

# Knowledge transfer across dissimilar cultures

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## **ABSTRACT**

**Purpose** – *The purpose of this study is to examine factors that impact knowledge transfer from the parent corporation to subsidiaries when there are differences in the national culture of the parent corporation and the subsidiary. Transferring knowledge can be especially difficult when the source and recipient do not share common beliefs, assumptions and cultural norms. Therefore, this study examines how trust, cultural alignment, and openness to diversity influence the effectiveness of knowledge transfer from the HQ to the employees in the subsidiary.*

**Design/methodology/approach** – *Specifically, the study examines knowledge transfer between the headquarters of a multinational corporation in Norway and its Vietnamese subsidiaries, making use of a survey administered to all 70 employees in the Vietnamese subsidiaries.*

**Findings** - *The results show that individual's trust of the HQ and their openness to diversity are key factors influencing local employees' ability to learn and obtain knowledge from foreign HQ. The extent to which there is alignment between the organization's corporate culture and the individual's cultural values, on the other hand, appear to make little difference to knowledge transfer from the HQ.*

**Practical implications** - *This paper contributes to the literature in cross border knowledge transfer, showing that due to geographical distance or cultural differences between the HQ and*

*the subsidiary, the cultivation of trust and openness to diversity on the part of local employees is critical for knowledge transfer.*

**Originality/value** - *The paper also contributes by examining knowledge transfer in an international context.*

**Keywords** *Knowledge transfer, Organizational culture, International management, Trust, National Cultures, Corporate Culture, Norway, Vietnam*

**Paper type** *Research paper*

## 1. INTRODUCTION

With increased globalization, firms often set up subsidiaries all over the world to take advantage of unique or available expertise and differences in labor costs, and to gain increased access to markets around the world (Argote et al. 2000). In order to work seamlessly across borders, international companies have identified knowledge as a strategic resource (Grant 1996) and are actively striving to transfer knowledge effectively across borders. Scholars have also devoted significant attention to the topic of knowledge transfer within multinational firms (e.g., Easterby-Smith et al., 2008). Various findings have demonstrated that successful knowledge transfer can create competitive advantage for firms (Argote & Ingram 2000; Szulanski 1996). However, there are significant challenges to achieving effective transfer of knowledge, as knowledge is often “sticky”, meaning that they are embedded in the human brain (Von Hippel 1994), and this makes it extremely challenging to achieve perfect knowledge and information mobility amongst employees.

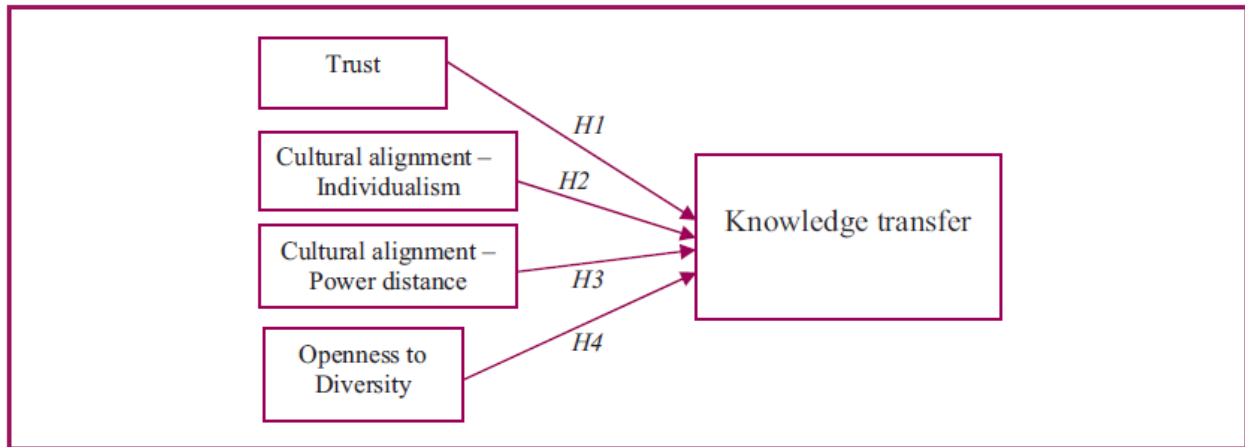
Barriers to knowledge transfer arise especially when the knowledge is transferred across different contexts (Gupta & Govindarajan 2000; Zander & Kogut 1995). Prior research has paid a significant amount of attention to barriers to knowledge transfer within MNCs (Szulanski 1996), but has only begun to explore the role of cultural variations in impeding knowledge transfer (Bhagat et al. 2002). Transferring knowledge can be especially difficult when the source and recipient do not share common beliefs, assumptions and cultural norms. Hence, this study examines the factors influencing cross-border transfer of knowledge within different units of multinational organizations located in dissimilar cultural contexts.

## **2. THEORY AND HYPOTHESES**

Whether a subsidiary effectively learns from the HQ or not is very much dependent on the individuals within the subsidiary. Knowledge transfer at the individual level refers to how knowledge acquired in one situation applies or fails to apply to another (Singley & Anderson 1989). Following Gupta and Govindarajan (2000), this study focuses on the transfer of knowledge that exists in the form of “know-how” (e.g., product designs, distribution know-how, etc.) rather than on the transfer of knowledge that exists in the form of “operational information” (e.g., monthly financial data).

The effectiveness of knowledge transfer from the HQ to the subsidiary depends on the willingness and ability of individuals in the subsidiaries to assimilate the knowledge transferred from the HQ (Asmussen, Foss & Pedersen 2011). Prior research, on inter-subsidiary knowledge transfers, however, has tended to focus on how subsidiary characteristics influence the effectiveness of knowledge transfer (e.g., Schulz 2003; Simonin 1999). There has been limited research examining how individual employee’s perceptions about the HQ influence the effectiveness of knowledge transfer from the HQ to the employees in the subsidiary. Hence, this study examines how individual’s trust of the HQ, the level of cultural alignment between the organization culture and the individual’s cultural values, and the individual’s openness to diversity influences the extent to which knowledge is effectively transferred from the HQ to each individual in the subsidiary. Figure 1 provides a summary of the hypotheses.

**Figure 1 Factors influencing knowledge transfer**



### **2.1 Trust**

Trust can affect knowledge transfer (Simonin 1999). Trust is defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis & Schoorman 1995, p. 712). Most studies that have examined knowledge transfer between HQ and subsidiaries have focused on the trust of the foreign subsidiary from the HQ’s perspective (Kostova & Roth 2002; Szulanski, Cappetta & Jensen 2004). Compared to other types of cooperation (e.g., joint ventures), there are fewer problems relating to opportunistic behavior between the HQ and its subsidiaries (Kogut 2006; Yiu & Makino 2002). Rather, the key difficulty for knowledge transfer is the problem of accurate communication, and the transfer is seen to be effective to the extent that it changes the behavior of the recipient in productive ways (Szulanski, Cappetta & Jensen 2004). A trusting subsidiary is more likely to accept the knowledge of the HQ and change its behavior, and trust is more likely to occur when the HQ is perceived as trustworthy. Given that the current literature focuses more on the HQ’s perspective, and the effectiveness of knowledge transfer clearly

depends on the extent to which the subsidiary is willing and able to accept the knowledge transferred from the HQ, this study fills an important gap in the literature by examining the subsidiary's perspective in examining knowledge transfer from the HQ.

From the subsidiary's perspective, trust is defined as a belief that the parent corporation: (1) makes good-faith efforts to behave in accordance with both explicit and implicit commitments made to the subsidiary, (2) is honest in whatever discussions preceded such commitments, and (3) does not take excessive advantage of the subsidiary, even when the opportunity is available (Kostova & Roth 2002, p. 218).

In an MNC, trust between the parent corporation and the subsidiary is essential for the cooperation between the parties. Trust increases the amount of information that can be exchanged, and is positively correlated with knowledge transfer (Tsai & Ghoshal 1998). Consequently, the lack of trust would negatively influence the extent to which knowledge can be effectively transferred, particularly in situations where there is uncertainty about the source of the knowledge being transferred for the knowledge recipient (Gallie & Guichard 2005). Various researchers have highlighted the importance of trust for knowledge sharing.

In the case of knowledge transfer between the parent company and the subsidiary, who are located in a different context, institution based trust is particularly important. Institution-based trust is built upon the belief that "necessary structures are in place which will ensure trustworthy behavior of individual members, and protect the members from negative consequences of administrative and procedural mistakes" (Ardichvili, Page & Wentling 2003, p 73). Sanctions, policies and organizational regulations are necessary to encourage individuals to engage in knowledge transfer. With safety nets in place to protect their self-interests, employees feel safer to share his/her knowledge because if the knowledge was misused, the employees have the

assurance that the knowledge seeker will be reprimanded for such behavior (Ford 2003). Kostova and Roth (2002), for example, found that individual boundary spanners from subsidiaries that interact frequently with the HQ can influence individuals' perceptions and institutional trust of the HQ, given that individuals do not always interact on a personal and frequent basis with members from the HQ. Hence, individuals' perceptions of trust of the HQ do not rest with their knowledge of particular individuals, but rather with norms and behaviors that they generalize to others in the HQ, based on the sporadic interactions that one or a few of those in the subsidiary have with the HQ. And this trust plays a particularly significant role in overcoming the barriers to knowledge transfer from HQ to subsidiary, given the geographical distance and the cultural differences leading to potential communication difficulties. Thus:

H1: The lower the level of trust the employee in the subsidiary feels towards the HQ, the greater the difficulty to transfer knowledge from the parent company to the subsidiary.

## ***2.2 Cultural Alignment***

Culture refers to the collective beliefs and values widely shared among individuals (Ralston et al. 1993). Culture can be found at different levels such as the country level and the corporate level. Previous studies examining cross border transfer of knowledge have shown that cultural differences between the parent company and the subsidiary will create challenges when transferring knowledge across borders (Bhagat et al. 2002; Javidan et al. 2005). However, few studies have looked at the alignment of the cultural values held by individual employees in the foreign subsidiary and those in the HQ, and how this will impact knowledge transfer within the organization. The term cultural alignment is thus used in this study to refer to the alignment of the cultural values held by individual employees and the HQ.

According to Hofstede (1980), every country has its own distinctive national culture. Hofstede (1980) and various other researchers have thus identified several dimensions of national culture that tend to differ across nations. Given that the interactions between the HQ and its subsidiaries are clearly driven by the differences in their national culture (Kostova & Roth 2002), which results in differences in norms, values and behavior of the staff in different countries, it is important to consider how differences in the national culture dimensions between a subsidiary and its HQ influence knowledge transfer.

Corporate culture, on the other hand, is comprised of assumptions, values and norms which are rooted in organizational practices. Deshpande and Webster (1989, P4) defined corporate culture as "the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with the norms for behavior in the organization". According to Hofstede, Neuijin, Ohayv and Sanders (1990), national culture and corporate culture are phenomena of different orders. They suggest that firms should be considered as one single culture or as a multitude of subcultures. Some organizations may claim that they have a specific culture, while others find it hard to determine the key cultural characteristics of the organization they work in. While organizations strive to generate a unified organizational culture, uniform across borders, the extent to which the culture manages to permeate their subsidiaries will differ, depending on the practices that have been put in place to socialize the employees in the subsidiaries (Gupta & Govindarajan 2000). Prior research has found that openness to diversity, an aspect of corporate culture, is an important dimension of corporate culture that affects knowledge sharing and cooperation within the firm (Hartel & Fujimoto 2000; Hobman, Bordia & Gallois 2004; Mitchell, Nicholas & Boyle 2009). But as highlighted above, the corporate culture that originated from the HQ may not successfully

permeate to its subsidiaries. Hence, it is also important to examine how the alignment of such key corporate cultural dimensions between the subsidiary and its HQ affects knowledge transfer.

*National Culture.* Hofstede's research (e.g., Hofstede 1980) identified four dimensions along which national cultures tended to differ: (1) Power distance (PDI) – the extent to which less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. (2) Individualism/Collectivism (IDV) – the relative importance of individual goals compared with group or collective goals. (3) Uncertainty avoidance (UAV) – the extent to which future possibilities are defended against or accepted (not facing the future or trying to organise it); and (4) Masculinity/ Femininity (MAS) – the extent to which the dominant values of a society emphasize those characteristic of men versus women. This paper focuses on power distance and individualism/collectivism because they are the most relevant to examining knowledge sharing in the HQ and subsidiary context.

In an individualistic culture, people tend to view themselves as independent of collectives, and the ties between individuals are loose (Bochner & Hesketh 1994). People in such cultures are more self-centered and tend to emphasize more on their individual goals. Employees are expected to defend their interests and to promote themselves whenever possible. On the other end of continuum – in a collective culture – people tend to be integrated into strong cohesive groups (Bochner and Hesketh 1994). People in a collective culture are more motivated by norms, duties and obligations which are imposed by the collectives (Bhagat et al. 2002); they tend to embrace interdependence, family security, social hierarchies, co-operation and low levels of competition (Hofstede 1980). People from collectivist cultures tend to be concerned about the results of their actions on members of their in-groups and tend to share resources with in-group members (Bochner and Hesketh 1994). In a business setting, confrontation with one another in

the public is uncommon. Creating harmony and loyalty is important within the company. In such a culture, someone saying “yes” to something may not always mean what he says. In a work situation where there is cultural mix of different people, such differences may create significant potential for misunderstandings to arise between parties. Individualists have been found to show less concern for others; hence this dimension is expected to influence their knowledge sharing behavior (Ardichvili et al. 2006).

Power-distance refers to the extent to which people pay attention to the distribution of power or hierarchical positions, and accept the unequal distribution of power. In low power-distance countries, like in many Western countries, people in different hierarchical positions relate to one another more as equals, whereas in high power-distance countries, like in many Asian countries, subordinates are less likely to question or critique those of higher hierarchical positions and interactions between hierarchical levels tend to be more authoritative and paternalistic than consultative and democratic (Hofstede 1980). This dimension would thus be expected to affect interactions and relationships between people in the HQ and the foreign subsidiaries. If this cultural dimension is not aligned between the HQ and subsidiary, and if the subsidiary tends to be higher in power-distance perceptions, there may be less opportunities for constructive discussions that lead to effective knowledge sharing, especially if the subsidiary personnel were afraid of asking questions and probing for further information and knowledge.

The other two dimensions – masculinity vs. femininity and uncertainty avoidance do not seem to be theoretically linked to knowledge sharing. Masculinity vs. femininity refer to the extent to which the dominant values of a society are represented by assertiveness, materialism, competitiveness and an emphasis on “quantity of life (a masculine culture) vs. values of modesty, compassion, concern for people and an emphasis on “quality of life” (a feminine culture). The

other dimension, uncertainty avoidance, refers to the extent to which the society has a tolerance for ambiguity and tries to minimize unknown and unusual circumstances with meticulous planning and the implementation of rules, laws and regulations (Hofstede 1980). Both of these dimensions appear to represent the underlying values dominant in a society and do not have obvious relations to knowledge sharing in a HQ-subsiidiary setting.

The organization and the employee are both part of the society that they are situated in. Therefore, one would expect that the national culture will affect their thinking, practices and values (Rokebach 1968). This means that an organization developed in a western country, with the majority of its employees from that part of the world, would tend to inherit the values and beliefs of the western country. On the other hand, employees who work in a subsidiary located in a Far Eastern country may tend to have a more collectivistic mindset, and different values and beliefs from their Western counterparts because they grow up in a different part of the world. If the majority of the workforce in the subsidiary is made up of locals, the culture at the overseas subsidiary might not be similar to the parent corporation's organizational culture (Robert et al. 2000). For MNCs that have subsidiaries around the world it might therefore be a challenge to maintain a corporate culture when there is a strong national culture in the country which the subsidiary is located. Dissimilarities between the mindset and social environment of employees in the corporate headquarters and overseas subsidiaries may impact the employees' abilities to acquire new knowledge, thus creating additional challenges for knowledge transfer (Bhagat et al. 2002; Simonin 1999). Hence, it is important for an MNC to achieve alignment between the cultural values and beliefs held by the HQ and overseas subsidiaries to facilitate effective knowledge transfer. Therefore:

H2: The greater the lack of cultural alignment between the national culture of individuals in the subsidiary versus those in the HQ, in terms of their individualistic versus collective orientation, the greater the difficulty in transferring knowledge from the parent company to the subsidiary.

H3: The greater the lack of cultural alignment between the national culture of individuals in the subsidiary versus those in the HQ, in terms of their power-distance perceptions, the greater the difficulty in transferring knowledge from the parent company to the subsidiary.

*Corporate Culture – Openness to Diversity.* In terms of corporate culture, prior research has identified openness to diversity as a key factor influencing knowledge sharing and cooperation within the firm (Hartel & Fujimoto 2000; Hobman, Bordia & Gallois 2004; Mitchell, Nicholas & Boyle 2009). Researchers have argued that a higher degree of a cultural diversity within a company or a team would lead to worse performance and less intense knowledge transfer (Palich & Gomez-Mejia 1999; Puck, Rygl & Kittler 2006). With increasing mobility of people and demographic changes in the workforce such as increasing representation by women and minorities (Lockwood 2005), however, many organizations see diversity of their workforce as a leverage to create competitive advantage for the firm, with positive impacts on the firm's bottom line (Lockwood 2005).

Organizations are also seeing an increase in the prevalence of cosmopolitans and expatriates. These are individuals who have a global orientation and perspective, and who are not oriented only to a restricted local community. These individuals tend to regard themselves as part of the wider world (Haas 2006), and have significant amount of experience living and working internationally. Many companies send expatriates overseas to improve the learning and knowledge transfer situation, either to teach local employees a new technology or the corporate practices and policies or for them to acquire new local knowledge from the local employees.

Both locals and the cosmopolitans help an organization to transfer and acquire knowledge more effectively. Haas (2006) found that locals bring prior knowledge about the country and local market conditions, while cosmopolitans bring prior technical knowledge and knowledge about corporate practices that are integral to effectively integrate a subsidiary with the parent company.

By having a multinational workforce, companies can utilize the multiple and diversified talents of the employees to effectively integrate different work perspectives. Hence, many companies see cultural diversity as an organizational asset. Collaboration with people from different cultural background can bring greater creativity and innovation (O'Reilly, Williams & Barsade 1997). A study done by O'Reilly et. al (1997) about an organization with a strong reputation for being a leader in diversity issues showed that a group composed of Asians and whites were more creative and better able to implement new ideas than all-white groups or those of other ethnic composition (Williams & O'Reilly 1998). To be able to effectively leverage of diverse views and perspectives, however, individuals have to be open to diversity, and view it as an advantage, not an impeding factor (Cabrera, Collins & Salgado 2006). Those who are able to embrace diversity can thus effectively leverage the differing views and opinions of others to help them in their work. Hence:

H4: The more individuals embrace diversity among the employees in the workplace, the easier it is to transfer knowledge.

### **3. RESEARCH SITE**

To test the above arguments and hypotheses, a study was conducted to examine knowledge transfer between the headquarters of a multinational corporation in Norway (Pseudonym: MNC) and its Vietnamese subsidiaries. MNC was established in Norway. The

company provides consulting services for various industries such as the maritime, energy, aerospace, automotive and finance industries. The company has more than 5,000 employees worldwide, with employees from 85 different nations. Around 32 percent of their staff are from Norway, 22 percent from Asia and the Oceania region, and the rest are from America, Middle East, Africa and the Nordic and Baltic region. As the organization is a knowledge-based company, they recognize that their key assets are the knowledge and expertise of their employees. Teamwork and innovation is also very important for employees to work effectively with one another. However, with the company operating in more than 400 offices worldwide and employees of 85 different nationalities working together, it is crucial that the transfer and sharing of knowledge between the HQ and subsidiaries in different countries is effective and smooth. Hence, the organization is an ideal site to study how organizations can overcome cultural differences for effective knowledge transfer.

The organization started their operations in Vietnam in the Year 2000. The organization has five offices in Vietnam, located in different cities – all of which are wholly-owned subsidiaries. Over a short seven year period, they have become the market leader in their industry in the Vietnamese market. The Vietnamese subsidiaries have played a significant role in the overall corporate strategy of the company and were of great importance for the firm. With the high growth rate of the Vietnamese market, the organization saw great opportunities to grow their market share substantially, in the past and also in the future.

Due to the strategic importance of the Vietnamese market, there is close cooperation between the parent corporation in Norway and subsidiaries in Vietnam compared to many of the subsidiaries in other countries. The knowledge flow, however, was more from the HQ in Høvik to the subsidiaries in Vietnam, and not vice versa. Most of the knowledge being transferred from

the HQ was technological knowledge, organizational practices, corporate culture and values, as well as managerial skills and marketing expertise. Since MNC is a global organization, the organization tries to adopt standardized technologies and practices in order to provide services of unified and consistent quality everywhere in the world. Local training are often held by trainers from the HQ. There are many different courses provided to employees and to be able to qualify for certain jobs, they need to pass specific courses and achieve certain grades.

### ***3.1 Culture in MNC***

Due to the Norwegian influence, the culture at the HQ in MNC can be characterized as individualistic and empowering (i.e. low power distance). Both local employees and Norwegian expatriates in the Vietnamese subsidiaries observe significant cultural differences between the local Vietnamese employees and their Norwegian counterparts. Vietnamese are typically characterized as being very collectivistic and high power distance, the opposite of the culture at MNC HQ. There are some interactions between employees from the HQ and the Vietnamese employees, but communications usually take place via emails, instant messenger and telephone calls. Both employees from the HQ and the Vietnamese subsidiaries feel that understanding the culture of their counter parts is an advantage to enable more effective communication.

## **4. METHODOLOGY**

A survey was used to test the hypotheses, supplemented with interviews to help the researchers understand the context and whether the constructs in the proposed model was relevant. To begin, interviews were conducted with eight employees and two expatriate managers in the Vietnamese subsidiaries. Each interview lasted from 45 minutes to two hours. These interviews provided significant insight the organizational culture of MNC and the cultural

differences between Norwegian expatriates as well as the Norwegian counterparts in the HQ versus the Vietnamese local employees. The interviews verified that the key national culture dimensions that affected individuals' interactions between the HQ and subsidiary were the individualistic-vs-collectivistic dimension and the power-distance dimensions, and the other two national culture dimensions identified by Hofstede (Uncertainty avoidance and masculinity vs femininity) were not relevant. The interviews helped to provide some initial face validity for the hypotheses and provided the contextual knowledge to guide the researchers on adapting the interview questions to the context to ensure that the questions were phrased in an appropriate manner. Appendix B provides the interview protocol used.

The survey was administered to all 70 employees in the Vietnamese subsidiaries. The survey was translated into Vietnamese for the local Vietnamese employees. The data collection process for the survey was divided into two phases. In the first phase, one of the authors went to the Vietnamese offices to personally hand out the surveys to the employees. However, as many of the employees were on business trips out of the country and many of the engineers were conducting surveying work on clients' ships or elsewhere, many potential respondents were not in the office during the visit. A copy of the survey was then sent to the remaining employees via email. Telephone calls were also used to personally remind and appeal to the employees to respond to the survey. In total, 52 responses were obtained, providing a respectable response rate of 74 percent. As two surveys were dropped due to incomplete responses, the total number of responses used for the final analysis was 50.

#### ***4.1 Operationalization of Constructs***

For all questionnaire items, respondents were requested to rate each statement on a seven-point likert scale, where 1 represents “not at all” and 7 represents “to a great extent”.

*Extent of Knowledge Transfer.* The dependent variable – the extent of knowledge transfer from HQ measures the extent to which employees feel that various types of knowledge is effectively transferred from the HQ. Adapting from Griffith et al. (2001) and Gupta and Govindarajan (2000), the following items were used to measure the knowledge that is transferred: (1) technological expertise in the respondent’s field of work; (2) marketing expertise; (3) service development techniques; (4) managerial expertise and (5) MNC’s corporate culture and values.

*Trust in HQ.* Eight items were adapted from Kostova and Roth (2002) to measure trust in HQ from the employees in the Vietnamese subsidiary’s perspective.

*Cultural Alignment – Individualistic versus Collectivistic.* As MNC HQ has a very individualistic culture, this construct measures the extent to which respondent’s individualistic-collectivistic orientation aligns with that of the HQ. Adapting from Bochner and Hesketh (1994), the construct was measured by the extent to which respondents believed that it was important to be integrated within the in-group of the organization, and the extent to which the individual embrace teamwork and interdependence.

*Cultural Alignment – Power-Distance.* As MNC HQ embraces a low power-distance culture, this construct measures the extent to which respondent’s perspective of power-distance aligns with that of the HQ. Adapting from Bochner and Hesketh (1994), the construct was measured by the extent to which individuals exhibit caution and inhibition when communicating and disagreeing with superiors and subordinates.

*Openness to Diversity* refers to the extent to which individuals are open to diversity and a multicultural workforce, the extent to which they view diversity to be an advantage and not an

impeding factor. Adapting from Bochner and Hesketh (1994), the construct was measured by respondents' beliefs about the extent to which diversity is a disadvantage.

The tenure of respondents (number of year worked at MNC) was also included as a control in the analysis. Appendix A provides a listing of the measures for the constructs.

## **5. ANALYSIS AND RESULTS**

Content validity was qualitatively assessed through reviews by key managers in MNC. Convergent validity and discriminant validity was assessed through principle components analysis for the items included in the survey (See Appendix C for results of this analysis). Five factors were derived and all of the items loaded high in their factors (loading > 0.5). Reliability of the survey instrument's items was also quantitatively validated, as the Cronbach alphas for each measurement variable show that they were much higher than the 0.7 threshold (Nunnally 1967).

The measurement validity, research model and hypotheses were then tested using partial-least-squares (PLS)-based structural equation modeling (SEM) (Chin, Marcolin & Newsted 2003), which is suitable for estimating multiple and interrelated dependence relationships such as those in the research model. The PLS analysis also provides the factor loadings for each factor. Table 1 shows the loadings and the composite reliability provided by PLS and the Cronbach Alphas for each construct.

**Table 1 PLS factor loadings and reliabilities of survey measures**

<i>Construct/ indicator</i>	<i>PLS Outer Model Loadings</i>	<i>T-Value for PLS Loadings</i>	<i>Composite Reliability</i>	<i>Cronbach Alpha</i>
Knowledge transfer			0.888	0.935
KT1	0.850	17.759		
KT2	0.875	34.174		
KT3	0.875	26.114		
KT4	0.850	21.910		
KT5	0.711	7.378		
Trust in HQ			0.969	0.975
TR1	0.808	12.765		
TR2	0.914	37.778		
TR3	0.941	67.186		
TR4	0.949	74.121		
TR5	0.961	50.822		
TR6	0.891	21.946		
TR7	0.912	32.586		
TR8	0.894	29.221		
Cultural alignment – individualism versus collectivism			0.863	0.915
IC1	0.835	3.388		
IC2	0.949	5.044		
IC3	0.866	3.752		
Cultural alignment – power-distance			0.765	0.836
PD1	0.750	2.173		
PD2	0.718	2.003		
PD3	0.903	2.380		
Openness to diversity			0.975	0.984
OD1	0.980	13.252		
OD2	0.967	11.709		
OD3	0.981	10.620		

Convergent validity is demonstrated if items measuring the same factor correlate highly with one another. An examination of the item correlation matrix shows that the correlations of all items measuring the same construct were significantly different from zero at the 0.01 significance level, thus demonstrating convergent validity. The correlation matrix also showed discriminant validity as each item correlates more highly with items intended to measure the same factor than with items used to measure a different factor. Discriminant validity was further assessed by comparing the square root of the average variance extracted (AVE) to the correlations among constructs. Table 2 displays the descriptive statistics and correlation analysis for the constructs, with the square root of AVE given in the diagonals. The AVE for all constructs exceed 0.6, indicating that the latent constructs account for at least 60 percent of the

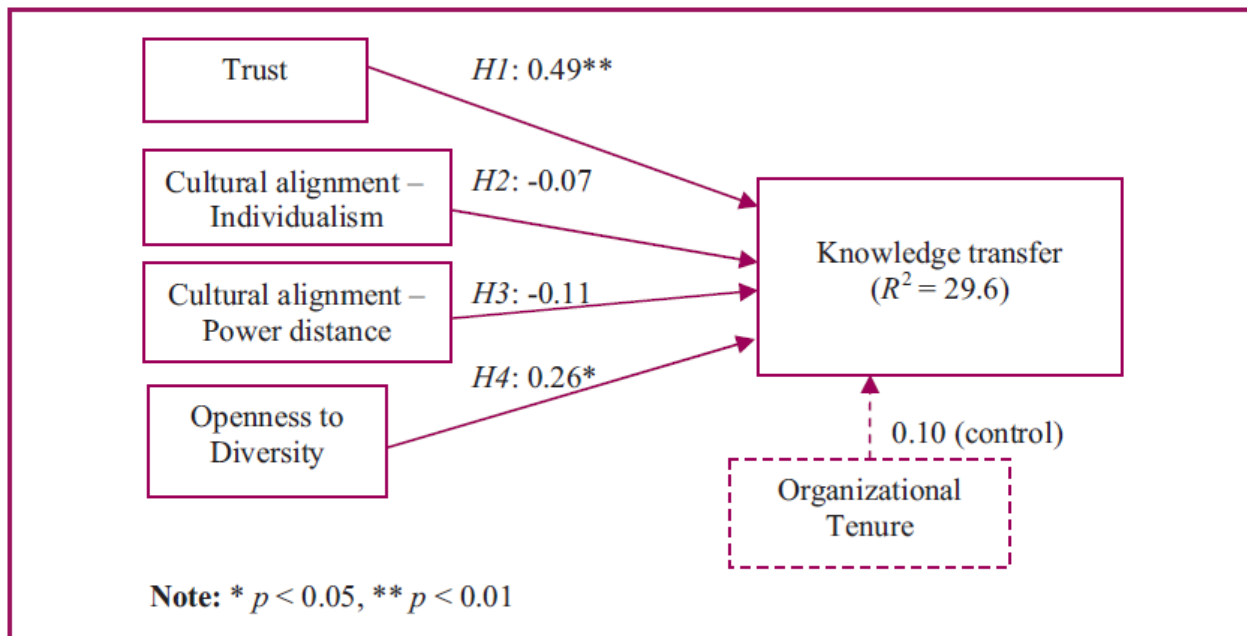
variance in the items. Table 2 shows that the square root of the AVE is greater than all of the inter-construct correlations, providing evidence of discriminant validity (Chin 1998).

**Table 2 Correlation table for constructs**

	Mean	SD	1	2	3	4	5
1. Knowledge transfer	4.372	1.324	0.834				
2. Trust in HQ	5.098	1.473	0.462	0.910			
3. Individualism versus collectivism	5.813	1.167	-0.083	-0.062	0.885		
4. Low power-distance	2.853	1.109	-0.185	0.127	-0.064	0.976	
5. Openness to diversity	2.367	1.463	0.172	0.122	0.190	-0.061	0.794
6. Organizational tenure	2.440	1.459	-0.018	-0.165	-0.222	0.146	-0.070

The results of the PLS model are summarized in Figure 2. The structural model of the PLS analysis shows the variance explained ( $R^2$ ), path coefficients, and significance levels of the path coefficients between latent constructs of the research model (Gefen, Straub & Boudreau 2000). Similar to linear regression, an  $R^2$  in the PLS analysis provides the strength of the model in predicting each dependent variable. Path coefficients in the structural model specify the strength of each individual relationship. The size, direction and significance of path coefficients provide support, or lack thereof, for hypotheses (Bollen 1989).

**Figure 2 Results of PLS Analysis**



The results in Figure 2 show that individuals' trust in the HQ was significantly and positively related to the extent to which knowledge is effectively transferred from the HQ to the overseas subsidiary (path coefficient = 0.49,  $p < .001$ ), providing support for H1. Both H2 and H3 are not supported, as the results indicate that cultural alignment, both in terms of individualism versus collectivism (path coefficient = -0.07,  $p > .10$ ) and power-distance (path coefficient = -0.11,  $p > .10$ ) were not significantly associated with the extent of knowledge transferred from the HQ. H4 was supported as the results show that the extent to which individuals are open to diversity is significantly and positively associated with the extent of knowledge transfer from the HQ (path coefficient = 0.26,  $p < .05$ ).

## **6. DISCUSSION**

The study hypothesized that for knowledge to be effectively transferred from the HQ to overseas subsidiaries with a significantly different culture, local employees' perceptions of trust, their national cultural alignment to the HQ and their openness to diversity was very important. The hypotheses were partially support.

The most important factor influencing the effectiveness of knowledge transfer from the HQ appears to be the amount of trust that the local employee has towards the HQ. The results showed that the greater the amount of trust employees in Vietnam have towards the HQ, the easier it is to transfer knowledge from the HQ. This is in accordance with findings from previous literature of trust (Simonin 1999; Tsai & Ghoshal 1998). Trust enables the transfer of organizational knowledge since it increases partners' willingness to commit to helping partners understand new external knowledge (Lane et al., 2001).

Secondly, the study hypothesized that knowledge transfer should be facilitated between the HQ and overseas subsidiary if there is alignment in the cultural values of the local employees with that of the HQ. The analysis, however, shows that while Vietnamese local employees have, on average, adapted to MNC's corporate culture (in terms of becoming more individualistic), this alignment did not significantly influence the ease of knowledge transfer. One possible explanation may be that an individualistic culture is less conducive to encouraging knowledge sharing and knowledge transfer. In an individualistic culture where individuals prefer to depend on themselves rather than on others, individuals do not see the need to share knowledge with or receive knowledge from others. This implies that while it is important to consider the alignment of individual values with corporate culture when examining knowledge transfer, it is also important to consider whether that dimension of corporate culture is positive for knowledge transfer.

According to Chatman and Barsade (1995), compared to individualists, collectivists are more likely to adjust their behaviours to match situational constraints, such as organizational cultures. This might explain why the Vietnamese employees at MNC, on average, exhibited a high level of individualism. Since the corporate culture at MNC, driven by the Norwegian national culture, tends to be more individualistic in nature, employees in MNC Vietnam likely have adapted to and aligned themselves with MNC's corporate culture.

The results also show that the extent to which individual's characteristics of power-distance are aligned with the corporate culture does not significantly influence the ease of knowledge transfer. Prior research on the influence of power-distance on knowledge sharing has mixed findings. On one hand, some researchers argued that if the knowledge provider enjoys small power-distance and the acquirer enjoys large power-distance, knowledge transfer will have

lower resistance barriers and greater success. In such a scenario, while the acquirer is used to an autocratic relationship where knowledge transfer are accepted as presented, the provider is constantly looking for ways to better facilitate the process (Almeida & Kogut 1999; Holtbrügge & Berg 2004). On the other hand, cultural misalignment can have a negative impact on knowledge transfer. For example, studies of US-Japanese cooperative ventures show that those focused on knowledge transfer and learning objectives often fail when the knowledge provider tries to impose their standards on their foreign counterparts, rather than respect their differences (Inkpen, 1996). When the knowledge acquirer has high power distance, differences in local context are not taken into account when knowledge is transferred to the local subsidiary, thus making it difficult for the knowledge transferred to be assimilated into the local context.

In this study, both reasons above may have counteracted each other to produce a non-significant relationship. It is likely the case that the high power-distance perceptions of the local employees, while facilitating knowledge transfer due to the easy acceptance of knowledge from the HQ, also caused difficulties in assimilating the knowledge due to the lack of discussion and adaptation to the local context.

Finally, the results showed that individuals who are more open to diversity and a multicultural workforce were able to learn and obtain knowledge more effectively from the HQ. Different communication styles create challenges in a diverse workforce (Brett, Behfar & Kern 2006). Only a few prior studies found that cultural diversity would lead to worse performance and less intense knowledge transfer (Palich & Gomez-Mejia 1999; Puck, Rygl & Kittler 2006). Most studies argued that workforce diversity can create competitive advantage for the firm, with positive impacts on the firm's performance (Lockwood 2005). For example, Cummings (2004) found that external knowledge sharing was more strongly associated with performance when

work groups were more structurally diverse. For individuals to learn effectively from employees of a different culture, they must be open to diversity and to work with others from different backgrounds and upbringing (Ambos & Ambos 2009). Consistent with these findings, this study found that openness to diversity was particularly important in the context of knowledge transfer from the HQ to the subsidiaries.

## **7. CONCLUSION**

This study focuses on understanding the factors that impact knowledge transfer from the parent corporation to subsidiaries when there are significant differences in the national culture of the parent corporation and the subsidiary. Transferring knowledge can be especially difficult when the source and recipient do not share common beliefs, assumptions and cultural perceptions. Therefore, it is important to examine how individual employee's perceptions of trust, openness and their national culture influence the effectiveness of knowledge transfer from the HQ to the employees in the subsidiary. The results of this study show that individual's trust of the HQ and their openness to diversity are key factors influencing local employees' ability to learn and obtain knowledge from foreign HQ. The extent to which there is alignment between the HQ culture and the individual's cultural values, on the other hand, appeared to make little difference to knowledge transfer from the HQ. This paper contributes to the literature in cross border knowledge transfer by showing that due to the geographical distance or cultural differences between the HQ and the subsidiary, the cultivation of trust and openness to diversity on the part of local employees is critical for knowledge transfer.

### ***7.1 Limitations***

The findings of this study should be considered in view of the following limitations. First, the sample consists of respondents from only one organization. While the focus on a single organization is common in many studies examining knowledge sharing (e.g., Constant, Sproull & Kiesler 1996; Cummings 2004), this can potentially limit the generalizability of the findings to other organizations. Moreover, because only the subsidiaries from one country of a multinational corporation are studied, the sample size was very limited. This might therefore limit the statistical power of the findings. Nevertheless, despite the small sample size, two of the hypothesized factors – trust in HQ and openness to diversity – were found to be significant in influencing knowledge transfer from the HQ.

Second, as the study is conducted using cross-sectional survey data, the usual caveats relating to the limitations in drawing definitive conclusions about causality apply. Research that assesses knowledge transfer from HQs to subsidiaries over time would provide additional and stronger support for the proposed arguments.

Third, a survey was used to measure all dependent and independent variables; hence there may be common method bias in the data. To address possible common method bias effects, Harman's single-factor test (Harman 1967) was performed. If a significant amount of common method bias exists in the data, then a factor analysis of all of the variables in the model will generate a single factor that accounts for most of the variance. Unrotated factor analysis using the eigenvalue-greater-than-one criterion revealed six factors for the repository survey, and the first factor explained only 43.3 percent of the variance in the data.

Finally, this paper only examines the level of trust employees in the subsidiary have towards the HQ. The level of trust that the HQ has on subsidiaries and the perspective of the HQ is also important in influencing knowledge transfer from the HQ to the subsidiary. Hence, further

research also should examine trust that HQ has on subsidiaries because it can increase the amount of knowledge that can be exchanged and the effectiveness of knowledge transfer.

## ***7.2 Theoretical implications***

The research contributes to the literature in three ways. First, prior literature on cross-border knowledge transfer only examines the role of cultural variations in facilitating/impeding knowledge transfer. This study highlights that both national and corporate culture dimensions should be considered in understanding the influence of culture perceptions on knowledge transfer between the HQ and a foreign subsidiary. The results show that the corporate culture dimension – openness to diversity, has a more significant role to play than the national culture dimensions. This highlights that if MNCs endeavour to inculcate a strong and open corporate culture, there is a good chance that the national culture influences of the foreign subsidiaries will be less significant in influencing knowledge transfer.

Second, the results also provided interesting findings about cultural alignment of a foreign subsidiary. The descriptive statistics of the responses from the Vietnamese employees show that employees in MNC Vietnam illustrate a more individualistic culture at their workplace. This is in contradiction with previous literature, where it was suggested that people from Asian countries should have a collectivist culture (e.g., Bhagat et al. 2002; Hofstede 1980). This shows that while the employees in Vietnam are from a collectivistic national culture, people's behaviour in organizations are also determined by the organizational culture, which embody the values and practices adopted by organizations (Chatman et al. 1998). This shows that the national culture of the originating country of an MNC is likely to permeate into the corporate culture and hence influence the culture of foreign subsidiaries.

Third, this paper also highlights the importance of openness to diversity. Scholars examining diversity in MNC have primarily focused on the consequences of demographic diversity (e.g., gender, age, or race) or cultural diversity (e.g., language, value) for processes such as communication, conflict, or social integration (Cummings, 2004). This study provides further evidence that demographic or cultural diversity will likely not increase knowledge transfer unless employee can embrace the diversity, and effectively leverage the differing views and opinions of others.

### ***7.3 Practical implications***

This paper has several practical implications. First, the employees in MNC's Vietnamese offices appear to have a high level of trust towards the HQ. These findings are interesting because the high level of trust exists despite the fact that the national culture between the HQ and Vietnamese subsidiaries are very different. This indicates that regardless of dissimilarities in the context, trust among the local employees in subsidiaries to the foreign HQ can be cultivated. The results show that when trust exists between two very different entities, effective knowledge transfer can occur, despite the differences in culture, history and characteristics between the two entities. This implies that organizations should work on instituting various mechanisms to cultivate trust of the HQ amongst their overseas employees, regardless of the differences that may exist between the HQ and the overseas subsidiary. In addition, organizations need not only depend on trust that is built-up through interpersonal interactions. Putting in place guarantees, safety nets and other structures will also be helpful to increasing institutional-based trust of their overseas employees (Duan et al., 2010).

Second, a clear practical message from this study is that managers should be aware of the

importance of corporate culture, specifically openness to diversity. The analysis shows that openness to diversity is significantly and positively associated with the extent of knowledge transfer from the HQ, whereas national culture plays an insignificant role. This highlights that when an MNC has a multinational workforce, the problem they should focus on is how to utilize the multiple and diversified talents. Instead of becoming overly concerned about the differences in the national cultures, managers should develop a good mechanism that can leverage diverse views and perspectives, help employees to be open to diversity, and view it as an advantage. They should inculcate openness to diversity as a key aspect of the corporate culture, regardless of differences in the national culture of their foreign subsidiaries.

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## Appendix 1. Interview questions

- What is your background and position?
- How many years have you been working in MNC?
- Have you been interacting with the HQ?
- What do you think you have learned from interacting with the HQ? What aspects of your work do you think have been improved as a result of learning from the HQ?
- What are some significant challenges interacting with people in the HQ? What are some key differences between the HQ and here, in terms of the way things are done, the way people think?
- Are there instances where you or your department tried to transfer a best practice from the HQ? Was it successful? Were any changes made to the best practice?
- Is knowledge transferred to VN from HQ or from other subsidiaries, or both?
- How would you describe the corporate culture at MNC?
- According to your perception of corporate culture at MNC, do you feel that this subsidiary/unit is practicing this culture or do you feel that the working culture at this unit is far from practicing the corporate culture?
- How would you describe your national cultural norms? And do you feel that your national culture/norms clashes with those in the HQ?
- Do you feel that by working with a diversity of people from different culture would make the work done at the subsidiary more effectively?
- How close do you perceive the cooperation between the HQ and this subsidiary?
- Do you feel that by knowing a western culture would help you in adapting more easily to the corporate culture?

- Did you know anything about the western culture before you worked at MNC? Where did you learn this from?
- Do you feel that it is easier to trust you fellow citizens than other people abroad?
- Do you think trust is an issue among the employees in this subsidiary? if yes – then why?

## Appendix 2

**Table A1 Questionnaire items**

<i>Construct (abbreviation)</i>	<i>Question items</i>	<i>Source</i>
Knowledge transfer	Extent of knowledge learned from HQ: Technological expertise in your field of work Marketing expertise Service development techniques Managerial techniques Corporate culture and values	Adapted from: (Griffith <i>et al.</i> , 2001; Gupta and Govindarajan, 2000)
Trust in HQ	Extent of trust in the HQ: I think the HQ meets its agreed on obligations to my subsidiary I think that people in the HQ tell the truth when they deal with my subsidiary I feel that the HQ discusses issues with me honestly I feel that the HQ will keep its word I feel that the HQ does not mislead me I trust the HQ I feel that the HQ discusses joint expectations fairly I could share information openly with the HQ because they do not take advantage of this information against my interests	Adapted from: (Kostova and Roth, 2002)
Cultural alignment – individualism	Extent of cultural perception: I believe that the staff of MNC should identify with the company I prefer to work in a team or as a pair than work alone I believe that my personal advancement depends on how well the group does (Items are reverse coded)	Adapted from: (Bochner and Hesketh, 1994)
Cultural alignment – power distance	I will argue against a management decision that I disagree with I will be cautious about how I express myself when telling a superior from a different ethnic background about a problem at work (reverse coded) I will be cautious about how I express myself when telling a subordinate from a different ethnic background about a problem at work (reverse coded)	Adapted from: (Bochner and Hesketh, 1994)
Openness to diversity	I believe that ethnic diversity in the workplace impedes getting the work done I believe that a multicultural work force is a disadvantage I have difficulty in communicating with a fellow worker from another country (Items are reverse coded)	Adapted from: (Bochner and Hesketh, 1994)
Organizational tenure	Please indicate the number of years that you have worked in MNC	

### Appendix 3

**Table A11 Item loadings and cross loadings based on principal components analysis**

	<i>Knowledge transfer</i>	<i>Trust</i>	<i>Cultural alignment individualism/collectivism</i>	<i>Cultural alignment power-distance</i>	<i>Openness to diversity</i>
KT1	0.714	0.352	0.175	0.154	0.198
KT2	0.829	0.244	0.235	0.198	0.115
KT3	0.827	0.102	0.341	0.184	0.212
KT4	0.866	0.173	0.123	0.310	-0.045
KT5	0.726	0.256	-0.014	0.389	-0.043
TR1	0.211	0.768	0.086	0.461	0.024
TR2	0.214	0.881	0.013	0.324	0.049
TR3	0.161	0.901	0.193	0.406	0.298
TR4	0.254	0.918	-0.047	0.252	0.241
TR5	0.217	0.957	-0.003	0.318	0.217
TR6	0.298	0.893	0.322	0.166	0.252
TR7	0.203	0.901	0.347	0.282	0.212
TR8	0.216	0.880	0.312	0.257	-0.035
IC1	0.181	0.196	0.791	0.313	0.141
IC2	0.172	0.234	0.924	0.157	-0.054
IC3	0.232	0.307	0.925	0.342	0.154
PD1	0.273	0.124	0.304	0.721	0.137
PD2	0.356	0.277	0.312	0.878	0.157
PD3	0.312	0.216	0.215	0.833	0.137
OD1	0.217	0.154	0.157	0.033	0.955
OD2	0.309	-0.044	0.024	0.249	0.952
OD3	0.387	0.175	0.144	0.194	0.960