge and skills would be put to the test, as they would have to teach what they had learned to others who possessed rather varying skills in relevant areas. Lowendahl<sup>26</sup> is of the opinion that "...one [factor] that is even more...neglected...is the process of learning from the project and institutionalizing this learning...that it can be utilized for both improved service quality and improved efficiency with future clients."

It is, in my mind, reasonable to assume that the differences among the individuals sent in for training by dealers were potentially greater than those among the initially recruited staff for Pegasus China. In the latter batch more or less everyone were from the immediate vicinity, the greater Shanghai area, and all of them possessed some form of relevant university education. That was/is not the case in the first one, but more on this later. At first coming to the Service School they were briefed and informed on Pegasus and what it stood for. Subsequently, as the level of general understand of the basics was attained, the education process was further developed. This evolution, in my mind, goes rather hand in hand with the knowledge definitions by Nonaka & Takeuchi from a past chapter above. Firstly, the initiates at the School were given more or less data, about their new partner company. This evolved into information, in the sense that it now had meaning, handling a deeper meaning like the purpose of for instance a high level of quality. Lastly the whole process transformed into knowledge generation, this being by far the most complicated one, but at the same time the most important and rewarding. It is slightly obvious to see the role played here by the combination form. A common point on the agenda was meetings, where relevant topics were discussed. This is perhaps also the most rudimentary of all the four forms, as the role played by meetings in any organization cannot be under stressed. But it did not stop here, as other forms were also very important. A large part of the activities at the School were made up of discussions, articulation, where the pupils were free to discuss with each other and ask questions. This was held in a rather open environment, to help enable the participants being frank and open. After a given

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<sup>26</sup> Lowendahl p.43



course was completed at the School they were sent back to their respective dealerships and set to work handling the products as they had been instructed. This situation can be seen as a form of double internalization, separating them slightly from their fellows at Pegasus China. The main purpose of transferring knowledge to them was that they, at their respective dealerships, would handle the machines and products. From this perspective they are different from Pegasus China. Needless to say, practically working with the products on a day-to-day basis is a nice example of internalization and learning-by-doing. But it is my belief that another perspective exists, which puts an interesting similarity between them in the spotlight. As the pupils returned home and started working with the products, they also had another important role to play upon returning. They were also responsible for sharing their new found skills with their fellow colleagues.

This other role was slightly more complicated and more difficult for the people both at Pegasus China and those managing the dealership. But this task meant that they would play a similar role to that of the staff at the Service School. They would also have to practice what they have learned while passing it on onto others. This should be seen as the form of socialization. They were spending a lot of time with the mates back home, making for many possibilities of exchange of the implicit knowledge that they had attained in Shanghai.

## 5.2 The Chinese perspective

Now it is time to move on and look at the Pegasus situation thru what can be seen in Farhang case study. The motives for Pegasus coming to China are it seems, as Farhang argues around the companies in his study, purely commercial. But it should be added that if this is the case, I do not really perceive that this has any importance within the small scope of my thesis.

The training and education that the Chinese partners were subject to are not all that dissimilar to what Farhang describes. Firstly looking at Pegasus China, the managers there are with few exceptions all westerners. Needless to say, it is reasonable to assume that they are already schooled in western management. Looking at the education efforts for the rest of the staff at the head office, it was

perhaps not practical to send a portion of them to Europe for training. Pegasus Global as a corporation is quite used to handling entry into foreign markets, and the accompanying local employee training. Because of this it made more sense sending training staff to China and have the courses on site, rather than in Europe.

Moving on to the Dealers and their staff, it should be noted that it is a problematic situation for some Dealers to send their staff to Shanghai for training, as the travel costs are quite high due to the vastness of the country. If sending staff around the country is problematic, sending them all the way to Europe is out of the question. This is especially the case as the Dealers have to bear the costs of such travel on themselves. Pegasus has a well developed computerized command and control system. They are able to monitor activities at the different Dealerships, thru for instance what spare parts are in demand and the repair/service work that is being pressed as warranty repairs. If something that the head office finds strange or is in error, they are naturally able to contact the manager at the Dealership in question and discuss the situation. Rendering aid to them even though, they (the Dealers) might be unaware of the situation. One of the cases that Farhang describes (Company C in my text), is in my notion perhaps one of the more relevant when the situation of the Dealers is concerned. The staff being sent to the Service School is quite varied both in social situation as the economical state of the provinces around China varies immensely. But also in the educational level, of course this can somewhat be attributed to variations in the socio-economical state around the country, but moreover it can also be that the individuals from some parts have had better opportunities to work with the kind of machines in question. Practically this comes from that some parts are more motorized, and have large building projects of varying nature. But on the whole the level of the training courses being offered at the School is being kept fairly basic, at least initially.

The question of spreading their new found knowledge among their peers upon returning from training at the Service School is somewhat tricky, according to Pegasus. It seems that some of the pupils are somewhat keen on keeping their edge, so to say, against their colleagues. This is proving to be an important role for the Head office, stepping in and pushing for active transmission of acquired knowledge among the Dealerships.

As the educational level, regarding things Pegasus, has grown among the employees, a change is being made in the courses taught at the Service School. Besides what might be considered obvious, the courses getting more and more advanced, there is also a geographical alteration. Due to the vastness of country, and the economical question, the more advanced courses are being held out in the different regions of the country. This is something that can be a source of potential conflict as the Dealers can have different motives for wanting to host the training course.

Farhang in his study identified different motives for the Western companies and their Chinese partners that he argues drove them in their respective undertakings. I would now like to look at if and how these motives are present in what I have studied at Pegasus. Starting with the Western companies, the first motive is access to the Chinese market. This seems to be one of the primary motives for Pegasus in setting up their partnership system with the Dealerships. Entry into the entire Chinese market is something they are aiming for. But as I have previously stated, setting up wholly-owned subsidiaries around the provinces is not economically feasible, and the cultural differences makes for a problematic situation when having to attain all of this know-how on their own. The short-term motive is something that I do not find present at Pegasus. The task of setting up the whole reseller system is quite time consuming, and besides this their particular market segment is not something that is swiftly penetrated. Or to put it in the words of one of the interviewees: -“*The sales person sells the first machine, service and spare parts sell the rest!*”<sup>27</sup> The utilization motive is something that perhaps is slightly more unclear than the others. The low labour costs do to some extent benefit Pegasus, but are to my mind of no primary importance. The question of resource access is on the other hand important. One could argue that the localized knowledge among the Dealerships throughout the country is a resource, as it is of value to both themselves, Pegasus and in the longer run to their competitors. Thereby it should be argued that they are indeed exploiting this resource. Lastly

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<sup>27</sup> Interview with quality manager at Pegasus Head office Shanghai

the long term revenue question should perhaps be seen as an important one, as it is a usual trait of companies world-wide.

Moving on to the motives of the Chinese partners, in Pegasus's case the Dealerships, and the first question of acquisition of advanced technology. This is something that seems to be of primary importance to the dealerships. Looking at the educational endeavours of Pegasus, this can be seen as the Chinese Dealerships lacking the, at least from a Western perspective, know-how and relevant skills for developing in their selected field of business. Motive number two, and case of international markets, seems somewhat clear-cut. The Dealerships will not be engaged in any exporting activities as this is handled by Pegasus Global. They are also prohibited from competing with the dealerships in the neighbouring provinces. From this I would like to argue that it is quite unlikely that this (international export) is of any primary importance to them. The question of local competitiveness and long-term profits is an interesting one when potential motives are concerned. Local competitiveness seems to be a very important factor for the Dealerships. That being something of primary concern for them and besides this if their competitors are getting in league with Western companies, and then it can prove to be a necessity for them to act in a similar fashion. Developing research and development is slightly an easier one to analyze. There does not seem to be any signs of the Dealerships pursuing or wanting to pursue and research and development activities. Lastly we arrive at the motive of Government subsidies, while this being an important point on the agenda according to Farhang, I have not managed to find any signs of this being of importance to the Dealerships. This of course not meaning that it is not the case but simply that I, lacking a better answer, must leave the question open.

## 6. Conclusion

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*Here follows a summary of the main points in the analysis part, and some personal reflections are presented*

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### 6.1 The motives of the participants – testing the theory

It seems to me that the relationship between the Dealers and Pegasus is a solid and fruitful one. The question of what kinds of motives were the driving forces behind this development is an interesting one. I have found some evidence that the motives that Farhang found in his thesis are present and valid for my, albeit much smaller, study. For Pegasus the primary overriding factor, or driving force, is that of the long-term financial revenue. This is to my mind not the slightest a unique case for Pegasus as a vast majority of all companies would admit that they are driven by long-term profits. This motive, I would like to argue, is not very interesting as it is so general and common that it is not very necessary to make a study testing the existence of it. With this I mean that you hardly have to go to China and conduct interviews and read literature on modern management to establish that companies are revenue driven. Another motive that was encountered at Pegasus is quite a lot more interesting. The main obstacle for Pegasus, as perhaps for many of the Western companies coming to China, was/is entry into the market place. This is no small task, as it would demand large amounts of financial resources and know-how. Know-how that would have to be bought in one form or the other, as they lacked this. In turn making for difficult situations like for instance the “principal-agent” problem from micro economics. It is my belief that Pegasus overcame their problematic initial position rather smoothly. While keeping initial investments to a minimum (not counting setting up the Head office and the production plant) and exploiting the local knowledge of the Dealerships. It should perhaps be noted that this kind of organizational structure is by no means unique to either China or Pegasus. It is widely used by almost all of Pegasus’s competitors and also by Pegasus themselves around the globe. But this is not in any way saying that this was a good initiative when China was concerned.

When considering the Chinese side, the main reason for committing themselves to cooperating with the Westerners was technological acquisition. This is the case according to Farhang. As for my study I have found that this is also something that can be seen as a principal motive of the Dealers. As I have previously concluded, the situation from a Western perspective indicates that they are not very familiar with Western management for instance like Quality management, business practices and knowledge transfer. It should be argued that the Chinese not being affluent on Western machines and engines in general and Pegasus's in particular are hardly a surprise and not something that could have been to any extent expected beforehand. Like the motive for the Western companies and specifically Pegasus, they would reasonably be driven by a desire to make profits conducting their business. Furthermore it is perhaps reasonable to assume that they have identified the need for attaining a deeper and broader technology base to remain and potentially develop their competitiveness in the future. I should add that this is, from my perspective, slightly more unclear, meaning that I have not had real possibilities to conduct interviews with the Dealers around their motives and situation.

To sum up this part of the conclusion, I would like to say that on the whole the lessons learned by Farhang in his study regarding motives behind joint-ventures are true to a large extent in my study as well. Some of the motives were not present in my study, and I would like to attribute a little of this to the fact that the Pegasus case is perhaps not a classical example of a joint-venture per say. The main focus of Pegasus in China is not one of production at this stage, furthermore it is hardly a case of getting short-term profits as the Dealers do not have to pay anything for licensing and training. For the Chinese research and development is not a factor, nor will it be in the foreseeable future, as none of Pegasus Dealerships around the globe is engaged in such activities. Furthermore export is not really a question either, as any future production in China for export (which future-wise is likely to become a reality) will be managed by Pegasus China. Lastly the narrow scope of my study in addition to the constraints put up by a harsh reality did not enable me to take a deeper look at the Dealers possible connection to Government incentives of various kinds.

## 6.2 Knowledge transfer among the dealerships and selecting the locations – prestige and power struggle

The role played by the transfer of knowledge is well established by both Nonaka & Takeuchi, by Harryson and by Farhang. As Farhang argues: “...*substantial education efforts for both the Chinese workers as well as the managers need to be addressed.*”<sup>28</sup>. To my mind this is something that has been indeed addressed by Pegasus, thereby setting up the Service School. Two quite interesting problems were encountered during the course of my study, in regards to knowledge transfer. The first one is that of the pupils returning home from training and being averse to sharing their newfound knowledge with their co-workers. This is something that Pegasus, by all means, is taking seriously as this dampens the positive effects of having employee training activities. Furthermore it is also a, for practical monetary reasons, a necessity that the employees selected and educated at the Service school spread their knowledge as it is too expensive for the Dealers to send them all. As I have previously stated this situation, according to the interviewees, seems to have its origins in that the pupils returning home feel themselves elevated above their co-workers and that they have been given an edge in their home organization. Because of this they are not willing to part with this educational edge so easily. But perhaps there are other, at least contributing reasons, for this situation. Might it not be that the individuals not selected for training feel left out and are in themselves adverse to the situation, and by possibly unconscious action trying to sabotage any initiate by the returnees to successfully teach them. I admit this is not all that logical, but that is seldom the case when organizational problems are concerned. The second one is the question of the localization of the training courses being held out at the regional level. According to one interviewee it was very important to have a lot of “*finesse*”<sup>29</sup>, when selecting at what dealership the course should be held. It was of crucial importance to the longest extent try to give each and every Dealership in the region in question an equal amount of attention. It seems there is a large amount of prestige in gaining the honour of hosting the next training course. This in turn puts lots of pressure on the Dealers to have the proper machines at home to be

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<sup>28</sup> Farhang p.287

<sup>29</sup> Interview with Chief Educator Pegasus Service school Shanghai

able to have as samples for training for instance. I would like to argue that this situation is not necessarily a good thing for the Pegasus China organization as a whole. The situation down the road might become such that the Dealers are being more interested in competing with each other and even going so far as sabotaging each others activities to put them in the spotlight with the Head office, than developing good cooperation with their neighbours. Perhaps a little friction could spur them to work harder, but one of the main points in having one Dealership per province is that there should be no intra-province competition, but instead the focus should be on market development.

### 6.3 Important notes on management in China

I would like to present a few points that I have uncovered during the course of my study that pertain to some problem areas that the interviewees identified when management in China is concerned. The first point is one of quality. The question of quality is not something that seems to have been a real issue previously in China. It has because of this been an important part of the training conducted at the Service school. Putting quality in a larger context, and thereby including customer care, it is also for the type of business that Pegasus is in of primary importance. Secondly it seems that one problem that the managers at Pegasus discovered when they established themselves in China found was that employees in general were quite averse to taking responsibility. It was easier to look the other way even if it was more or less apparent that there was a problem, and that it could be solved. The nature of this problem was somewhat tricky for the interviewees to get to grips with. The consensus was that this probably had its origins in the political system of the country, and the private sector being quite new and just now under the influence of Western type management practices. It is my argument that this, while reasonable, might not be the only answer. It is not all that difficult to find Western management literature describing the same problems in a Western setting all the way up to the general manager level<sup>30</sup>. Here a difficult corporate world is described where employees and CEOs alike are adverse to taking responsibility and even making decisions at all while trying to avoid getting connected to any potential failure. One could always argue that Jackal's

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<sup>30</sup> see for instance Jackall's Moral Mazes



study is somewhat general and fragmented, but according to himself many studies at various American Fortune 500 companies were included. Keeping this in mind it is my argument that there can be other factors also involved in Chinese responsibility aversion, albeit what exactly has been difficult to determine during the course of my study. The last point on my list is the case of team-work, which has also been lacking among the new Chinese employees. Senge<sup>31</sup> argues that *“Individual learning, at some level, is irrelevant for organizational learning...But if teams learn they become a micro-cosm for learning.”* In my mind this can have something in common with the responsibility aversion activities. Both can be connected thru the perspective of corporate identity, meaning that if employees identify with the whole of the company they are prone to help one and other on a regular basis. Furthermore it can be easier for an individual to conceptualize that the progress of the entire organization will have effects on the same, meaning that if there is a down-turn in sales all of the employees will in some way or another be affected. This is perhaps something that is also connected to the differences between public and private enterprises, where public ones do not generally suffer the risk of going out of business and seldom have to face competition, even more true in a strict socialist society.

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<sup>31</sup> Senge p.236

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