KNOWLEDGE TRANSFER, CULTURAL DISTANCE AND FINANCIAL PERFORMANCE OF MULTINATIONAL CORPORATIONS IN UGANDA.

BY

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PLAN A

NOVEMBER 2014

DECLARATION

I Rebecca Amongi, declare to the best of my knowledge that, this dissertation is my original work which has never been published and/or submitted for any award in any other University.

Signed ……………………………………… Date…………………………….

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APPROVAL

This dissertation has been submitted with our approval as supervisors and our signatures are appended against the respective names below:

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Supervisor

DEDICATION

To all my friends and family

ACKNOWLEDGEMENT

God Almighty, All things are possible with you and surely this has been made possible with your unending love and presence in my life. I am forever beholden to you my friends and family for the moral support to pursue this programme. My supervisors, Dr. Nkote and Dr. Kabagambe for the priceless guidance accorded to me throughout this process. May the Almighty abundantly bless you.

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LIST OF ABBREVIATIONS

FDIs	:	Foreign Direct Investments
FOE	:	Foreign Owned Enterprises
GDP	:	Gross Domestic Product
IDV	:	Individualism
MNCs	:	Multinational Corporations
MAS	:	Masculinity
PD1	:	Power distance
ROA	:	Return On Assets ratio
ROE	:	Return On Equity ratio
ROI	:	Return on Investment
UIA	:	Uncertainity avoidance
UIA	:	Uganda Investment Authourity
M&A	:	Mergers and acqustion

ABSTRACT

Purpose - This study was carried out with the specific objectives as to establish the relationship between knowledge transfer, culture distance and financial performance of MNCs in Uganda.

Methodology - Data was collected from 106 respondents using purposive sampling from foreigners from MNCs in Uganda using structured questionnaires and analysed using SPSS computer programme. It involved descriptive and analytical research designs. The data was tested for reliability, analyzed using SPSS and results presented based on the study objectives.

Results – Results revealed that there is a positive and significant relationship between cultural distance and financial performance while the relationship between knowledge transfer and financial performance was found to be positive but statistically insignificant and the relationship between cultural distance and knowledge transfer was found to be negative. This implies that when one variable is improved(cultural distance is narrowed) it leads to improvement of the other (financial performance). In addition, cultural distance is a better predictor of financial performance and knowledge transfer according to this study is not. This does not mean that knowledge transfer is irrelevant to financial performance. Therefore to improve on financial performance; emphasis should be put on narrowing cultural distance according to this study.

Recommendations - The study recommended MNCs to improve the relationship of MNC home office and subsidiaries before knowledge transfer, manage the challenges posed by cultural distance to knowledge transfer that can later affect financial performance and create conducive environment for Knowledge transfer.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

In the present competitive climate where the only certainty is uncertainty, knowledge is considered the main distinguishing factor of business and it is seen as the foundation of competitive advantage (Nonaka, 1991), companies need to know what they know and how they can use their knowledge more effectively to gain competitive advantage and stay in business. Therefore companies are increasingly looking for ways to become learning organizations being aware of the fact that financially successful companies will be those that value knowledge and have a strategy to systematically managing it.

Studies to assess the impact of Foreign Direct Investment (FDI) on technology transfer conducted by Uganda National Council of Science and Technology in 2000 and 2001 revealed that the absorption of organization and management practices as well as tacit knowledge (Polanyi, 1997) was neglected (Muhenda, 2006). This is evidenced by the poor performance of smaller MNCs who find it hard to make strong profit margins due to intense competition (The Observer, 19 November 2009) and this poor quality of services and products offered. This is due to same product offering and poor knowledge and technology transferred hence lack of a competitive edge over other players in the different sectors leading to use of survival strategies to maintain market share and profitability (Summit Business Review, October, 2008).

According to Uganda Investment Authority, about 234 MNCs have come to Uganda since the establishment of the Uganda Investment Code in 1991 in the various sectors of the economy such as fishing, flower industry and service sector. Usually a lot of financial resources are invested in these subsidiaries ranging from 1m-250m$ and such investments are guided by the high market, resources and funds needed. The entry of many of these firms has increased competition which has led to firms not to perform as expected and left many struggling to stay afloat in the market.

UIA indicate 25%-40% of some firms closing their operations while some are still heavily making loses especially in the banking and insurance sector where there is continued injection of resources as the firms do not break-even. These companies bring almost10% of their work force and the rest being recruited from Uganda which means a lot of learning is required especially learning of cooperate business or governance. Integrating this knowledge may be very hard especially that of new methods, culture, technology, management style which cannot be easily copied up with.

Transfer of knowledge is influenced by the socio-cultural and institutional distance between the foreign country and the home country of the MNC (Adler, 1995). Knowledge in firms is contingent on their socio-cultural environment (Hofstede). What is appropriate knowledge in one country may not suit the needs of firms in other countries. In turn, this may cause problems to the knowledge transfer process. Factors such as different language, business culture, furthermore, several studies suggest that geographical proximity is positively associated with knowledge transfer. As the distance between nations increases, it is more difficult for firms to acquire knowledge from abroad thus; a clash between national cultures may jeopardize the international transfer of knowledge thus financial performance.

For example, the banking industry in Uganda is increasingly becoming very competitive as more entrants take up niche positions including venturing into SME and mobile banking and introducing new products. However Equity bank has failed to replicate its Kenyan success abroad. It’s been noticed that in the past four years it has lost $359,000 on the $96m it has invested to build its East African platform. Her return on equity in Uganda has been only 18% compared to 34% in Kenya in 2011. Also, Uganda has seen ECO-Bank having only 1-2% Uganda market share. The other example is Ugandans’ horticultural sector that is struggling to remain afloat due to high operational costs that have seen 7 firms close up. (The East African, 15 June 2013). Uganda’s fishing sector has also continued to register drastic fall in production from 1.9m to 1.2m between 1999-2001, seeing only 3 MNCs operational out of 22. As global competition intensifies the importance of managing international operations by Multinational Corporations (MNCs) increases (Sohn, 1994; Vernon., Wells & Rangan, 1996). This heightens the need to identify and select qualified and competent managers for overseas assignments who can implement the organization's strategies in a particular host country (Gregersen, Black, & Morrison, 1998).

It can be said that knowledge sharing and usage behavior vary across cultures and that it is difficult to come up with global standards and protocols on how to initiate knowledge management (Desouza and Evaristo, 2003). In a knowledge-based perspective Nonaka argues that knowledge-based resources are the most relevant to the achievement of a firm's competitive edge. While financial performance is the outcome of past or present competitiveness. The challenge for MNCs is to accurately understand the cost versus benefit of using expatriates so as to effectively recruit expatriates who can use their capabilities to transfer knowledge in the midst of cultural distance. However, most knowledge transfers are not very successful thus losing out on competitive edge thus declining financial performance.

1.2 Statement of the Problem

Although MNCs are known to have strong financial base by the time they come into a country, evidence shows that many of them fail to meet financial performance target which has led to closure of a number of MNCs (The Observer, 19 November 2009). Cases in point are, ECO-Bank having only 1-2% Uganda market share, Ugandans' horticultural sector struggling to remain afloat due to high operational costs that have seen 7 firms close up. (The East African, 15 June 2013). Uganda's fishing sector has also continued to register drastic fall in production from 1.9m to 1.2m between 1999-2001. This could be attributed to lack of cultural awareness, failure to notice that knowledge transfer and management need to operate in varying languages, cultural and ethnic backgrounds, gender and professional affiliations and incompetence on how best to transfer the needed managerial and technical knowledge from the parent company to the subsidiary hence inability for the organizations to effectively compete thus continued poor financial performance and closure of many MNCs.

1.3 Purpose of the Study

The study investigated the relationship between knowledge transfer, cultural distance and financial performance of MNCs in Uganda.

1.4 Research Objectives

(i) To investigate the level of cultural distance of MNCs in Uganda

(ii) To determine the level of knowledge transfer by MNCs in Uganda

(iii) To identify the level of financial performance of MNCs in Uganda

(iv) To determine the relationship between cultural distance and knowledge transfer.

(v) To investigate the relationship between cultural distance and performance of MNCs.

(vi) To establish the relationship between knowledge transfer and performance of MNCs.

1.5 Research Questions

(i) What is the level of cultural distance of MNCs in Uganda?

(ii) What is the level of knowledge transfer by MNCs in Uganda?

(iii) What is the level of financial performance of MNCs in Uganda

(iv) What is the relationship between cultural distance and knowledge transfer?

(v) What is the relationship between cultural distance and performance of MNCs?

(vi) What is the relationship between knowledge transfer and performance of MNCs?

1.6 Scope of the Study

Geographical Scope

The study covered multinational companies in Uganda espically those in kampala because majority of them are headquarted in Kampala.

Subject Scope

The study focused on the relationships between the different variables; knowledge transfer, cultural distance and financial performance of MNCs in Uganda.

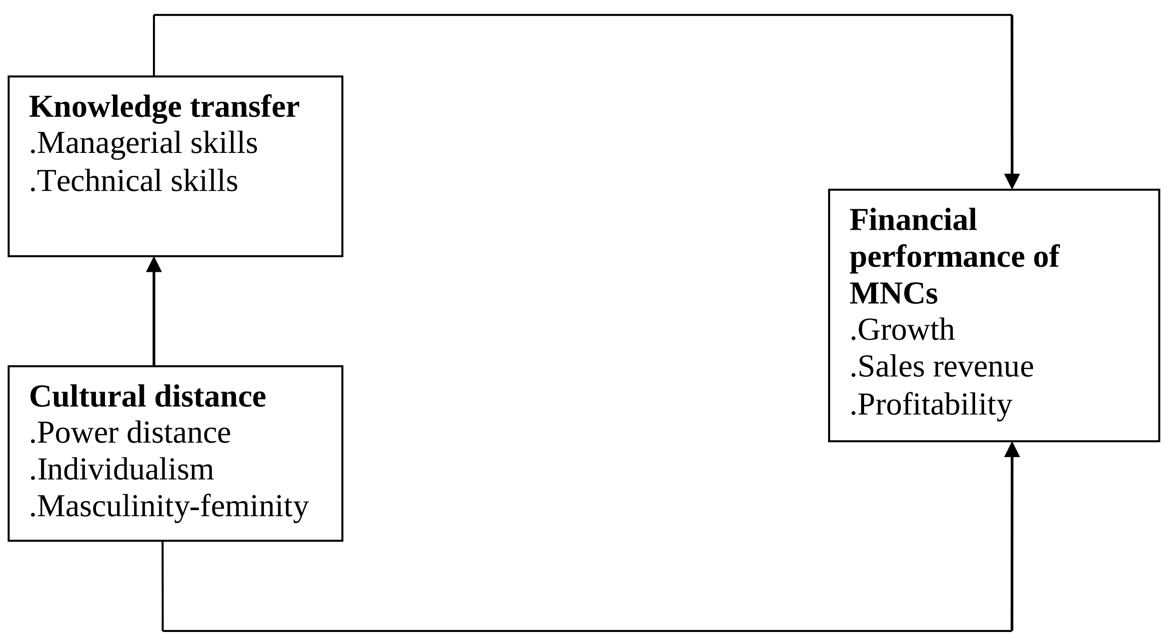
1.7 Significance of the Study

(i) The findings of the study will enable MNCs to make decisions on how best knowledge can be transferred from parent companies so as to ensure increased intellectual capital and performance in the subsidiaries.

(ii) The study will increase the knowledge on MNCs and in addition future academic research can be based on it.

(iii) The findings of this study will provide insight into factors inhibiting inter-firm knowledge transfer and illustrate to MNCs how to augment knowledge management transfer strategies.

Figure 1: Conceptual Framework



Source: Developed from literature review (Hofstede, 1980 and Depperu & Cerrato, 2005).

The conceptual framework (Figure1) depicts the relationship between knowledge transfer, cultural distance and financial performance of MNCs. The model suggests that financial performance is influenced by knowledge transfer (managerial and technical skills) born to subsidiaries from parent companies. However, knowledge has not had a free flow because of cultural distance. But when managerial and technical skills are successfully transferred, it brings about improved service delivery which is translated into good financial performance in terms of increased sales, growth and profits.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature from studies carried out by different authors on knowledge transfer, cultural distance and financial performance of MNCs.

2.2 Multinational Companies

Gupta and Govindarajan, 1991 describe MNCs as a network of capital, product, and knowledge transactions among units in different countries. An overall agreement by leading scholars is that an MNC is an international network that creates accesses, integrates and applies knowledge in multiple locations (Almesdia et al, 2002).

2.2.1 Knowledge Transfer

Knowledge is an elusive concept that has been classified and understood in a variety of ways; For instance, it is known as the process through which one network member is affected by the experience of another (Argote & Ingram, 2000). Kogut and Zander, (1992) incorporates both the relatively tacit "know-how", defined as the accumulated practical skill or expertise that allows one to do something smoothly and efficiently and information or "know-what", which accommodates more articulable dimensions of knowledge. The concept of transfer is also difficult to capture. The issue here is that no definite distinction between transfer of knowledge and creation of new knowledge exists. As Zander, (1991) observes that Recipients would normally be obliged to devote substantial resources to assimilate, adapt, and improve upon original technology. Knowledge transfer in this study will refer to the process through which organizations learn from each other's experience and adapt all or some of the knowledge acquired (Darr & Kurtzberg, 2000). Knowledge is clearly defined using two dimensions; technological and managerial knowledge.

Technology is much more than machinery for it involves the practical application of scientific knowledge that is codified and easily accessible in addition to nonscientific knowledge that may be embedded in the culture of society or company, group, worker or inventor tasks (Fernandize, et al., 1999). For example, Ford and Saren (1996) describe different technologies under three categories; product, process and market technologies. Product technologies that include firm's abilities to design particular types of products or services and embedded in staffs that know how to perform such design works while process technologies are what a firm uses to manufacture or to produce particular products or services and market technologies enable a firm to relate its products and services to other firms' requirements and to their technologies. Market technologies also include skills needed to manage firms' relationships with other companies.

Technological knowledge in our context refers to a body of experience, contextual information and techniques used in the development, design, production and application of processes, procedures, systems and services (Shrivastava & Souder, 1987). While managerial knowledge including the endowment of managerial intellectual property of a firm and its managerial and organizational practices, plays an important role in determining the productive efficiency of a MNC subsidiary (Teece & Pisano, 1994). It covers all aspects of the management of the firm, ranging from strategic planning and decision making to human-, financial and information-resource management as well as operations and marketing management (Xiolan, 2005).

Although different areas of knowledge have been categorized as relatively tacit or explicit quantifiable technologies and process are more explicit (Von Glinow & Teagarden, 1988), managerial and marketing expertise are more tacit than product development, production, and technology is always difficult to decide which knowledge can be considered as tacit rather than explicit. However, the two types are not completely distinct: knowledge confidentiality and tacitness should be considered as a continuum and when knowledge is transferred, that process will generally involve both tacit and explicit knowledge (Nonaka & Takeuchi, 1995).

The very reason why MNCs exist and succeed is that they are efficient vehicles for creating and transferring knowledge across borders (Gupta & Govindarajan, 1991). MNCs also contributes to economic growth via technology transfer since MNCs can transfer technology directly (internally) to their foreign owned enterprises (FOE) through their expatriates. Technological and managerial knowledge are the two major types of knowledge embedded in foreign direct investment.

However, MNCs can have a negative impact on the direct transfer of technology to the FOEs and thereby reduce the spillover from FDI in the host country in several ways. They can provide their affiliate with too few or the wrong kind of technological capabilities, or even limit access to the technology of the parent company. The transfer of technology can be prevented if it is not consistent with the MNC's profit maximizing objective and if the cost of preventing the transfer is low. Consequently, the production of its affiliates could be restricted to low-level activities and the scope for technical change and technological learning within the affiliate reduced (Adeolu & Obafemi, 2007).

Knowledge transfer can take place through a variety of channels that involve the transmission of ideas and new technologies. Literature often makes the distinction between tacit and explicit knowledge. Explicit knowledge is what can be formally expressed clearly, fully, and leaves nothing implied and can be stored in specifications, reference manuals, procedures and company handbooks (Nonaka & Takeuchi, 1995). Tacit knowledge on the other hand cannot be expressed outside the action of the person who has it; is non-codified, unvoiced and unspoken and often referred to as know-how (Roberts 2000).

2.2.2 Cultural distance

Cultural distance refers to the degree of similarity and dissimilarity between two cultures. According to Kogut & Singh, cultural distance as measured interms of difference in managenet style, business practices or work related vaules has been shown to have profund impact on processes such as choice of foreign entry mode and perceived ability to manage foreign operations. In international seetings, such conflicts tend to be fueled by cultural sterotypes, increasing nationalism or even xenophobia (Vaara, 2002,2003).

This concept is important because it can influence both preparation and performance of global managers. For example if a manager is travelling from his country to another country that possess relatively similar cultural traits, the manager will likely experience few adaptation problems and can devote full energy to conduct business.(Richard & Luciara, 2006). Literature shows a great diversity of approaches in understanding culture. Cultural distance is also understood as the extent to which the shared norms and values in one country differ from those in another (Hofstede, 2001). It has been argued that cultural distance increases the causal ambiguity and stickiness of knowledge because knowledge is created by individuals and embedded in a certain cognitive and behavioral context (Grant, 1996), and then transferred by the commitment and belief patterns of its holders and its recipients, who transmit their culture-specific sets of values and frames of reference. Cultural distance in this study is therefore understood as the extent to which the shared norms and values in Uganda differ from those in the country where MNC headquarters are. Culture is regarded as one of the most important contextual variables that impact on the knowledge transfer process in MNCs (Li & Schullion,2006). In his paper, Holden (2001) even argues that knowledge management in the global economy is essentially a form of cross-cultural management, involving acts of cross-cultural exchange.

Foreign language barriers, different legal stystems and administrative practices and other aspects of organzatinal life that differ between countires poss additional obstacles to integrate the different cultures and workforces in cross-boarder M&A, no wander a survey of top managers in large European acquirerers showed that 61% of the believed that cross-boader acqusitions are riskier than domestic ones(Angwin & savil, 1997).The invisible influence of national cultures becomes visible as soon as geographical boarders are crossed. Similar to Trumpenar's analogy (1993) of a fish that "only find out the need for water when he is out of it". Many people are not aware of these influences until they start to interact with people from other cultures.

Hofstede identified systematic differences in national cultures on four primary dimensions, power distance (PDI), individualism (IDV), uncertainty avoidance (UAI) and masculinity (MAS). As Hofstede explains on his academic website, these dimensions regard four anthropological problem areas that different national societies handle differently ways of coping with inequality, uncertainty, the relationship of the individual with her or his primary group, and the emotional implications of having been born as a girl or as a boy.

Power distance: is the extent to which the less powerful members of the organization accept and expect that power is distributed unequally. It is related to how power is organized in society in general including difference between high and low status people. In high power distance societs, and important emotional distance seperates surbodinates from authorites. Respect and formal defference for higher status people e.g elders are involved. Cultures that endorse low power distance expect and accept power relations that are more consultative and democratic allowing subordinates to contribute and critic decision making of those in power while those in high power distance, the less powerful accept power relations that are autocratic and patemalistic.

Individualism vs. collectivism: is the degree to which individuals are integrated into groups. In individualistic societies, stress is put on personal achievements and individual rights here also priority is given to the person often extended family.individualistic cultures promote introspection and focus attention on inner experience. Oyserman, Coon & kemmelere, 2002 study showed that core aspects of individualistic beliefs are personal independent, and uniqueness, competition,personal achievement and emphasis on internal attributes are important features as opposed to other peoples opinions and indicators which are unrelated or negative related to individual. While in collective societies individuals act predominantly as members of a lifelong and cohesive organization. Collective cultures don't encourage focusing attention on the inner self, the most salient features of emotional experirnce are external and internal i.e how ones actions affects others.also in the meta-anaylsis carried out by Oyserman et al says the core aspects of collectivist beliefs is sense of study and obligation towards the group.

Masculinity vs. femininity: this looks at distribution of emotional roles between the genders. Masculine cultures are completive, assertive, materialistic, ambitious and powerful where as feminine cultures place more value on relationships and quality of life.
Various studies suggest that competitiveness internality, protestant work ethic belief and work centrally are higher in less developed, collectivist and high power distance cultures in which materialist value are still important (Tropenaars & Dugan, 1995).

2.2.3 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson,). There are a number of financial performance measures, however there is little consensus about which instrument to apply. Many researchers use market measures while others put forth accounting measures and some adopt both while others use perceptual measures given inaccessibility of accounting measures of performance. However each has different theoretical implications and each is subject to particular biases. Several researchers have also used perceptual measures of performance as opposed to more objective performance measures (e.g., return on equity) that capture past performance. It has also been shown that perceptual measures tend to have a high correlation with objective accounting-based measures (Geringer and Hebert, 1991).

There are a number of financial performance measures, with little consensus about which instrument to apply. Many researchers use market measures like Alexander and Buchholz (1978) and Vance (1975) while others put forth accounting measures like and Waddock and Graves (1997). Some adopt both of these McGuire, Sundgren, Schneeweis (1988) while others use perceptual measures given inaccessibility of accounting measures of performance. However each has different theoretical implications (Hillman and Keim 2001) and each is subject to particular biases.

Birlay and Westheed (2001) look at financial performance as an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained.
This study uses the perceptual measures that include sales, profitability and growth. Profitability is the ability of an enterprise to earn returns which returns are a margin of sales, proportion of capital invested and assets used. The best measure of a company is its profitability since it includes the two major factors of financial performance that is maximizing revenues and minimizing expenses and without it, it cannot grow, and if it doesn't grow, then its stock will trend downward. Increasing profits are the best indication that a company can pay dividends and that the share price will trend upward.

Cash Flow Growth: Cash flow tells you how much cash a business is actually generating. It is considered a gauge of liquidity and solvency. Book Value Growth: Book value is, in theory, what would be left over for shareholders if a company shut down its operations, paid off all its creditors, collected from all its debtors, and liquidated itself. Employee productivity: An employee-based measure of growth is change in company or departmental revenue or profit generated per employee. This is a valuable measure of increasing (or decreasing) productivity.

Revenues: Every company is described by its revenues as an "X million dollar company." Although this is probably the most commonly cited measure of corporate growth, the pitfall of relying on gross revenue or gross margin as a measure of growth for an organization is that it completely ignores the expenses associated with generating those revenues. Greater revenues do not necessarily mean greater profitability. In periods of very quick "growth," expenses can spiral upward and out of control leaving a company strapped for cash and facing an uncertain future, at best (Kotler, 2003).

In addition, accounting measures are used. Investors and other external users of financial information often measure the performance and financial health of an organization so as to evaluate success, determine any weaknesses and compare current and past performance of the business (Waddock & Graves, 1997). However this study will be limited to profitability and financial efficiency ratios as accounting measures of performance.

The (ROA) ratio is an indicator of how profitable a company is relative to its total assets, gives an idea as to how efficient management is at using its assets to generate earnings and shows how well a company controls its costs and utilizes its resources. This ratio is used to determine the amount of income each asset generates and it measures overall profitability from investment in assets. A high return on assets ratio indicates that the business is earning more money and investing less on assets. The higher the ROA number, the better, because the company is earning more money on less investment (Niall, 2005). Return on assets is an indicator of the asset intensity of a company. A low return on asset ratio shows that the company is more asset-intensive.

2.2.4 Knowledge transfer and cultural distance

Knowledge and culture are indissolubly linked together in organizations. Recent technological revolution, accompanied by rapid globalization has led to increased cultural heterogeneity within organizations. As the world becomes more and more globalized, western organizations now have access to a pool of job candidates from increasingly diverse cultural backgrounds, national borders no longer preclude individuals of different cultures from working in international organizations. Consequently, organizations today exhibit more. One known as contextual distance affects knowledge transfer capabilities in international business research and national culture has served as the most prominent proxty to model contextual difference between MNC units. As national cultures encompasses the values, beliefs and assumptions of a group of people. It also shapes the interpretation of reality and messages (Hofstede, 2001).

In order to build on the organizations' knowledge stock, functional units of multinational corporations (MNCs) need to share knowledge across organizational entities. They have to be able to transfer this knowledge within organizational networks characterized by separation through time, space, culture and language. And while the advent of modern information technology which reduces or even, eliminates some of the inherent challenges posed by distance such as communication or coordination costs.

Advancing globalization is forcing organizations to engage in alliances and networks with partners with widely diverse national or ethnic cultural backgrounds. To emphasize on the importance of global knowledge creation and that it needs time and commitment as well as an enabling context to be successful, even though management emphasis might be shifting to a focus on the achievement of overall short-term operational targets, the long-term gains of creating new knowledge and sharing it as well as of fostering organizational learning should not be neglected or forgotten.

In the past years, academics has realized that knowledge flows across dispersed organizational units are vital for company success infact in ability to leverage its knoweldeg resources globally has been proclaimed by many scholars as the true raison d'etre of the MNC (Doz et al., 2001, Anderson et al., 2007 and Monteiro et al., 2008).

The characteristics of the resource knowledge requires a deep and common ground of understanding between the parties involved inorder to extract knowledge that is useful for the receipents thus cultural distance is prone to affect knowledge transfer. The people involved have to bridge diverse backgrounds which may result in misunderstanding and prevent the joint solution of the problem (Anderson, U.,Forsgren, M., Holm, U., 2007) but when the bridge is closed, knowledge will flow in smoothly.

2.2.5 Knowledge transfer and financial performance

Knowledge is considered the main distinguishing factor of business and it is seen as the foundation of competitive advantage (Nonaka,. 1991), companies need to know what they know and how they can use their knowledge more effectively to gain competitive advantage and win. Here we look at knowledge that enables MNCs to expand its activities across national borders, such as knowledge of customer preference, supply structure, business culture and industry standards in foreign markets.

Knowledge is a key role when explaining existence financial performance and growth of MNCs. To an increasing extent is the success of MNCs considered to be contingent upon the ease and speed by which knowledge is disseminated throughout the organization (Gupta, 1991). Knowledge transfer among subsidiaries provides opportunities to improve a MNCs profit (Kogut and Zander, 1992) and because MNC subsidiaries incur both benefits and costs when contributing to knowledge outflows, the performance implications may depend on the extent of shared knowledge

Scholars also argue that organizations able to to transfer knowlegse effectively form one organizational unit to another are more productive than oragaztions that are less capable knowledge transfer.(Baum & Ingram, 1998, Hassen, 2002). New knowledge espcally from outside the firm can be an important stimulus for change and organztional improvement. And its transfer is manifested through changes in knowledge or performance of the receipt unit

2.2.6 Cultural distance and financial performance

Foreign language barriers, different legal systems and administration practices and other aspects of organizational life that differ between countries pose additional obsatacles to intergrating the different cultures and workforces in cross-boader M&A, no wander asurvey of top managemers in large European acquieres showed that 61% of them believed that cross-boarder acquisitions are riskier than domestic ones (Angwin & Savil, 1997). Sizabels number of studies have documented a negative effect of cultural disffernece on top managemet turnover. Lubatkin, Schewiger & Weber, 1999 found out that organizational ultural disffernecs were associated with higher top mamangenmt turnover in the first year after aqustion.

Robson, leonidou & katsikesas (2002) reviewed 91 articles and concluded that the impact of socio-cultural distance on financial performance is unclear, Ken & Gray, 2009 reviewed 54 studies and concluded that the impact of similarity of partners national cultures on MNC performance is uncertain and suggested that impact of cultural distance on financial performance might depend upon how cultural distance is measured. Beasmish & Lupton, 2009 reviewed 86 articles published between 1982 and 2006 and concluded that impact of cultural distance on financial performance produced mixed results, Revs & Rottig , 2009 did full scale meta-analysis of IJV performance and the result was that cultural distance tends to increase likelihood of conflict, which in turn adversely affect performance.

With all the above analysis, cultural distance might have indirect influence on performance by influencing strategic choices such as partner selection, focus on activities of MNC. Cultural distance also might influence other factors that help determine performance such as trust. There is also a large literature discussing the conceptual and empirical relationships between cultural distance and the performance of international strategic alliances (ISAs), particularly the performance of international joint ventures (IJVs). Virtually all studies theorize that cultural distance is an important factor influencing the outcomes of ISAs generally and IJVs, specifically. Most studies hypothesize that greater cultural distance between partners will contribute to poorer performances of IJVs, other things constant (Das and Teng, 2003; Luo, 2001); however, some authors suggest that cultural diversity may contribute to more creative discussions and innovativeness among partners that actually leads to improved IJV performance (Earley & Mosakowski, 2000).

National cultural distance has both a moderating and a mediating influence on the linkage between organizational processes and IJV performance outcomes. In this regard, more thought needs to be given to the possible ways in which national cultural distance moderates and mediates this linkage. In particular, it is possible for different specific national cultural attributes to influence the linkage in different ways. For example, studies of multinational teams suggest that despite initial process losses, cultural diversity enhances team innovativeness and effectiveness (Milliken and Martins, 1996; Williams and O'Reilly, 1998). While cross-cultural differences lead to initial difficulties with communication, leading to conflict and misunderstandings, over time multinational team members get to know each other, appreciate their differences and utilize them for improved information-processing and problem-solving (Earley and Mosakowski, 2000; Watson, Kumar & Michaelsen, 1993).

This study will help people appreciate the challenges cross culture come with. And today, the task of managing knowledge across national and organizational boarders has become an almost daily exercise of globally operating organizations because of its impact on their financial performance, thus need for this study. Contextually, a number of research on knowledge transfer, cultural distance and its impact on financial performance of MNCs has been carried but only in the Diaspora, thus need for the same study to be carried out in Ugandan context for purposes of relevancy.

Cultural distance might have indirect influence on performance by influencing strategic choices such as partner selection, focus on activities of MNC. Cultural distance also might influence other factors that help determine performance such as trust. Most studies hypothesize that greater cultural distance between partners will contribute to poorer performances of IJVs, other things constant (Das and Teng, 2003). National cultural distance has both a moderating and a mediating influence on the linkage between organizational processes and IJV performance outcomes. In this regard, more thought needs to be given to the possible ways in which national cultural distance moderates and mediates this linkage. In particular, it is possible for different specific national cultural attributes to influence the linkage in different ways.

2.3 Conclusion

Parent companies' management capability and experience can affect the results of investment (Lyles & Salk, 1996) considering that they provide the expatriate management skill and knowledge which affects the subsidiaries' survival thus, their experience determines the nature of knowledge transferred. Such knowledge resources transferred are transformed into new sources of competitive edge as they are processes that enable firms to obtain new resource configurations and generate new and innovative forms of competitive edge (Teece, Pisano & Shuen, 1997).

The MNC's competitive edge relies on its capability to accumulate, exploit, recombine and innovate its set of firm-specific resources that include expatriate capabilities and their ability to transfer the knowledge and technology to the subsidiary (Depperu & Cerrato, 2005). Grant (1996) proposed that integrating individual specialized knowledge is an organizational capability allows organizations to establish and sustain their competitive edge and thus financial performance. Since knowledge can be found in individuals, an organization needs to integrate such knowledge through combining a variety of individual skills to create revenues and pooling various functional and personal expertises to make strategic moves.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This chapter covers the way the research was carried out in line with the research design, the procedures of sampling, data collection methods, processing and analysis, measurement of the variables and the limitations and problems encountered while carrying the study.

3.2 Research design

The study adopted a cross sectional design that is quantitative and qualitative in nature. It entails descriptive and analytical research designs to establish whether the changes in the independent variables affect the dependent variable. A regression analysis approach was used to investigate the relationships between the variables of study.

3.3 Study population

The study population comprised of 61 firms in the sub sectors of trade, financial services, transport and telecommunication, health, hospitality, oil and gas and mining.(UIA report,2008)

3.4Target sample size and sampling procedure

Using Krejcie and Morgan table, (1970), a sample of 159 respondents from 53 firms that were conveniently selected basing on their accessibility and willingness to participate. In addition, purposive sampling procedure was used to select senior international staff in each of these firms due to the need to target respondents who are knowledgeable on required information. Hence the unit of analysis in this study was MNCs that employ foreigners while the unit of enquiry was the senior international staff.

3.5 Source of data

Raw data was collected directly from the respondents in the selected MNCs. It was done through administering of structured questionnaires.

3.6.Data collection instruments

Primary data was collected through administering questionnaires so as to ensure confidentiality of the respondents. The questionnaire contained structured questions relating to the study variables which were constructed on an interval scale with respondents answering in line with the extent to which they agree or disagree with the statements in the questionnaire.

3.7 Measurement of study variables

Knowledge transfer was measured using depth of managerial and technical skills transferred as per Campbell and Laurent, (1998). Cultural distance was measured using different dimension (power distance, individualism, and masculinity) put forth by Hofstedes (2001) cultural value scores. Financial performance was measured using perceptual measure as per (Hyondong, 2005).

3.8 Validity and reliability measurement

Assessment instruments must be both reliable and valid for study results to be credible. In the present study, reliability of the assessment tool was estimated using Cronbach alpha test of internal consistency. This test is frequently used to calculate the correlation values among the answers in the assessment tool. Cronbach alpha calculates correlation among all the variables, in every combination; a high reliability estimate should be as close to 1 as possible.

The results are presented in Table 3.1.

Table 3.1: cronbach's alpha coefficients for the study variables

Variable	*Number of items*	*Cronbach's Alpha value*
Knowledge transfer	13	.606
Cultural distance	15	.716
Financial performance	11	.610

Source: Primary Data

As shown in Table 3.1, all variables in the study a Cronbach alpha reliability coefficient above the acceptable minimum of 0.50 (Cronbach, 1951; Nunnally, 1978; Sekaran, 2000). This indicates that the instrument used to collect data in this study was acceptable.

Validity on the other hand, refers to how well the assessment tool actually measures the underlying outcome of interest. Accordingly, a pilot study to pretest the questionnaire was conducted using 5 respondents randomly selected from the target respondents with similar characteristics as the target population but who were not to participate in the final survey. The instrument was also discussed with content experts suggested by the supervisors in the field of global business management. The experts were specifically requested to indicate whether the items in particular sections of the questionnaire adequately measured the respective constructs and whether the instrument was appropriate for this kind of study. The final instrument was developed upon incorporating all comments from the experts.

3.9 Data analysis and presentation

Data collected was edited for incompleteness and inconsistencies to ensure correctness of information given by respondents. Variables were coded and a statistical package for social scientists (SPSS) was used for data entry and analysis. Pearson's correlation and coefficient was used to establish relationship between variables. Multiple regression analysis was adopted to determine how the predictor variables could explain the dependent variable. This was because there was more than one variable affecting the dependent variable.

CHAPTER FOUR

PRESENATATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

The purpose of this chapter is to report on the findings of the study. It provides an output and interpretation of results from data analysis based on the study objectives and the research questions. The chapter has three sections. The first part presents the descriptive statistics of the firms surveyed. The second section presents the results of the research questions and their interpretation in light of the results.

4.2 Description Satistics

Of the 159 targeted respondents, 106 usable questionnaires were returned. The demographic characteristics of the respondents analyzed include gender, region of origin, age, level of education and position held in the organization. Other demographic characteristics tapped by the study were experience in the current job, experience working in Uganda, category of business, length of a firm's operation in Uganda and the sector in which the firm operates. Results of demographic characteristics of the sample studied are presented using frequency tables.

Table 4. 1*: Gender of respondents*

Gender	*Frequency*	*Percent*	*Cumulative percent*
Male	84	79.2	79.2
Female	22	20.8	100.0
Total	106	100.0	

Source: Primary Data

As shown in Table 4.1, majority of respondents were male (79.2%) while female respondents comprised only 20.8%. This suggests that more male participated in the study than their female counterparts.

Table 4. 2: Respondents By Region Of Origin

Region of origin	*Frequency*	*Percent*	*Cumulative percent*
Africa	51	48.1	48.1
Austria	0	0	0
North America	0	0	0
South America	4	3.8	51.9
Asia	51	48.1	100.0
Europe	0	0	
Total	106	100.0	

Source: Primary Data

Table 4.2 indicates that majority of respondents were from Africa and Asia with each comprising 48.1%. Respondents who indicated that they were from South America comprised 3.8%. There were no respondents from Australia, North America and Europe.

Table 4. 3: Highest Qualification Attained

Qualification	*Frequency*	*Percent*	*Cumulative Percent*
Certificate	12	11.3	11.3
Diploma	12	11.3	22.6
First Degree	49	46.2	68.9
Masters	33	33	100.0
Total	**106**	**100.0**	

Source: Primary Data

As indicated in Table 4.3, most respondents had a first degree (46.2 %) followed by those with masters degrees (33%). Respondents with certificates comprised 11.3% similar to those with Diplomas.

Table 4. 4: Position Held

Position	*Frequency*	*Percent*	*Cumulative percent*
Supervisor	39	36.8	36.8
Line manager	4	3.8	40.6
Manager	50	47.2	87.7
Director	9	8.5	96.2
Others	4	3.8	100.0
TOTAL	**106**	**100.0**	

Source: Primary Data

As indicated in Table 4.4, most respondents were managers (47.2%) followed by those who hold supervisory position (36.8%). Directors comprised of only 8.5%, line managers made 3.8% and other positions had 3.8% of respondents.

Table 4. 5: Number of years worked in the Organization.

Duration	*Frequency*	*Percent*	*Cumulative percent*
Less than 3 years	10	9.4	9.4
3-6 years	13	12.3	21.7
7-10 years	27	25.5	47.2
11-14 years	44	41.5	88.7
15 – 18 years	5	4.7	93.4
19 – 22 years	4	3.8	97.2
22 above	3	2.8	100.0
Total	106	100.0	

Source: Primary Data

According to the above findings, majority of respondents have worked in their respective organizations for a period of 11-14 years (41.5%) followed by 7-10 years with a percentage of 25.5%, those who have worked for 3-6 years comprise of 12.3%, less than 3 years make 9.4%, while 15-18 years are 4.7%, those between 19-22 years comprise of 3.8% and 2.8% of the respondents have worked for 22years and above. This generally shows that most of the respondents interviewed have been in their respective organization between 5 – 15 years.

Table 4. 6: Sample characteristics

Organization sector	*Frequency*	*Percent*	*Cumulative percent*
Trade and industry	54	50.9	50.9
Financial services	9	8.5	59.4
Transport & Telecommunication	32	30.2	89.6
Health	3	2.8	92.5
Hospital	3	2.8	95.3
Mining and petroleum	5	4.7	100.0
Oil and gas	0	0	
Agriculture and fishery	0	0	
Total	**106**	**100.0**	

Source: Primary Data

Majority of the respondents interviewed were from trade and industry (50.9 %) followed by transport and telecommunication (30.2 %). At the same time there are some sectors that don't have respondents like oil and gas and agriculture and fisheries.

4.3.0 Level of cultural distance of MNCs in Uganda

Descriptive analysis was conducted on the items measuring cultural distance to examine the level of cultural distance of MNCs in Uganda. On a scale of 1 (strongly disagree) to 5 (strongly agree), mean values less than 3.50 were interpreted as depicting a high cultural distance. On the other hand, mean values of 3.50 or more depicted a low cultural distance. The results are presented in Table 4.7.

Table 4. 7: Descriptive statistics of cultural distance of MNCs in Uganda

Measurement items	*Min.*	*Max.*	*Mean*	*S.D*
Power distance				
I make most decisions without consulting subordinates (*reverse code*)	1	5	2.42	1.21
Relate closely with subordinates	1	5	3.97	.88
I have preference for authoritative decision making (*reverse code)*	1	5	3.97	.95
I allow subordinates to contribute and critic decisions made	2	5	4.03	.63
I listen to subordinates	1	5	3.87	1.01
Mean			**3.65**	
Individualism Vs. collectivism				
I believe in self interest than group interest (*reverse code*)	1	5	2.76	1.21
I believe in group loyalty	1	5	4.05	.65
We reward team work	1	5	3.45	1.02
We appraise staff on basis of collective work	1	5	3.58	.97
Working in groups is better than working alone	2	5	4.08	.61
Mean			**3.58**	
Masculinity Vs. femininity				
I like working with assertive staff	1	5	3.82	.97
Aggressive is important when dealing with people	1	5	3.80	1.11
Inequalities among people is expected	1	5	3.75	.91
Roles are distributed basing on gender rather than expertise	1	5	3.36	1.11
Equality seeking is key in our organization (*reverse code)*	1	5	3.76	.79
Mean			**3.69**	
Grand mean			**3.64**	

As shown in Table 4.7, the grand mean for cultural distance was 3.64 suggesting that; overall, the expatriates working in the firms surveyed perceived a high similarity between the cultures. A high similarity among cultures implies the existence of low cultural distance among the expatriates and local operating environment. This low cultural distance was attributable to a low power distance (mean = 3.65) coupled with high collectivism (mean = 3.58). However, there was a high level of masculinity (mean = 3.69) in the organizations surveyed.

4.3.1 Level of knowledge transfer by MNCs in Uganda

Descriptive analysis was conducted on the items measuring knowledge transfer to examine the level of knowledge transfer by MNCs in Uganda. On a scale of 1 (strongly disagree) to 5 (strongly agree), mean values less than 3.50 were interpreted as depicting a low knowledge transfer. In contrast, mean values of 3.50 or more depicted high knowledge transfer. The results are presented in Table 4.8.

Table 4. 8: Descriptive statistics of knowledge transfer by MNCs in Uganda

Measurement items	*N*	*Min.*	*Ma.*	*Mean*	*S.D*
Managerial skills					
I like to work with and through others to accomplish assigned duties	106	2	5	4.08	.46
I am an action-oriented person who presses for immediate results *(reverse code)*	106	1	5	4.12	1.02
I am effective in conflict management	106	2	5	4.14	.76
I delegate effectively	106	2	5	4.14	.62
I listen to other staff and influence them easily	106	2	5	4.05	.73
I am a strong communicator on paper and have good writing skills	106	1	6	4.01	1.03
I negotiate adeptly with individuals and groups over roles and resources	106	1	5	4.10	.81
Mean				**4.09**	
Technological skills					
Technological developments at the parent company are always passed on to the subsidiary	106	1	5	3.41	1.12
Our organization responds quickly to changes in technology	106	1	5	3.17	1.15
Our organization's investment in databases and management information systems is appropriate	106	1	5	3.91	.84
We nurture, encourage, guide, counsel and give resources for moving technology from research lab to new business enterprise	105	1	5	3.67	1.06
Organization regularly holds technical meetings and trade shows	106	1	5	3.67	1.12
We train staff for new technology	106	1	5	3.37	1.19
Mean				**3.53**	
Grand mean				**3.83**	

As shown in Table 4.8, the level of knowledge transfer by MNCs surveyed in Uganda was high (Grand mean = 3.83). This high level of knowledge transfer was attributed by a managerial skills transfer (mean = 4.09). On the other hand, the results indicate that technological skills transfer was modest (mean = 3.53).

4.3.2 Level of financial performance of MNCs in Uganda

Descriptive analysis was conducted on the items measuring financial performance to determine the level of financial performance of MNCs in Uganda. On a scale of 1 (strongly disagree) to 5 (strongly agree), mean values less than 3.50 were interpreted as depicting low performance while mean values of 3.50 or more depicted high performance. The results are presented in Table 4.9.

Table 4. 9: Descriptive statistics of financial performance of MNCs in Uganda

Measurement items	*Min*	*Max*	*Mean*	*S.D*
Profitability				
Our organization is highly profitable	2	5	3.71	.81
Our organization is efficient at using its assets to generate earnings	2	5	4.28	.56
Our company always control costs and utilizes resources.	3	5	4.26	.54
I am very satisfied with the amount of income generated from each asset	1	5	3.84	.78
Mean			4.02	
Growth				
Growth is used as a measure of financial performance in this organization	2	5	4.05	.63
Our firm has experienced an incredible growth in earnings this year	1	5	3.71	.98
The rate at which our cash flows grows is remarkable	1	5	4.02	.71
I am totally satisfied with the overall growth rate of this organization	2	5	3.92	.81
Mean			3.93	
Sales revenue				
In our firm, significant amount of sales revenue remains after subtracting all operating costs	2	5	4.08	.64
Our market share has increased a lot in the past 3 years	1	5	3.40	1.02
Our level of sales revenue meets cooperate strategy	2	5	4.02	.57
Mean			3.83	
Grand mean			**3.93**	

As indicated in 4.9 save for a low increase in market share growth (with the last 3 years used as a reference point) (mean = 3.4, S.D = 1.02), overall, the level of financial performance of MNCs surveyed in Uganda was high (Grand mean = 3.93). This level of performance is majorly attributed to efficient use of assets (mean = 4.28, S.D = 0.56) and cost control and resource utilization (mean = 4.05, S.D = 0.63). Others include remarkable growth in cash flows (mean = 4.02, S.D = 0.701) and excess sales revenue upon subtracting all operating costs mean = 4.08, S.D = 0.64).

4.3.3 The relationship between cultural distance and financial performance of MNCs in Uganda

A correlation matrix was constricted using the study variables (cultural distance, knowledge transfer and financial performance) to determine strength and direction of their relationships. The results are presented in Table 4.10.

Table 4. 10: Correlations of cultural distance, knowledge transfer and financial performance

Variables	1	2	3
Knowledge transfer (1)	1.000		
Cultural distance (2)	-.067	1.000	
Financial performance (3)	.055	.367**	1.000

Source: Primary Data. **. Correlation is significant at the 0.01

As shown in Table 4.10, the relationship between cultural distance and financial performance though positive and statistically significant (r =.367, P-value <.05) was weak. This implies that cultural distance alone does not give enough information to predict financial performance of MNCs.

4.3.4 The relationship between knowledge transfer and financial performance of MNCs in Uganda

Results of the correlation between knowledge transfer and financial performance are shown in Table 4.10. As indicated in the table, the relationship between knowledge transfer and financial performance was not statistically significant (r =.055, P-value >.05).

4.3.5 To predict financial performance of MNCs at given levels of cultural distance and knowledge transfer in Uganda

Multiple regression analysis was employed to predict values of financial performance (the dependent variable) from the predictor variables (cultural distance and knowledge transfer). The results are presented in Table 4.11.

Table 4. 11: Regression of Financial Performance on Knowledge Transfer and Cultural Distance

Predictor variables	*Unstandardized Coefficients*		*Standardized Coefficients*	*T*	*Sig.*
	B	Std. Error	Beta		
(Constant)	2.629	.388		6.776	.000
Cultural distance	.302	.076	.370	3.963	.000
Knowledge transfer	.051	.063	.075	.801	.425
Model statistics					
R	.374				
R^2	.140				
Adjusted R^2	.122				
F-statistic	8.05**				

Source Primary Data.**. **ρ<.01

Regression analysis results in Table 4.11show that only cultural distance (β = .370, t = 3.963, P-value < .05) was a significant predictor of financial performance. On the contrary, knowledge transfer was not a significant predictor of financial performance (β = .075, t = .801, P >.05). The model to predict financial performance was adequate as the F-statistic (F = 8.05, P-value = .000) was significant at the 1% level (ρ< .01), indicating that the model was statistically significant. Also, an adjusted R^2 (coefficient of determination) of 0.122 suggests that 12.2% of the variation in financial performance is explained by variations in cultural distance and knowledge transfer.

Thus, the regression model to predict values of financial performance from the predictor variables was specified as: Financial performance = 2.629 + 0.302 (cultural distance)

CHAPTER FIVE
DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is comprised of discussion of findings, conclusion, recommendations and areas of further research. Research findings are discussed based on the research questions while drawing comparison between the findings and reviewed literature.

5.2. Discussion of results

5.2.1 Level of cultural distance

The study revealed a low level of cultural distance in the firms surveyed and low cultural distance signifies similarities in cultures. Low cultural distance has implications to a lot of management practices like, staffing, transfer, deployment for international jobs and international negotiations. Culture is an ingrained behavioral influence which affects the way collective groups approach, evaluate and negotiate opportunities for international business, usually due to cultural differences, negotiated outputs are divided among the negotiating parties leaving no new solutions produced through negotiating process. This is because each party is pre-occupied with defending or expanding its position. This view is further noted by Currie (1991), who says that negotiators are usually less willing to accept and adapt the underlying beliefs of other party yet culturally collaborative synergistic style of negotiation emphasizes that understanding the other parties, their interests and assessment criteria is crucial but it has became more difficult due to cultural and communication difference. Therefore, the lower the cultural distance, the better for negotiating because it always leads to win-win agreement and speeds up the process.

It is also been learnt from previous studies that cultures with high masculinity (assertive and competitive behavior) seek distributive outcomes and will have great difficulty with a synergistic negotiation process, those of high power distance will be likely to accept distributive outcomes and less likely to be comfortable with a synergistic negotiation process. Current literature indicates that culture is an important determinant of organization performance in host countries this is because for success of business operations, MNCs have to understand the prevailing culture in each of the host countries they operate in. According to Hofstede, culture varies from country to country resulting in MNC performance variances hence, the need to understand its effect on host countries and thus include it in the empowerment-performance equation which is the perfect panacea of success in organizations.

Drawing from descriptive analysis on table 4.7, cultural distance was low and this result is creatly attributed to low power distance (mean 3.65) and high collectivism (mean 3.58). Subordinates in high power distance cultures are highly dependent on their superior for directions and employees manage their work according to what the managers stipulate because of respect for hierarchy, in this case, the employees are more cooperative dealing with superiors and frightened to disagree with them, but are reluctant to cooperate with their peers therefore employees of MNC operating under high power distance country-culture may not feel comfortable making decisions that had previously been made by their superiors, that is they may be slower to take on greater problem-solving and decision making responsibility. This leads to low levels of employee empowerment and in turn likely to lead to low organization performance. While with low power distance and high collectivism, there is cohesiveness in an organization, work relations are more consultative and democratic giving room for team work and contributions from all staff. This is eventually translated into high performance.

Empowerment and performance are concluded that when employees are empowered, productivity increases thus leading to increase in MNC performance. Empowerment according Vogt & Murrell, (1997) is a noble necessary and natural part of human development for the success of MNC operation throughout the world. MNCs operating in low power distance country- culture are likely to rely on high employee empowerment; this is because the job factors may be favorable leading to high organizational performance since employees are willing to use their discretion in decision making to achieve higher goals.

According to Hofstede, low power distance, high levels of collectivism and high masculinity are common in African countries which are all attributes of low cultural distance. Schwartz, associates low cultural distance with work. Cultures high in hierarchy masculinity, collectivism, independence and are success-centered more common in less developed countries tend to relate and work closely. Oyserman, Coon & Kemmeleier, (2002). Also, competition and personal achievement are related to hierarchy and low developed societies. Sastry & Ross, (1998) confirms that higher competitiveness, internal locus of control and agreement with protestant work ethics beliefs are stressed in developing, collectivist countries meaning that poor developing and collectivist countries tend to be more competitive and have higher internal locus of control and hard work. Drawing from this rich literature, having low cultural distance promotes smooth work relations between expatriates and local operating staff and improves international negotiations which is good for MNCs because it breeds competition and personal achievement which is paramount for business if they are to survive.

5.2.2 Level of knowledge transfer

A high level of knowledge transfer was present in the firms surveyed. Table 4.8 of descriptive analysis showed that knoweledge transfer was high (grand mean of 3.83) and this was attributed to managerial skills transfer. knowledge is considered the main distinguishing factor of business and it is seen as the foundation of competitive advantage (Nonaka, 1991), companies need to know what they know and how they can use their knowledge more effectively to gain competitive advantage and stay in business. Therefore companies with high level of knowledge transfer are increasingly looking for ways to become learning organizations being aware of the fact that financially successful companies will be those that value knowledge and have a strategy to systematically managing it. The very reason why MNCs exist and succeed is that they are efficient vehicles for creating and transferring knowledge across borders. MNCs also contribute to economic growth via technology transfer since MNCs can transfer technology directly (internally) to their foreign owned enterprises (FOE) through their expatriates (Blomstrom, & Lipsey, 2000; UNCTAD, 2000). This makes knowledge transfer paramount for organizations.

High level of knowledge transfer is important for any business to grow since it is considered one of the most critical resources through which a firm can create a source of abnormal rents and outperform competitors (Nonaka & Takeuchi, 1995). For example, technology helps to reduce production cost and increase manufacturing productivity Cost saving and high efficient productivity then contribute indirectly to the ultimate purpose of strategy management: to advance firms performance. Drawing from literature, it can be said that for any organization to survive in the market, learning must be the gist of their operations.

5.2.3 Level of financial performance

Financial performance was found to have a high level. Drawing from descriptive analysis on table 4.9 (grand mean 3.93). This level of performance is majorly attributed to efficient use of assets, cost control and resource utilization. Financial performance results can be valuable tool to assist in the decision process as they can highlight critical information that might not otherwise be easily identified. Financial information is the heart of business Management. To understand business, we need to understand financial performance through accounting, financial statements and accounting reports which are as revealing of the health and stability of the business as pulse rate and blood pressure reports are in revealing the health of a person. Some of the accounting reports are; Profitability ratios. These show the relationship between revenue and expenses, Profitability ratio reveals firms success at generating profits. Profit margin determines its ability to withstand competition and adverse conditions, returns on assets reveals profit earned for each dollar of asset and measures the company efficiency at creating profit returns on assets net worth flows on financial returns generated by owners invested capital. Long-term financial success of business depends on its profitability so it is important to crack it down. Nial, (2005) supports this, the higher the return on investment, the better for the company because it earns more money on less investment and also a high asset turnover rate implies that the company can generate strong sales and the company whose earnings grow faster than those of their industry peers usually see better price performance on their stocks thus high financial performance. The finding is also consistent with Gay, (2000) that the lower the operating expense ratio, the greater the profits thus greater financial performance. Also balance sheet provided liquidity ratio shows how much monetary worth the company has, this helps determine financial reliability.

Financial performance is paramount to people outside the organization for instance customers, competitors, government and union bodies' especially financial accounting. These external users are interested in profit, tax and buying shares. Company financial condition are of major concern to investors and creditors as capital providers, investors and creditors rely on company financial condition for both safety and profitability of their investments more specifically investors and creditors need to know where their money went and where it is now and only financial performance information can provide them that information. Take an example of balance sheet, it lists company outstanding debt and equity components so with debt and equity, investors can better understand their relative position in company capital mix. Financial performance is critical and important because it is used in important management decision since it tells if the organization is to survive or not. It also helps evaluate financial condition and operating performance of firm so that decisions can be made usually used by managers.

5.2.4 Relationship between knowledge transfer and cultural distance

Knowledge transfer and cultural distance were found to have a negative relationship ($r = -.067$, P-value $<.05$). whereas this finding is contray to main stream literature that argures that cultural distance has significant impact on knowledge transfer. In support that distance still matters in international business is Nachum and Zaheer, 2005. However, another argument emphasizes that distance is not necessarily an inhibitor of knowledge flows but that it effects the effective work of certain transfer mechanism (Kirkman et al., 2007).

Also seeing MNCs as networks of relationships where distance is potentially damaging to knowledge relationships as 'the decay and loss of distance is precisely the decay and loss of knowldege, relationships and trust which inturn undermines the ability to act at and over distance' (Goodball and Robert, 2003). The argument is made that culture can help to explain why knowledge transfer occurs between some subsidiaries and not between others. It is also important to note that, while knowledge transfer activities may involve entities outside of the MNC, the arguments presented here relate to knowledge transfer activities between subsidiaries that are part of the same MNC. To some degree, these arguments take a "closed system" approach to knowledge transfer activities by ignoring those that involve external entities.

The movement of personnel is particularly important to the knowledge transfer process because there is some amount of stickiness in these practices to be implemented (Song et al., 2003). Knowledge can either be tacit or explicit. Tacit knowledge exists either in the heads of individuals or a collective body and has been acquired through experience and repetitive actions (Kostova, 1996). Explicit knowledge, which can exist either individually or collectively, is documented and can be transferred in a formal and systematic way through rules, policies, and procedures (Pablos, 2004).

Even if MNC's internal network provides a platform for facilitating flows of knowledge, the mere existence of such a network does not automatically result in knowledge sharing. From a management viewpoint, both formal control, trust and social control should be in place to promote and encourage knowledge transfer. Therefore to be able to transfer knowelgde within organizational network characterized by separation through time, space, culture and language, technology is paramount since it reduces or even elimantes some of the inherent challenges posed by distance such as communication cost.

With the exception of (Hansen and Lovas, 2004, brouthers and Brouthers , 2001), distance has usually been viewed as a direct effect on knowledge flows and other reational variables in MNC. Recent investigation on cultural distance came to aconclusion that moderator effects are often more appropriate than direct (negative) effects (Kirkman et al., 2006) espically when distance is associated with knowledge, creativity and innovation there is strong eveidence that new knowldeg resources originating in distinct environments are likely to contribute to enhanced MNC perfornmance (Morosini et al., 1998).
The findings in relation to knowledge transfer suggest that the effectiveness of the transfer mechanisms would be enhanced by an ongoing, everyday dialectic of mutual learning and compromise (Gamble, 2000).

5.2.5 Relationship between knowledge transfer and financial performance

Knowledge transfer and financial performance were found to have a positive but statistically insignificant relationship ($r = 0.55$, p- value >.05). Whereas this finding is contrary to main stream literature that notes Knowledge transfer enhances financial performance of firms. It is equally supported in recent studies. For instance in a survey carried out by saks & Belcourt (2006) where in a survey of 150 organization training, professionals reported that less than 50% of employees successfully transfer their new knowledge and skills 6 months after training. None the less, this result is possible given the fact that not all knowledge enhances financial performance, mere knowledge is not sufficient to support financial performance. The insignificancy could also be due to measures used for financial performance which was subjective, absorptive capacity for learning and environment.

Knowledge transfer is still very paramount even though the findings never found it to be significant enough to support financial performance. According to Nonaka (1991), knowledge is considered the main distinguishing factor of business and it is seen as the foundation of competitive advantage and that companies need to know what they know and how they can use their knowledge more effectively to gain competitive advantage and win. Here we look at knowledge that enables MNCs to expand its activities across national borders, such as knowledge of customer preference, supply structure, business culture and industry standards in foreign markets. Knowledge is also considered to play a key role when explaining existence of financial performance and growth of MNCs. The effective dissemination throughout MNCs of valuable knowledge acquired by local affiliates is seen as an important source of competitive advantage and financial performance. To an increasing extent is the success of MNCs considered to be contingent upon the ease and speed by which knowledge is disseminated throughout the organization (Gupta, 1991). Knowledge transfer among subsidiaries provides opportunities to improve a MNCs profit (Kogut and Zander, 1992) and because MNC subsidiaries incur both benefits and costs when contributing to knowledge outflows, the performance implications may depend on the extent of shared knowledge.

Although for knowledge to be transferred, we must focus on three dimensions: type, embodiment, and transformation. Here, the knowledge being transferred is embedded in the practices, routines, technologies, and individuals that permit the implementation of new techniques designed to improve performance. It involves the movement of knowledge regarding how to do things, what to be done, and when these activities should occur, such that new techniques can be successfully employed. So gaining a good understanding of factors influencing the process of knowledge transfer is strategically important for MNCs management so as to increase its effect on financial performance although the findings never found it to be statically to be significant.

5.2.6 Cultural distance and financial performance

Cultural distance and financial performance were found to have a significant positive relationship (see regression result in table 4.13). This means when cultural distance is smaller, financial performance is higher.

High degree of financial performance is related to an organization which has a strong culture with well integrated and effective set of values, beliefs and behaviors (Kotter & Heskett, 1992). However, other researchers noted that culture would remain linked with superior performance only if the culture is able to adapt to changes in environmental conditions. Furthermore, the culture must not only be extensively shared, but it must also have unique qualities, which cannot be imitated (Ouchi, 1981). Several empirical studies have supported the positive link between culture and performance (Calori & Sarnin, 1991; Gordon & DiTomaso, 1992: Kotter & Heskett, 1992). Moreover, there are recent studies done by Chatman and Jehn (1994), Denison and Mishra (1995) and Kotter and Heskett (1992), have contributed significantly to the field of culture and performance studies whereby Contemporary Management Research culture is being treated as variable for a specific research purpose. For example, Denison and Mishra (1995), utilizing a more rigorous methodology, discovered that cultural strength was significantly correlated with short-term financial performance. Schneider (1990) also found out that the organizations focuses clearly on their cultures are more successful. It is because focused cultures provide better financial returns, which include higher return on investment (ROI), higher return on assets (ROA) and higher return on equity (ROE).

Gordon & Christensen, 1993 findings have reported that industries moderate the link between corporate culture and performance. These findings have advanced understanding of the determinants and performance effects of corporate culture. But they go away unreciprocated the applicability of existing results across national boundaries. There are some aspects of corporate culture that may enhance performance in one national setting, but they may not be effective, and may even be dysfunctional, in another (Steers, 1989). Thus, one of the main reasons for the common popularity and interest in the study of organizational culture is due to the argument or assumption that certain cultures lead to superior financial performance.

5.2.7 Cultural Distance, knowledge Transfer and Financial Performance

It was found that only cultural distance was a significant predictor of financial performance and on the contrary, knowledge transfer was an insignificant predictor of financial performance. However, knowledge transfer and financial performance had a positive relationship, using (coefficient of determination) of 0.122 suggests that 12.2% of the variation in financial performance is explained by variations in cultural distance and knowledge transfer.

As the world becomes more and more globalized, western organizations now have access to a pool of job candidates from increasingly diverse cultural backgrounds, national borders no longer preclude individuals of different cultures from working in international organizations. Consequently, organizations today exhibit more cultural diversity among their employees. Simultaneously, advancing globalization is forcing organizations to engage in alliances and networks with partners with widely diverse national or ethnic cultural backgrounds. The differences in the cultural orientation of the collaborating Organizations increase the risk of misunderstandings and conflicts, and often lead to failure, but if managed in a balanced manner may also improve performance. To overcome these barriers to success, we need both cultural understanding and new considerations in the knowledge transfer of intercultural organizations. In order to build on the organizations' knowledge stock, functional units of multinational corporations (MNCs) need to share knowledge across organizational entities. They have to be able to transfer this knowledge within organizational networks characterized by separation through time, space, culture and language. And while the advent of modern information technology – which reduces or even, eliminates some of the inherent challenges posed by distance such as communication or coordination costs

Transfer of knowledge is also influenced by the socio-cultural and institutional distance between the foreign country and the home country of the MNC (Adler, 1995). Knowledge in firms is contingent on their socio-cultural environment (Hofstede). What is appropriate knowledge in one country may not suit the needs of firms in other countries. In turn, this may cause problems to the knowledge transfer process. Factors such as different language, business culture, furthermore, several studies suggest that geographical proximity is positively associated with knowledge transfer. As the distance between nations increases, it is more difficult for firms to acquire knowledge from abroad thus; a clash between national cultures may jeopardize the international transfer of knowledge but if strategically managed, it leads to positive financial performance.

5.3 Conclusions

The results support our assumption that there is a positive and significant relationship between cultural distance and financial performance in all the MNCs but with knowledge transfer, the relationship is positive but insignificant. This implies that when one variable is improved it leads to improvement of the other that is to say, when cultural distance is narrowed, financial performance improves. In addition, cultural distance is a better predictor of financial performance therefore emphasis should be put on improvement of cultural distance but not ignoring knowledge transfer because it plays a great role in improvement of financial performance. In this study, it is argued that there is a high relationship between culture distance and financial performance which is critical to the success of MNCs in Uganda and can be speedy and efficient. However, cultural differences may create bottlenecks that either impede or eliminate the potential for successful knowledge transfer. Thus, the quality of relationships between subsidiaries and with the home office has major implications for knowledge transfer. This is the case irrespective of which dimension of the cultural index is under consideration. So engaging in knowledge transfer is a risky venture and some degree of confidence must exist between the parties to "do the right thing", even if doing so is at the behest of the home office. If relationships are perceived to be poor, then significant resistance to change will occur even if subsidiaries realize that they can benefit from knowledge transfer. Hence, the home office may be forced to devote significant scarce resources to actively managing the process.

This study is significant because it addresses issues of practical importance to MNCs. That is, how to better manage the challenges posed by cultural distance to knowledge transfer that can later affect financial performance, particularly without directives from the home office. Such transfers are very complex because they involve movement of human capital and technologies, which must be adapted and institutionalized in their new environment. MNCs that know how to do this well are likely to achieve significant synergies and improved performance. Ascertaining how culture affects these knowledge transfer efforts will result in specific recommendations that can improve the process. It is also important to note that MNC knowledge transfers are likely to be most effective when they involve subsidiaries that are located in similar cultural contexts. Otherwise, issues of strategic importance and strategic direction force the home office to become actively involved in the process. For example a society of collectivist may begin to adopt individualistic values and this will affect the ability of MNCs operating in this society to pursue knowledge transfer goals. Anecdotal evidence suggests that many MNCs are locating their subsidiaries in areas where there are a significant number of individuals with prior exposure to other cultures. Therefore, changes in the society's culture will affect how knowledge transfer goals are achieved (Zander and Kogut, 1995).

Finally, Knowledge transfer which is a generally complex issue, is further complicated when occurring in MNCs. Knowledge is transferred not for itself but for the competencies it provides. So for transfer to take place, the environment for information exchange and action must be created. Such environments must recognize that there is no "one size fits all" policy. What works in one subsidiary is not necessarily appropriate for another.

5.4 Recommendation

Organizations should cherish low cultural distance by introducing team building activities, study tours especially for expatriates to help them understand and appreciate the various cultures.

It's important that before MNC think about knowledge transfer they should put into consideration the effect of cultural differences that may create bottlenecks that either impede or eliminate the potential for successful knowledge transfer.

Improve the relationship of MNC home office and subsidiaries before knowledge transfer because if the relationships are perceived to be poor, then significant resistance to change will occur even if subsidiaries realize that they can benefit from knowledge transfer. Putting in mind that knowledge transfer is a generally complex issue

Finally, manage the challenges posed by cultural distance to knowledge transfer that can later affect financial performance, particularly without directives from the home office. Such transfers are very complex because they involve movement of human capital and technologies, which must be adapted and institutionalized in their new environment.

5.5 Limitations to the study and areas of further research

The study took a cross sectional design that has no cause and effect because it involves data collection from a given population and carrying out a onetime study. Future studies should embark on longitudinal study design that involves repeated observations of the same variables over long periods of time and can explain why variables behave the way they do and consequences of their behaviors.

The study was limited to only MNCs, future studies should expand and include local firms to see whether cultural distance and knowledge transfer impacts on their financial performance.

The conceptual frame work was limited to only three variables; future studies should include other variables like absorptive capacity of the firms, motivation of expatriates and human resource.

The sample study size was limited to 159 respondents from 53 MNCs. Future studies should widen the sample size that well represents the entire population.

The study lacked significancy in the relationship between knowledge transfer and financial performance, future studies should perhaps include third variable to show cause and effect relationship.

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APPENDICES

ESTIMATED RESEARCH BUDGET

ITEM	**COST**
Stationary	70,000
Photocopying and printing	150,000
Secretarial service	300,000
Binding final work	120,000
Transport and communication	500,000
Data analysis	200,000
Miscellaneous	400,000
TOTAL	1,740,000

TIME SCHEDULE

ACTIVITY	**AUGUST**	**SEMPTBER**	**OCTOBER**	**NOVERBER**	**DECEMBER**
Writing and presenting research proposal					
Designing of research instrument					
gathering and organizing data					
Data analysis and writing final report					
Submission of final report					

QUESTIONNAIRE

STUDY ON KNOWLEDGE TRANSFER, CULTURAL DISTANCE AND FINANCIAL PERFORMANCE OF MNCs IN UGANDA

Dear Respondent, you are kindly requested to participate in this post graduate study by providing answers to the following questions. The findings are purely for academic purposes and your responses will be treated with utmost confidentiality. Thank you for your positive response.

SECTION A: PROFILE OF THE RESPONDENT (Please tick appropriately)

1. Gender of the respondent

Male	Female

2. Region of origin

Africa	Austria	North America	South America	Asia	Europe

3. Age (In years)

18-25	26-35	36-45	46-55	Above 55

4. Highest Qualification attained (please state if other)

Certificate	Diploma	Degree	Masters	PHD	Other

5. Position held (please state if other)

supervisor	Line Manager	Manager	Director	Other

6. Experience in the current job (In years)

Less than 3	3-6	7-10	11-14	15-18	19-22	22 Above

7. Experience working in Uganda (In years)

Less than 3	3-6	7-10	11-14	15-18	19-22	22 Above

SECTION B: FIRMS PROFILE

1. What category of business organization is your firm? (Please TICK as appropriate)

Sole proprietorship	Partnership	Private limited company	Public Ltd. Company	Other, specify

2. How long (in years) has your firm been operating in Uganda?

Less than 3	3-6	7-10	11-14	15-18	19-22	Over 22

3. Please indicate the sector your firm operates in

Trade & industry	Financial services	Transport & Telecommunication	Health	Hospitality & entertainment	Mining & petroleum	Oil & gas	Agriculture & fishery

SECTION C: CULTURAL DISTANCE

In the following sections indicate the extent to which you agree or disagree with the statements. Use the following scale: 5 = strongly Agree, 4 = Agree, 3 = Not Sure, 2 = Disagree, 1=strongly Disagree

	Strongly Disagree	**Disagree**	**Not Sure**	**Agree**	**Strongly**
1. I make most decisions without consulting subordinates	1	2	3	4	5
2. Relate closely with subordinates (reverse code)	1	2	3	4	5
3. I have preference for authoritative decision making	1	2	3	4	5
4. We allow subordinates to contribute and critic decisions made	1	2	3	4	5
5. I listen to subordinates	1	2	3	4	5
6. I believe in self interest than group interest (reverse code)	1	2	3	4	5
7. I believe in group loyalty	1	2	3	4	5
8. We reward team work	1	2	3	4	5
9. We appraise staff on basis of collective work	1	2	3	4	5
10. Working in groups is better than working alone	1	2	3	4	5
11. I like working with assertive staff	1	2	3	4	5
12. Aggressive is important when dealing with people	1	2	3	4	5
13. Inequalities among people is expected	1	2	3	4	5
14. Roles are distributed basing on gender rather than expertise	1	2	3	4	5
15. Equality seeking is key in our organization	1	2	3	4	5

SECTION D: KNOWLEDGE TRANSFER

This section contains statements concerning Knowledge Transfer in your organization.

Use the following scale: 5 = strongly Agree, 4 = Agree, 3 = Not Sure, 2 = Disagree, 1=strongly Disagree

	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
1. I like to work with and through others to accomplish assigned duties	1	2	3	4	5
2. I am an action oriented person who presses foe immediate results	1	2	3	4	5
3. I am effective in conflict management	1	2	3	4	5
4. I delegate effectively	1	2	3	4	5
5. I listen to other staff and influence them easily	1	2	3	4	5
6. I am a strong communicator on paper and have good writing skills	1	2	3	4	5
7. I negotiate adeptly with individuals and groups over roles and resources	1	2	3	4	5
8. Technological developments at the parent company are always passed on to the subsidiary	1	2	3	4	5
9. Our organization responds quickly to changes in technology	1	2	3	4	5
10. Our organization's investment in databases and management information systems is appropriate	1	2	3	4	5
11. We nurture, encourage, guide, counsel and give resources for moving technology from research lab to new business enterprise					
12. Organization regularly holds technical meetings and trade shows	1	2	3	4	5
13. We train staff for new technology	1	2	3	4	5

SECTION E: FINANCIAL PERFORMANCE

This section covers statements concerning Financial Performance in your organization measured based on your perception of the profitability, growth and sales revenue levels. This section contains statements concerning Knowledge Transfer in your organization.

Use the following scale: 5 = strongly Agree, 4 = Agree, 3 = Not Sure, 2 = Disagree, 1=strongly Disagree

	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
1. Our organization is highly profitable	1	2	3	4	5
2. Our organization is efficient at using its assets to generate earnings	1	2	3	4	5
3. Our company always controls its costs and utilizes its resources.	1	2	3	4	5
4. I am very satisfied with the amount of income generated from each asset	1	2	3	4	5
5. Growth is used as a measure of financial performance in this organization					
6. Our firm has experienced an incredible growth in earnings this year					
7. The rate at which our cash flows grows is remarkable	1	2	3	4	5
8. I am totally satisfied with the overall growth rate of this organization	1	2	3	4	5
9. In our firm, significant amount of sales revenue remains after subtracting all operating costs	1	2	3	4	5
10. Our market share has increased a lot in past 3 years	1	2	3	4	5
11. Our sales revenue level meets cooperate strategy	1	2	3	4	5

THANK YOU FOR YOUR COOPERATION