Cross-Border Knowledge Transfer by a Japanese Advertising Agency in China: The Function of Local Managers in Knowledge Transfer Process

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Abstract

Asatsu-DK is a Japanese advertising agency. It entered China early in the 1980s when China opened its markets. This paper explores how knowledge is transferred from Japan to China. It focuses on the key role and function of local managers in knowledge transfer process. Case study:

- (1) Shiseido Operation (As Client following entry mode knowledge)
- (2) Expo 2010 Shanghai China Operation (As Market seeking entry mode knowledge)

There are two types of local managers those that are "individually oriented" and those that are "group oriented". The knowledge transfer to the local staff depends on the attitude of the Chinese managers and it is shown to affect the result of each operation. For the specialized service sector such as the advertising agency, they should recognize their characteristics of

knowledge to transfer at first and select local managers who are playing a role of a key function of knowledge transfer from Japan to China.

Key Words

Advertising agency, Client following entry mode, Market seeking entry mode, Knowledge transfer process, Local manager, Individual centric, Group centric

Introduction

Each of the top three Japan-based ad agencies, Dentsu, Hakuhodo, and Asatsu-DK (hereafter referred to as ADK), boasts sales that rank in the world's top ten. As illustrated in **Table 1**, however, all three rely heavily on the Japanese market, and the proportion of these companies' sales generated overseas is small. The make-up of overseas sales of Dentsu was 13.9%, Hakuhodo was 2.9%, and ADK was 6.8% for 2011.

This paper focuses on China as a particularly promising emerging market, and makes a case for the need to conduct an efficient transfer of the marketing knowledge accumulated in the Japanese market to the Chinese market.

The strategic challenges relating to cross-boundary knowledge transfers being carried out by Japan-based advertising agencies is examined through interviews with persons in charge of various working-level operations in Japan, expatriates to offices in China, and local managers and staffs.

Table 1: Overseas

DENTSU	2008	2009	2010	2011
Sales	23,768	21,141	23,091	23,842
Overseas Sales	2,247	1,801	2,568	3,294
Make-up of OverseasSsales	9.5%	8.5%	11.1%	13.8%
HAKUHODO	2008	2009	2010	2011
Sales	13,015	11,550	11,794	12,321
Overseas Sales	378	308	387	478
Make-up of OverseasSsales	2.9%	2.7%	3.3%	3.9%
ADK	2008	2009	2010	2011
Sales	5,031	4,411	4,365	4,372
Overseas Sales	362	278	297	297
Make-up of OverseasSsales	7.2%	6.3%	6.8%	6.8%

(Million US\$/1US\$=79.4JPY)

sales by Japanese ad agencies

Source: Prepared by the author based on earning summaries for the terms ending March 2012 for Dentsu and Hakuhodo, and earning summaries for the terms ending December 2 2011 for ADK.

Previous studies and a framework

1. Previous studies regarding the type of transferred knowledge

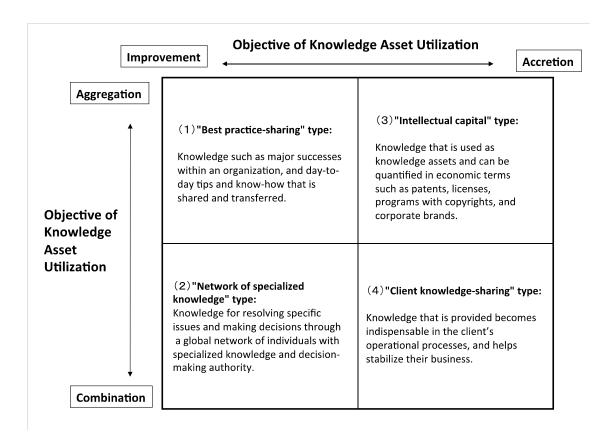
Polanyi (1958) cited that "tacit knowledge" is difficult to describe. Nonaka and Konno (1999) define data as discrete and objective facts (symbols and numerical values) regarding an event, information as meanings and significance that are constructed from this data, and knowledge as the order that causes one to recognize the information and take action. They also define the different characteristics of "explicit knowledge" and "tacit knowledge".

For service sector business as ad agency, "tacit knowledge" is important competitive advantage in overseas business expansion.

2. Types of knowledge management in knowledge management theory

As shown in **Figure 1**, Nonaka and Konno (1999) define four types of knowledge management based on the purposes of utilizing knowledge assets, and the methods of their utilization. This paper relates these types of knowledge management with the characteristics of transferred knowledge.

Figure 1: 4 Types of knowledge management in knowledge management theory



Source: Nonaka, I. and Konno, N. (1999), *Tishiki-Keiei-no-Susume* (Advice - knowledge management and the time of the knowledge management), Chikumashobo Tokyo, P70.

3. Previous studies regarding types of motives for entering the service industry

In order to analyze the transfer of knowledge for operations at ad agencies, the objectives of the operations themselves must first be categorized. Erramilli and Rao (1990) cite the peculiarities of service industries and categorize the forms that different businesses take when entering an overseas market. As shown in **Table 2**, these authors categorize the motives (modes) of overseas market entry into two areas: "Client-following (CF)" and "Market-seeking (MS)." According to this categorization, ad agencies are considered to be "Client-following soft-service firms" who establish overseas offices for the purpose of providing services to their home-country clients.

Table 2: Examples of CF and MS Entries Associated with the two Types of Service Firm

	Types of Service Firm		
Motives for Entry	Soft-Service Firm	Hard-Service Firm	
	An advertising agency sets up office	A software company provides	
Client Following(CF)	abroad to serve a domestic client's	software support to the foreign	
	foreign subsidiary	subsidiary of a domestic client.	
	A fast-food chain appoints a	An architectural design firm	
Market Seeking (MS)	franchisee in a foreign market to	sells blue prints to foreign	
	serve the local customers there	customers	

Source: Erramilli, M.K. and Rao, C.P. (1990), "Choice of Foreign Market Entry Modes by Service Firms: Role of Market Knowledge", *Management International Review*, Vol. 30, No.2, p.141.

This paper draws on these previous studies, and complements their findings with the perspective that the businesses of Japan-based ad agencies, owing to the length of time that they have been in these overseas markets, represent a combination of client-following and

market-seeking modes, and that the knowledge that is being transferred internationally from Japan corresponds to specific business objectives.

4. Previous studies regarding knowledge transfer processes

The result of through what kind of course knowledge transfers and knowledge practical use at a spot is affected. In order to analyze the relation between the knowledge characteristic and a transfer process, the previous work of a transfer process is reviewed also in this section.

Table 3 shows that Kogut and Zander (1992) provided the module (unit) of the transfer process element as an individual, a group, an organization, and a network, and the argument was collected. Difficulty like operation of tennis and a car in the research, which transfers having made progress as skill through action with an individual to others, is mentioned as the example.

Table

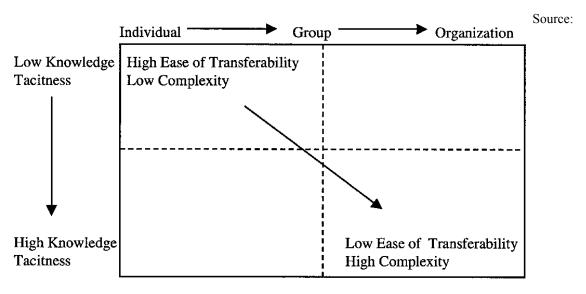
	Individual	Group	Organization	Network
Information	facts	who knows what	profits accounting formal &informal sturucture	prices whom to contact who has what
Know-how coordinate Taylorist		recipes or or guinzational stress as		how to coorperate

3: knowledge transfer from an individual, a group, an organization and a network.

Source: Kogut, B. and Zander, U. (1992, "Knowledge of the Firm, Combinative Capabilities, and the Replication of Technology", *Organization Science*, Vol. 3, No. 3, August, p.388.

Inkpen and Dinur (1998) have examined knowledge transfer management from the perspective of the transfer process. Their study focuses on the relationship between the process for accessing knowledge and the type of knowledge.

Figure 2: Knowledge Transfer Classification Framework



Inkpen, A.C. and Dinur, A. (1998), "Knowledge management Process and International joint venture", *Organization Science*, Vol. 9, No.4, July-August, p.457.

Figure 2 shows that the higher the degree of implicitness of the knowledge, the more difficult it becomes to transfer "tacit knowledge".

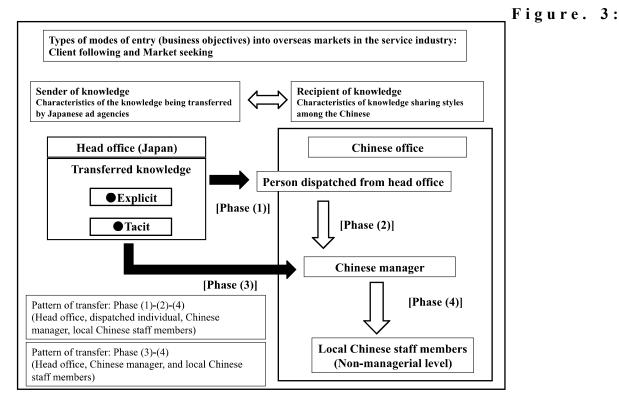
4. Case analysis framework

A review of previous studies regarding knowledge characteristics and transfer processes in the context of knowledge transfer was presented above. This paper describes the framework for analyzing the knowledge transfer to China being carried out by Japan-based ad agencies. **Table 4** shows the characteristics of the knowledge being transferred.

				la
	Knowledge type	Four types of knowledge management	Types of modes of entry (business objectives)	
Emplicit (1		(1) "Client knowledge-sharing" type (value enhancement, collaboration)	Client-following	
	Explicit	(2) "Best practice-sharing" type (upgrades, consolidation)	Chent-tonowing	
Tacit	Togit	(3) "Network of specialized knowledge" type (upgrades, collaboration)	Market-seeking	
	(4) "Intellectual capital" type (value enhancement, consolidation)	IVIAI KCU-SCEKIIIg		

ble 4: Characteristics of knowledge being transferred by ad agencies

Four transfer phases were defined with regard to analyzing the transfer process. Groups were formed based on individuals depending on connections between the different phases of transfer, creating a pattern for the process of inter-organizational knowledge transfer between head office and local offices (see **Figure 3**).



Framework for analyzing the knowledge transfer process at ad agencies

This paper proposes this new framework in order to examine the matter of how knowledge—which essentially constitutes management assets—might be transferred, and to analyze cases based on real-world operations with a focus on the Chinese market, the most critical of all emerging markets for Japanese businesses.

Method

This study is consisted of depth interviews with employees and local manager who relate actual operations of ADK in Japan and China. The interviews provide a real condition of knowledge transfer. It shows what kind of knowledge and how it transferred from Japan to China. The interviews are made with 30 employees.

Overview of Chinese operations at ADK, the focus of this case study

1. ADK: Establishment and growth

This case study carries out a chronological verification of how ADK's Chinese business was established. In January 1999, Asatsu-DK Inc. (ADK) was founded through a merger of Asatsu Inc., and Dai-Ichi Kikaku Co., Ltd., the third and seventh-largest businesses in the industry, respectively. The merger resulted in a company with capitalization of 37 billion, 581 million yen and sales of 351 billion, 367 million yen, and 1996 employees. Currently, the company is the third-largest ad agency in Japan after Dentsu and the Hakuhodo DY Group.

2. ADK's organizational setup in the Chinese ad market

ADK currently operates 11 companies in 9 Chinese cities (including Hong Kong and Taiwan) staffed by a total of approximately 700 employees consisting of both Japanese and local staff, giving the company one of the largest presences among Japanese ad agencies. As for Japanese clients, ADK counts as clients an extensive list of companies in a variety of industries including Shiseido, Mitsubishi Motors, Bridgestone, Unicharm, Nissin Food Products, Suntory, Wacoal, Hisamitsu Pharmaceutical, and Daiwa House and so on. In recent years, ADK has been serving an increasing number of Chinese companies, providing communication services to major corporations such as Haier (Electronics appliances), Mengniu (dairy products), Southeast Motor (automobiles), and Hongxing (large furniture volume retailer).

Characteristics of Client-following types of knowledge, and the transfer process

1. Client-following types of knowledge: ADK's Shiseido Operation Case-Study

Shiseido's operational knowledge that is being transferred can be categorized into the "Client knowledge-sharing" and "Best practice-sharing" types.

Tacit knowledge that is difficult to transfer in words carries significant meaning in both types. This is because nuances, or the subtle differences included in tacit knowledge, are precisely what constitute the image of cosmetics and hair-care products, and enhance their product value.

As Erramilli and Rao (1990) cited that an advertising agency is client following-soft service firm in overseas market entry mode. One of the competitive advantages of advertising agency is a capability of client relationship management. Regarding Shiseido case, there is close business relationship between client and agency as **Figure 4**.

Figure 4: Client-following types of knowledge transfers for the Shiseido operation of ADK

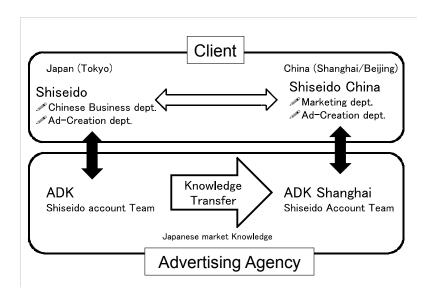


Table 5 shows information regarding the characteristics of knowledge being transferred as compiled from interviews with persons involved.

Table 5: Transfers of client-following types of knowledge for the Shiseido account

	Types of knowledge management		
Knowledge type	Client knowledge-sharing type	Best practice-sharing type	
(1)Explicit	●Product-related information ●Precise marketing strategies ●Market research, consumer target information ●Corporate slogan "Beautiful for the moment, beautiful for life"	 ◆Ad visuals and PR materials ◆Ad formats and design layouts ◆ Celebrities featured in ads 	
Corporate principles and philosophy "The heart of hospitality" To interact with customers from the heart The "Shiseido Way" and "Being true to Shiseido" Client's decision-making system and common language Criteria for determination and aesthetic feel		○Ad copy concept (nuance) ○Ad tone and manner (feeling of completion) ○ Values proposed by Shiseido ○ Communicating depth of feeling (unique view)	

From this case of client-following types of knowledge as seen in Shiseido's operations, one learns that the characteristics of transferred knowledge are rooted in elements that contain a great deal of nuance, namely principles of action and philosophy.

2. Process of client-following types of knowledge transfer

Two routes were found in the process of knowledge transfer in Shiseido's operations from head office to the Chinese office (as **Figure 5**).

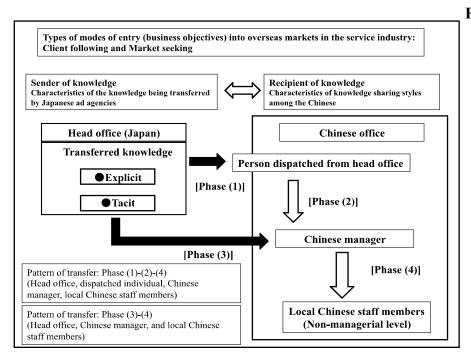


Figure 5: Process of

client-following types of knowledge transfers for the Shiseido operation

Pattern of transfer: Phase (1)-(2)-(4) (Head office, dispatched Japanese, Chinese manager, local Chinese staff members) and Pattern of transfer: Phase (3)-(4) (Head office, Chinese manager, and local Chinese staff members). It was pointed out in the interviews that while Chinese managers engaged in the Shiseido account would give detailed instructions to local staff in Phase (4), knowledge would not be shared with group members.

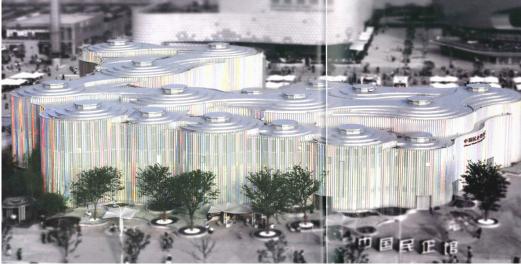
In this Phase (4), Chinese manager does not try to transfer tacit knowledge to explicit knowledge for local staff. And there is no activity of group knowledge sharing as well.

Characteristics of Market-seeking types of knowledge, and the transfer process

1. Market-seeking types of knowledge

With regard to the characteristics of market-seeking types of knowledge, and the transfer process, this paper cites the example of a pavilion project at the 2010 Shanghai Expo. (As **Figure 6**). ADK was responsible for planning and operating the Japanese government pavilion at the 2005 Aichi Expo, and utilized this knowledge at the Shanghai Expo.

Figure 6: 2010 Shanghai Expo Chinese Private Enterprises Pavilion



Source: ADK

Production skills for controlling groups of specialists, and the ability to meet deadlines while ensuring quality to the last detail, constitute a combination of "Network of specialized knowledge" and "Implicit knowledge. There is ongoing sharing of knowledge when Japanese organizations carry out operations.

State-of-the-art operational know-how based on teamwork and organizational capabilities of specialized divisions constitute a combination of "Intellectual capital" and "Implicit knowledge." The experience gained and networks with outside experts formed at the Aichi Expo also belong in this category. Intellectual capital refers to knowledge that is closely related to HR and monetary investments made by the organization.

Figure 7 shows that relationship between ADK Tokyo and China. ADK shanghai office contacted with Chinese private companies Pavilion project office.

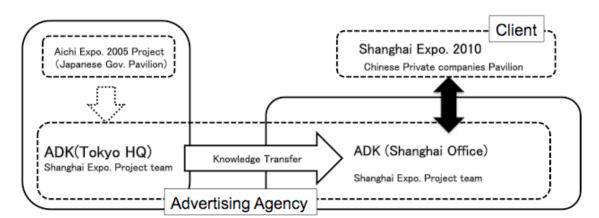


Figure 7: 2010 Shanghai Expo· Chinese Private Enterprises Pavilion

Table 6 shows the extensive accumulation of knowledge relating to the management of large composite projects.

Table 6:

Knowledge type	Network of specialized knowledge Type	Intellectual capital Type	
(1)Explicit	● Planning knowledge ■ Management knowledge for managing timeline and budget ■ Verification of operations and communicable matters	Operational manuals, detailed design drawings, proposals	
(2)Tacit	OProject management skills and know-how O Know-how for determining the optimum roadmap for achieving different objectives OProduction skills for controlling groups of specialists OAbility to meet deadlines while ensuring quality to the last detail	OTeamwork and organizational capabilities (specialized divisions) O Proposals for state-of-the-art technology exhibits and operational know-how O Accumulation of external resources O Experience gained and networks formed in the Japanese government pavilion project at the Aichi Expo	

Transfers of market-seeking types of knowledge for the Shanghai Expo

2. Process of market-seeking types of knowledge transfer

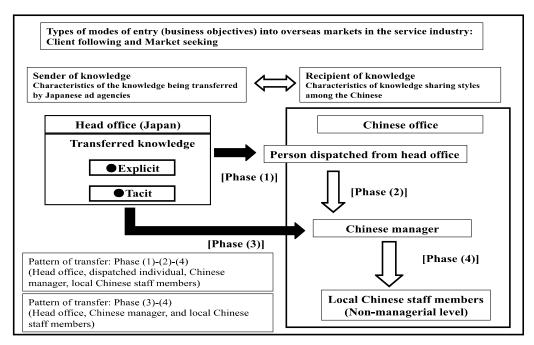
The primary path of knowledge transfer in this example was Phase (3)-(4) (Head office \rightarrow Chinese manager \rightarrow local Chinese staff). A characteristic of this process was that specialized staff were posted on a full-time basis and "took the Chinese staff by the hand" to transfer knowledge in a step-by-step manner for a project that had a limited timeframe of one year (see **Figure 8**).

The Chinese manager noted in an interview that, to carry out major projects on this scale, it is absolutely imperative that Chinese staffs become aware of the need to share information and knowledge as a group so that information and knowledge is not concentrated in the hands of a few individuals.

The knowledge transfer phase that is particularly important in actual operations is the phase where knowledge is transferred from the Chinese manager to local staff members. In this case, the Chinese manager acted as a "hub" who relayed information between the sender and recipient of knowledge, and therefore, knowledge was shared effectively throughout the entire group with the Chinese manager playing a central role.

In this process, the role of Chinese manager is key; he was graduated from Japanese university and entered ADK. His excellent Japanese ability helped to communicate. And he experienced in Japan for ten years, he fully understands the way of Japanese thinking. These are important factors lead the knowledge transfer smoothly.

Figure 8: Process of market-seeking types of knowledge transfers for Shanghai Expo



Conclusion

1. Findings

Finding 1: Characteristics of transferred knowledge in the examples discussed can be divided into 8 types.

The two modes, client-following and market-seeking, which were derived by reframing the entry modes of service businesses into foreign markets and the four types of knowledge management were consolidated for the purpose of grouping the characteristics of transferred knowledge (see **Table 7**) into different groups. These show the characteristics of knowledge that is being transferred from Japan by Japan based ad agencies to their Chinese offices.

Table 7: Types of knowledge transferred by ad agencies to the Chinese market

Table 7. Ty	pes of knowledge tran	isici i cu k	by an agencies to the Chinese market
Types of entry modes	Four types of knowledge management	Knowledge types	Specifics of knowledge being transferred by ad agencies
	(1) "Client knowledge-sharing" type	1-1:Explicit	Product-related information
Client-following		1-2:Tacit	o"Being true to the corporate nature" Client's decision-making system and common language
Chent-tonowing	(2)"Best practice-sharing" type	2-3:Explicit	◆Ad visuals and PR materials◆Market research, consumer target information
		2-4:Tacit	Ad tone and manner (feeling of completion)
	l(3)"Network of specialized knowledge" type - l	3-5:Explicit	Case examples and management know-how of projects
Market-seeking		3-6:Tacit	Production skills for controlling groups of specialists
	(4)"Intellectual capital" type	4-7:Explicit	Operational manuals, proposals High-quality content
		4-8Tacit	Personal networks relating to content

Finding 2: the outlook of the Chinese manager determines the knowledge transfer process.

The purpose of this study was to examine the strategic imperatives relating to the process of transferring knowledge to China, a critical market for Japanese businesses. The Chinese manager, who plays a hub-like role in the process, is the determining element in what style the knowledge transfer will take, that is, "individual-centric" or "group-centric" as well as in

how the knowledge will be transferred to local Chinese staff who work at the forefront of operations (see Figure 9).

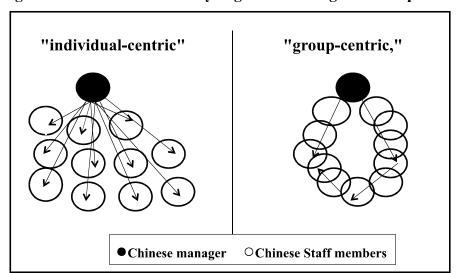


Figure 9: Framework for analyzing the knowledge transfer process at ad agencies

Finding 3: the attitude of the Chinese manager determines the knowledge transfer process.

The purpose of this study was to examine the strategic imperatives relating to the process of transferring knowledge to China, a critical market for Japanese businesses.

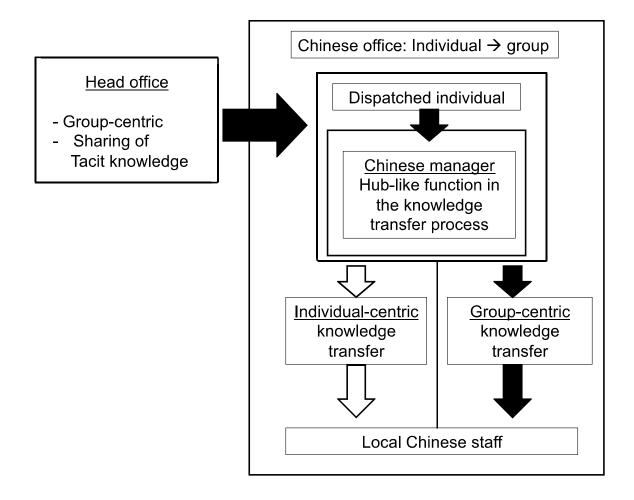
As can be seen in **Figure 10**, the Chinese manager, who plays a hub-like role in the process, is the determining element in what style the knowledge transfer will take, that is, "individual-centric" or "group-centric," as well as in how the knowledge will be transferred to local Chinese staff who work at the forefront of operations.

In terms of strategic imperative, this is not simply a case of incorporating processes for formalizing "tacit knowledge". Rather, approaches must be taken to create a process for transferring "tacit knowledge". This paper suggests that only through approaches for sharing "tacit knowledge" based on both the sender and receiver having a good understanding of the characteristics of the transferred knowledge can the group-oriented transfer style of Chinese managers be effective.

An issue that must be thoroughly looked into in the early stages of expanding operations and projects is the formation of a strategic approach for ensuring suitability between the transfer process and the characteristics of transferred knowledge. Chinese manager plays a role of determination hub of knowledge transfer process.

This paper suggested that Chinese manager in case of Shiseido operation takes individualistic style of knowledge sharing. On the other hand, In Shanghai Expo case, Chinese manager takes group oriented style of knowledge transfer. Apparently these Chinese managers knowledge transfer styles are different. There are two reasons as knowledge types and own backgrounds of local manager 's educational and carrier development

Figure 10: Knowledge transfer process in the Chinese market by Japanese ad agencies



Finding 4:Knowlede type and transfer process

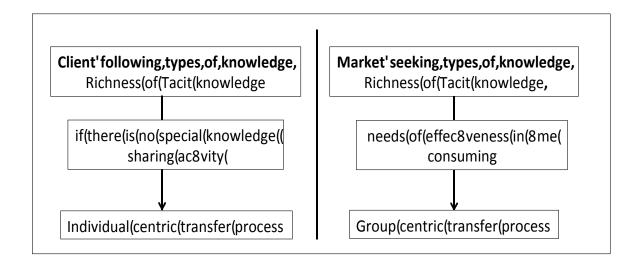
In terms of effectiveness in practical performance, this paper suggested that there is a combination of knowledge type and local manager transfer attitude (as **Figure 11**).

Client-following types of knowledge tends to select an individual centric knowledge transfer to local staff if there is no special knowledge sharing activity. And it depends on product as well, for instance, automobile clients are different from cosmetics due to the weight of tacit knowledge and explicit knowledge is more important like specification of parts, data of performance etc.

On the other hand, Market-seeking types of knowledge as an international event tend to select a group oriented. Knowledge type influences to select knowledge transfer process.

This kind of Market-seeking types of knowledge will contribute to expand Japanese ad agency's growth in overseas business. From the case, it shows that group-centric knowledge transfers effected time saving and develop the project management scheme.

Figure 11: Knowledge type and transfer process



Discussion

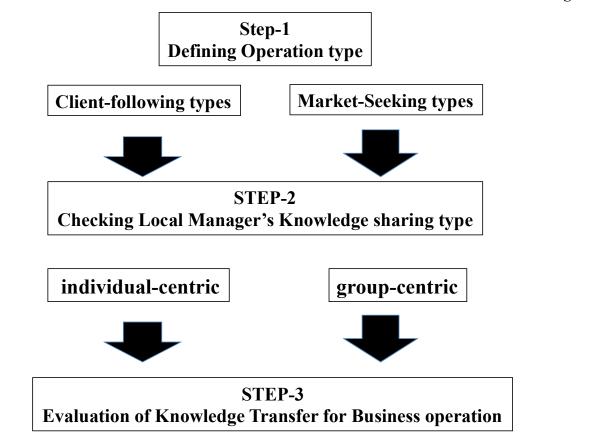
Through these discussions this paper proposed that "Cross-boarder Knowledge transfer Fitting program".

The basic process is simple and easy, but timing of adoption is important. When an operation will start up, a sender of knowledge must recognize the type of operation that is client-following types or market seeking of knowledge transfer. At the same time, checking local managers backgrounds as own education, business carrier, reputation from local staff.

The key point is matching of knowledge type and local managers style as "individual-centric" or "group-centric," as well as in how the knowledge will be transferred to local Chinese staff that work at the forefront of operations (see **Figure 12**).

"Cross-boarder Knowledge transfer Fitting program" consists of three steps that Step-1 Defining Operation type, the knowledge sender should define the operation is client-following or market-seeking. Step-2 is the stage of checking Local Manager's Knowledge

sharing type. The knowledge sender should define the style of local manager takes individual-centric or group-centric. Step-3 is also important stage to evaluate knowledge Transfer result for Business operation. If there is some problem, the sender should take an action to amend and improve a process quickly.



12: Cross-boarder Knowledge transfer Fitting program

Areas for study moving forward

One of the challenges that must be overcome moving forward is that of the limitations posed by a single case study. The author acknowledges the need to carry out further case studies on other Japan-based ad agencies and other specialized service companies to create a generalized theory regarding the relationship between the characteristics of transferred knowledge and the transfer process.

This study also hopes to carry out research to verify which factors determine whether the local manager assumes an "individual" or "group" outlook in relation to the characteristics of transferred knowledge and the process of transfer, as well as the effects of these different outlooks on business performance so as to provide further insight into how Japan-based ad agencies might expand globally.

Managerial Implication

First, the sender of knowledge (Japanese head office) must recognize that Client following knowledge consists of "Client knowledge-sharing" and "Best practice-sharing," type and Market-seeking knowledge consists of "Network of specialized knowledge" and "Intellectual capital" type. To know about characteristics of knowledge are important elements of business strategy for today's service sectors companies as advertising agency. This conclusion may also apply to other industries.

Second, through these case studies, the knowledge is core value of competitive advantages thus knowledge transfer is creating the fundamentals for business success. This study shows that the function of local manager is key. But most of Japanese companies do not yet recognize this fact. This is the strategic problem in human resource program. To succeed in enraging countries, it needs to develop the knowledge transfer program with an evaluation of each manager's knowledge sharing style.

Therefore, Cross-boarder Knowledge transfer Fitting program" is the element that should be adopted as the global strategy by today's company, regardless of their type of business.

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