

The Importance of Shared Values for Knowledge Diffusion in Multinationals – myth or reality?

Abstract

This paper addresses the idea of shared value as a 'glue' holding the MNC together, and investigates its importance for the diffusion of knowledge in the MNC. Investigating shared values at the operational, activity level, based on both subsidiary and HQ perspectives, a hierarchical multiple regression on 99 subsidiaries in Swedish MNCs was used to test shared values against the effects of business network factors (corporate and external network embeddedness). The results show that these business network factors, together with the subsidiaries' dependence on headquarters, significantly affect knowledge diffusion in the MNC whereas the effects of shared values were not significant.

Keywords: Shared value, external embeddedness, corporate embeddedness, knowledge diffusion, business network

The importance of shared values or normative integration within the MNC for the diffusion of innovations in MNCs has been noted by several scholars (Nohria and Ghoshal 1994, 1997; Ghoshal, Korine and Szulanski 1994, Nahapiet and Ghoshal.1998; Tsai and Ghoshal 1998, Björkman et al 2004). It is argued that the more of common goals and visions within the MNC the higher is the propensity at the subsidiary level to share its innovations with other subsidiaries. Common values will hamper the tendency among subsidiaries to give higher priority to local interests than to the interest of the whole MNC. Or as Ouchi noted, “ common values and beliefs provide the harmony of interests that erase the possibility of opportunistic behavior” (Ouchi 1980, p. 138). It is argued that with collective goals and values, subsidiaries are inclined to trust one another. They all work for collective goals and will not be hurt by any other subsidiary’s pursuit of self-interest. Therefore a common expectation in this literature is that the extent to which a subsidiary share values with other subsidiaries and the MNC as a whole will be positively associated with the extent to which the subsidiary is willing to share its competence with others (Ghoshal and Noria 1997; Tsai and Ghoshal 1998).

Although the reasoning behind the notion of the importance of shared values in an MNC sounds reasonable the empirical support so far is rather weak or mixed. For instance, Ghoshal and Nohria, who argue very strongly for the positive impact of shared values on diffusion of innovations within the MNC, only present some indications of such a relationship in a small number of subsidiaries. On a larger scale they had no possibility to include diffusion of innovation as a dependent variable (Ghoshal and Noria 1997). Tsai and Ghoshal (1998), in a study of 15 business units in a multinational electronics company, did not find any statistically

significant relationship between shared values (visions) and the extent of exchange of resources between the units¹.

There are several problems with applying the concept of shared values as an explanatory variable for innovations diffusion. First, the importance of shared values must be weighted against other variables in an operational context. For instance, what drives innovation diffusion, the existence of a day-to-day operational relationship between two units or the existence of shared values? In Ghoshal and Nohria's research the actual operational and business relationship between the focal unit and the rest of the corporation is not included in the analysis. One may argue that a subsidiary without business or operational relationships with other subsidiaries in the MNC may not be inclined to share its innovations or competence with others, even though it is in tune with the values of the headquarters or other units. A model in which shared values is an independent variable, therefore, should include variables about operational relationships between the focal units, in order to estimate its relative importance.

Second, the concept of shared values implies views and perceptions of two, related but different, parties. In most writings there seem to be a consensus that the concept of shared values in MNCs first of all is a phenomenon between the sub-unit and the headquarters. It is assumed that if the individual sub-units share goals and interests with headquarters, they also share goals and interests with each other. But whose perspective is important: the subsidiary's view or the headquarters' view? Or should their views be combined? But what if their views differ a lot? For instance, what is the impact of shared values if headquarters claim that the subsidiaries share their goals but the subsidiaries deny that? Or vice versa? How much difference in the perceived shared values between the levels can one accept?

¹ In Ghoshal and Nohria's analysis shared vision was significantly correlated with the extent of trust between the units. As the indicators used for shared vision and trust have much in common ("share the same ambitions" and "rely on") this is maybe not that surprising.

Obviously, it is a risky business to measure the existence of shared values only from one side. For instance, Tsai and Ghoshal's result (or lack of result) may very well reflect the fact that the estimation of shared values is done at the sub-unit level leaving out the overall HQs' view. Ghoshal and Nohria use measures of shared values on both the headquarters' and the subsidiary level, but they do not discuss how these two different measures are used or combined in the empirical analysis.

Third, there seem to be some confusion between the existence of shared values and the existence of communication and interaction. For instance, in measuring shared values as perceived at the subsidiary level, Ghoshal and Nohria use different measures of contacts between the subsidiary and the headquarters without discussing if frequent contacts really reflect the existence of common goals or visions. One can as well argue that frequent contacts between headquarters and the subsidiary mirror *lack of* shared values rather than the existence of shared values. In this context one has to make a separation between shared values and *mechanisms for increasing shared values*. For instance, Björkman et al use frequency of contacts between sub-units as an indicator of corporate socialization mechanisms (Björkman et al 2004). An emphasis on such mechanisms tell us perhaps more about the importance of implementing shared values as perceived by the headquarters than the actual *level* of shared values in the organization.

Fourth, shared values are often measured without any reference to a specific activity or business area. Ghoshal and Noria as well as Tsai and Ghoshal use very broad indicators like "People in our unit are enthusiastic about pursuing the collective goals and missions of the whole organization" (Tsai and Ghoshal) or "some of your national organizations, compared to others, may be relatively more in tune with the overall goals and management values of the parent company" (Ghoshal and Nohria). But a common notion in organization theory is that it is much easier to share the same view on general goals than on more specific goals and

activities. Values can be more of cultural truisms as “beliefs so widely shared within a person’s social milieu that he would not have heard attacked, and indeed, would doubt that that an attack were possible” (Mc Guire 1964, p.1). Furthermore, values expressed through ideology need not be the same as those instantiated in behaviour (van Rekom et al. 2006). If we assume that the impact of common goals and interests have a meaning only within more specified areas or activities, it is also necessary to measure shared values in specified activities rather than on an overall organization general.

In the following an attempt will be made to investigate the importance of shared values for innovation transfer within the MNC by addressing some of the shortcomings in earlier research. More specifically a model of knowledge transfer will be suggested in which the importance of shared values is assessed relative to the importance of operational or business relationships between the subsidiary and the rest of the MNC. The concept of shared values is applied on both the headquarters level and the subsidiary level and the impact on both levels as well as combinations are used in the empirical testing. Finally, the impact of shared values is investigated in relation to shared interests around investment in *specific* subsidiary activities rather than for the MNC and its activities as a whole.

The model is confronted with data from 97 subsidiaries in 12 MNCs.

A Model of Knowledge Transfer in MNCs

In line with the first point above a model of diffusion of knowledge within MNCs should contain two groups of independent variables: one reflecting the operational or business dependencies in which the different subsidiaries are embedded, and a second reflecting the scope of shared values in the MNC. The first of these represents the “hard”, structural variables rooted in the ongoing business of the MNC and its subsidiaries. The other reflects

the existence of shared values between the individual subsidiary and HQ, irrespective of the subsidiary's business.

In earlier research it has been demonstrated that a subsidiary's external business network affects the extent to which it transfers knowledge to its sister subsidiaries (Andersson, Forsgren and Holm, 2001, 2002). The closeness of the relationships with external customers and suppliers generates a capability for absorbing and developing new products and new production processes. Some of these new products and processes then "spill over" into other subsidiaries in the MNC by way of knowledge transfer.

However, irrespective of the level of external embeddedness, corporate embeddedness - that is the extent of the subsidiary's involvement in business relationships with its sister units - will probably help to promote its transfer of knowledge to these units. There are two reasons for this. First, other corporate units are more likely to recognize the capability of a particular subsidiary if they have business relationships with the subsidiary. Secondly, in themselves such business relationships provide important channels for the transfer of knowledge. We would thus expect corporate embeddedness to have a positive impact on the transfer of knowledge between a particular subsidiary and its sister units. This leads to the following hypotheses:

Hypothesis 1: The higher the degree of subsidiary external embeddedness the higher its involvement in knowledge diffusion within the MNC

Hypothesis 2: The higher the degree of subsidiary corporate embeddedness the higher its involvement in knowledge diffusion within the MNC.

A subsidiary's embeddedness, be it external or corporate, reflects the kind of structural or "hard" factors that underpin knowledge transfer within the MNC. However, according to received theory, the importance of factors relating to HQ's ability to stimulate coordination and integration within the MNCs also has to be recognized. We have after all no grounds for assuming any kind of automatic knowledge transfer from one subsidiary to another. There are in fact a variety of obstacles, due either to the "sender's" lack of willingness to engage in knowledge transfer or the "receiver's" lack of readiness to employ solutions that have been developed elsewhere. HQ can thus play an important role by overcoming or reducing these obstacles.

In line with the resource-dependence theory argument (Pfeffer and Salancik 1978) we suggest that the greater HQ's opportunities for influencing subsidiary behavior due to its control of critical resources, the more likely it is that it can stimulate knowledge transfer among the corporate units. Consequently, it seems reasonable to expect that this variable – resource dependence - will also affect HQ's opportunities for stimulating knowledge transfer within the MNC. HQ can exploit a subsidiary's dependence as a way of "forcing" it to share its expertise with other MNC units. Thus, the following hypothesis is suggested:

Hypothesis 3: The higher the subsidiary's perceived dependence on HQ the higher its involvement in knowledge diffusion within the MNC

However, HQ's possibility to stimulate knowledge diffusion within the MNC is also dependent on its own expertise. An important part of such expertise is its ability to identify which subsidiaries are most important as developers of new competence. In line with the view that a subsidiary's external business embeddedness is crucial for its ability to develop new competence HQ's own relation with the subsidiary's external network constitutes an

important base for its expertise. Such relations make it much easier for HQ to evaluate the possibilities of transferring competence from one subsidiary to other subsidiaries. This leads to the following hypothesis:

Hypothesis 4: The more HQ has own relations to a subsidiary's external network the higher the subsidiary's involvement in the knowledge diffusion in the MNC

In line with the reasoning above a model on knowledge diffusion should also include the impact of shared values. We would also expect that shared values between a subsidiary and HQ will have a positive impact on the subsidiary's willingness to share its expertise with other subsidiaries (or with the HQ who is supposed to transfer or sanction that expertise to other subsidiaries). If the subsidiary entertains the same goals, norms and visions as HQ, then it is less likely to resist sharing any knowledge it possesses with others. In fact, the existence of shared values in an organization implies that knowledge will be transferred almost automatically, because sharing HQ's values will also involve an interest in coordinating and integrating knowledge within the MNC.

The impact of shared values on diffusion of knowledge can have at least two interpretations. First, one can argue that shared values *as perceived by the subsidiaries* are crucial since the subsidiaries are the "owner" of the knowledge and its diffusion will depend on their willingness to share their expertise with others. Consequently the following hypothesis is suggested:

Hypothesis 5a: The more a subsidiary perceive that it has the same values as HQ the higher its involvement in knowledge diffusion within the MNC

However, shared values always involve two parties. Therefore, one can argue that the more the values at the HQ and subsidiary level *coincide* the higher would the impact of shared values be on knowledge diffusion. Or to put it differently, if the HQs' perceptions of shared values differ substantially from the subsidiary's perception, the impact from the latter will decrease. As it is possible to argue along both lines we add the following hypothesis:

Hypothesis 5b: The higher the similarity in perceived values at the HQ and subsidiary level the higher the subsidiary involvement in knowledge diffusion.

METHODS

Data and data collection

The empirical study is based on a sample of Swedish MNCs. These firms represent a broad spectrum of Swedish industry, albeit with an emphasis on manufacturing (hard materials, paper, power, petrochemicals, retailing, transportation, services and telecommunications). The data consists of information from 98 subsidiaries, 93 of them in Europe and 5 in North America, and all organized in 20 Swedish MNC divisions. In all but one case the divisional HQ was located in Sweden. The study comprised 2-10 subsidiaries in the different divisions, with a mean value of 4.95. The divisions are organized in 13 MNCs, seven of which included one studied division, five included two studied divisions, and one included three. This variation was the result of the number of divisions in the MNCs and the opportunities for gaining access to conduct face-to-face interviews with the managers of the HQs and subsidiaries in the divisions.

The divisions averaged 5,846 employees, varying between 315 and 27,600. Turnover ranged from 75 million to 2.9 billion USD, with an average of about 750 million US dollars. Most divisions are very international: five had between 14 and 42 percent of their employees

outside Sweden, while 15 divisions have 50 percent or more. Altogether, the divisions had about 117,000 employees and an annual turnover exceeding 12.5 billion USD.

In cooperation with the divisional HQs we have selected subsidiaries that are representative of the divisions' business activities, to make it easier to draw general conclusions from the data. On average, the 98 subsidiaries in the sample accounted for over 50 percent of the 20 divisions' combined operations measured in terms of the number of employees. In 25 percent of the divisions, the studied subsidiaries accounted for more than 80 percent of the divisions' total operations; the figure for the remaining divisions was between 10 and 60 percent. The size of the subsidiaries varied from 50 to over 5,000 employees.

Our initial contact with these firms was made at the divisional HQ level, rather than at the corporate level. There were two reasons for this. First, the divisional level of the firm is closer to the subsidiary operations, and the divisional HQ has a direct management relationship with the subsidiaries. Second, knowledge about subsidiary activities is primarily an intra-divisional issue, since the divisionalization of the MNC separates the various businesses from one another. At the initial meeting with divisional HQ managers the project was described, and suitable subsidiaries for investigation were discussed. A basic criterion was that the subsidiary should produce and deliver one or more products to market or corporate customers (users). This meant that many of the sampled subsidiaries also conducted technical development regarding their products and processes. Divisional HQ managers arranged access to the subsidiaries for us, informed them about our project and provided us with general information about the business conducted by the division and particular subsidiaries.

Next, subsidiaries were contacted and data was collected in the course of face-to-face interviews. The interviews were divided into three sections: one with the subsidiary's top manager, one with the sales director(s) and one with the purchasing director(s). Each interview comprised four areas of investigation: one dealing with background questions

connected with the activity in question, one dealing with subsidiary's corporate and external business relationships, one dealing with the subsidiary's formal and informal role within the MNC, and one dealing with managerial issues in the subsidiary-HQ relationship.

After interviewing the subsidiary managers in a division, we went back to the divisional HQ managers and conducted personal interviews, using the same type of standardized questionnaire. From these interviews we collected information about the HQ's view regarding each subsidiary's characteristics - their business relationships, their formal and informal roles within the MNC, and HQ's relationships with each one of them. Every interview with HQs and subsidiaries lasted for about two hours, during which time any problems involving concepts or interpretations in the questionnaire were discussed and explained.

Constructs and measurements

We have used several indicators to measure the various theoretical variables. For some measures we were also able to combine the perspectives of the subsidiary and the HQ managers, thus avoiding the obvious problem of common-method error. Naturally, depending on who was the most relevant respondent regarding a particular issue, the subsidiary perspective was sometimes preferable to the HQ perspective, or vice versa. The variables in the model were constructed in the following way:

Dependent variable

The variable *Subsidiary involvement in knowledge diffusion* was measured by asking both HQ representatives and the managers of a specific subsidiary about the subsidiary's importance regarding a specific product area to the activities of other corporate subsidiaries. Our primary interest here is that the knowledge in question should reflect both technology-related and market-related activities. Four indicators have been chosen from interviews and are given on a five-point Likert-scale referring to the subsidiary's importance to the following aspects of their co-subsidiaries' operations: product development, production-process development,

technical information, and information about market activities. To reduce the problem of common-method bias we included the answers of both subsidiary and HQ managers and created an average value of subsidiary's involvement in knowledge diffusion within the MNC. The measurement comprised four HQ and four subsidiary estimations ($\alpha = 0.700$).

Independent variables

External and Corporate network embeddedness refers to the subsidiary's relationships with its business partners in the market and the corporate networks respectively. Analytically speaking, the embeddedness of the subsidiary is difficult to delimit, as the network is boundless (Ghoshal and Bartlett, 1990). In line with the discussion above we had to delimit and explore a meaningful part of a subsidiary's network. We thus concentrated on a set of network relationships revolving round what the subsidiary in question sees as its most important business activity. Secondly, the network boundaries were drawn so as to include the three customer relationships and the three supplier relationships (i.e., six business relationships at most) that were considered by the subsidiary to be its most important ones. Other studies, which have shown that managers tend to regard a limited number of relationships as being of greater long-term importance than most ordinary market exchange relationships, appear to justify this restriction (Cowley, 1988; Håkansson, 1987; Perrone, 1989).

From the 98 subsidiaries this gave us 399 external relationships and 117 corporate relationships. As regards the first of these, the numbers ranged between two and six depending on how many relationships the individual subsidiaries had identified as important. The number of corporate relationships ranged from none to four. To indicate the degree of embeddedness of the relational activities, the subsidiary managers were then asked to estimate, on a five-point Likert scale, the extent of the adaptations made by the two parties regarding their respective product development and production development processes. The

values for each relationship (the subsidiary's values and the partner's values) were added together to yield sum value for the extent of each subsidiary's mutual adaptation, reflecting the degree of embeddedness vis-à-vis external market actors and actors within the MNC (α were 0.765 and 0.707, respectively). This approach resembles the method used by Astley and Zajac (1990, p.490).

Subsidiary dependence on HQ was measured by calculating the mean value of six indicators of HQ importance to various aspects of subsidiary activities, namely product development, production development, security (reliability) of delivery, business volume, technological information, and important new business contacts. The answers were provided by representatives of HQ ($\alpha = 0.795$).

The measure of *HQ relations with subsidiaries' external network* was operationalized as follows. First, we focused on the subsidiary sales and purchasing managers' selections, and compiled a list of the most important external customer and supplier relationships (see the discussion of our measurement of embeddedness above). Then, in the next step, we approached the managers of the divisional HQ and presented them with the names of the companies with whom the subsidiaries had important relationships, and asked if they knew about the subsidiary's relationships with these counterparts. If the answer was affirmative, we continued by asking whether and how often they had had direct face-to-face contact with each of the subsidiary's counterparts. In line with Blankenburg and Johanson (1990) the measure was coded on a 4-point scale, where 1 meant that HQ had no knowledge of the counterpart, and 2 meant that they had a certain amount of knowledge of the counterpart, but that they had had no direct contact. A value of 3 meant that they met once a year at most, and 4 meant that they met more than once a year. The scores for each subsidiary relationship were summed and the total was divided by the number of relationships investigated, thereby providing a measure

of the divisional HQ's average knowledge of the subsidiary's external network. The indicator had a mean of 2.45 and a standard deviation of 0.74.

Finally, we examined the variable *shared values*. The issue of shared values is a delicate one. It implies that two or more actors have similar norms, goals and/or visions. These dimensions are general in their nature and complicated to capture (Hofstede, 1990), but they are manifested in cooperative behavior, which in practical business means that the interests of one actor are consistent with the interests and behavior of another actor (Nohria and Ghoshal, 1997). Thus, the effect of shared values in the MNC will be reflected in a low level of diverging interests, and we will thus treat such interests as an indication of shared values in business activities. We argue that MNC subsidiaries may have similar visions, but may still prefer to pursue totally different activities in order to achieve them. For instance, investment in some particular R&D activities may be consistent with the visions of one subsidiary, but irrelevant or even contrary to those of others. Therefore, in contrast to most research on this issue, our focus concerns the practical level, i.e. investments in various business activities rather than the actors' sharing of general ambitions and vision (Tsai and Ghoshal, 1998).

In the present study, we are interested in the subsidiary managers' perspective on shared values and the combined perspectives of subsidiary and HQ managers. Consequently, both parties have answered questions about the extent of their shared interests. Four questions of strategic importance were put to the managers concerning the degree to which they perceived themselves as having identical interests in the subsidiary's investments concerning its marketing, purchasing, product design and the overall investment size and direction. On a five-point Likert scale ranging from a very low degree to a very high one, the subsidiary and HQ respondents evaluated the extent of their identical interests as regards each one of the four activities. The data revealed that extreme asymmetrical opinions between HQ and subsidiaries were uncommon. Opinions regarding the extent of shared interests were the same in 32

percent of the cases (i.e. the subsidiary and HQ managers had marked the same value across the five-point scale). In 38 percent of the cases there was a slight difference between the two perspectives. In 15 percent of the cases both parties claimed a modest difference and in 14 percent of the cases was the degree of difference “high” or “very high” (i.e. when the HQ respondent scored 1 or 2 the subsidiary respondent scored 4 or 5, and vice versa). It is interesting to note that a big difference in opinions occurred mainly when the subsidiary managers had claimed a “high” level of shared interests (about 11 percent). When HQ representatives claimed a high (or very high) level of shared interests, opinions on the subsidiary side differed markedly in 3 percent of the cases only. Thus, it seems that subsidiary managers are somewhat more inclined to claim a high level of shared interest with the HQ than the other way around.

However, the overall picture reveals consistency among the eight indicators. *Cronbach's alpha* for the subsidiary indicators was 0.691 and 0.705 for all eight, HQ and subsidiary, indicators. (In 70 percent of the cases the two respondent groups have equal or only slightly diverging opinions about the level of shared interests). For the combined measure of shared values we have therefore added the answers from both parties together in the following regression analysis.

We also included a number of control variables. Subsidiary relative size was measured as its number of employees in relation to the division as a whole. Firm (division) size was measured as its number of employees. Subsidiary age was included as shared values and the creation of embeddedness in relationships and dependence in relation to HQ can be expected to evolve over time. Two measures were adopted; age as a member of the MNC division and age at the market. Whereas the first measure associates to the length of time it may take to develop a corporate role, associating to e.g. corporate embeddedness, shared values or HQ dependence, the second measure associates to the creation of embeddedness and preferences

vis-a-vis the external market. A dummy variable was also used to capture if the subsidiary was established as a green-field operation (=0) or if it was acquired (=1). Finally, independent of corporate relationship embeddedness, we controlled for presence of corporate business relations of the subsidiary measured as a dummy variable.

Table 1 about here

The result from the statistical analysis

We used hierarchical multiple regression to test the *Subsidiary involvement in knowledge diffusion* (Table 2). In the first model, we included only the control variables: subsidiary relative size, acquisition, firm size, age at market, age in firm, and presence of corporate relations. The R^2 of this model was 0.129 (adjusted $R^2 = 0.065$) and the F -value was 2.019, significant at $p < .10$. Only subsidiary relative size showed a significant effect on subsidiary involvement in knowledge diffusion. In the second model we entered the independent variables HQ knowledge of the subsidiary's external network, subsidiary dependence on HQ, external embeddedness and corporate embeddedness. This model had an R^2 of 0.379 (adjusted $R^2 = 0.300$), with an F -value of 4.770, significant at $p < .001$. The R square change was 0.251 in comparison with model 1 and the significance of the F -change was $p < .000$. Three variables had positive and significant effect; subsidiary dependence on HQ, external and corporate embeddedness.

In the third model (model 3a) we introduced the independent variable shared values (from the subsidiary perspective). This model had an R^2 of 0.381 (adjusted $R^2 = 0.292$), with an F -value of 4.306, significant at $p < .001$. The R square change was low (0.001) when comparing with model 2 and the F -value change was not significant (0.173). Thus we cannot say that shared values in the perspective of subsidiary managers significantly changed the results

obtained in model 2. In a fourth test (model 3b) we replaced shared values from the subsidiaries' perspective with the combined HQ-subsubsidiary measure of shared values. This model had an R^2 of 0.399 (adjusted $R^2 = 0.313$), with an F -value of 4.639, significant at $p < .001$. Again, the change of R square was low (0.019) and the no significance of the F -value change was obtained, implying that shared values (combined) did not improve the results obtained in model 2.

Table 2 about here

The results of the regression analysis are quite clear. The “business network” factor seems to be more important than shared values as an explanatory variable with regard to knowledge transfer. External network embeddedness and corporate network embeddedness are both positively and significantly related to the subsidiary's role as a provider of competence to other MNC units. The corporate HQ's own relationships with the subsidiary's external business partners also seem to have a positive effect on that role. On the other hand, the variable shared values between subsidiary and HQ is clearly insignificant.

These results are somewhat surprising in view of the importance that various scholars attach to shared values in the context of co-operation and integration within an organization (Deal and Kennedy, 1982; Wiener, 1988; Hofstede et al, 1990; Schein, 1996; Nohria and Ghoshal, 1994, 1997; Nahapiet and Ghoshal, 1998). Apart from differences in the conceptualization and measurement of shared values there are several possible reasons for the gap between our result and the “shared-value approach”.

First, even if we assume the importance of corporate culture as a “glue” in the organization, the position of shared values as the core of corporate culture can still be questioned. Hofstede among others, for instance, has pointed out that organizational culture

makes its impact on the behavior of sub-units by way of shared *practices* (Hofstede et al 1990, Kilduff 1992). According to this view, measuring shared values in terms of common norms, interests etc, do not cover the essential contents of the “glue”. Shared values may or may not be the same at different organizational levels, but what counts is whether the same routines, conventions, habits or rituals are being applied. Or to put it differently, above a certain level of shared values in an MNC, perhaps secured by the principles for recruiting subsidiary managers, no “additional” shared values will have any substantial effect on knowledge transfer. What does affect the transfer process is the extent to which a common culture has become manifested in common practices.

It has also been pointed out that a major barrier to knowledge transfer arises from differences in the *business logics* employed by different sub-units in an MNC, for instance between marketing-oriented and production-oriented people. An innovation introduced by the marketing people is of no interest to the production team, who may not even be able to identify it on account of their different ways of looking at things (Ståhl, 2004). These cognitive differences can arise even if the units share the same goals or interests. Thus, shared values do not capture similarities or dissimilarities in business logics.

Secondly, the content and structure of the ongoing business of sub-units has seldom been included in analyses of the importance of shared values. Nohria and Ghoshal (1997), for instance, use a model implying that the level of shared values between subsidiaries and HQ, and the degree of fit in terms of centralization and formalization, are the only independent variables included in their investigation of the impact on MNCs’ performance. The strength of the subsidiaries’ operational integration is not taken into account in their analysis. If we assume that an important underlying variable with regard to knowledge transfer is the way in which units are related in business terms, then a large part of the relevant context is being

excluded from the model, which may lead in turn to an overemphasis on the importance of shared values.

Thirdly – and this is related to the first point above – to conceptualize shared values in an MNC in terms of common norms, goals and visions between HQ and the subsidiaries can be misleading. If cooperation and knowledge transfer are primarily a question of the relationships between subsidiaries rather than those between the subsidiaries and their HQ, it follows that “horizontal” shared values are more important than the “vertical” kind. The more common interests that the subsidiaries share, the greater will be their knowledge exchange, irrespective of their relationships with HQ. If we assume that shared values between two units are built up gradually in the course of business interactions, it follows that business relationships actually *capture* shared values. This explains, then, why corporate network embeddedness is such a strong predictor of knowledge transfer in our model.

This line of reasoning reflects a more skeptical view of the role of HQs than that adopted in certain works on shared values. The impression is given in some research that if an HQ creates shared values among its subsidiaries in accordance with its own values, the MNC as a whole will achieve a higher level of coordination and, consequently, will perform better (see e.g. Bartlett and Ghoshal, 1989; Nohria and Ghoshal, 1994, 1997). Apart from the acknowledged difficulty that anyone - including HQ - will encounter when it comes to changing basic human values (see e.g. Hofstede, et al 1990), there is also good reason to question the image of the HQ as *the* coordinator in an MNC. We might agree that this is perhaps HQ’s most important role, but it is quite another matter whether HQ succeeds in fulfilling it. Or to put it another way, we can question whether HQ is actually the main actor in the knowledge transfer processes of the MNC.

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Table 2. Results of the regression analysis

	Model 1	Model 2	Model 3a	Model 3b
Subsidiary relative size	0.281 (2.496)*	0.007 (0.059)	0.002 (0.017)	0.003 (0.024)
Acquisition	0.012 (0.080)	-0.046 (-0.329)	-0.040 (-0.284)	-0.017 (-0.119)
Firm size	0.099 (0.925)	0.079 (0.835)	0.077 (0.815)	0.078 (0.833)
Age at market	0.111 (0.709)	0.128 (0.926)	0.130 (0.940)	0.107 (0.784)
Age in firm	0.114 (0.776)	0.024 (0.181)	0.030 (0.218)	0.064 (0.471)
Presence of corporate relations	0.136 (1.242)	0.041 (0.324)	0.041 (0.317)	0.031 (0.243)
HQ knowledge of subsidiary network		0.027 (0.250)	0.027 (0.249)	0.013 (0.122)
Subsidiary dependence on HQ		0.317 (2.960)**	0.311 (2.863)**	0.292 (2.717)**
External embeddedness		0.361 (2.826)**	0.359 (2.791)**	0.349 (2.747)**
Corporate embeddedness		0.384 (2.805)**	0.379 (2.746)**	0.386 (2.845)**
Shared values (Sub perspective)			0.039 (0.415)	
Shared values (combined)				0.147 (1.563)
R2	0.129	0.379	0.381	0.399
Adjusted R2	0.065	0.300	0.292	0.313
F-value	2.019	4.770***	4.306***	4.639***
ΔR^2	---	0.251	0.001	0.019
ΔF -value	---	7.881***	0.173	2.444

*p<.05, **p<.01, ***p<.001

Table 1. Descriptive statistics and correlation matrix (n=99)

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. Subsidiary knowledge diffusion	2.94	.672	1											
2. Subsidiary relative size	.114	.129	.245*	1										
3. Acquisition	.473	.502	.095	.112	1									
4. Firm size	6477	7501	.112	-.144	-.011	1								
5. Age at market	41.394	32.837	.216*	.143	.486**	.144	1							
6. Age in firm	19.140	21.780	.081	-.224*	-.312**	.181	.358**	1						
7. Presence of corporate relations	.657	.477	.106	-.099	.233*	.126	.030	-.176	1					
8. HQ knowledge of subsidiary network	2.450	.737	.163	.299**	-.141	.081	-.203*	-.225*		1				
9. Subsidiary dependence on HQ	16.167	5.189	.426**	.194	-.247*	.079	.022	.227**		.146	1			
10. External embeddedness	37.840	16.947	.245*	.520**	.162	-.160	.109	-.057	-.353**	.060	.182	1		
11. Corporate embeddedness	12.516	13.271	.290**	-.029	.262*	.095	.124	-.182	.644**	.193	.048	-.410**	1	
12. Shared values (Sub perspective)	3.790	.740	.146	.176	-.119	.003	-.142	-.119	.025	.158	.192	.064	.093	1
13. Shared values (combined)	3.785	.545	.241*	.183	-.075	-.009	-.056	-.151	.027	.209*	.173	.115	.037	.810**

*p<.05, **p<.01

All two tail tests.