Knowledge Transfer Mechanisms by Austrian Banks in Transition Economies

Abstract

The entry of foreign banks into the transition countries´ banking markets has brought new know-how and best practices to the host countries. How did those banks manage this large-scale know-how push? The purpose of this paper is to study the knowledge transfer strategies applied by Austrian banks when expanding to the transition countries. We analyze the types of knowledge transferred and the methods of transfer. Based on interviews with both home-country headquarters and host country subsidiaries, we conduct case studies of major Austrian banks entering the transition economies and discuss barriers to knowledge transfer. We find that (1) the banks themselves moved along by "learning by doing" as their large-scale entries were unprecedented, that (2) the content and method changes along the stages of integration and that (3) the knowledge flows of successful banks became multidirectional.

JEL-Classification: *G21, M12, M16, M53, P36*

Keywords: *economics of transition, foreign banks, knowledge-transfer, financial markets, learning by doing*

1. Introduction

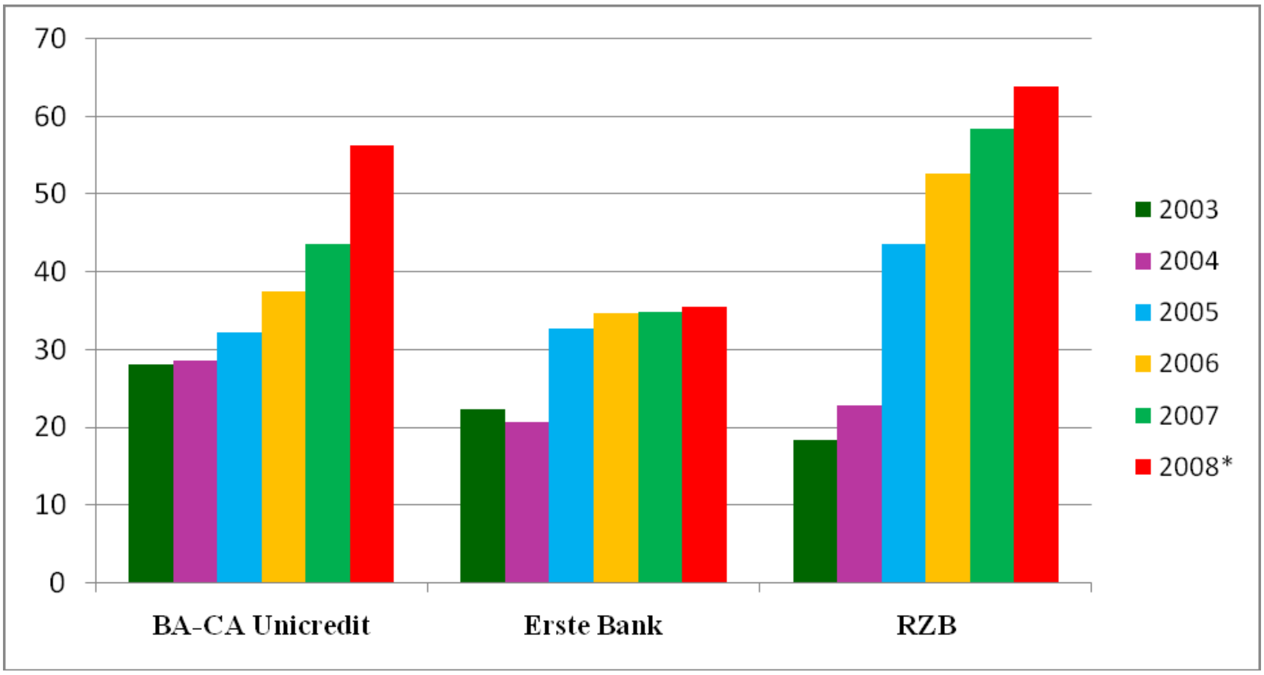
The share of foreign banks assets in Central and Eastern European (CEE) markets is more than 85% with the exception of Slovenia, where the share is low 35%. The dominance of foreign owned banks is highest in Hungary and Estonia (98%) (Arvai et al, 2009; Uiboupin 2004). The market share of Austrian banks reaches in some countries more than 50 % what makes them the leading banks in CEE countries (Haiss et al, 2007; OeNB, 2008). Austrian banks bring diverse financial expertise to local banks, which hold out the prospects of both lower costs and fewer credit losses. Efficiency systems of the host countries gain from new technologies, products and management techniques, as well as from competition simulated by new entrants, and more stable funding and lending patterns (Qin et al. 2008). The expansion to CEE countries has forced banks to be more efficient in managing knowledge in banking operations. While many studies regard knowledge transfer as a key management and developmental impact of foreign banks (e.g. Goldberg, 2007; Eller et al, 2006) and while a growing body of literature investigates general knowledge transfer in CEE (e.g. Schlegelmich and Chini, 2003; Kiessling et al, 2008), evidence in the banking sector is scarce. The purpose of this paper is to find out how Austrian banks transferred successfully their managerial expertise and know-how practices onto their subsidiaries as well as to find out what methods have been used. We contribute by reporting findings from interviews with the major Austrian banks active in Central and Eastern Europe. An interview guideline was developed consisting of three main categories:

- How was knowledge transferred?
- What kind of knowledge was transferred?
- What were some issues in knowledge transfer?

There are many different types of knowledge and methods it can be transferred. The objective was to analyze its implications on the case study of major Austrian banks with subsidiaries in CEE countries. Additionally to literature research, the expert interviews were conducted with the acquired banks as well as their headquarters in Austria. Fourteen interviews were conducted with the management and key employees within the banks to gain insight into the organizational structure, different kinds of knowledge transferred, sources of knowledge as well as problems they are facing. We find that common types and methods of knowledge transfer (KT) exist. Still, each country is very specific; each situation is different depending for example if a bank was a greenfield investment or a merger, or if the acquired bank had to merge with another local bank. The heterogeneity of organizational structure, corporate cultures, IT systems, and the available knowledge base and not to forget the language barriers makes the KT complicated. As one of the interviewee said, banks are exposed to very dynamic and changing environment. Banks learn over time, they learn by doing. The first takeovers were chaotic in a sense that they were still learning about the CEE markets; they were characterized by lack of experience. Over time they tried things out and are still learning what practices show to be more efficient and successful. All banks organize the acquisition process in form of a big project consisting of many subprojects created by themes such as retail, risk management, accounting, human resources (HR), change management and similar. But before the methods and types are discussed, some theories on knowledge and knowledge management shall be explained.To get an insight of how many new people to be trained we are talking about, figure 1 provides a list from the annual reports of the major Austrian banks:

BANK	2003	2004	2005	2006	2007	2008
UniCredit Bank Austria	28.039	28.619	32.264	37.448	43.647	56.226
Erste Bank	22.311	20.598	32.661	34.656	34.859	35.514
RZB/RI	18.386	22.851	43.614	52.732	58.365	63.921

Figure 1: Number of employees in the three major Austrian banks (Source: Annual reports)



* Quarterly results

Number of employees in 2007 in 5 biggest banks in CEE countries:

Raiffeisen International (RI)	58.000
Erste Bank	37.000
UniCredit Bank Austria	22.000 (w/o Poland)
Hypo Alp-Adria	6.500
Volksbank International	5.000

Figure 2: Number of employees in 2007 in 5 biggest banks in CEE (Source: Fembek (2008: 187)

2. Knowledge and its characteristics

2.1. Knowledge management

Knowledge management as a concept started in the early 1990's when organizations realized that harnessing a company's knowledge and collective expertise and allocating and sharing it adequately can become a competitive advantage over competitors. Managing and leveraging knowledge assets became a core of any attempt to improve an organization's performance (Fourie et al. 2004). Each bank has a unique set of knowledge assets, which are intangible and reside mostly in human resources. Therefore, knowledge is a firm specific advantage and according to Dunning's (2003) eclectic theory[1] it classifies as ownership advantage. This advantage must be particular to the firm and readily transferable between countries and within the firm.

An organization consciously and comprehensively gathers, organizes, shares and analyzes its knowledge in term of resources, documents, and people skills (Hafizi 2006). Information, which is a statement of facts, becomes knowledge when it is analyzed, linked to other information and compared to what is already known. If the huge amount of information is created constantly, inefficiency has to occur. Knowledge may refer to input processes (e.g. skills), throughput process (e.g. designs), or output process (e.g. marketing know-how) (Bonache 2001). Banks are increasingly trying to capture and manage their data and turn it into organizational knowledge or business intelligence. The increasing complexity of bank's environment makes it more difficult. Knowledge became the most momentous resource and a key factor to focus on, to keep, to acquire, to create, to externalize, to share and to utilize (Folkens et al.).

[1] on ownership, locational and internalization advantages ("OLI paradigm") of foreign direct investment (FDI).

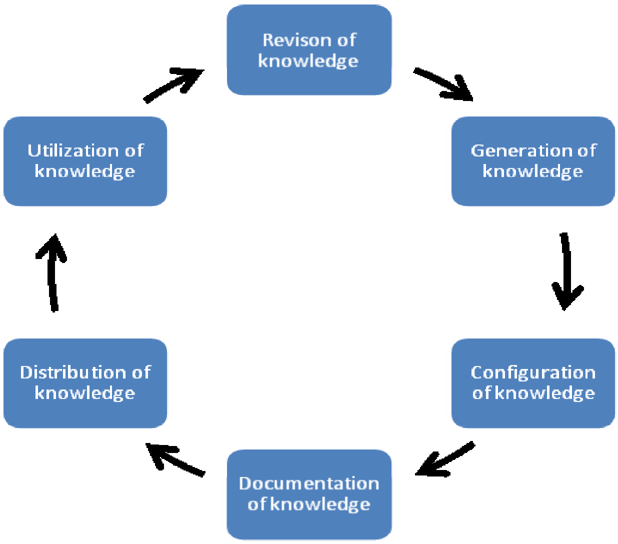


Figure 3: Basic structure of knowledge management (Source: Helmut Wilke in “Wissensmanagement als Geschäftsprozess” in Westenbaum 2003)

2. 2. Types of knowledge

Many different classifications of knowledge have been identified. So, it is can be distinguished between specific (relevant) and unspecific (general) knowledge (for a specific task or position within an organization relevant knowledge is needed, irrelevant not); static and dynamic knowledge (static knowledge is characterized by the fundamental meaning and long-term relevance while dynamic knowledge is exposed to continuous changes); internal and external (external knowledge can be for example acquired through economic and business news, analysts’ reports, industry changes, and regulative changes issues by government); individual and collective knowledge (individual knowledge is the product of the coordinated efforts of many individuals who posses different but complementary skills vs. individual that resides inside an individual) as well as between implicit and explicit knowledge. Explicit knowledge is in some way been documented or codified. It is easily classified, categorized, combined, and distributed to others. It is typically stored in a knowledge base or document management system (Hafizi 2006) and can easily be transferred by mail and telephone or company reports (Bonache 2001). Tacit knowledge is held by people and is based upon personal experience that is accumulated over an extended period of time. It is difficult to access since it might come in form of intuition, tips and techniques, internalized skills, best practices, gut instinct and even knowledge of who to contact for information which is not in one’s own expertise (Hafizi 2006). Tacitness impedes the speed and stickiness of transfers and probably represents the most significant barrier to transferability over other contextual, host-country related explanations (Rumyantseva 2002). Depending on its usefulness outside the location where it was created, knowledge can be context specific or context generalizable. If it easily transferable across countries, it is context generalizable, if it is confined to its place of origin, it is called context specific. Bonache (2001) similarly classifies knowledge according to its value to the organization. Generic knowledge is knowledge that can be applied in a wide variety of organizations. Specific knowledge has a high internal value but it is of little value to third parties (Bonache 2001).

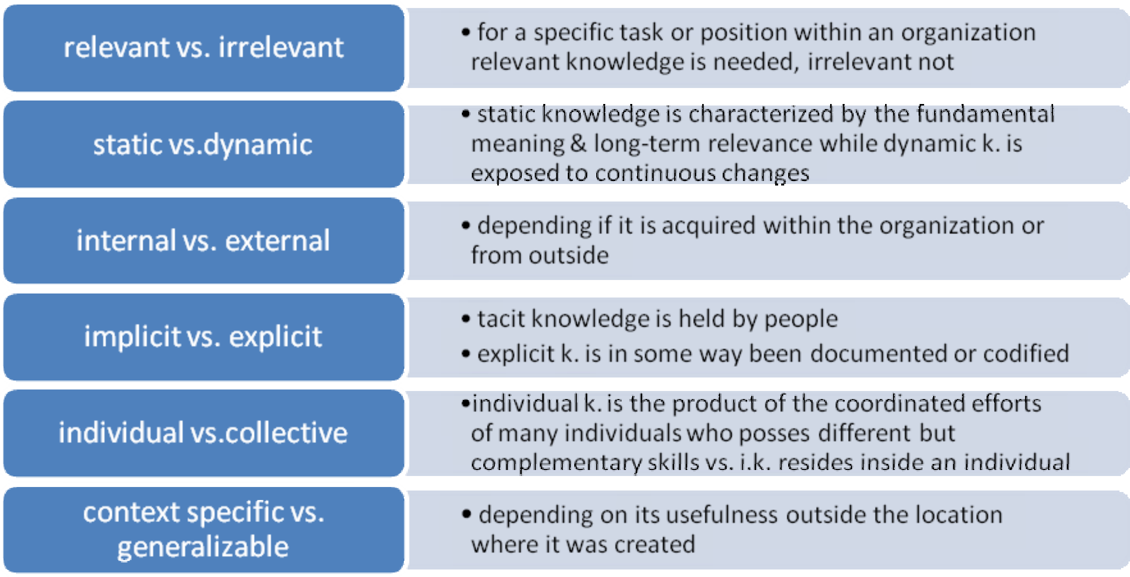


Figure 4: Overview of types of knowledge (Source: Own illustration)

3. *Types of knowledge transferred*

The findings reported in this paper were obtained from interviews conducted between November 2008 and January 2009 with the bankers, holding following positions: Vice President Learning and Development, Chief Learning Officer, Sales Managers, CFO/CPO, Heads of Training and Development in HQs as well as in subsidiaries, Strategic Group Development, PR, CEE Human Resources, Analysis and PMO CEE, Strategy Planning and Control CEE, CFO Division, Head of permanent establishment as well as with external consultant from Bearing Point. From all together fourteen interviews, seven were conducted in person, four by telephone and three were written interviews. For easier classification of types of knowledge transferred and its implications the results were summarized in the framework developed by Smale and Suutari (2008) that identifies four major types of knowledge that can be transferred, namely management knowledge which relates to operational and strategic part of business, cultural knowledge which is captured in corporate and host country culture, information technology (IT) knowledge which supports the knowledge transfert (KT) and human resource management (HRM) knowledge which is comprised of different HRM practices in Western as opposed to Eastern Europe. IT knowledge and management knowledge can be attributed to the hard facts and HRM and cultural knowledge to the soft facts. According to subsidiaries mostly hard facts were transferred, though this changes over the company´s life cycle. After acquisition banks usually start with the alignment of the hard facts, transmitting the procedures and regulations onto the host country. It serves as base for the soft facts alignment which comes afterwards. Rules of procedures as well as legal regulations that have to change immediately (such as the responsibilities and power of the local board of directors (BOD) are aligned quickly. Soft facts need more time. The type, amount and method of knowledge transfer depends on the available knowledge base that the acquired bank already has, the size of the bank, as well as employee’s affinity and willingness to learn.

3.1. Management knowledge

Management knowledge typically involves reporting principles and issues related to strategic and operations management. It is usually among the first types of knowledge to be transferred. As one of the interviewees described, banks usually start with assessing the local knowledge base and accepting the local know-how of the country managers. People and clients in different countries have different habits and expectations and need different products. For example people in Bosnia or Croatia are less looking for sophisticated investment products but more for mortgages or loans and financing the consumer goods. The focus of the client is a bit different what is also in connection with economic situation in countries. The product offer in Austria cannot fulfill the needs of customer in any CEE country since there is no need for such products. The closer look at the market situation in the country must be given before deciding on which new products make sense to be introduced. The market has to be ready for it. There was an example with introduction of online banking to Rumanian market which was a huge flop. Bank charged 10 € per month in a country with a very low income level, back in that time it might have been that the average paycheck was around 200 €. Consequently, there was no demand for such a service. In order to avoid such mistakes, the development of new products occurs locally, on site. The basic requirements and range of products are developed centrally in Vienna and afterwards adopted in the host country for the local market. The good example is the new campaign of Unicredit, where the main idea was developed at HQs and locally adapted.

Banks have to be careful, since it does not make sense to introduce some instruments that nobody knows about since nobody will be willing to use it. Still, thanks to the entry of foreign banks the advanced banking techniques are increasingly used in the CEE banking markets; including sophisticated marketing and pricing strategies, customer segmentation, organizational specialization, and specific products. The special products are current account packages, bundled offers, capital guaranteed products, structured deposits, savings plans, investment funds etc. (RZB 2008). According to Kraft (2003), banks start with bank loans and depositing as their main two activities and also make monetary transactions a big part of their business. As the time passes, they introduce other products.

As one of the consultants explained in the interviews, the countries are very different. Some are very eager to learn and are very ambitious to apply the gained knowledge and do more than expected. Others are less interested, they like to work on their own and figure it out on their own; they do not want any help. The new management practices, especially in risk management sector are overly complex for previously state-owned and also state-supported banks that so far did not have to deal with it. Sometimes the responsible departments underestimate the load of work, they neglect it and afterwards realize that there was much more to be done and the project has to be rearranged, new deadlines have to be set. In almost all CEE countries the standard, simpler approach in risk management according to the Basel II rules has been applied but in order to comply with the group-wide standards, the more advanced (internal ratings-based) approaches still have to be introduced. Unfortunately, many subsidiaries believe and state that they have already been applying the most advanced practices and are doing well but in the reality this is not the case. So the standards in CEE do not correspond to the standards of the headquarters.

Even subsidiaries underline the problem of admitting to it that they do not know or are not capable of doing something. One of the interviewees from CEE countries said that lack of skills was one of their major mistakes. People probably out of the fear of losing jobs or even losing “face” stated that they have some skills that they did not posses. Afterwards, when they were about to apply them, it came out that they do not know how. This asked for additional training and created problems. The interviewees said that if they had another chance they would assess their existing knowledge base differently and more thoroughly.

The change the subsidiaries see is more structured organization and a better overview of the whole system, which should also facilitate the KT since the roles are now clearly assigned. Before they had to hire outside consultants and companies to help them out, they were having problems with the training sessions and were searching better ways to exercise them. Now they can ask for help of their parent bank if needed. The knowledge base is much broader, they can learn from the parent as well as from other subsidiaries in different countries. The information flow is multidirectional, not just straight from the parent to the subsidiary.

3.2. IT- knowledge

All the interviewed banks stated that they do not have a central informational system that would capture all the available knowledge. In banks, knowledge resides rather in human resources. There have been effort to create such a know-how platform but still no satisfying solution has been found. Lotus Notes was used earlier in one of the banks. Lotus Notes is an integrated groupware package that provides the security facilities in a banking environment. It creates a group communication environment that allows the user to access and share information. Beyond standard email, database and bulletin board features, it provides text edition and facilities for document and workflow management (Fourie et al 2004). Still, it was not enough to keep up with the complex bank needs.

There are many different IT systems among the banks and parent banks sometimes try to preserve the good systems. So for example the system of one of the questioned banks was so good that they did not have to change almost anything. Still, in order to unify the whole system, they will eventually have to switch to the system that the whole group has been using. This creates dissatisfaction since this way they will use a lot of valuable information and knowledge preserved in their old system. Another example was a bank in which the whole system had to be changed and introduced a new one. Due to the language problems, the parent bank hired an external IT-consulting company from the host country that knew the system well and therefore educated employees on it. Then there were two local banks which had to be merged and their different IT-systems were mixed, good parts from each were taken and integrated. All in all, many banks say that the biggest knowledge transfer was in information system.

3.3 Cultural knowledge

Cultural knowledge is captured in the company values. Without being able to change priorities that are connected to common values, it is difficult to implement any changes at the behavioral level. Without having worked in international environment it is hard to be able to understand how big a meaning the values have (Smale et al. 2008). One of the main problems in cultural knowledge transfer in CEE countries is a lack of customer-orientation since employees are more oriented towards internal organizational guidelines based on authority and rule than towards providing more flexible, value-added solutions for customers (Rumyantseva, 2002). Traditionally, staff in former communist countries devoted little attention to their customer which partially reflects the monopoly the state-owned banks enjoyed for decades. They did not need to worry about attracting customers by offering new services or improving the existing ones. The high levels of deposits was their almost only business goal. They paid little attention to pricing loans or credit-assessment and they saw no need to care about allocating finance properly or making profits (Qin et al. 2008). This attitude was hard to change and the culture of mutual information and knowledge sharing had to be created. Knowledge management can only be successful with the appropriate change in corporate culture. The new culture has to be incorporated with the old practices and processes (Hafizi 2006). After acquisition the adaption and integration of different corporate cultures was an important issue. This can become a problem when two strong corporate cultures meet.

What is interesting, the knowledge does not flow only one-directional from parent to the subsidiary. One of Unicredit subsidiary banks explained that they were trained by another subsidiary, previously acquired by the parent bank. They formed teams that covered all areas from retail to human resources (HR), and in each team there was a mentor from the subsidiary. This is probably a specific case and it is mostly due to the language issue. Since English was a bit problematic, it was a logical solution to be trained by another subsidiary that speaks the same language. The whole integration process took over a year.

Yet at Erste bank, they mix people from different nations and create an international team in each of the host countries. So some people are sent down from Vienna, some are brought to Vienna and some are flying in on a weekly basis. This exchange is not limited only to the managers, sometimes they just do the kick-off and afterwards the employees take over. They do not want only the local people to run the bank; they mix the board of directors (BOD) and put people in from different countries. So in Rumania, they have a Czech, Austrian and Hungarian guy in the BOD. It is a part of international career development. If you want to be a top talent you have to undergo the training and the part of it is the willingness to work abroad. The organization has to learn to work with foreign people, with foreign language and habits. One of their core values is the respect for the local culture and internationality. What they definitely do not want to impose their culture, “conquer the host culture”, no intention on creating the Austrian bank there.

The major output of the exchange is that people feel like they belong to something big, that they belong now to the group. A particular outcome of the training and knowledge transfer was the diffusion of corporate cultures from parent company to subsidiary.

3.4 Human Resource Management (HRM) Knowledge

The labor market in CEE countries lacks adequately skilled middle management and educational system that still exhibit inefficiencies (Qin et al. 2008). Middle management in communist time did not have much authority and never dared to express ideas or have some initiatives, since they were not welcomed. The problem the banks are facing now is to foster initiatives coming from middle management. They tried by giving them more responsibility and assigning them a role of mentors and educators of their staff. What can also be noticed, is the generation gap in CEE banks. There is the difference between pre-socialist ‘old’ and post-socialist ‘new’ generations of employees which explains a range of issues including values, corruption, learning orientation, education and international exposure. These differences are significant and some banks even incorporate it into the organization’s recruitment strategy. The motivation to learn seems to be greater between the younger generations as well as their attitude towards change and internationality (Smale et al. 2008). Motivation is seen as one of the most important factors that helps facilitate effective KT and within organizations that have younger people, changes are easier.

Subsequently, higher staff turnover creates problems when new employees do not have the required knowledge to immediately begin work. It is difficult to ensure that key knowledge does not flow to competitors through changes in staffing. People are ready to switch employers as soon as they get slightly better pay from elsewhere in CEE (Qin et al. 2008). One of the interviewees also addressed this problem, since in his opinion, the staff fluctuation is higher than in Western Europe, he has constantly to deal with new people and start the training all over again. The high staff turnover however is normal during acquisition processes. Many people leave voluntarily since they are afraid for their jobs or of major changes. It is a lot of pressure involved, and a lot of uncertainty.

According to subsidiary banks, a lot of reorganization was involved, people were transferred from one position to another, new positions were opened some old were closed. In one bank that had to merge with another local bank and two different corporate cultures and organizational structures had to be merged, it was hard to take out the good practices from both of the banks and mix them, to take the relevant knowledge and make it work. Communication was a huge issue. The new structure was more hierarchical; people were more formal what was challenging for them. Employees needed some time to get used to new more formal communication style even in dealing with their subsidiaries. To illustrate this better, people were used to start their emails with “Dear XY/ Liebe XY” and it was strange for them to change it and all of the sudden switch to a formal way by starting with something like the German expression “Sehr geehrte XY” or Croatian expression “Poštovani XY”. Their corporate culture was more relaxed, more open and in a way friendlier. This may also lay in a fact that they were a smaller state bank where everybody knew each other.

Change management is a very important issue in company transformation and frequently external consultants are hired to help out (Haiss, 2001). Banks need to build a new management level in CEE countries and therefore, create a new culture. Middle management does not exist, they do not dare to speak to give out their ideas and take the responsibility. One interviewee complained about too hierarchical organizational structures and low motivation among employees. What is more, he addressed the problem of wrong attitude that people have originating from the communist time, namely the corruption issue. The situation that parent banks found in many subsidiaries were underpaid and therefore unmotivated people who were susceptible to illegal activities, such as bribery and wide-spread nepotism (for example in Romania). Particularly in South-Eastern European (SEE) countries it may be necessary to bribe clerks in order to get a loan. The low motivation can be explained also by the fact that they mostly overtake the bankrupted banks. There a change is welcomed and expected.

4. Methods of Knowledge Transfer

The nature of the knowledge, the time since acquisition and the size of the acquired unit are considered as factors which are likely to influence knowledge transfer (KT). The larger operations will undertake a greater volume of knowledge transfer than smaller operations simply by sheer number of individuals that are involved in the process (Qin et al. 2008).

With increase in size the banks face extremely large volumes of knowledge dispersed in organizations (Hafizi 2006). Communication, visits and meetings are considered to be facilitators of knowledge transfer in acquisitions. KT increases over time, the quantity, quality and type of transfer are changing over the subsidiarie´s life cyle. In the early stages, KT is mostly one-way from the acquiring to the acquired unit. In the later stages, KT is flowing in both directions and knowledge is more sophisticated. The emphasis is on a shift in exchange from explicit to tacit type of knowledge. The change over time in the pattern of KT is a characteristic that distinguishes acquisitions from other modes of KT (Qin et al. 2008). The whole transition process usually takes from a year and half to two years.

Raiffeisen Bank[2] was among the pioneers in the CEE markets. They started their expansion about 20 years ago when they mostly expanded by establishing the Greenfield banks in the countries (Haiss et al, 2007) . In their opinion, this represented an easier way of expanding to the new markets since it involves less time and effort to integrate the new bank into the whole group network. By expanding via Greenfield investment, they are able to set the Group principles in the new bank from the beginning. Nevertheless, most of the new banks are acquired banks what provides them with the faster access to the market and local know-how. Their expansion strategy is to be present in as many countries but to be among the top five banks in each country. Still, there are some exemption such as Slovenia and Poland where they pursue a niche strategy. The emphasis is put on the building of the network coverage which diversifies the risk involved in expanding to the new markets. Rhis network enables them to reap the benefits of the internationality. They either send people to the host country for sometimes even a few years or bring people to Vienna. The exchange of people occurs at all levels. In Raiffeisen International (RI) half of the employees working at headquarters (HQs) are internationals coming from CEE as well as from other countries where the Raiffeisen Group (RZB/RI) is present. For the employees that are for a determined time in Vienna, the knowledge transfer plays a more important role than for the people who come for undetermined time and whose KT is more of a side-effect.

At **Erste Bank** the acquisition approach and due diligence process are set quite differently than in other banks. They involve many people from the parent bank already at the

[2] CEE business is now run in the Raiffeisen International (RI) legal entitiy.

beginning of the ntegration process. Other banks use sometimes some investment banks or accounting companies or a few special people within the organization that run the process of acquisition. They on the other hand are making all the second level managers responsible for certain areas. The personnel manager is responsible to look up the materials concerning human resources (HR), the head of risk management is responsible to take a look into risk management procedures and so on. The managers also have to look who of their colleagues they want to take with them to the country. It is not unusual to have 100 people working on acquisition projects in the country but not at once, rather over a period of time. Erste flys in with many people and takes a look. This is a pretty expensive way of doing it but it is worth it according to the interview. This way many people get in touch with the new bank, they get familiar with the situation, they meet local employees there, know who they are dealing with, and in a way it gets more personal. They team up with some of the local people. Erste Bank does not want to rebrand and change everything, they make local employees a part of process. They are assigned an active role of creating the change not just the role of passive receiver since they want them to keep their identity. Over time they are changing regulations and logos but they also try to leave the specialty of the country and of the bank. They do not have special people who wait till they acquire a new bank; these trainers are people from daily business. They have to do it next to their ordinary job.

UniCredit seems to have slightly different approaches according to the interviewees. When they acquire a new bank they send specialists from all bank areas to train the locals. 20-25% expatriates are being sent per acquisition from the key areas: control, risk, accounting, HR etc.. The exchange of people flows in both directions. Either local people are trained in Vienna or the specialists are sent to the host country.[3] One of the Austrian executives is assigned a role of mentor and stays in the country for around two years. During that time he/she trains the local staff and finds an adequate replacement to take over. Mostly managers come to Vienna for seminars and they get trained in Vienna. Afterwards they have to transfer what they learned onto their employees in the host country in a kind of a snowball system. This is also a good method of checking if the KT was successful. UniCredit takes a more centralized approach and all the decisions and deadlines are set top-down. Main initiatives come from headquarters, i.e. plans are first developed in Vienna and afterwards are discussed with the local mangers which have to send in regular reports.

[3] Note that within UniCredit group, Bank Austria is responsible for managing the CEE network (besides the unit in Poland).

Raiffeisen pursues a somewhat similar strategy. According to the interviews, they also send out people from different areas such as HR-department, controlling, corporate business, and risk management to the host country. One of the problems they are facing is the Information asymmetry since employees are sometime reluctant to give out information about their bank. The real knowledge transfer starts in later stages of an integration process. Raiffeisen's strategy is decentralized as opposite to Unicredit strategy. Raiffeisen applies the same procedures in subsidiaries in three main areas, namely compliance and performance management, controlling and risk management. All other areas remain decentralized.

4.1 Training

Training involves a wide range of topics. So for example there are training sessions for customer relations, where the banks train people how to appropriately deal with customers apart from plain information giving, which is what banks in CEE countries were used to. Besides that, training is conducted in all sectors: marketing, sales, introduction of new products, ratings, risk management and related issues.

Training courses are internal and external, held both in the host country and in the parent bank. In some banks training courses include only managers and executives who were than transferring learned in the home country ("train the trainer"); in others mostly experts or sometimes even employees were trained. In some banks, external firms were hired to train employees, mostly because of the language issues.

At Raiffeisen/RI, trainings are either organized locally or regionally. So for example for Balkan region, meaning Slovenia, Croatia, Bosnia and Herzegovina and Serbia, the training center is in Zagreb. There were some initiatives to establish regional training center for Belarus, Ukraine and Russia in Russia but due to their size and differences between them the idea was abandoned.

Unicredit for example developed standardized, uniform sales training that they are implementing among countries. They train the internal, local trainers, from the each country that afterwards train the sales people mostly in their native language and in their own way. They put together international teams whose task was development of trainings for three areas: private customers, corporate customers and for local management. They are currently working on standardized credit risk management techniques. They had it already but due to many new fusions and mergers, they need to renew it. It will follow the same as with the sales training. They look for the suitable person that has capability and is willing to transfer the learned.

Regular seminars facilitate knowledge creation within the banks and provide details and information about the new company products. Knowledge is facilitated in project teams, through investment projects, company evaluations, and in product innovation team sessions. Teams usually comprise members from different backgrounds and skills (RZB 2008). Direct contact with colleagues makes more sense because it is more oriented towards workplace issues, connects knowledge to real life cases, and offers an important social component (communication and conformation) (Qin et al. 2008).

Many workshops are heavily structured. One interviewee described that after acquisition, banks start with the general theme and then they go into detail. The first workshop provides them with an overview of the whole project, its structure and objectives. The workshops takes part at the Austrian headquarters as well as in the relevant host countries. Afterwards, they proceed with the workshops on the special topics where they go more into detail. They have a fixed date for so called “status calls” where they discuss and analyze the issues from the submitted report of the foreign subsidiary. Teleconferencing occurs on the daily basis. The problem is that after work-shops and presentations it is hard to determine if they the message was transmitted successfully, it is difficult to control the learning. Sometimes it seems as if everything has been understood but nothing actually happens afterwards. Sometimes the expectations might be set too high from the side of the headquarters, and subsidiaries do not take it as seriously.

There are further problems with workshops that take place in Vienna. Firstly, in most of the cases a key employee has to leave the country to be trained, he/she is missing in his own legal entity/department. If the training session lasts for 2-3 days it is not an issues but if it lasts longer many times countries do not want to let their employees go since there is no one to perform their job when they leave. Some of the workshops lasted only a few days, some several weeks, depending on topics.

Special programs are being developed at the headquarters for the foreign subsidiaries on various topics such as team work, understanding business environment, leadership etc. Many banks develop special programs for high potential employees and foster their education and trainings. Seminars usually last from three to twelve days. In one of the banks there is a special program that consists of four modules that have to be completed within two years and each module lasts 12 days. RZB/RI has intensive training programs for executive’s development, for specialists and some for employees.

4.2 IT-solutions

To allow knowledge sharing anytime and anywhere, there are several types of technological tools available: networks, email, teleconferencing, intranets and similar. Once again, there is no core central information technology (IT) system. There is a central online platform for different projects where the various document, presentations are being uploaded and can be accessed by anyone from the group level. Subsidiaries transmit their data over gateways and upload their reports on this central platform. There are also folders for internal use at the different levels such as a bank level or department level. The documents in public folders have to be in English. In some kind of E-rooms the materials get exchanged or uploaded.

Online training is also employed. So there is for example an online teaching program with 30 chapters. The employees have to go themselves through it and afterwards they sit an online exam consisting from 35 questions. If they fail they have to redo it till they pass it. Online learning is the cheapest and most efficient way to train the highest number of employees in short time and sometimes also the only way it can be done. This is important when the corporation introduces some new practice or new product mostly for minor changes.

RZB/RI does not focus on the central platform that would keep all the available knowledge codified and saved in the IT-system, they are focusing on the information about who holds what kind of knowledge. They build a network map that shows which people have the needed information instead of wasting time by codifying and saving the information in the system. The contact between people is crucial and seems to be one of the best ways to learn.

Still, we did not get a feeling that IT plays an active role in knowledge transfer, rather acts as a support to KT. As we asked our interviewees about the IT-solutions the answer we got was that even email exchange is regarded as a form of technological KT.

4.3 Other methods

There are many more methods through which banks exchange know-how. Each kind of communication between employees, formal as well as informal is actually a method of KT. So for example twin teams are used to put people together with different backgrounds and different skills to get better results and better insights into projects. Furthermore, materials and manuals are being distributed to the subsidiaries.

It should also be acknowledged that KT takes place in both directions in the meantime. Still, this is not nearly as extensive as those from headquarters (HQS) to foreign affiliates. Some transfers are not possible through email or in paper form. “You have to go there personally and use a ‘hands on’ approach […]. Otherwise it goes like ‘water off a duck’s back’ and they do it in their own way anyway” (Qin at al. 2008). Only in case of one bank people were sent to local business schools after the acquisition based on decisions of the local management board what was financed from local educational budget.

The most important role in knowledge transfer in RZB/RI are “professional communities” of specialists within the corporation that meet on a regular basis in order to exchange their knowledge. This furthers the multidirectional exchange of knowledge. Often conjoint projects are organized on which people from different countries put in their knowledge and learn from each other, gain a different perspectives on the problem. This highlights once again the emphasis of the banks to reap the benefits of differences. This is also why Erste Bank and RZB/RI are decentralizing their operations. That way they are leaving scope for further development and innovation among the host country banks. In their view, too much centralization impedes the innovation.

Overall, the acquired banks see the change in reducing the external providers to the minimum level. Internal specialists and mentors are used who are either the locally trained people or specialists form the parent bank. Many functions were shortened, made less complicated through centralization; they have a central team for marketing and smaller teams in the host countries. Headquarters accordingly reduced local power of country managers.

5. Barriers

Knowledge is difficult to move and there are three basic barriers to knowledge transfer:

1. **Culture**: Knowledge and cognition are guided by the respective context (Schleglmilch and Chini, 2003). Culture as one of the major context factors is embedded in the way people act and what they expect from each other. It is rooted in the core values and believes of the organization. Over the time, people used knowledge as source of power and they kept it for themselves. Now, they are expected to share it with the others.

2. **Localization**: in this sense, localization means physical distance. It is costly and difficult to control remote subsidiaries (Cantoni et al. 2001).

3. **Language**: this problem was addressed often from both sides, from Headquarters as well as subsidiaries. On the one hand, subsidiaries think that some experts speak bad English and that is hard to understand them and learn from them. On the other hand, Headquarters also think that people in host countries have language problems and therefore, delegate some of the tasks either to other already trained subsidiaries that speak the same language or hire local external companies.

According to Cantoni (et al. 2001), all of these barriers can be overcome by putting emphasis on substantive ongoing education and training and by creating a system of incentives. People are more likely to share knowledge if there are incentives, both monetary and recognition, creating a supporting organizational culture of sharing information and communicating as well as having a technology that enables knowledge sharing at both workgroup and company levels, overcoming time and spatial barriers (Cantoni et al, 2001). The challenge is to create the appropriate atmosphere that can support the transfer and eliminate the barriers and turn them into enabling factors. The appropriate atmosphere can stimulate the facilitating conditions that ensure the communication and other forms of interactions between individuals (Qin 2008). Deutsche Bank has embraced the strategy of continuous, concentrated corporate learning and intellectual capital branding through its creation of the Deutsche Bank University (Hafizi 2006). The same is happening now in Austrian banks as well (Fembek, 2008). For example Erste Bank is organizing summer universities, continuous trainings and presentations on various topics and accessible to all that want to learn. UniCredit group runs a “UniManagement Center” in Turin (Der Standard, 2007). Many banks have their own corporate education programs, mostly for development of the lead management and specialists. This seems to be one of the news trends on the banking market.

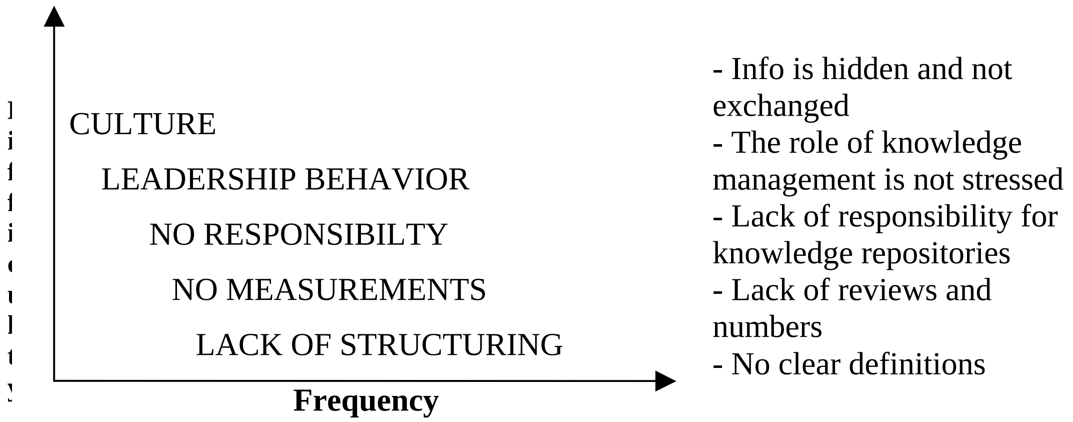


Figure 5: Knowledge exchange barriers in a firm (Source: Peterson/Zesch 2001 in Rumyantseva et al. 2002)

Conclusion

The fast and massive expansion of Austrian (and also other mainly European, e.g. Swedish, Greek and Italian) banks to Central and Eastern European (CEE) countries has forced the respective banks to be more efficient in managing knowledge in foreign banking operations. The purpose of this paper was to find out strategies that Austrian banks employed when transferring knowledge transfer (KT) onto their subsidiaries. Based on interviews we conducted with the major Austrian banks active in CEE, we conclude that knowledge transfer within the banks provides a broad spectrum of knowledge and gives employees a huge variety of knowledge sources. Banks are employing different but still similar approaches in knowledge transfer when expanding into another country.

Still, each country is different, each bank has a different knowledge base, and each situation is different depending for example if a bank was a greenfield investment or a merger, or if the acquired bank had to merge with another local bank. The heterogeneity of organizational structures, corporate cultures, IT systems, and the available knowledge base and not to forget the language barriers makes knowledge transfer rather complicated. Not to forget is the dynamic and changing environment to which banks are exposed. Still, the trend can be observed towards organizing the acquisition process in the form of a big project consisting of many subprojects created by themes such as retail, risk management, accounting, HR, change management and similar. People are being exchanged from local, parent or even other subsidiaries. Knowledge transfer during the expansion of Austrian banks into CEE markets seems to be a buyproduct of the acquisition and integration process, both the content and the method of knowledge transfer changed along the stages of integration as the Austrian banks themselves moved along by “learning by doing”. While initially unidirectional, the knowledge flow became multidirectional in successful banks, thereby broadening the knowledge base of the respective banking groups.

From our interviews it became apparent that banks try to provide excellent facilities for knowledge sharing and use all kinds of sources and means of transfer, ranging from online learning, training sessions, learning by doing, twin teams and many more. Experts, consultants, as well as other employees can make their knowledge available to colleagues working in remote places. Still, it can be seen that many value face-to-face learning and direct communication as the best way to learn. The majority of knowledge is still due to experience, while a smaller part of knowledge can be gained from books, magazines or lectures (Qin et al. 2008).

While our investigation in the banking industry supports general findings (e.g. Kiessling et al, 2008 and Schlegelmilch and Chini, 2003), the limited number of case studies in our small study still do not allow us to give a definite answer to the question of knowledge transfer that is applied in every bank. Each bank has its own strategy which is similar but still different. Nevertheless, we contribute by providing evidence on the multitude of efforts (ways, content, direction) Austrian banks applied to raise the know-how level in the CEE host legal entities. We argue that these efforts to transfer knowledge contributed to both revamping the individual bank network and in speeding up economic transition on the aggregate level.

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