



## KNOWLEDGE SHARING AS A PART OF INTERNAL COMMUNICATION WITHIN INTERNATIONALIZED COMPANIES

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### **Abstract:**

*The recent financial and economic crisis has shown that the world is acting as one and that actions on one part of the world can have substantial reactions on completely other parts of it. We can conclude that companies in 21st Century have to act locally but think and be prepared to react - globally. We showed that the level of internationalization of companies is substantial. Since knowledge is created by individuals and teams in companies it needs to be appropriately disseminated through the right modes and tools of internal communication. We argued that internal communication is a key to promote knowledge sharing among employees within companies, especially internationalized ones.*

*Keywords: corporate knowledge, knowledge sharing, internal communication, information and communication technology, globalization, internationalization.*

## **1. INTRODUCTION**

The world today is acting as one. The recent economic crisis has proven that very evidently and globalisation is one of the main reasons for it. But, do we all speak about the same thing when talking about globalization? Globalization has been in recent years one of the most debated topics. However, it is interesting that there has still not been a precise, widely-agreed definition. In fact the concept of globalization is wide and little defined in its boundaries and encompasses a range of disciplines and different perspectives. Having in mind that there is actually no consensus on the precise definition, it looks as there is consensus that it is real and is affecting the world in numerous ways.

In this paper we first analysed the impact of the recent crisis on the global economy and tried to present the concept that world economy is interconnected as never before. There were also some notions in the past how globalization, internationalization etc., is something just for large economies, large countries and large corporations. We argued that today it does not matter large or small, all that matters is, whether you can perform and act in this globalised conditions. Thus we looked at companies how they manage to coordinate their work through different countries, cultures and how they share their knowledge. Is it really all about good internal communication?

## **2. GLOBALISED WORLD AND ECONOMIC CRISIS**

The term “globalisation” was coined in the 1980s, yet the concept is an old one with many different interpretations. Partly as a result of these different interpretations, there are very different reactions to "globalization," with some policymakers, scholars, and activists seeing it as a force for advancing the world economy while others, seeing it as a serious danger to the world economic system (Friedman, 2000; Micklethwait & Wooldridge, 2000; Greider, 1997; Stiglitz, 2002).

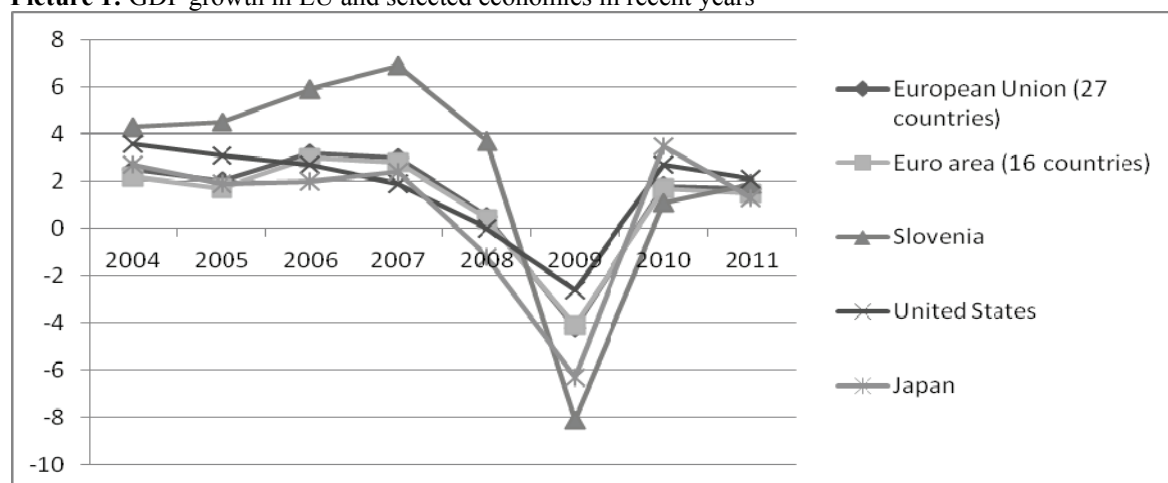
Globalization or as some even call it the 3<sup>rd</sup> industrial revolution is a powerful and real aspect of the new world system, and it represents one of the most influential forces in determining the future course of the planet. It has manifold dimensions: economic, political, security, environmental, health, social, cultural, and others. Nevertheless in this paper we shall focus on the economic and cultural aspects of globalisation. The OECD (2010) argues that past decades have witnessed a rapid globalisation of economic activity which has significantly changed the outlook of the world economy. An increasing number of firms, countries and other economic actors have taken on part in today's global economy and all of them have become increasingly connected across borders. Globalisation results in a more efficient allocation of resources across countries and generates important welfare effects, including higher productivity and efficiency, increased average incomes and wages, greater competition, lower prices and increased product variety and quality. At the same time, the process of globalisation also raises concerns in many countries, and needs to be well managed to ensure that its benefits are widely distributed. The recent economic crisis has shown that bad management of policies can lead to opposite results like lower productivity and efficiency lowering incomes, lessening competition and introduction of protectionist measures and last but not least, even inflation and consecutively the rise of prices.

We could actually say that the recent economic crisis has underscored the power of globalisation but has also shown the vulnerability of the global economic system. Global linkages have increased the economic interdependence between countries and this facilitated

the spread of the crisis. It started as a financial crisis in the United States, but has turned rapidly into a global economic crisis, leading to a dramatic collapse of international trade and foreign direct investment. The problems and the financial crisis started with payment difficulties in the mortgage segment of the US property market. All this later resulted into high mortgage debts and fall of housing prices. Securitisation, which was intended to distribute risk across a larger number of players, made financial institutions increasingly interconnected. Therefore, the financial crisis spread rapidly around the globe and also reached the sector of real economy, resulting in dramatic drops in stock markets and business as a whole.

However, the domino effect continued in the sense that financial institutions stopped lending to each other, while households cut back their consumption and started to save more. Consecutively access to credit became more difficult and more costly, undermining corporate investment especially in small businesses. Falling demand caused international trade and investments drastically drop, causing the crisis to spread over the entire global economy. Trade in the OECD area fell on average by 25 % between October 2008 and June 2009 (OECD, 2010). While this fall in trade at the start of the crisis might have been similar to past downturns in previous crisis in the past for individual countries, but the synchronisation of the fall in trade was unprecedented as almost all OECD countries (and almost all developed countries) simultaneously reported drastic declines in trade, investments and GDP growth. Picture 1 shows the decline of GDP growth in recent years for selected economies. We can observe the high drops of GDP growth starting in the year 2008, reaching its lowest indexes in the years 2009 and 2010.

**Picture 1:** GDP growth in EU and selected economies in recent years



Source: EUROSTAT and own calculations.

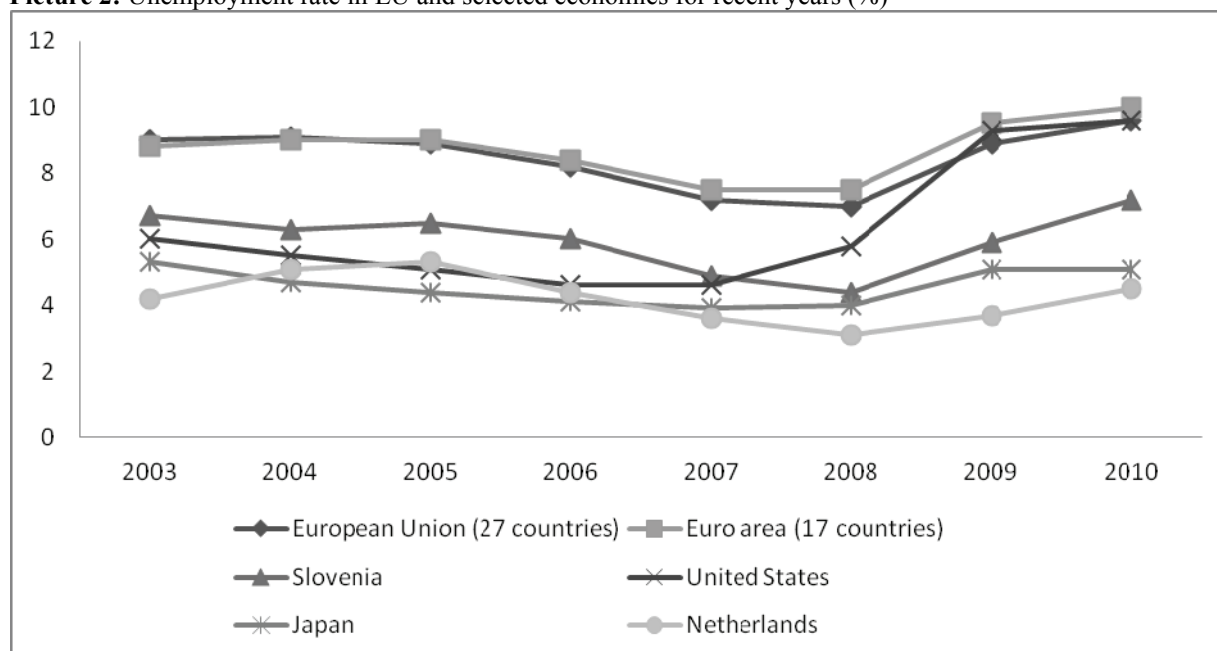
We can notice that USA started with GDP decline as the first among the observed countries, but did not fall as deep as other observed economies. If we focus on Slovenia, we can point out that before the crisis (2004–2007) it recorded above average GDP growth, but unfortunately in the time of the crisis, recorded also above average drops of GDP. In the peaks of the crisis - Slovenia recorded more than 8 % of GDP fall, which is much more than other observed economies, did. However, the picture clearly shows the “global impact” of the crisis on all observed economies.

If we take a look at another significant indicator – unemployment (picture 2), we can see that the indexes were going downwards in most observed economies till the end of the year 2008. The only exception was USA where unemployment started growing already in 2007.

However, the unemployment rate was accelerating in all observed economies in 2009 and also in 2010. Knowing that unemployment is always lagging behind GDP drop for a year or a year and a half (Krugman, 2009), we have to be aware that unemployment will probably still be growing in the year 2011 in most of the observed economies.

Nevertheless, we can again experience the notion that all observed economies (even though they are on different sides of the globe and have different characteristics) experienced a similar trend. In our opinion this is mainly due to the process of globalization that correlated the world economy.

**Picture 2:** Unemployment rate in EU and selected economies for recent years (%)

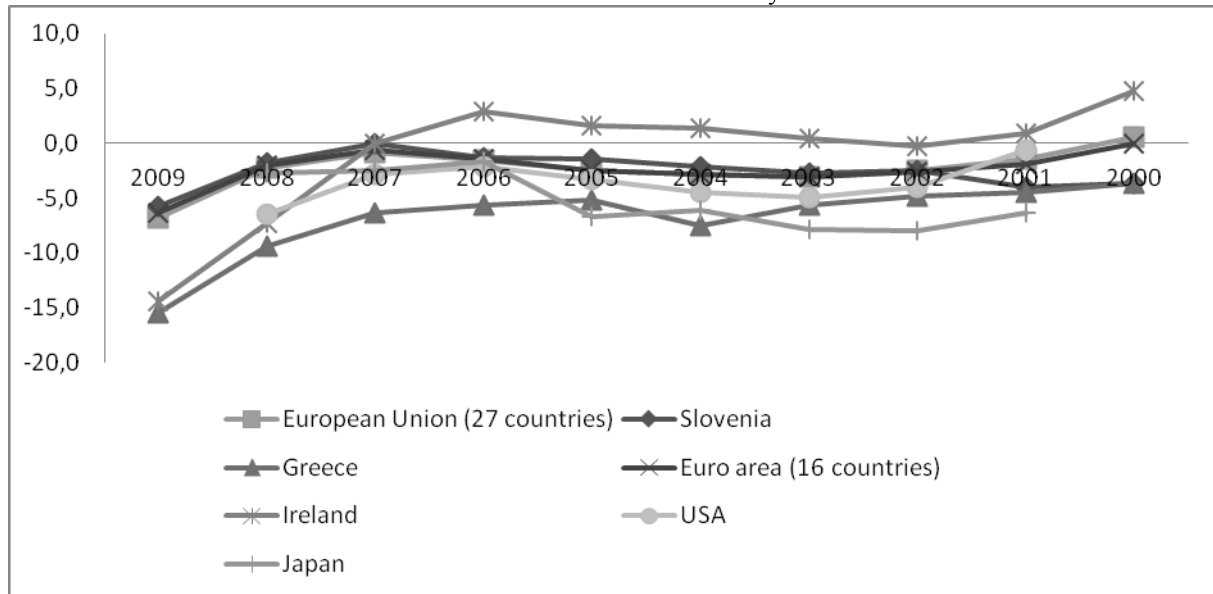


Source: EUROSTAT and own calculations

However, regarding the recent crisis there is also one other significant difference in regard to other crisis in the past. This was actually the first time that national governments and international institutions actively reacted to the crisis and tried to act as coordinated as possible, since they were aware that there can be only a “global answer to a global problem”.

The Americans have a saying that there is “no such thing as a free lunch”. The “receipt for this lunch” is shown in picture 3, where we can observe the trends of government deficits in the past decade. We can see that the trend is again very similar in most of the observed economies, although they vary significantly in development. However, the conclusion for the majority of them is that at the beginning of the millennium, most of them were recording a surplus or an insignificant deficit. Only 10 years later, all of them were recording more than 5% of deficit. In the case of Ireland there was even a 20 % drop recorded in the last 10 years. Ireland actually dropped from 5 % surplus to 15 % deficit in just 10 years.

**Picture 3:** Government deficit in EU and selected economies in recent years as % of GDP



Source: EUROSTAT, OECD and own calculations

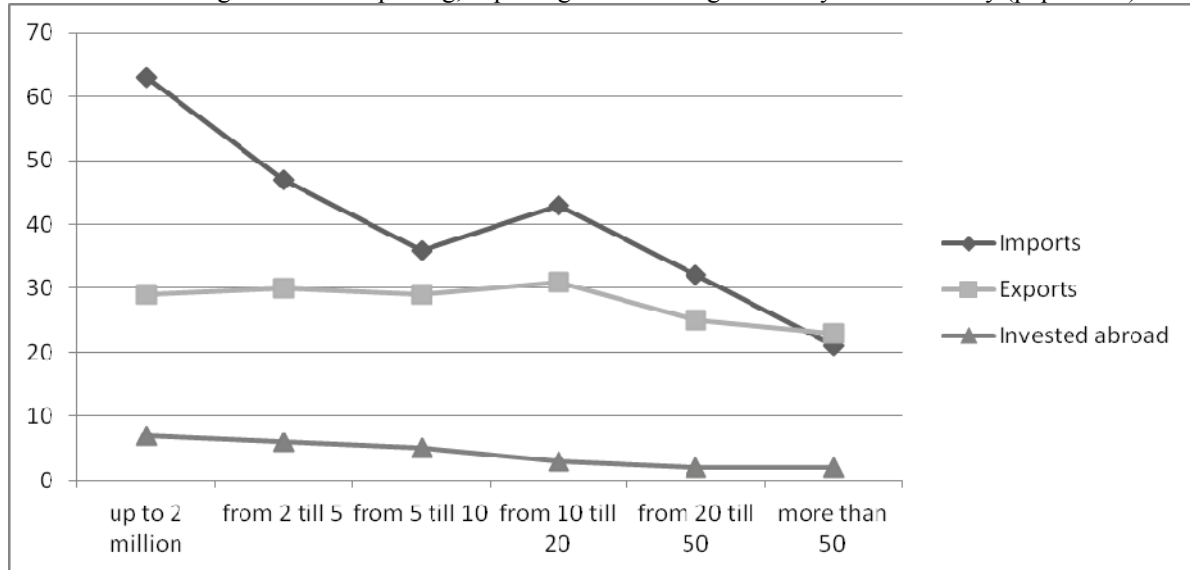
Nevertheless, as governments reacted to the crisis with the aim of assuring social welfare and supporting the financial sector, the governmental deficits grew substantially in all observed economies.

### 3. COMPANIES AND INTERNATIONALIZATION

Maybe just 20 years back we were talking about multinational companies, translational companies and internationalised companies, as of something new - something that will change the known economic theories and policies. Today, companies dealing across different countries - internationalized companies, are everywhere. You should be aware that the same goes even for your local “hot dog seller” or your “baker”.

Even the old notion that multinational and internationalized companies are coming from big countries, is over. Picture 4 clearly shows the amount of small and medium sized companies (SMEs) performing activities abroad. Already by the fact that we are talking about SMEs we show the important difference. By having in mind the high percentage of more than 2/3 of SMEs dealing with imports in very small countries (less than 2 million populations), we can conclude that actually all companies (large and small) are doing business internationally. It does not matter whether a company is working in large or small country. Actually, companies in smaller countries are even more internationalized.

**Picture 4:** Percentage of SMEs importing, exporting and investing abroad by size of country (population)



Source: European Commission, Survey 2009, Internationalisation of European SMEs and own calculations.

#### 4. INTERNAL COMMUNICATION WITHIN INTERNATIONALISED COMPANIES

For decades, managers have focused mostly on customer care. More recently, they have begun to dedicate the extensive attention to their employees, realizing that employees have more to do with the company's success. Many studies (Kalla, 2005) confirm that companies with effective communication strategies are often more successful than those with poor communication.

A study carried out by a consulting firm Watson Wyatt concluded that at the bottom line the employee communication is no longer a "soft" function but rather a business function that drives performance and contributes to company's financial success (Argenti, 2007). Communicating effectively within companies is not something that is nice to have. It is a crucial performance and productivity issue especially in internationalized companies. As we move towards a more global, knowledge-based economic model, where teams do not usually sit together in the same office, internal communication is almost certain to rise in its importance. One of the greatest challenges is how to share information, knowledge and best practices across the company. Hurley (2008) says that our hugely complicated organizations, networks and geographies will get even more complex. As a result, communication is more important now than it ever has been – and the trend will continue.

Nevertheless, a global internal communication needs to take into consideration also national cultural differences. Some cultures are very entrepreneurial and individualistic (people like to participate and want to receive a lot of feedback). Other cultures are more conservative and hierarchical (sharing information and knowledge is more efficient in one-to-one meetings, because people will not engage in the discussions due to rigid defined structures). That is one of the main reasons why the communication needs to be localized, but there should still be a clear overall consistency in internal communication – from central to local.

## **5. DIFFERENT MODES OF KNOWLEDGE SHARING IN INTERNATIONALIZED COMPANIES**

In today's global world, generating new knowledge and using it to produce new products or services is crucial to maintain or even accelerate competitiveness of companies. Knowledge management is becoming the key source of sustainable competitive advantage of companies. Moreover, internal communication is positively associated with knowledge sharing. Kalla (2005) cites empirical data that enhance our understanding of knowledge sharing as an important and strategic function of integrated internal communication. She argues that an integrated approach to internal communication is beneficial when assessing knowledge sharing in organizations.

Evaluating the knowledge sharing function of internal communication is vital since many authors agree that the ability of effectively sharing knowledge within organizations is fundamental for maintain competitive advantages (Grant, 1996; Spender 1996). However, the focus of internal communication has changed from producing and distributing information towards a more strategic function which includes supporting knowledge sharing.

Knowledge creation process always begins with the individual. A brilliant researcher, for example, has an insight that ultimately leads to a patent. Or a middle manager has an intuition about market trends that becomes the catalyst for an important new product concept. Similarly, a shop floor worker draws upon years of experience to come up with a process innovation that saves the company millions of dollars. In each of these scenarios, an individual's personal, private knowledge (predominately tacit in nature) is translated into valuable, public organizational knowledge (Dalkir, 2005).

Making personal knowledge available to others in the company is at the core of knowledge management model. This type of knowledge creation process takes place continuously and occurs at all levels of the organization. Organizational knowledge creation, therefore, should be understood as a process that organizationally amplifies the knowledge created by individual and crystallizes it as a part of the knowledge network of the organization (*ibidem*).

Cultures that promote knowledge and information sharing are those that facilitate change, innovation, openness, and trust. According to Amidon (2003) people have to be recognized and rewarded for their knowledge contribution. Conditions for effective knowledge creation and sharing require more flexible, networked organizational structure; multiple teams; and a climate of intensive and purposeful networking. Several factors help create the conditions that encourage knowledge – sharing - systems for moving people (e.g. job rotation), appropriate learning events, effective teaming, and comprehensive technology infrastructure. It is really important to create conditions for development of organizational culture in which knowledge is valued. This has been one of the most severe challenges in practice. Knowledge sharing does not simply happen unless there are number of measurable tangible and intangible benefits not just for the organization but for the individual as well.

Moreover, in the past it was almost impossible to share knowledge effectively and efficiently with co - workers abroad. We can say that technological solutions have made the knowledge sharing a reality. As more work is conducted in collaboration with co - workers from different parts of the world the most benefits to knowledge sharing have created the modern and collaborative technologies, including computers, telephones, e-mails, databases, data - mining systems, intranet, search engines, videoconferencing and social media tools.

Nevertheless, knowledge is not created just by an individual, but through interactions among the individuals and with the environment. For knowledge to be created organizationally, knowledge within a particular individual needs to be shared, recreated, and amplified through interactions with others (Nonaka, Konno & Toyama, 1995). To effectively and efficiently exploit and create knowledge, which takes place constantly during the course of every day work, it is necessary to concentrate knowledge at a certain time and space.

For efficient knowledge sharing different modes of knowledge communication can be applied. As first mode of communication we define the real - time interactions, often face to face communication, as second the following interactions, usually when using printed materials or information and communication technology (ICT). In this sense we divide tools of internal communication in three categories: personal, printed and electronic. It is generally agreed (Argenti, 2007; Holtz, 2004) that personal communication tools are the most effective tools of internal communication, because they are dynamic, interactive and encourage involvement. However, they are also time and cost consuming in geographically dispersed and internationalized companies. As a result, internationalized companies are increasingly relying on printed materials, and even more often on electronic communication, which can be defined also as timeliness, transparent and easily accessible.

ICT allow/facilitate the management and/or sharing of knowledge and information. Thus the term covers an enormous diversity of heterogeneous technologies (Hislop, 2005). During the last two decades ICT has been widely applied by organizations and its use has become a main part of everyday work in almost all parts of the world. To improve knowledge sharing in organization it is necessary to develop an information and knowledge sharing culture. In this sense internal communication needs to be flexible and adapt the needs of business, internal communication manager must build strong teams to ensure their programs will be implemented in the effective way. ICT plays an important role in knowledge sharing, but it is not a substitute for personal communication, face to face exchange.

## **6. CONCLUSION**

In the first cross-section we pointed out the immense interconnectivity of the world and all the business subjects today. The recent financial and economic crisis has given us an illustrative tool for another confirmation of this thesis. Therefore the companies today have to be aware of this interconnectivity and the causal relationships from one to the other side of the Ocean. It is therefore important also for the companies to be aware of these new circumstances and to be prepared for them. The best preparation for it is to act proactively and act according with the environment (in Rome do as the Romans).

We have also shown that majority of companies (large and small) conduct their business through different countries and are involved in exporting, importing and even investing abroad. As a result of globalization, employees demand more flexible practices. To be able to coordinate the work in these companies through different countries, a very good system of internal communication and knowledge sharing has to be developed.

Since knowledge is created by individuals and teams in companies it needs to be appropriately disseminated through the right channels and modes of internal communication. We argued that internal communication is therefore a key to promote knowledge sharing among employees within companies. Especially in internationalized companies modern information



and communication technology has significantly reduced the necessity for internal communications in its traditional role of information dissemination. Technology has made the knowledge sharing a reality in all sorts of businesses around the world. It is also making employees more efficient at sharing knowledge, but over reliance on technology can result in lower quality communication. Successful use of internal communication strategies and techniques, which includes also knowledge sharing and building knowledge sharing culture, is essential for excellent performance and success in the increasingly complex and highly competitive nature of today's environment.

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