

Constitute Knowing in MNE Subsidiaries in China: From a Dynamic System Perspective

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Abstract:

This current study examines how MNE subsidiaries constitute “knowing” in their ongoing practices in local context, with a focus on the Chinese cultural context in which the subsidiary is embedded. From a dynamic system perspective, it provides a framework to further discuss learning of organizations with particular relevance to the Asian business context. This study complements the current understanding of learning by highlighting the essential role of context in enacting knowledge in practice. We conducted 48 in-depth interviews with managers in MNE subsidiaries located at three cities in China, including: Beijing, Shanghai and Guangzhou, which captured a broad picture of the Chinese geographic variations and the cultural context. It has practical implications for managers working in China and Asian emerging markets. This study explains the dynamic process of learning in MNE subsidiaries, and the interactions between employees and the local cultural context. Firstly, it reveals the learning nature of daily practices in subsidiaries from a practice view, which further confirms that the “knowing” process of organizations is a continuous, circular process of change characterized as systems dynamics. Second, it discusses that knowing and meaning are embedded in specific contexts of subsidiaries, which are across boundaries and faced with navigating a local cultural context. It highlights the effects of cultural context in enacting knowledge in practice by discussing contextual dynamics of knowing practices in MNE subsidiaries. In particular, the Chinese local context of learning has been examined with support of empirical data. Third, it finds that expatriates serve as channels and storehouse of tacit knowledge in subsidiaries considering the characteristics of Chinese cultural context. It suggests managers working in subsidiaries take advantages of local cultural context. It also has practical implications for MNE headquarters to expand into Asian emerging markets.

Keywords: Learning, dynamic system, local context, MNE subsidiary

1. Introduction

Attention has been focused on the opportunities and difficulties associated with learning and innovation of foreign subsidiaries in the host country (Brown and Duguid, 1998; Davenport and Prusak, 1998; Awate, Larsen and Mudambi, 2012). Interacting with actors in the local external environment in the host country, subsidiary and the MNE are able to gain access to the dispersed sources of knowledge required for innovation (Andersson et al., 2005; Kuemmerle, 1999; Mudambi and Swift, 2011, Williams and Du, 2014). Although the importance of social and cultural contexts has been studied (Beaudry and Schiffauerova, 2009; Porter and Stern, 2001; Tsoukas, 1996; Whitley, 1996; Granovetter, 1992), little attention has been devoted to the dynamic role of cultural context in learning in foreign subsidiaries from a dynamic system perspective.

Despite the insights provided by prior research on learning in multinational enterprise (MNE) subsidiaries, there are still few studies that examine the role of local context of an overseas market in developing countries, and China in particular (Zhang et al., 2009). China is a crucial context for examining knowledge learning for various reasons. China is the world’s second largest economy, and increasing amounts of FDI have been flowing into the country in order for investing MNEs to access human capital and innovation. The Chinese government has formulated policies to encourage inward FDI aimed at technology and innovative sectors. So far, China has established 128 national technology development zones across the country to encourage high-technology sectors (British Chamber of Commerce in China, 2017). Nevertheless, while China has reduced its reliance on imported technology and equipment (Guan, Yam, Tang, & Lau, 2009), it is still generally considered to be a catch-up economy and a volatile business environment (Li & Atuahene-Gima, 2001; Zhang & Li, 2010). At the same time, China has drawn criticism because of intellectual property (IP) and knowledge protection issues (Hu & Jefferson, 2009; Yang & Clarke, 2005), and there has been a high turnover of skilled employees (Yang & Jiang, 2007). These hazards mean that MNEs investing in China for the purpose of developing new products and services (i.e., innovation) need to take measures so as to avoid losing their IP to local partners.

In order to successfully managing learning in transition economics such as China, MNE subsidiaries have to interact with local actors and manage new knowledge (Steensma and Lyles, 2000; Watkins & Marsick, 1996), which helps them better respond to local cultural environments. A growing body of studies emphasize the difficulties for MNE subsidiaries to successfully perform in the Chinese cultural environment, but there has

been little research with a positive perspective examining the role of the Chinese cultural context in cross-border knowledge learning, or on how organizations can leverage the benefits of local cultural environment for learning; What's more, previous studies has featured established communities of practices, while a few studies have begun to look at work settings which have become fluid, transitory and uncertain (Blackler and Regan, 2009; Heckscher and Adler, 2006).

This current study examines these gaps and discusses the practices of learning among MNE subsidiaries, with a focus on the local context in which the subsidiary is embedded. By exploring the role of cultural context in the process of MNE subsidiaries, this study aims to provide explanations for the dynamic processes of knowledge learning in MNE subsidiaries, as well as for the interactions between organizational members and the local cultural context in which knowledge is embedded, from a practice perspective.

2. Theoretical framework

There have been two distinct perspectives on knowledge (Nelson & Winter, 1982; Leonard-Barton, 1992; Hedlund, 1994; Nonaka, 1994; Nonaka & Takeuchi, 1995; Winter, 1987; Hansen, 1999). The classic distinction is typically used to elaborate knowledge dichotomies, for example, local vs. universal, codified vs. uncoded, canonical vs. noncanonical, procedural vs. declarative, knowing what vs. knowing how (Brown and Duguid 1998, p. 91). While these two perspectives provide important insights, they overlook the importance of ongoing and situated action, as well as context-embedded knowledge.

In recent years, a number of versions of knowing processes have emerged to challenge the very foundation of the rationalist tradition, which established the basis for the main stream of literature on knowledge. Based on work carried out in such diverse fields as sociology, ethnomethodology, social anthropology, psychology and technology, these alternative conceptualizations transcend conventional distinctions between the social and the material. What makes the particularity of such developments significant is their insistence on speaking about the social and the material in the same register, and not relapsing into a limiting dualism that treats them as separate entities.

2.1 Knowledge and knowing in practice

Drawing on these influences, the knowledge literature can gain considerable analytical insights if researchers give up on treating the social and the material as distinct and independent dimensions of organizational life (Orlikowski, 2007). In particular, this requires replacing the conception of knowledge as a mental substance residing in members' heads with that of "a distributed social expertise." As Gergen (1991, p270) observes: "*knowledge is not something that people possess in their heads, but rather, something that people do together*".

The increased interest in emphasizing practice within organizational studies provides some conceptual grounding for the development of a practice perspective on learning knowledge. Taylor (1993, p47) discusses knowledge as "at any given time, what the practice has made it." Scholars adopting this perspective have argued that knowledge is the result of the ongoing interaction of human choices, actions, social histories, and institutional contexts. This view sees knowledge as enacted—every day and over time— in people's practices (Orlikowski, 2007, 2010; Tsoukas, 1996; Levina & Ning, 2008). It focuses on *knowing*, which is a process enacted in situations through the various practices by which organizational actors engage, rather than knowledge as a cognitive product stored within the organizational actors. Ontological priority is given to the role of human agency in learning, marking a shift away from abstract and exogenous understandings of knowledge towards a view of knowledge as fundamentally social, grounded in specific historical and cultural contexts, and dependent on specific meanings and contingent processes. In other words, knowledge emerges from situated and reciprocal processes of interpreting and interacting with particular artifacts over time. Following this line of research, the practice perspective focuses primarily on the embedded and dynamic meanings, interests, and activities that produce an ensemble of technological and knowledge relations (Kling, 1991; Markus & Robey, 1988; Orlikowski, 2007, 2010). In line with this perspective, scholars have sought to explain how the particular interests and situated actions of multiple social groups in different contexts have shaped knowledge over time (Ciborra & Lanzara, 1994; Fulk, 1993; Heath & Luff, 2000; Prasad, 1993).

2.2 Practice theory and learning

Further to the line of discussion on knowing in practice, Schatzki (2001) focuses on practices as the locus of the “social”, and emphasize how the enactment of everyday activities is guided not by intentional action, formal knowledge or theoretical concepts, but by routine practices, know-how, tacit knowledge or informal rules, all of which may be diffuse, indeterminate or unreflective (Turner 1994, 2007; Caldwell, 2012). Schatzki (2001) argues that the “status of human beings as agents is bound to practices”(p.20). Schatzki (2010, 2011) effectively breaks the links between reflexivity and intentional action by placing practices as temporal events ontologically prior to action and structure, however he doesn’t address how agency and change can be reconnected in his broader teleological interpretation of human activity (Caldwell, 2012). What’s more, Schatzki’s discussion was developed in context of science and technology studies and debates, not in response to the recent discussions in organizational innovation (Blacker and Regan, 2009).

Gherardi (2012) also argues that work is a “being-in-the-world tied to the accomplishment of a project through physical activities that are situated in time and space” (p.7). Thus, a practice is a “collective knowledgeable doing” (p.3) and knowing a process, a complex accomplishment, situated in this view is not to be seen as something in people’s heads but situated and distributed across objects and people. What’s more, Gherardi (2012) emphasizes that the need to see work in this way is a result of new technology and the rise of knowledge-intensive work, as cooperation of knowledge-intensive work is not through a formal division of labor but accomplished in a fluid way in response to unpredictable demands (Blacker and Regan, 2009). In particular, Gherardi (2010, 2012) proposes a framework addressing how to deal with the way particular practices are nested in a nonlinear “texture” of other practices. He uses spiral case study method which steps up through levels from “becoming a practitioner”, “the knowledge in a community”, “knowing across communities” to “knowing within a texture of practices”. This framework is a means to explore how knowledge can move up or cascade down through organizations from the perspective of practice.

This practice perspective provides a useful lens under which to study the process of knowing in organizations that are across boundaries and faced with navigating a local cultural environment. In particular, how MNE subsidiaries constitute “knowing” to engage in Chinese cultural environment in their ongoing practices, and the effect of the specific cultural context where “knowing” is embedded, would be valuable to examine.

The current research draws on an empirical study of MNE subsidiaries in China. It has implications for the Chinese cultural context, which is among the most robust emerging markets. We chose MNE subsidiaries located in three Chinese cities -- Beijing, Shanghai, and Guangzhou – as subjects of study in order to capture as broad a picture as possible of the Chinese cultural context, as well as to illustrate the regional variance of cultural contexts.

3. Methodology

3.1 Research design

To answer the research question (How does local cultural context influence learning in MNE subsidiaries from a practice perspective), we employed a multiple case study approach using two rounds of in-depth interviews. We started off with a close examination of the process of learning with a focus on the nature of local cultural contexts and how context-embedded knowledge is shared in corporate practices in MNE subsidiaries. The first round of interviews provides an understanding of the different regional contexts of these three locations in particular and the Chinese cultural context in general, as well as to explore the relationship between local cultural contexts and learning. The second round of interviews provides a more comprehensive view of how local cultural contexts impact learning in MNE subsidiaries.

3.1.1 Sample and sampling strategy

This research examined MNE subsidiaries in three locations in China: Beijing, Shanghai, and Guangzhou. These cities were chosen because: (1) they were the top three Chinese city choices for MNEs to locate their subsidiaries (Zhang, 2006), receiving FDI from 92% of the 137 MNEs in the Fortune 500 that established subsidiaries in mainland China in 2010; (2) they were in three different regions, including Northern (Beijing), Eastern/ the Yangtze River Delta economic development zone (Shanghai), and Southern/ the Pearl River Delta economic zone (Guangzhou); and (3) there were significant differences among them in terms of the local contexts for learning.

This research used purposive sampling and personal networks, and snowball sampling was used to identify interviewees on a voluntary basis (Noy, 2008). This allowed for the selection of participants from a range of different industries and sectors, e.g. high-tech, manufacturing, finance and services, and from different departments in subsidiaries, including project managers, public and government relations managers, marketing and business development managers, etc. Overall, this research achieved acceptable heterogeneity in the sample. By maximizing variation, this research obtained a richer view of the elements that influence learning in specific cultural contexts.

3.1.2 Data collection

Data was collected from in-depth interviews in two stages. In the first stage, we sought to gain a general understanding of the cultural context of three studied cities and the role of the cultural context in organizational learning practices. We undertook 26 exploratory interviews with managers from four subsidiaries in three locations over a six-month period. The main purpose of this round of interviews was to understand the different regional contexts of these three locations in particular and the Chinese cultural context in general, as well as to explore the relationship between local cultural contexts and learning. This also allowed the researcher to produce a detailed interview protocol to use in the second stage.

Data collection in stage two was conducted six months after the initial analysis. In this round, the researcher conducted in-depth interviews with additional managers in Chinese subsidiaries of MNEs. This second stage of data collection involved 22 interviews with managers from 22 different MNE subsidiaries. It aimed to provide a more comprehensive view of how local cultural contexts impact learning in MNE subsidiaries. Interviews lasted between 50 to 75 minutes, and were all recorded and transcribed. The interviews were conducted in Chinese, considering the managers could better express their thoughts with their mother tongue, even though most of them are capable of speaking fluent English as it is a working language in subsidiaries.

3.2 Data analysis

Our data analysis involved three steps. First, we undertook a process of open coding in which the interview transcripts from both stages of data collection, as well as the corporate webpage information, were examined and annotated to identify emergent codes from cultural context related practices of knowledge sharing in MNE subsidiaries. We performed our data analysis in both inductive and abductive steps (Dubois & Gadde, 2002; Strauss & Corbin, 1994). Combining inductive and abductive approaches for multiple case studies such as this has been referred to as 'systematic combining' (Dubois & Gadde, 2002). While the inductive approach helps researcher to infer a reasonable conclusion given premises which "bear a favourable evidential relation to the conclusion" (Swinburne, 1974: 3), abduction leads researcher to refer an appropriate premise such that the conclusion is a valid consequence of the given premise. In other words, abduction is characterised as inference to the best explanation (Harman, 2003).

After the first round of coding, the number of themes identified was reduced by combining similar themes and/or using more abstract categories. Although the interview guide was mainly based on previous research and findings, the coding of the transcripts was done from the data following a "ground up" approach. We identified second-order explanatory themes of cultural context factors in learning.

All of the identified themes were matched iteratively against existing theoretical discussions on learning and practice through the process of abduction. Abduction assumes prior theoretical knowledge and an iterative process by which empirical data is induced into codes, and then the coding is compared to existing theories (Ketokivi & Mantere, 2010; Suddaby, 2006). According to Dubois and Gadde (2002): "In studies relying on abduction, the original framework is successively modified, partly as a result of unanticipated empirical findings, but also of theoretical insights gained during the process." (Dubois & Gadde, 2002: 559).

Comparison between the emerging themes and theoretical construct of knowledge from a practice perspective allowed for the additional introduction of the third-order themes. The final theme addressed the question of how the local cultural context influences learning in MNE subsidiaries and how the dynamic of context-embedded knowledge takes place in the learning process of MNE subsidiaries.

4. Research findings

Several propositions were identified in response to the research questions after combining and reducing themes in the three rounds of coding and analysis. Propositions about learning in subsidiaries related to local cultural context are discussed in detail in this section.

1. Perceived gaps of a dynamic system: the differences between the desired and perceived state of the subsidiary in the local context

Mission statements of the MNE subsidiaries researched are accessible on their web pages. These mission statements manifest the long-term goals and core values of the corporations, which are aligned with corporate blueprints, strategies, and service plans. Sustainable growth and quality are the most commonly shared values of MNE subsidiaries in this study. Here are a few examples:

We shall continue to deliver the best value to our stakeholders by providing superior offerings to our customers, maintaining our high financial performance, and improving our standing as a good corporate citizen by aligning our direction in a long-term sustainable manner. (Company 2)

We are aimed at discovering, developing, and successfully marketing innovative products to prevent and cure diseases, to ease suffering, and to enhance the quality of life (Company 7).

As a company, A's actions are driven by three core values: dedication to every client's success; innovation that matters to our company and to the world; and trust and personal responsibility in all relationships (Company 17).

Our mission is to help our clients grow by increasing their customer value. We do this by turning big ideas into personal experiences to make a difference (Company19).

These mission statements set the direction for subsidiary development and describe the ideal state of the subsidiaries. The core values embedded in these mission statements are to a large extent inherited from the company headquarters, and are well aligned with the core values of the headquarters and other branches. Although there are significant differences in terms of the headquarters' cultural and industrial backgrounds, some common values were identified as core values of the subsidiaries studied, including efficiency, profitability, sustainability, quality and responsibility, etc. These common shared values describe some features of the desired state of subsidiaries of MNEs across various locations in China.

On the one hand, the desired state serves as a driver for the subsidiaries to grow continually, while on the other hand the subsidiaries constantly respond to their local contexts (e.g. business partners and customers in the local markets). From a dynamic system perspective, the perceived gaps, which demonstrated the differences between the desired state and current/perceived state of the subsidiaries, are what stimulate the knowledge learning process. The mission statements of those subsidiaries spell out their overall goals, provide a sense of direction, guide the activities of the organization, and influence their decision-making processes. The mission statements incorporate socially meaningful and measurable criteria, addressing concepts such as the moral/ethical position of the corporations, as well as their public images, target markets, products/services, geographic domains, and expectations for growth and profitability. From a dynamic system perspective, the mission statements articulate the state in which the subsidiaries wish to be.

The dynamic system achieves temporary equilibrium when the objective of learning, as a short-term goal of the organization, is achieved; however, the learning process starts again when new gaps (e.g. deficiencies or problems) are perceived by the subsidiaries. Thus, the process is cyclical and potentially endless. The following statement illustrates the starting dynamics of learning in a subsidiary:

Our corporation intends to facilitate customer growth by improving customer values. We play the role of "answer-searcher," that is, we solve the problems our customers bring to us. As these questions are new and generated in daily work settings, there is no answer available. We need to explore, develop, and make judgments based on our previous experiences in order to help our customers to find

answers to their questions. In this way, we are able to share our values with customers by helping them to search for answers (company 9).

The above statements clearly illustrate the gaps observed between the ideal state — continue to add value to customers and help them to grow — and the perceived state — “we do not have answers to customers’ problems at hand.” This perceived gap initiates a new learning process — “we need to explore answers to our customers’ questions.” The motivation of finding answers and sharing values with customers leads the subsidiary to continuously develop to realize the stated mission. The process of “knowing” reaches temporary equilibrium when an answer to a specific question is found. As a dynamic system, it achieves this temporary equilibrium. Searching and providing answers to emerging questions, however, is an ongoing cyclical process of enacting new knowledge and learning, as questions arise from customers and markets on a daily basis. In this case, the subsidiaries as dynamic systems are continually responding to customers’ concerns and needs by searching and providing new knowledge, which is a cyclical process of “knowing.” The following is another example illustrating this point:

Our mission is to connect people with innovative, high quality, and up-to-date products that are easy to use (company 11).

This mission statement puts forward the main goal of the organization, which is to connect people with new products of high quality. Furthermore, the mission statement represents the corporate values of innovation, good quality, and up-to-date products. These values set up the criteria for a new product and amplify the corporate strategy, working procedures, and practices. These values also direct the relationship between the subsidiary and its customers, suppliers, and other business partners in the local context. The perceived difference between the subsidiary’s desired state and the existing state act as a dynamic system for the subsidiary to start, and continue, an endless “knowing” process.

2. Background knowledge triggers sense-making: Embedded in specific contexts of action

The learning process in subsidiaries also explains how “knowing” is not a constituent or feature of subsidiaries, but is rather an ongoing organizational process. The following statement from a project manager clearly illuminates this:

I am one of the two project managers in the subsidiary in Beijing. We constantly talk about the project. I actually learned quite a lot from the other project manager, in particular about dealing with local suppliers. Although we have standard company procedure manuals guiding manage relationships with suppliers, there is no connection to local suppliers, especially in this region. The other project manager is more senior and experienced than I am in managing local suppliers, and I always learn from conversations with him (company 9).

This statement reveals the informal nature of project managers’ learning practices in a subsidiary. These practices are not formally recognized as “learning” in the organization; however, these practices demonstrate the nature of “knowing,” which brought new knowledge (e.g. how to manage the supplier relationship in a local cultural context) to the project manager. This knowledge comprises the “local experiences” accumulated in daily practices. Learning in this situation is realized through informal discussions and conversations between project managers. These discussions aim to find answers and resources to solve real problems which is how to make connections with the local equipment suppliers in an efficient and culturally appropriate manner to build a long-term relationship in this case.

In this case, informal discussions take place between an experienced project manager and a junior one. The junior is eager to “know” about “how to deal with the local suppliers.” This discussion happened in a particular organizational context, which implies “background knowledge” of the context, as this information is closely related to the breadth, depth, authenticity, and other parameters of new information and knowledge. The junior project manager always turns to the senior one for “knowing” about the most appropriate local practices, and a trusting relationship has been built between them. In this case, “background knowledge” also relates to the previous shared experiences and relationships that have been established between the two managers. The previous experiences of junior managers enable them to make judgments on whether what they have learned from senior managers would work in a real situation.

This case finds that knowledge and meaning are not created or transferred from somewhere else; rather, they are embedded in the context of the action itself. This learning context is a result of the interactions between the local cultural context and the corporate context of the subsidiary. The principle of “learning in practice” functions in this multi-level learning context of subsidiaries. Managers and subordinates learn about and make sense of the learning context (e.g. business etiquette in local cultural context) through continuous interactions and daily organizational practices.

Considering the above example, the junior manager learned about the local context (e.g. managing local suppliers) by continuously interacting and working with players in this context, i.e. local suppliers. During this “knowing” process, he encountered questions, sought suggestions from the senior project manager, and finally learned new knowledge about how to deal with the local suppliers in a culturally appropriate manner. The junior manager learned by going through this process: “deal with the locals --- questions arise --- find answers --- learn new knowledge.” By engaging in these “knowing” practices, the embedded knowledge within the learning context is finally made explicit by practices. In other words, knowledge only makes sense and demonstrates itself when it is within a specific context of action. It is the context of action that makes the meaning of knowledge explicit.

In most studied subsidiaries, the learning process may not be well planned or structured toward a goal, or may not be identified or labeled as learning by the organization itself. However, most of the subsidiary’s daily activities and actions embody learning and the “knowing” process to some extent. In other words, what qualifies organizational actions as “knowing” is not whether they have a specific goal or plan; rather it is whether the actions of the organization manifest the nature of learning.

When actions take place, the context of the actions always implies background knowledge and hidden rules for people to make sense of the context. People often easily overlook or take for granted background knowledge in everyday life, as background knowledge is internalized in practices. However, it is crucial to notice the effect of background knowledge because it makes the meaning of knowledge explicit.

Furthermore, it is difficult to make background knowledge of the action explicit because the context of the action is ambiguous and tacit by nature. In particular, in a specific context of action, background knowledge often covers various dimensions and perspectives. It is difficult to determine in what way these background knowledge help in making new knowledge explicit. In some situations, background knowledge may be contradictory itself, which causes the connection to new knowledge to be invisible.

We also find that the relational context plays a crucial role in this process. Here is another example from interview:

We have been working with a local PR agent twice. The first time we did a campaign together to launch a product in local market (Guangdong region). The campaign was quite successful and it helped us to establish a good working relationship. We decided to work with this agent again and got very disappointed the second time. They let us down and it would be hard to work together again (Company 12)

As demonstrated from the above case, background knowledge mainly comes from existing learning and relation experiences, which could include both efficient and inefficient ones. This background knowledge (e.g. previously not-so-effective experiences) could make the learning context more complicated and require local insights for more cautious distinctions. In some cases, the previous negative experiences could lead to knowledge going in the wrong direction. For instance, the second unsuccessful collaboration would lead to the impression of poor performance and loose trust in the newly acquired knowledge of managing a local campaign. Therefore, it is crucial to realize the multiple layers of contexts of learning and the role of relational context which are related to background knowledge.

3. Unspecified and incompletely specifiable assumptions: Interpretation of knowledge and meaning in a fluid, transitory and uncertain context

Our research reveals that when expatriate managers work in the local cultural context of subsidiaries, for instance, expatriate managers working in different regions/cities in China, they are most likely to encounter unexpected difficulties of cross-cultural interpretation and understanding of the local actors. To make sense of the new knowledge developed from the local context, managers have to apply certain specifiable assumptions of cultural context where knowledge is embedded.

The following is an example about how cultural assumptions work in a real situation:

I heard that the CEO loves Chinese Tao Te Ching. He started to read about it when he was young. Most of his management philosophies and ideas came from this classic, which forms the spirit of corporate culture. Therefore, we respect the traditional corporate value of our Chinese partners whom we are conducting business with (company 17).

This example indicates how the company “knows” its Chinese local partner mainly based on the complete assumption of “show respect to traditions”, which is considered to be one of the core values of Chinese business culture. This assumption comes from previous experiences of the company, as the CEO has been influenced by traditional Chinese philosophy to a large extent and these values have been translated into the corporate culture.

In some extremely ambiguous situations, certain assumptions of action contexts might be helpful in clarifying the meaning and triggering assumptions that enable understanding and knowing. When the meaning is too ambiguous to be identified, associating meaning with a specific context can provide clues to make the meaning explicit. The assumption of a certain cultural context helps to predict actions, especially when dealing with the complex context of intercultural communication.

The following example involves a project manager who is negotiating with his Japanese business partner:

I became quite confused about why the Japanese always bow their heads and say “yes.” For a foreigner like me, it is easy to assume that they agree with my opinion. However, if you think that way, then you are completely mistaken. Actually, I made this mistake when I talked with a Japanese business partner the first time. I thought that they liked to obey orders and were extremely nice. Later I found out when they would say “yes,” it only means “yes, I acknowledge.” It does not necessarily mean that they agree with your idea. Even if they strongly disagree sometimes, they always say “yes” right after you have made your point (Company 16).

This example shows the complexity of cultural assumptions and understandings of the context of actions. Based on the assumption that the Japanese “obey orders and are nice,” the project manager interpreted “yes” as “yes, I agree.” Later, he found this assumption to be incorrect in this context of action, which leads to the wrong direction of knowing. In all, when new knowledge is formed, different assumptions from the local cultural context about the knowledge itself are challenged/ reinforced.

Besides cultural assumptions of a certain context, some other assumptions are mostly based on and are accumulated from existing experiences and knowledge. In other words, previous knowledge/experiences are required to interpret knowledge and meaning in a specific context, as assumptions indicate the expected direction and scale of knowledge mainly based on existing experience.

The following example from an interview sheds some light on this point:

It is a commonly acceptable industry standard when we order a machine (that) 70 percent of the cost accounts for the production and 30 percent is for the testing cost. When we negotiated with our Chinese suppliers the first time, we expected that they would understand this standard and follow it. However, the proposal we received was not like what we expected, and our company experienced a very difficult time because of the different understandings (company 22).

As indicated above, when this subsidiary first interpreted the way their business partner would make a budget, it was simply assumed that the “commonly acceptable industry standard” was acceptable and should be followed. The assumption here is the consistency of standard practices which have been widely accepted in developed markets. However, this assumption cannot be applied because it takes place in a various context with different understandings of industry standards. For instance, the work settings in China are described as fluid, transitory and uncertain. Several common characteristics of Chinese business context have been identified by interviewees, which include volatile business environment, lingering intellectual property (IP) and knowledge protection issues as well as a high turnover of skilled employees. These contextual characteristics bring challenges when assumptions are used to interpret new knowledge in an uncertain situation.

4. Updated context: result of the interpretation of knowledge and meaning that facilitates new knowledge learning

The following example elaborates how the context of interpreting knowledge is updated with new knowledge:

In the past a few years, we gradually accumulated experience in purchasing new equipment. We asked for a detailed description of the procedures and quality of the products when we negotiated with the supplier. The documents are kept in our company for at least 30 years. Hence, these documents can be easily located when we buy new equipment the next time. Based on this information, we are able to make new budgets and purchase plans (company 17).

As stated by this manager, all of the past information and documents on purchases served as the basis for the next transaction. This information and knowledge about products and markets laid the context of equipment purchase within an MNE subsidiary unit. When a new purchase was completed, the company received new information about the product and the product itself. The corporate context of purchasing equipment was updated with the latest information, and new context was formed accordingly. It further confirms that “knowing” is an ongoing process rather than an asset or a constituent of MNE subsidiaries. Interpretation makes knowledge and meaning explicit. As a result, the context is no longer the old one but an explicit new context instead. It also finds that, not only the accumulation of new information and knowledge, but also the ongoing interpretation and absorption of knowledge contribute to the update of contexts.

The following is another typical example further illuminating this point:

We are a part of the system integration industry. For us, each system is comparatively simple, e.g., the engineering system. Compared with the most advanced technology in each industry, our technology is not the most sophisticated. However, what is most important for us is the integration capacity of knowledge. We need to integrate and update technology from a variety of industries into our system efficiently. That is, we always need to gain new knowledge from other industries to meet our customer needs (Company 21).

The above statement shows how the subsidiary context of “knowing” is updated by new knowledge in daily operation. Knowledge of each industry contributes to building the organizational “knowing” of this subsidiary. New “knowing” is stored as part of the subsidiaries’ collective knowledge as a system. When the combination of knowledge changes, the learning context of this subsidiary changes accordingly. Therefore, the context is always updated with the contribution of new knowledge. In this case, the source of new knowledge comes from different industries in the local cultural context, which elaborates the diverse resources of knowledge of a subsidiary.

As knowledge is embedded in specific contexts, the updated contexts lead to possibilities to facilitate learning of new knowledge. The background knowledge associated with the contexts of actions changes accordingly when the contexts are updated. This might help in sense-making new knowledge and directing the process of making knowledge explicit. This point is elaborated by the following statement from an interviewee:

As we understand the Chinese more, we are able to learn more about the Chinese culture. For example, when I first talked to a Chinese partner, I really did not understand what he wanted to express, as he kept talking about irrelevant things. Then I understood that the Chinese express

themselves in a very indirect and polite way. When I got this point, it was easier for me to communicate and understand my Chinese partner (Company 10).

In this situation, the contextual knowledge for this expatriate manager is updated with his new knowledge of the Chinese ways of communicating, which “is in an indirect and polite way”. With the assistance of “updated context”, he obtained some clues on Chinese conversation patterns. It may further increase his interest and even help him to build confidence in learning more about Chinese culture to achieve a better understanding of it. As a result, the interpretation of new cultural knowledge updated the learning context of the expatriate manager, facilitating new “knowing” and learning.

5. Agency as a networked process: the role of expatriate managers

Contrary to explicit knowledge, which is often documented by organizations or even prescribed as procedures, regulations, and rules, tacit knowledge from external resources is transferred mainly through informal settings, e.g., free conversations, discussions, social networks, etc.

The following example demonstrates the learning process in a subsidiary:

When I was sent to Hefei to negotiate an acquisition with a local auto company by our headquarter in Chicago, I find it difficult to start at the very beginning, as I have very limited resources at that time, especially human connections. During a social event hosted by an industrial association, I get connected to several CEOs in the industry. Through them I got introduced to the other local State-owned companies and got to know many hidden rules in local auto industry from an insider perspective. (Company 15)

From this above example, those tacit knowledge (e.g. hidden rules of a particular industry) was passed on through networks of CEOs in informal channel, which is not uncommon in China considering its cultural characteristics of Guanxi and high-context communication.

This research finds that expatriate managers play crucial roles in channeling tacit knowledge, because of their particular positions and roles connecting local subsidiaries and headquarters. As demonstrated in the studied cases, tacit knowledge is highly “personalized” in two ways in the context of Chinese subsidiaries. First, it is formulated, stored and integrated into individual experiences of expatriate managers. Second, the process of learning tacit knowledge is completed by expatriate managers with various levels of understandings and interpretations. As a result, the process of learning leads to new interpretations and variations. By learning, that is, formulating, transferring, interpreting, and updating, organizational members, expatriates in particular, also serve as the storehouse of tacit knowledge within the subsidiary contexts.

It reveals that expatriates are a group of people of high mobility and instability, as overseas assignments are usually short-term in many Chinese subsidiaries. In the studied subsidiaries, expatriate managers would either return to their home countries of the company or be sent to other subsidiaries/units when they succeeded in their Chinese assignments. In this context of the changing nature of work, such as short-term assignment, team collaborations across clearly bounded groups, more visible uncertainties and contradictions, practices are organized by expatriates’ understanding of how to do things, and by principles and normatively prescribed objective. In this sense, the two processes of ordering and practicing are putting together where lies agency. What’s more, it also finds that expatriates play the role of “storage points” of knowledge – particularly tacit knowledge - newly acquired from the local cultural context, and facilitate the sharing of new knowledge between the subsidiary and other units/subsidiaries of the MNE. When these “storage points” move, the network of tacit knowledge in the subsidiary changes accordingly. These changes are twofold. On the one hand, tacit knowledge is shared with other members in new contexts, and the scale of knowledge learning and sharing is expanded. On the other hand, some part of the knowledge may be changed, misinterpreted, or even lost during this process, especially when the expatriate manager leaves the subsidiary and relocates to the headquarters, or another location.

The following statement clarifies this point:

In our corporation, the expatriate task often lasts for two years. When the expatriate leaves, the accumulated experiences and knowledge about the practices in the local market is gone. Although expatriate managers are required to leave all the information before resigning, sharing these knowledge with new managers is always very difficult. One of the reasons is that some experiences and personalized knowledge are impossible to transfer in a direct way (company 17).

From the interviews, we also find that in most MNE subsidiaries in China the turnover rate of employees is relatively high comparing with other local companies. The high mobility of employees promotes high mobility of tacit knowledge. On the one hand, tacit knowledge by nature is unstable, keeps flowing, and is often difficult to be articulated in succinct languages in a simple way. On the other hand, tacit knowledge is highly embedded in specific contexts and could be easily lost or compromised during the process of sharing. Expatriate managers are usually the channels of knowledge in the subsidiaries and between the subsidiary and other units/headquarters. The new process of knowing is usually triggered when the expatriate managers are transferred to other units/subsidiaries or headquarter of the MNE.

5. Discussion and conclusion

We discover the following meaningful findings in this research. First, we discuss that knowledge and meaning are embedded in specific contexts of knowing practices. Studying learning from a practice perspective complements the current understanding of knowledge by highlighting the essential role of situated action and context in enacting knowledge in practice. Doing so also further confirms that organizational knowledge is constituted everyday in the ongoing and situated practices of organization members. Second, this research takes a dynamic system perspective and highlights the effects of cultural context by discussing the role of local contexts and contextual dynamics of knowing practices in MNE subsidiaries. In particular, the characteristics of Chinese context of learning have been emphasized with empirical data. Third, the crucial role of expatriate managers, in the learning practices of organizations is noted. The two processes of ordering and practicing are putting together by everyday practices of expatriate managers. Expatriates serve as channels and storehouse of tacit knowledge in organizational practices, which has both theoretical and practical implications for organizations.

This research elaborates the role of context in learning from a practice perspective, demonstrating that knowing and meaning are embedded in specific contexts of the knowing practice. The specific learning context - in this study, the Chinese cultural context - and the specific organizational context is where organizational players continually perceive, interpret and respond to new gaps existing between the current state and desired state of the organization. The action of learning triggers background knowledge of the context, which assists in clarifying the meaning of knowledge and makes the meaning explicit to organizational members. As a result of learning, the context of learning is updated with new knowledge and meaning enacted from practice. Moreover, the updated context of learning further facilitates a new cycle of learning in organizational practice.

The findings further Schatzki's discussion on collective agency that a distinction needs to be drawn between theories of orders (arrangements of things) and theories of practice (Schatzki, 2002, 2005). The material world does indeed have effects on human behavior but social practices are distinctive in that they are informed by meanings in context (Blackler & Regan, 2009). The agency lies in "practice-order bundles" by putting two processes of ordering and practicing together. This is realized in everyday practices of expatriate managers as practices are organized by their understandings of how to do things, and rules and normative objective in the Chinese context.

The research also contributes to the discussion on the role of local cultural context in learning practices in MNE subsidiaries (Porter, 1990; Porter and Stern, 2001) Several cultural elements at various levels contributing to the specific Chinese context of the knowing practice in MNE subsidiaries are discussed. The changing nature of work practices in the Chinese cultural context has also been emphasized. It is consistent with and furthers the discussion of Czarniawska (2004) that contemporary organizing takes place in a net of fragmented, multiple contexts and "through multitudes of kaleidoscopic movements" (p.786) where uncertainty have become more visible. Emphasizing the cultural characteristics of context where learning takes place, enables researcher to situate the discussions on collective agency of practices in particular learning contexts, which gives more explanatory power to analyze recent trends in local learning in MNE subsidiaries.

From the practice perspective, the current research further discusses and explains the process of “knowing” and the practices of MNE subsidiaries as dynamic systems. The systems dynamics perspective has been developed under the banner of system thinking to facilitate organizational learning (Senge, 1990). Most existing organizational literature discusses the role of errors (gap detection and response) in learning as largely based on systems dynamics principles (Argyris & Schön, 1996). The gap that starts a learning process may consist of a perceived error, situation, or some other aspect of an organization that motivates the individual, members, or the entire organization to learn. However, much of the previous studies focuses on correcting past errors and does not discuss other possibilities of creativity in learning_ (Argyris & Schön, 1996; Maula, 2006). The present research discusses how the perceived gaps between its desired and perceived state of the system start the process of “knowing” from the practice view. Knowledge and meaning are embedded in specific contexts of action during the process of learning. The learning action itself provides the possibility of creativity in enacting new knowledge.

This research contributes to the discussions on resources of creativity in learning by bridging the gap between knowledge as an abstract construct and real learning activities taking place in organizational daily settings (Maula, 2006). By elaborating the learning nature of daily practice in organizations from a practice view, it further confirms that the “knowing” process of organizations is a continuous, circular process of change characterized as systems dynamics.

Compared with the open system perspective, adopting the systems dynamics perspective to the study of “knowing” of organizations in the current study emphasizes the complexity and strategic choices of the organization rather than deep static, linear, deterministic, and unidirectional casual assumptions. Explaining the dynamics and ongoing process of “knowing” in organizations, as well as how dynamics fits between internal and external components, makes it possible to improve learning of organizations.

The integration of systems dynamics perspective and practice view lends explanatory power to social reality and the way people experience it in an organization while not ignoring the values and intentions inherent in the organization. It further develops Schatzki’s discussion that the term “practice” captures how meaning are expressed through activity (Schatzki, 2012) in a organization setting.

What’s more, this study discusses the dynamic of knowing practice in MNE subsidiaries and elaborates on the process of how organization players gain access to enact new knowledge in the local cultural context. It highlights that expatriates in MNE subsidiaries play crucial roles in process of enacting new knowledge in the local cultural context. On the one hand, expatriates are usually respected by the local peers in the subsidiary, because their working experiences and cultural backgrounds. They bring foreign knowledge and experience from the headquarters to the local subsidiaries, and as a result have the power to enact new knowledge in local cultural contexts. On the other hand, overseas assignments usually give expatriates access to first-hand knowledge and direct experience dealing with the local culture and partners. They are usually trusted by the headquarters to a large extent, and gain the power to enact new knowledge of the local cultural environment and then share that knowledge with their peers at headquarters. In this way, expatriates play central roles in enacting knowledge in the local cultural context (namely, enacting new knowledge locally), and sharing local knowledge with headquarters. By enacting and sharing knowledge of the local cultural context, expatriates bridge the gap between enacting knowledge locally and sharing knowledge internationally (with the headquarters).

The findings have various managerial and policy implications. Firstly, MNE managers will need to consider how local business context could impact learning/knowing from local actors in any subsidiaries they establish in emerging economies such as China. In particular, the findings suggest MNE subsidiaries would benefit from interacting with local actors if the local cultural characteristics are interpreted and managed properly.

Secondly, the results suggest that MNE subsidiary managers should think about the role of expatriates in its learning process, and manage it appropriately, so the expatriates could better help manage organizational knowledge and knowledge transfer, in particular tacit knowledge, between subsidiary and headquarter.

Thirdly, policy makers in emerging economies at national and regional levels will also be able to draw from our results. Policy makers can encourage investing MNEs to consider the specific characteristics of the location

choice and how the local context of the subsidiary and local actors will be a potent driver of change. Local resources and identified gaps could drive organizational learning which needs to be integrated into corporate practice.

6. Limitation and future research

This research examines the “knowing” practices of subsidiaries based data collected from interviews with managers in Chinese subsidiaries of MNEs. It has the following limitations.

Although this research discusses the crucial role of cultural contexts in learning practices of organizations, it does not emphasize the complex dynamic interplayed between the local cultural context where the subsidiary is embedded and the organizational context of both of the subsidiary and the headquarters. It would be meaningful to further study how this multiple layers of cultural elements influence the learning context, e.g. how would the differences of subcultures between the subsidiary and the headquarters impact learning practices? How would cultural/power dynamic in an organization impact its learning in foreign subsidiaries?

The current research collected and analyzed in-depth interview data. Multiple research methods could be integrated to provide a more comprehensive picture of learning practices of organizations, e.g. participatory observation, focus group, etc. For future studies, it would also be interesting to further explore this topic by including various perspectives from managers, employees and possibly business partners of subsidiaries in the local cultural context, as well as managers from the headquarter of the company.

This research used purposive sampling. The method of snowball sampling was deployed to identify interviewees. Although this research achieved acceptable heterogeneity in the sample, there might be some bias as the interviewees were identified using personal networks of the researcher and snowball sampling. Future research could select participants from a broader scale to obtain a richer view of the elements that influence learning in specific cultural contexts. For instance, it would help to consider the nature of the subsidiary (e.g. manufacturing, research, services, etc), as well as the cultural dynamic between subsidiaries and headquarter when selecting managers from the subsidiaries.

This current research studies the role of expatriates in “knowing” practices of MNE subsidiaries with an emphasis on the local cultural context where the subsidiary is embedded. For future research, the power dynamic between subsidiaries and their headquarters could be further discussed to reveal the knowing practices across business units in a broader context. In addition, it could be worthwhile to examine various organizational contexts where the “knowing” practices take place, e.g. government, universities, NGOs, et.al, to compare the dynamic and role of contexts in “knowing” practices of organizations. Besides China, the cultural feature of other cultural contexts would also be worth closer study in the future in order to point out how particular cultural elements and contextual factors influence the knowing practice and the process of organizations.

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