



# The Deployment of Knowledge Sharing Mechanisms in Service MNCs

*The Impact of Industry and Culture*

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# Abstract

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Title	The Deployment of Knowledge Sharing Mechanisms in Service MNCs – The Impact of Industry and Culture
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Supervisor	Paul Gooderham
<b>Objectives</b> The purpose of this thesis is to study the mechanisms used by service MNCs to promote knowledge sharing (KS). More specifically, this thesis studies the impact of industry and culture on social capital (SC) and the role of SC in KS. The objective is to identify the most effective knowledge governance mechanisms to promote knowledge sharing in the banking and consulting industries.	
<b>Summary</b> Our research model consists of Knowledge Governance Approach (KGA) and SC which we use to analyze knowledge sharing mechanisms in the banking and consulting industries. Furthermore, we study the impact of industry and culture on KS by interviewing DNB, BES, Millennium bcp, IBM and Accenture in Norway and Portugal. Based on the interviews we develop a comparative analysis between the banking and consulting companies in two cultural contexts.	
<b>Conclusion</b> Based on our empirical research, the findings suggest that industry determines KS in service MNCs more than culture. The banking industry uses primarily hierarchical mechanisms to promote KS across their operations while the consulting industry favors social mechanisms due to their network organization structure. The market-based incentives are not widely adopted in the sole promotion of KS.	
<b>Keywords</b>	knowledge management, knowledge sharing mechanisms, social capital, knowledge governance approach, banking, consulting, service MNC, Norway, Portugal

# Foreword

The topic for our thesis was developed gradually after the course International Organization and Management taught at NHH during the first semester of our Master's degree studies in fall 2011. The course inspired us to study more about knowledge sharing in MNCs and during the spring semester 2012 we started drafting more specific ideas for the thesis.

The writing process itself is both an academic as well as a practical learning experience of knowledge sharing in a multicultural environment. By our nationalities, we represent Finland and Norway, and we have researched the topic over the final academic year of the master's studies while both on exchange in the different semesters: the fall semester 2012 in Taiwan and the spring semester 2013 in Portugal. Therefore, while not being physically in the same place most of the time, we have cooperated and shared knowledge via emails, video calls, and cloud services. However, a few personal face-to-face meetings took place in the beginning, in the middle, and in the end of the thesis process.

Working together on a research paper at distance would probably not have been possible a few years ago and despite the modern communication tools, even today virtual interaction is a subject to skepticism. However, we understand that many people prefer personal social interaction in cooperation because distance may cause a higher risk of misunderstandings. Therefore, we suggest that virtual interaction may be only a complementary dimension to cooperation in the long run. Yet, we think that trust, open-minded attitude, and curiosity towards new working methods are valuable resources in every area of life.

Based on our experience, writing the thesis together has strengthened our intercultural communication skills and deepened our understanding of social capital and knowledge sharing in service MNCs. Moreover, the thesis writing process has served as a useful simulation to future challenges in a multinational environment.

We wish to express our gratitude to our supervisor Professor Paul Gooderham for his continuous support, feedback, and guidance throughout the thesis process. Also, we would like to thank all the interviewees at DNB, BES, Millennium bcp, IBM, and Accenture for their contribution to the empirical part of the thesis.

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# Table of Contents

- 1. INTRODUCTION .....1**
- 1.1 BACKGROUND..... 1
- 1.2 RESEARCH PROBLEM ..... 2
- 1.3 RESEARCH OBJECTIVE AND QUESTIONS..... 4
- 1.4 STRUCTURE OF THE THESIS ..... 5
- 2. LITERATURE REVIEW .....6**
- 2.1 GROUNDS FOR KNOWLEDGE SHARING..... 6
- 2.1.1 *Sharing Tacit and Explicit Knowledge* ..... 7
- 2.1.2 *Knowledge Transfer Capacity* ..... 8
- 2.1.3 *Knowledge Intensity*..... 9
- 2.1.4 *Sharing Systems* ..... 10
- 2.2 SOCIAL CAPITAL IN KNOWLEDGE SHARING ..... 11
- 2.2.1 *Social Capital Theory* ..... 11
- 2.2.2 *Relational Dimension*..... 13
- 2.2.3 *Cognitive Dimension*..... 14
- 2.2.4 *Structural Dimension* ..... 15
- 2.3 KNOWLEDGE GOVERNANCE APPROACH ..... 17
- 2.3.1 *Market-based Mechanisms* ..... 17
- 2.3.2 *Hierarchical Mechanisms* ..... 19
- 2.3.3 *Social Mechanisms*..... 21
- 2.4 INDUSTRY CHARACTERISTICS ..... 23
- 2.4.1 *Banking* ..... 23

2.4.2	<i>Consulting</i> .....	24
2.4.3	<i>Main Differences between the Industries</i> .....	26
2.5	CULTURAL CHARACTERISTICS .....	27
2.5.1	<i>Cultural Identity and the Country-of-Origin Effect</i> .....	27
2.5.2	<i>The Effect of the MNC Structure on Organizational Culture</i> .....	29
2.6	SUMMARY OF THE LITERATURE REVIEW .....	31
<b>3.</b>	<b>METHODOLOGY</b> .....	<b>32</b>
3.1	RESEARCH METHOD AND DESIGN .....	32
3.2	DATA COLLECTION .....	35
3.2.1	<i>Introduction of the companies</i> .....	36
3.3	DATA ANALYSIS .....	39
3.4	RELIABILITY AND VALIDITY .....	39
<b>4.</b>	<b>FINDINGS</b> .....	<b>41</b>
4.1	KNOWLEDGE SHARING IN BANKING.....	41
4.1.1	<i>The Value of Knowledge Sharing</i> .....	41
4.1.2	<i>Mutual and One-sided Knowledge Sharing</i> .....	42
4.1.3	<i>Sharing Systems</i> .....	43
4.2	SOCIAL CAPITAL IN BANKING .....	44
4.2.1	<i>Relational Dimension</i> .....	44
4.2.2	<i>Cognitive Dimension</i> .....	46
4.2.3	<i>Structural Dimension</i> .....	48
4.3	KNOWLEDGE GOVERNANCE APPROACH IN BANKING .....	49
4.3.1	<i>Market-based Mechanisms</i> .....	49
4.3.2	<i>Hierarchical Mechanisms</i> .....	49

4.3.3	<i>Social Mechanisms</i> .....	50
4.4	KNOWLEDGE SHARING IN CONSULTING.....	52
4.4.1	<i>The Value of Knowledge Sharing</i> .....	52
4.4.2	<i>Mutual and One-sided Knowledge Sharing</i> .....	53
4.4.3	<i>Sharing Systems</i> .....	54
4.5	SOCIAL CAPITAL IN CONSULTING .....	56
4.5.1	<i>Relational Dimension</i> .....	56
4.5.2	<i>Cognitive Dimension</i> .....	57
4.5.3	<i>Structural Dimension</i> .....	58
4.6	KNOWLEDGE GOVERNANCE APPROACH IN CONSULTING.....	60
4.6.1	<i>Market-based Mechanisms</i> .....	60
4.6.2	<i>Hierarchical Mechanisms</i> .....	60
4.6.3	<i>Social Mechanisms</i> .....	61
4.7	SUMMARY OF THE FINDINGS .....	63
<b>5.</b>	<b>DISCUSSION</b> .....	<b>66</b>
5.1	PROMOTION OF KNOWLEDGE SHARING IN SERVICE MNCs .....	66
5.1.1	<i>Promotional Mechanisms</i> .....	67
5.2	THE IMPACT OF INDUSTRY AND CULTURE ON SOCIAL CAPITAL.....	68
5.2.1	<i>Industry Factors</i> .....	68
5.2.2	<i>Cultural Factors</i> .....	69
5.2.3	<i>Social Capital</i> .....	70
5.3	KNOWLEDGE GOVERNANCE APPROACH .....	72
5.3.1	<i>The Differences in the Use of Knowledge Governance Mechanisms</i> .....	72
5.4	MANAGERIAL IMPLICATIONS .....	74

5.5	SUGGESTIONS FOR FUTURE RESEARCH .....	76
<b>6.</b>	<b>CONCLUSION .....</b>	<b>78</b>
	<b>REFERENCES.....</b>	<b>80</b>
	<b>APPENDICES .....</b>	<b>86</b>



## List of Figures

<b>Figure 1.1</b>	The structure of banking and consulting MNCs.....	2
<b>Figure 1.2</b>	Research model on the determinants of knowledge sharing mechanisms..	5
<b>Figure 2.1</b>	The levels of the in-transfer capacity in the subsidiary.....	8
<b>Figure 2.2</b>	IBM Knowledge Management framework.....	25
<b>Figure 2.3</b>	Hofstede’s cultural dimensions: Norway and Portugal.....	28
<b>Figure 2.4</b>	MNC Structures.....	30
<b>Figure 3.1</b>	Research model on the determinants of knowledge sharing mechanisms..	34
<b>Figure 4.1</b>	IBM Organization Overview.....	59

## List of Tables

<b>Table 1.1</b>	The MNCs interviewed for the thesis in April 2013.....	3
<b>Table 2.1</b>	Development steps of ShareNet at Siemens.....	11
<b>Table 2.2</b>	Market-based, hierarchical, and social mechanisms.....	18
<b>Table 3.1</b>	Information about the companies and interviewees.....	36
<b>Table 4.1</b>	Summary of the findings.....	64

# 1. Introduction

## 1.1 Background

Knowledge management and particularly knowledge sharing are regarded as being a key source for competitive advantage for multinational corporations (MNC): a globally distributed network of subsidiaries can provide the MNC with significant value in terms of the existing knowledge repositories but also enable combining knowledge and discover new opportunities. Therefore, knowledge transfer projects should be given a high priority (Björkman et al. 2004; Loye 2008).

With the significant expansion of knowledge reservoirs over the past decades, MNCs are increasingly dependent on being able to develop knowledge management practices. Management information systems are a prerequisite for flawless knowledge sharing and the remarkable development of computing power and communications technology has enabled easier use of the knowledge resources (Foss 2006; The Economist 2012). Yet, knowledge sharing needs also another crucial element: social capital. The development of social capital is an essential part of knowledge sharing because it can help to build and strengthen trust in the organization. Fostering social capital allows the organization to promote knowledge sharing better, because continuous interaction among employees often reinforces the level of shared commitment, interests, and goals (Daniel et al. 2003).

We have chosen to study knowledge sharing because we believe the topic will remain important in MNCs, which need to respond to the challenges posed by increasing and possibly even more complex forms of knowledge in the future. As MNCs consist of operations in several locations in different countries, developing systems and practices that allow efficient knowledge sharing across the units is necessary. However, the structure, culture or perceived goal of the MNC may vary between the units and, therefore, a clear and common vision is an essential foundation for successful knowledge sharing (Lee 2001).

Knowledge management is a widely researched topic and there are also a number of specific studies about knowledge sharing. We believe this thesis adds a novel perspective to the existing literature by providing an empirical study about knowledge sharing in two different service industries: banking and consulting. We have chosen banking and consulting, because

they are good examples of service industries dominated by MNCs whose competitive advantage depends on knowledge sharing across their operations. Nevertheless, there are differences between the industries and e.g. social capital may have a different influence on knowledge sharing in banking than in consulting. Banking operations are often fairly standardized (Berger and Smith 2003) while consulting activities are in general highly knowledge-intensive services (Michailova and Gupta 2005) which require flexibility in the operations.

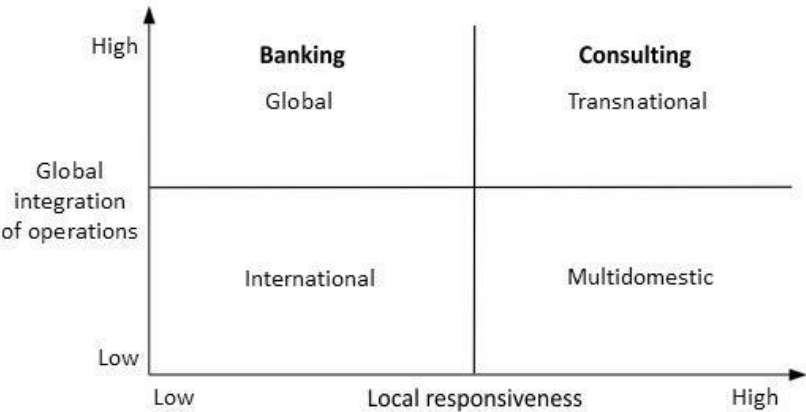


Figure 1.1. The structure of banking and consulting MNCs

Figure 1.1 illustrates the structure of MNCs in the banking and consulting industries. Banks have more pronounced global HQs while consulting companies can be described as transnational. The structure of consulting companies resembles a partner model in which the HQ and subsidiaries are network organizations.

## 1.2 Research Problem

While academic research can provide MNCs with a general framework to identify the best strategies for the inter-unit knowledge transfer, MNCs must also evaluate how and what kinds of industry and organization specific factors affect knowledge sharing (Björkman et al. 2004; Foss 2006). Effective knowledge sharing mechanisms are crucial especially in the banking and consulting industries, in which MNCs produce intangible and information-based products and services (Martín Rubio 1998; Björkman et al. 2004).

The theory about “burden of knowledge” (Jones, 2008) suggests that “if knowledge accumulates as technology advances, then the successive generations of innovators may face an educational burden.” Furthermore, learning and sharing knowledge faster is needed in the global competition (Michailova and Gupta 2005:201). Because knowledge in service MNCs is often in tacit format and embedded in employees, organizations can expect increasing reliance on team work and social interaction in the future (Nahapiet and Ghoshal 1998; Clegg et al. 2010: 348). However, if social capital contributes to knowledge sharing positively (Gooderham et al. 2010) and might be ultimately a source of superior performance in the MNC, how can the management ensure the development of social capital and knowledge sharing? Moreover, how does industry or culture determine knowledge sharing?

This thesis develops a comparative analysis on banking and consulting based on the findings from the interviews with the MNC representatives in Norway and Portugal. Table 1.1 gives an overview on the companies researched in this thesis. More in-depth information about the companies is available in Chapter 3.

Company	Industry	Origin	Countries	Interviews
<b>DNB</b>	banking	Norway	19	HQ in Norway
<b>BES</b>	banking	Portugal	20	HQ in Portugal
<b>Millennium bcp</b>	banking	Portugal	8	HQ in Portugal
<b>Accenture</b>	consulting	US	>120	Subsidiaries in Norway and Portugal
<b>IBM</b>	consulting	US	>170	Subsidiaries in Norway and Portugal

Table 1.1. The MNCs interviewed for this thesis in April 2013

The interviews in banking were given by the HQ representatives and the interviews in consulting were given by the subsidiary representatives. Based on our research, we think the subsidiaries in consulting are more independent in their operations because of their network organization structure. Also, IBM and Accenture operate in a great number of countries and direct supervision of all subsidiaries from the HQ would be complicated. In contrast, the subsidiaries in banking are more dependent on the HQ because their operations are more standardized. Also, the banks are present in a limited number of countries which makes controlling for the HQ easier.

### 1.3 Research Objective and Questions

The purpose of this thesis is to examine the mechanisms used by service MNCs to promote knowledge sharing across their operations. The scope of this study covers knowledge sharing mechanisms in banking and consulting. More specifically, this thesis studies the role of social capital in knowledge sharing. The objective is to identify the most effective mechanisms to promote knowledge sharing in the given industries.

In order to approach the research objective, we have defined the following questions to support the research process:

- 1) How do MNCs promote knowledge sharing in different service industries, such as banking and consulting?
- 2) What industry and cultural factors contribute to social capital and how does social capital affect knowledge sharing?
- 3) What are the differences in the use of knowledge governance mechanisms between the banking and consulting industries?

The thesis is qualitative in its nature because we consider qualitative research meeting the purpose of the thesis better than quantitative research. Qualitative research seeks to understand and explain the topic more in-depth and, therefore, can answer the exploratory research questions. Based on the literature review, we have developed a research model which provides a structure for the comparative analysis to discuss the findings from the company interviews. The model in figure 1.2 illustrates the impact of industry and culture on knowledge sharing in service MNCs. Because organizational culture derives many elements from the country of origin of the MNC, our research model divides culture into national and organizational culture in the analysis.

The three types of Knowledge governance mechanisms; market-based, hierarchical and social mechanisms, are suggested to have “significant consequences for the development of social capital” (Adler and Kwon 2002). Social capital consists of relational, cognitive, and structural dimensions which influence knowledge sharing (Gooderham et al. 2010). In our comparative analysis, knowledge sharing is analyzed through the value of KS, mutual and one-sided KS, and the sharing systems.

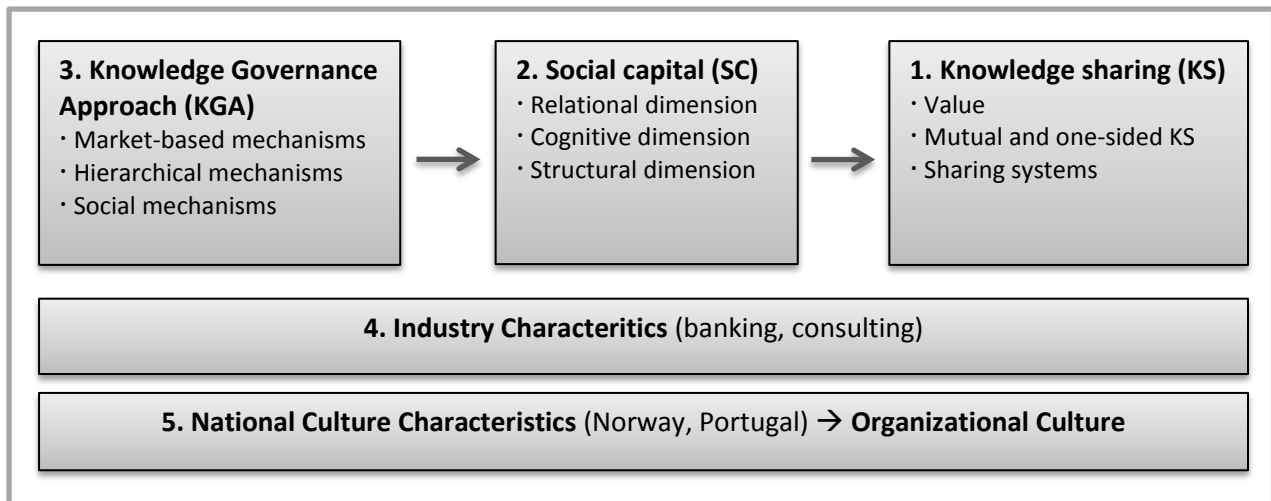


Figure 1.2. Research model on the determinants of knowledge sharing mechanisms

Besides industry and culture, there are national socioeconomic conditions which may affect social capital and knowledge sharing. However, the socioeconomic aspect is beyond the scope of this paper and, therefore, we do not address it in the model.

## 1.4 Structure of the Thesis

After the introduction in Chapter 1, the thesis continues with a literature review on the existing research about knowledge sharing, social capital, and knowledge governance mechanisms in MNCs. We also present industry and culture characteristics in banking and consulting and provide a summary of the literature review in Chapter 2. Then, based on the literature review, we develop a research model for the study in Chapter 3. Followed by the methodology, we present the findings of our empirical research and conclude Chapter 4 by summarizing the main findings. The findings are followed by a discussion in Chapter 5 in accordance to the research questions. Besides the research questions, we state the managerial implications of the thesis and give suggestions for future research. Finally, we present a conclusion of the study in Chapter 6.

## **2. Literature Review**

This chapter introduces existing research about knowledge sharing in service MNCs. We start backwards with the research model in figure 1.2: first, we cover the grounds for knowledge sharing (1) by presenting the types and value of organizational knowledge, transfer capacity and intensity as well as sharing systems. Then, we present the social capital theory (2) followed by the knowledge governance approach (3). We also shed light on the main differences between the banking and consulting industries (4) and address the cultural aspects (5) in knowledge management. Finally, we give a summary of the main themes covered in the literature review.

### **2.1 Grounds for Knowledge Sharing**

With increasing knowledge reservoirs in today's dynamic business environment, a frequent question in strategic management is how to gain and sustain competitive advantage (Collis 1995). Companies need to possess a well-designed knowledge management system if they are to extract value from the information sources and incorporate the key knowledge effectively into decision-making (Loye 2008). The internal analysis of the organization is highlighted while external industrial factors should not be omitted either (Collis 1995, cited in Lee 2001).

Knowledge management can be viewed as a systematic process which aims at improving the way information is found, selected, organized, distilled, and presented (Herschel and Jones 2005). Lee (2000: 324) defines knowledge management as a process of capturing, storing, sharing, and using knowledge which constitutes to gaining and sustaining competitive advantage. Knowledge management can also be seen as integration of information assets, such as documents, policies, procedures, as well as the expertise and experience of employees; knowledge management creates a platform for utilizing the aggregate knowledge for problem solving, dynamic learning, strategic planning, and decision-making (Hameed 2004).



### 2.1.1 Sharing Tacit and Explicit Knowledge

Knowledge sharing is an essential dimension of knowledge management. It consists of activities of transferring or disseminating knowledge from one person, group or organization to another (Lee 2001). However, knowledge being rather an abstract word without a precise definition, many scholars have approached the term by dividing knowledge into tacit knowledge and explicit knowledge. Tacit knowledge is learned by experience and communicated through metaphor and analogy. Explicit knowledge can be learned from and presented in manuals and procedures (Nonaka and Takeuchi 1995). The knowledge types may receive varying level of attention in different cultures; e.g. the US managers have been found to emphasize explicit knowledge, whereas the Japanese managers focus on tacit knowledge.

Explicit knowledge can be transmitted through any formal or systematic language (Polanyi 1966; Evans & Easterby-Smith 2000). However, explicit knowledge represents only a small share of knowledge embedded in an employee since human beings acquire and update knowledge continuously by creating and organizing their own experiences. In comparison to explicit knowledge, tacit knowledge is context specific and personal, which makes it difficult to be communicated and transmitted (Fischer and Mandell 2009).

A great debate encircles the relationship of tacit and explicit knowledge. Some researchers, such as Cook and Brown (1999), argue that they are separate from each other, whereas e.g. Nonaka and Takeuchi (1995) suggest that tacit and explicit knowledge complement each other mutually. The different views on the possible interdependency create an important distinction to be considered in understanding knowledge sharing and knowledge management systems. Yet, as Cook and Brown (1999: 385) outline further, tacit and explicit knowledge may be separate entities but they facilitate the acquisition of each other “in that one can apply one’s tacit knowledge to generate explicit knowledge and vice versa.”

In their research about theorizing and representing organizational learning and knowledge management, Evans and Easterby-Smith (2000) point out that understanding the dynamics of knowledge sharing in organizations is a sum of several implications. Regarding tacit and explicit organizational knowledge, the researchers argue that they are “similar to the two sides of a coin rather than separate entities or different ends of a continuum.” It is also claimed that the creation of organizational knowledge consists of processes such as

transformation and amplification (Nonaka and Takeuchi 1995). Moreover, there is also a complex process called ‘the generative dance’ which refers to “a dynamic process of shaping and reshaping knowledge through interactions with the world around us.” Furthermore, the generative dance principle suggests that application of tacit and explicit knowledge constitutes to the creation of new knowledge (Evans and Easterby-Smith 2000). Similar findings can be derived from the research of Nonaka and Takeuchi (1995:61) who state that the interdependency of tacit and explicit knowledge allows creation and extension of new knowledge.

### 2.1.2 Knowledge Transfer Capacity

The knowledge sharing process has two basic dimensions: in-transfer capacity and out-transfer capacity. The in-transfer capacity describes the ability and willingness to transfer knowledge between the HQ and subsidiaries. More specifically, the in-transfer capacity refers to the subsidiaries located in less developed markets which have a varying absorptive capacity to receive knowledge from the parent. The in-transfer capacity can be divided into four levels and as summarized in figure 2.1, the shift from one level to the next level requires investments in knowledge management practices (Leonard-Barton 1995; cited in Gooderham and Nordhaug 2003: 262-264).

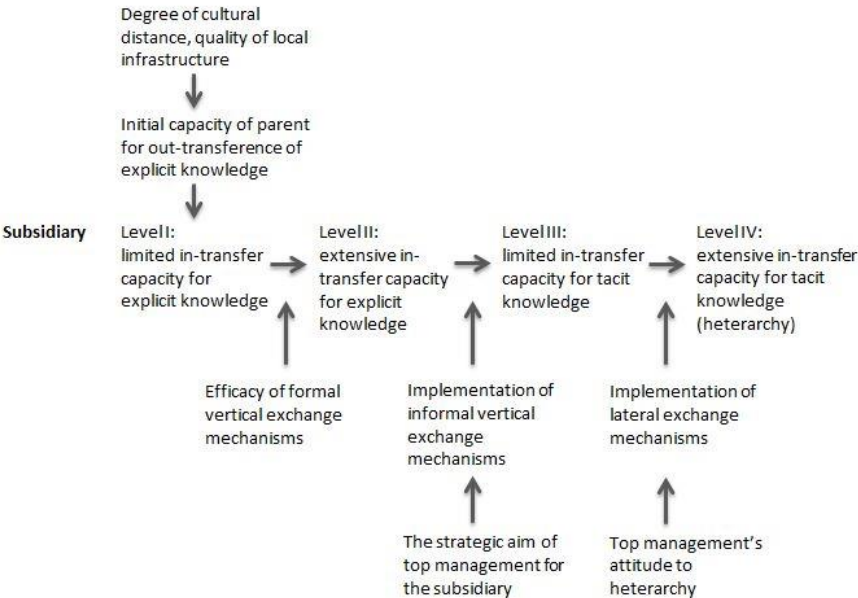


Figure 2.1. The levels of the in-transfer capacity in the subsidiary. (An extract from Gooderham and Nordhaug, 2003)

The out-transfer capacity refers to the transferor's ability to share explicit knowledge and tacit knowledge. A part of the out-transfer capacity in explicit knowledge is the ability to codify and disseminate information e.g. in manuals or procedures. Some companies are better at articulating explicit knowledge than the others which could be a result of a well-established knowledge sharing policy (Gooderham and Nordhaug 2003).

However, what makes out-transfer of tacit knowledge difficult is its idiosyncratic nature. Tacit knowledge is often a result of organizational routines which have been developed through individual interaction. Therefore, there must be an established pathway to maintain and develop social ties between the transferor and recipient. Such a pathway could be intranet, which enables smooth knowledge sharing between MNC units. Nevertheless, the sole existence of the system does not guarantee knowledge sharing but employees need incentives to use the system and transfer knowledge actively (ibid).

### 2.1.3 Knowledge Intensity

The role of knowledge sharing can hardly be underestimated in any company but in the knowledge-based enterprises (KBE) there are fewer constraints on knowledge transactions than in traditional organizations. KBEs are found to support a fluent flow of knowledge because the companies have recognized the impact of an efficient knowledge sharing system on their existence. They are often characterized by a unique culture with flexibility. Successful KBEs seem to support "knowledge exchange in a very broad manner, not necessarily for selected types of knowledge or for specific and well-defined objectives" (Geisler and Wickramasinghe 2009).

Although the extensive in-transfer capacity for tacit knowledge (see figure 2.1.) represents an ideal in-transfer capacity for many companies, it is worth considering the threat of opportunistic behavior when knowledge sharing is bi-directional. For example, in the lack of trust, a subsidiary that has evolved into a service innovator, may not disclose everything to the HQ and other subsidiaries (Gooderham and Nordhaug 2003: 267). The reason could be a fear of losing some of the key competencies and, therefore, the status as an innovator. This kind of behavior reflects "knowledge is power" thinking which might cause serious difficulties in knowledge sharing (Peng 2009: 366). To overcome or at least to decrease possible reluctance to share information, the company can encourage individuals to communicate by showing positive impacts of knowledge sharing on financial or productive

performance. By doing this the company can also promote the pursuit of corporate-level interests (Casher et al. 2003:19).

#### 2.1.4 Sharing Systems

Knowledge sharing consists of many tools and techniques that contribute to organizational performance. For example, knowledge and content management applications and technologies enable searching and organizing accumulated documents and data that can create a significant pool of valuable knowledge especially for large MNCs. Aggregated business reports, forms, e-mails, spreadsheets, contracts, articles etc. contain a lot of precious information for business development and problem solving (Herschel and Jones 2005). To store and retrieve information from these sources, efficient tools for data warehousing are a necessity.

A well-designed knowledge management system can become a major contributor in pursuit of competitiveness. Voelpel et al. (2005) present a case study about Siemens, the Munich-based global electronic giant, and the way they successfully implemented a global knowledge sharing system called ShareNet. The five steps in the creation of ShareNet are presented in table 2.1.

Siemens's strategy for organizational and cross cultural challenges can offer instructive insights to other organizations which seek to create a global knowledge sharing system. The case leads to a learning outcome that not only the development phase of the system is important but also the incentive system to motivate employees to use it. The usage might not only include sharing alone but also giving feedback and ideas for improvement. Furthermore, what remains crucial is the trust between the operational units (Voelpel et al. 2005).

<b>Actions</b>	<b>Description</b>
Defining the concept	The knowledge sharing system at Siemens did not only include explicit knowledge, but also individual's tacit knowledge. The new system had to be designed to integrate components, such as a knowledge library, forum for urgent requests, and platforms for knowledge sharing that would include discussion groups for certain topics and live chat rooms.
Global rollout	While creating the system, the core development team obtained cross cultural information from the users far away from the HQ in Munich to avoid the usual Siemens practice of spreading initiatives from the HQ to dominate the process.
Bringing momentum into the system	People being skeptical, the system did not receive an enthusiastic reception from everyone but there were many excuses not to use it. However, to motivate people to adopt the knowledge sharing system, Siemens introduced incentives, such as a bonus system, in which they rewarded the country unit for sharing.
Expanding group-wide	Siemens took the transnational strategy of being both globally integrated and locally responsive. The strategic direction of ShareNet was centrally maintained from the HQ in Munich, but the subsidiaries could help to identify the culturally embedded knowledge in their locations.
Consolidating and sustaining performance	Without evaluation of the quality and usefulness of information, people started sharing knowledge without references. Realizing the financial incentive would not fulfill its purpose in an intended way the company altered the reward program and established an evaluation system.

Table 2.1. Development steps of ShareNet at Siemens (Source: Voelpel et al. 2005)

## 2.2 Social Capital in Knowledge Sharing

The foundation of social capital is the behavior of humans within and between organizations. Personal relationships developed through human interaction over time provide a basis for networked organization activities which help to build trust further. Unique networks with social ties in the organization create a platform for collective actions and make the exchange of resources more fluent (Huotari and Iivonen 2004:11-12).

### 2.2.1 Social Capital Theory

Nahapiet and Ghoshal (1998; cited in Huotari and Iivonen 2004:11) define social capital as “the sum of the actual and potential resources embedded within, and available through and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network.” The researchers state that social capital contributes to the efficiency of knowledge

sharing because it encourages cooperative behavior. Encouraging cooperation is also likely to reduce the threat of opportunistic behavior. As proposed by Nahapiet and Ghoshal (1998), differences between firms in terms of knowledge sharing may represent differences in their ability to create and utilize social capital. Social capital can be divided into three dimensions:

1. Relational
2. Cognitive
3. Structural

The relational dimension includes trust, norms, and identity developed over time in relationships. The cognitive dimension refers to shared representations, interpretations, and systems of meaning, e.g. a shared vision. The structural dimension is related to social interaction, such as density and hierarchy (Nahapiet and Ghoshal 1998).

MNCs operate in a demanding context in which developing social capital promotes knowledge flows by eliminating risks that could result from cultural, institutional and physical distance factors (Gooderham et al. 2010). Besides culture, institution, and distance, the lack of motivation bears a barrier. For example, given the risk of asymmetric information between the MNC top management and its focal subsidiary, it might be in the subsidiary's self-interest not to transfer knowledge, even if it would benefit the whole organization. An additional barrier can originate from the difficulty of transferring idiosyncratic, specific, tacit and non-codified knowledge. These types of knowledge might affect the recipient's ability or willingness to absorb new information and might require costly supportive actions; especially when information is context specific (Björkman et al. 2004). Besides costly supportive actions, many empirical studies have found that knowledge transfer is notably more fluent when there is a close relationship between the sender and receiver (Bresman et al 1999; Gupta Govindarajan 2000; Lyles and Salk 1996; Simonin 1999 cited in Gooderham et al. 2010). If the sender and receiver are located in distant units, establishing close relationships might be difficult, if not impossible.

Social capital theory can be applied to identify dynamic and operational capabilities in the organization. A number of sources (Teece et al. 1997; Cepeda and Vera 2007; Gooderham 2006) state that dynamic capabilities play an important role in the process of knowledge transfer in MNCs. Dynamic capabilities allow the organization to “integrate, build, and reconfigure internal and external competencies to address rapidly changing

environments” (Teece et al. 1997:516). Operational capabilities refer to the operational functioning of the firm, including both people and line processes. They are a basis for organization’s current income while dynamic capabilities pursue to create sustainable competitive advantage. Dynamic capabilities relate “to the modification of operational capabilities and lead, for example, to changes in the firm's products or production processes” (Cepeda and Vera 2007:427).

### 2.2.2 Relational Dimension

The relational dimension can be described as a behavioral approach to social capital which is shaped by personal relationships employees have developed over time through social interaction. The type of relationship, such as respect and friendship, influences behavior of the individual and drives them to fulfill social motives. Social motives could be e.g. sociability, approval, and prestige which are influenced by relational factors, such as trust, norms, expectations, sanctions, and obligations (Nahapiet and Ghoshal 1998). The value of social capital can be considered from the relational perspective: social capital can hardly be traded because personal relations and obligations do not pass automatically from one employee to another (ibid).

The relational dimension in social capital can be enhanced by collaboration and teamwork which require trust as highlighted by Huotari and Iivonen (2004:8-15). They denote the essential role of trust in knowledge and information management and present the basic features of trust in three points. Trust is first of all based on expectations and interactions. It is common to assume that trust is greatly dependent on expectations of other people’s willingness and ability to meet our requirements. When we learn to understand other people and their expectations through interaction, we develop and strengthen trust.

Second, trust is manifested in people’s behavioral patterns. In situations where we are dependent on each other, trust becomes a critical factor. Different levels of trust can lead to different levels of resource exchange and information flows. A high level of trust may increase employees’ ability to cope with complexity and diversity, and that may increase the potential to combine knowledge for innovation (Huotari and Iivonen 2004:12). For example, “trust plays an important role in turning personal knowledge into organizational knowledge” and in the presence of mistrust, knowledge sharing will not be successful.

Third, trust makes a difference. To achieve a long-term objective, trust is an essential element (ibid). In addition to the three above mentioned points, trust can be communicated through shared meanings and shared values (Fukuyama 1995; cited in Huotari and Iivonen 2004:9) which strengthen the cognitive dimension of social capital.

Trust and relations in knowledge sharing have also become evident in partnerships between organizations. For example, outsourcing knowledge sharing became more common in the 1970 and 1980s with application packages, contract programming, and specific processing services which provided strategic, economic, and technological benefits. The contract relationship of the service provider and receiver evolved into a partnership type relationship in the 1990s when enterprise-wide system integration, application development, and systems operation were introduced. However, the evolution of outsourcing was not a simple and smooth transition since many service providers and receivers encountered difficulties in managing outsourcing (Lee 2000:325). Typical problems were related to the partnership quality and mutual trust (Lee and Kim 1999) which highlights the importance of relational dimension.

### 2.2.3 Cognitive Dimension

The cognitive dimension is focused on shared interpretations and systems of meaning among employees. According to Nahapiet and Ghoshal (1998), the dimension is still little discussed in the mainstream literature on social capital. However, cognitive resources address the importance of intellectual capital, such as shared language and codes and shared narratives, which are essential especially in the strategy domain. Although social capital exists in many forms in the MNC, a notable feature from the cognitive perspective is the joint ownership: social capital is shared capital because no single actor in the organization is capable of establishing an exclusive ownership over the phenomenon (ibid).

Knowledge sharing and collaboration can be promoted through integrative mechanisms, such as team building and norms, but creating a context in which interpretations are shared by every employee is time-consuming (Eisenhardt and Santos 2002; cited in Gooderham et al. 2010). The aim of corporate socialization is to create a set of values, objectives and beliefs across MNC units, leading to a strong sense of shared mission and unitary corporate culture. If units share the same goals and long-term visions, they are more likely to transfer knowledge as well. Shared language and codes are developed and transmitted through



interpersonal networks which contribute positively to knowledge sharing across the units (Björkman et al. 2004).

Nonaka and Takeuchi (1995) outline that the success of knowledge sharing is based on organizational context, in which different cultures, structures, and goals create challenges to MNCs. Successful knowledge sharing requires a clear common vision and collective goals for the whole organization. Nevertheless, a shared vision might not be easily achieved because e.g. cultural differences are seldom simple to deal with. There is no rule stating which culture is right or more appropriate and, therefore, as a part of risk management in a multinational environment, planning strategies and budgeting should be devoted a sufficient amount of time and resources. A failure in understanding the common vision might result in the different MNC units engaging in opportunistic behavior within the organization (Lee and Kim 1999) and cause significant harm to stakeholders (APICS and Protivi 2004; Divya and Ankita 2012).

#### 2.2.4 Structural Dimension

The structural dimension denotes the connections between individuals and evaluates the morphology by describing linkages; a basic question is who you are and how you can reach others. The dimension sheds light on networking and how the network affects the organization on a large scale e.g. through configuration: in addition to its initial purpose, a network could be used for other knowledge sharing projects, if applicable. The structural dimension measures social capital through variables, such as density, connectivity, and hierarchy. The structural dimension benefits the organization with connectivity: building the structure on networks of social relations enhances information diffusion by minimizing redundancy (Nahapiet and Ghoshal 1998).

The organizational structure should be considered in-depth when designing the knowledge sharing policies. In an empirical study by Tsai (2002; cited in Huotari and Iivonen 2004:13) knowledge sharing methods were observed in a multi-unit organization in which units compete against each other. The study proposes that a formal hierarchical structure, for instance in the form of centralization, has a significant negative effect on knowledge sharing. Yet, it was also discovered that social interaction has a significant positive effect on knowledge sharing between the units that compete against each other in the market place, but not among the units that compete for internal resources. Therefore, it is the external

market competition rather than the internal competition for resources which promotes knowledge sharing (ibid: 16-17).

The effect of the structure on MNC performance is widely discussed and similar to the relationship of the HQ and subsidiary, a challenge on the personnel level is the hierarchy between employees. The structure of the organization can create conditions for hold-up power if an individual employee possesses critical knowledge alone. Hold-up power means the ability of an employee to prevent the management from realizing the value added by employee's knowledge and skills. The problem arises from unclear ownership rights to the critical assets; in knowledge-intensive companies the key assets are employee's mind and knowledge which are not easily convertible to explicit knowledge. The higher the hold-up power, the more expensive it is for the firm to implement a relational contract that encourages cooperative behavior (Kvaløy and Olsen 2008).

Organizations control knowledge sharing processes with varying degrees and through different mechanisms. Direct supervision from the HQ is often difficult, and in case of deviant behavior, the ultimate reason might be subsidiary's unfamiliarity with the knowledge sharing objectives set by the HQ. Expatriation might be a way to mitigate the problem because expatriates most likely understand better the value added by the subsidiary and can act as mediators between the units. There might be even fewer communication problems between the HQ and subsidiary when expatriation is used (Björkman et al. 2004).

Although expatriation might enhance the communications between the HQ and subsidiary, the hierarchical aspect of expatriation may distort knowledge sharing and learning. For example, expatriates are many times expected to teach the local staff, but very seldom they realize learning opportunities from locals (Tsang 1999). The lack of dialogue can impair trust because people, the foreign expatriates and locals in this case, who do not communicate and share knowledge both ways, do not develop the organization. As a consequence they may lose valuable knowledge about the local market (McInery; cited in Huotari and Iivonen, 2004:13).

## 2.3 Knowledge Governance Approach

As knowledge management has become an increasingly researched topic, there are various studies within the field challenging or extending the prevailing theories. The Knowledge Governance Approach (KGA) is an emerging subject of study (Foss 2006; Gooderham et al. 2010) which differs from traditional knowledge-based literature by its way of applying ideas and solving problems. The core of the KGA theory is about matching “knowledge transactions – which differ in their characteristics – and governance mechanisms – which differ with respect to how they handle transactional problems” by “using economic efficiency as the explanatory principle” (Foss 2006). Defined in another way, the KGA is a systematic approach to the intersection of knowledge and organization (Michailova and Foss 2009; cited in Gooderham et al. 2010).

The starting point for the KGA theory is the hypothesis that the knowledge transaction process, such as knowledge sharing, can be influenced by using governance mechanisms (Foss 2006). Combined with the theory on the determinants of social capital, there are three types of governance mechanisms that can be used in knowledge sharing: 1) market-based mechanisms, 2) hierarchical mechanisms, and 3) social mechanisms. Market-based mechanisms include rewards for transfer of knowledge through bonuses and promotions. Hierarchical mechanisms comprise authority, rules and regulations. Finally, social mechanisms refer to a sense of acknowledgement or a sense of professional and personal development (Ghoshal and Moran 1996; cited in Gooderham et al. 2010). Table 2.2 gives an overview on the mechanisms and how they contribute to social capital and knowledge sharing.

### 2.3.1 Market-based Mechanisms

To enhance knowledge sharing and cooperation among employees, the employer should establish a rewarding policy that encourages employees 1) to perform tasks together and 2) to help each other in each other’s tasks. Cooperation of employees is favorable only if they possess complementary skills and constantly make effort on helping each other (Kvaløy and Olsen 2008).

<b>Dimension</b>	<b>Market-based mechanisms</b>	<b>Hierarchical mechanisms</b>	<b>Social mechanisms</b>
What is exchanged?	Goods and services for money or barter	Obedience to authority for material and spiritual security	Favors, gifts
Are terms of exchange specific or diffuse?	Specific	Diffuse (Employment contracts typically do not specify all duties of employee, only that employee will obey orders. Other hierarchical relations imply a similar up-front commitment to obeying orders or laws, even those yet to be determined.)	Diffuse (A favor I do for you today is made in exchange for a favor and at a time yet to be determined.)
Are terms of exchange made explicit?	Explicit	Explicit (The employment contract is explicit in its terms and conditions, even if it is not specific. Ditto for other kinds of hierarchical relation.)	Tacit (A favor for you today is made in the tacit understanding that it will be returned someday.)
Is the exchange symmetrical?	Symmetrical	Asymmetrical (Hierarchy is a form of domination.)	Symmetrical (The time horizon is not specified nor explicit, but favors eventually are returned.)

Table 2.2. Market-based, hierarchical, and social mechanisms (An extract from Adler and Kwon 2002)

MNCs in knowledge intensive industries should promote sharing of experiences, especially by aligning their performance management systems with knowledge sharing. Currie and Kerrin (2003) argue that current performance management systems even inhibit knowledge sharing as they set out a divergent set of objectives. In the traditional appraisal systems the employee is being rewarded by knowing more and, thus, performing better than colleagues which may discourage sharing (ibid). For instance, in knowledge-intensive companies possession of crucial knowledge might lead to a trade-off situation in which employees consider carefully what they receive as compensation and what to disclose to the team without losing the hold-up power (Kvaløy and Olsen 2008). If employees would share their knowledge completely, they would only do so at a high personal cost (Edvardsson 2003). Therefore, rather than offering incentives for collaborative effort, in certain cases it might be actually more cost-efficient to reward for individual performance. Nevertheless, Evans (2003) stresses further that organizational culture must be such that it inherently supports knowledge building and sharing, hence promoting a learning culture, developed through adequate learning resources and reward schemes for both sharers and learners.

Reward systems are regarded as an essential part when motivating employees to share knowledge but not all the scholars agree on their usefulness. Many studies point out that the organization should plan the reward system in such a way that it is linked to organizational performance (Björkman et al 2004; Islam et al. 2011). Then again, some researchers claim that indirect rewards such as appreciation and recognition promote knowledge sharing better than financial incentives.

Long-term oriented rewarding systems, e.g. profit sharing or share options as rewards lead to more effective result than short-term rewards. Sustainable knowledge sharing can be achieved best through non-monetary rewards with the support of the top management (Islam et al. 2011). Yet, if financial incentives are used to promote knowledge sharing, in the most ideal case the bonuses are based on global performance of the company because the subsidiaries will get an incentive to share knowledge so that other units can benefit from that knowledge and also reach success (Björkman et al. 2004). Applying the same principle to a single MNC unit, rewards for group contribution should be preferred over individual contribution (Islam et al. 2011). In the end, it is difficult to say to what extent financial compensation encourages knowledge sharing since global performance is a sum of many factors (ibid).

### 2.3.2 Hierarchical Mechanisms

Organizations control knowledge sharing with different approaches to hierarchy. The forms of hierarchical governance can be either consensus-based hierarchy or authority-based hierarchy. Consensus-based hierarchy has a high organizational cost and should be only applied when the market conditions are highly complex and the benefits of consensus-based hierarchy exceed the costs. Authority-based hierarchy is based on superiority and is most suitable for moderately complex situations (Foss 2006).

The hierarchical relationship of the HQ and subsidiaries can determine the transfer capacity to a great extent. Howard Perlmutter (1969) presents generalizations to understand the relationship between the multinational parent and subsidiary in his research which identifies three developmental phases in the MNC, as subsidiaries move from dependency to increasing autonomy from the parent: 1) ethnocentric, 2) polycentric, and 3) geocentric. The model is generally known as the EPG model and can provide insights into understanding how the MNC has structured decision-making.

The ethnocentric approach focuses on full-scale transfer of practices from the HQ to subsidiaries. The power is in the country of origin and, therefore, the management is often centralized. The polycentric relationship relies on local managers and employees in adaptive decision-making, and assumes they are best suited to formulate policies that respond to the local needs. These companies are more decentralized and the subsidiary has a somewhat high level of autonomy; for example, training employees and payment structures are based on local conditions (Perlmutter 1969, Harvey et al. 2001). The geocentric approach highlights an integrative relationship through dialogue: knowledge and routines are being transferred from the parent company to the subsidiary and vice versa. The setting combines local and international strengths in which managers are skilled to think globally about the organization, while at the same time take local needs into consideration. The geocentric organizations are flexible and less hierarchical in which responsibility is given to the local units to a substantial degree (Perlmutter 1969, Harvey et al. 2001, Hollinshead 2010:53).

Besides the EPG model, the bounded rationality and sheer ignorance perspectives can explain hierarchical mechanisms applied in knowledge sharing across the international units. The perspectives are difficult to measure and compare directly but they approximate and simplify reality. The bounded rationality perspective suggests that the HQ can design and indirectly control the knowledge sharing process by intervening moderately and taking the multinational circumstances into consideration. The sheer ignorance perspective denotes a less optimistic view: the theory claims that the HQ's ability to involve and control the subsidiary is far from clear. Scholars address the problem of the lack of relevant knowledge: the HQ does not know what kind of information it lacks and highlight that the HQ's positive contribution to the subsidiary is highly dependent on its access to relevant knowledge. Moreover, the power of the HQ might be insufficient. The sheer ignorance perspective suggests that the HQ should decentralize decision-making to the subsidiary if knowledge is located there (Ciabuschi et al. 2012).

In his paper about modern economics of organization, Nicolai J Foss (1999) studies dispersed knowledge and the modeling of knowledge in organizations. He states that management can hardly centralize all dispersed knowledge inside the firm since employees possess knowledge and know work-related matters “about which their bosses have no idea” (Sautet 2000). The principal and agent theory acknowledges the principal’s loss of control. The HQ (the principal) expects the subsidiary (agent) to share knowledge to contribute to the

overall competence development of the MNC but because of asymmetric information, the subsidiary might not be willing to act according to the principal's interests (Foss 1999).

There might be several motives to withhold information but one of the most common reasons is the subsidiary's fear of losing its uniqueness and, thus, possibly weakening also "bargaining power" within the MNC. Another substantial factor is the subsidiary managers who may not want to spend their limited resources of knowledge transfer. The subsidiary is more likely to share knowledge if its status is emphasized by the HQ. The principal can also use monitoring and behavioral control strategies to make the agent act in the principal's interest. An example of social monitoring is expatriation: the MNC can have expatriates in the subsidiary to control that they act in the interests of the HQ (Björkman et al. 2004).

### 2.3.3 Social Mechanisms

Several studies support the positive effect of social relations and especially good informal relations in knowledge sharing (Bresman et al. 1999; Gupta and Govindarajan, 2000; Tsai and Ghoshal 1998, cited in Gooderham et al. 2010). Social capital is a critical asset in solving complex and diffuse problems linked to knowledge sharing and by encouraging employees to create social relations the MNC can contribute positively to knowledge flows. However, hierarchical governance mechanisms may hinder knowledge flows because they could affect the development of social relations negatively. Market-based governance mechanisms are found to have no significant effect on social capital (Gooderham et al. 2010).

Herschel and Jones (2005) assert four essential aspects to knowledge sharing: collaboration, content management, organizational behavior, and technology. Collaboration denotes the importance of human resource management because the recruitment of the right employees starts by attracting the candidates with ideal qualifications. However, besides skills and experience, the cooperative attitude is necessary since it is stated that knowledge sharing and innovation occur essentially through team work and it is the case particularly in knowledge intensive companies (Herschel and Jones 2005; Jones 2008).

Social mechanisms address the sense of professional and personal development (Ghoshal and Moran 1996; cited in Gooderham et al. 2010) in which dynamic capabilities become critical: from the developmental perspective, dynamic capabilities enable the change and learning process in the organization. A classic framework in the dynamic capabilities

concept is single and double-loop learning. Single-loop refers to optimized skills, refined abilities, and acquired knowledge that is necessary to achieve resolution of a problem. It is not a problem as long as the operational environment stays the same. However, if a competitor is innovative and introduces a superior way to provide value through their services, it might be able to change the market dramatically (Clegg et al. 2011: 343-344).

Double-loop learning drives change in the values and operating assumptions of the organization and can be described to have a similar effect than that of high level routines have on the configuration of resources (Zahra and George 2002; cited in Easterby-Smith et al. 2006). Whereas single-loop learning pursues to optimize the problem-solving capabilities in a given context, double-loop learning questions the framework of the core assumptions and values (Clegg et al. 2011: 343).

Moreover, it is not only learning that leads to professional and personal development but also unlearning. Unlearning can become a crucial part of the change process since in certain occasions companies need to be able to abandon existing values and practices in order to learn new routines. An ability to adopt new habits is greatly dependent on the organizational structure and how the organization is designed to operate in an unpredictable and fast changing environment (Hedberg et al. 1976; cited in Easterby-Smith et al. 2006). For example, exploring new technologies can prepare the organization for environmental changes and increase competences. However, there is also a phenomenon called ‘competency trap’ which refers to a state of excellence the company has reached and prevents the management from seeing the limits of organizational achievements. The trap can possibly cause a lot of harm since the organization is too focused on doing its business the way it has always done without giving any attention to the changes in the environment (Clegg et al. 2011: 342).

Social mechanisms are not to be seen only as abstract high-level concepts but they are embedded in specific activities. According to Easterby-Smith et al. (2006) IT, HR, and marketing can “provide the infrastructure for wider organizational dynamic capabilities.” Researchers from the field of HR have highlighted organizational flexibility and leadership that encourages employees to question status quo (ibid). “The biggest enemy of learning is, ironically, knowledge itself” because when the organization or employee assumes they know something, it usually means they stop learning. Yet, it must be noted that the traditions of the



organization are not easily disregarded and rather than abandoning them completely, they should learn to adapt (Clegg et al. 2011: 341).

In addition to learning, technical solutions in knowledge management are central social mechanisms. From a social perspective, if implemented and managed well, technology can have a significant positive impact on knowledge sharing and social capital. Furthermore, in service industries, such as banking and consulting, adopting and learning to use information technology is necessary in order to reduce costs, gain efficiency, and increase competitiveness. Social interaction online can actually become a cost-efficient solution for the MNC. For example, the use of social media can add value by allowing more instant bi-directional communication between the foreign units. Instant messages can work as an informal channel for employees to share knowledge, and for instance, IBM is among the companies which encourage their employees to use instant messaging. Allowing employees to spread information and knowledge via instant messages strengthens also team-oriented working. Moreover, IBM has launched its own internal social network site in which individuals can create an online profile. Enterprise social networks enable them to develop relationships with their colleagues across the international units. Instant messages and social network conversations between employees are an informal social mechanism to support knowledge flows (Steinfeld et al. 2009).

## 2.4 Industry Characteristics

This section gives information about knowledge sharing trends in the banking and consulting industries. Furthermore, we present main differences between the industries.

### 2.4.1 Banking

Throughout the 21st century, banks have developed into more complex financial organizations which offer a variety of services not only in the domestic market but also in the international market (Berger and Smith 2003). As banks are striving to maintain their competitiveness, foreign markets can create a source of innovation and profitability for them. Hence, cooperation and knowledge sharing across the international units may help them to

identify new business niches, develop customized services, and to capture new market opportunities (IISD 2013).

Moreover, as a partial consequence of the intense competition and the financial crisis, banks are going through a transition period in their operational model: financial institutions have started to standardize and streamline their operations (Samsung.com). Cost reduction e.g. through salary cuts or reduced number of employees may offer short-term survival but lead to long-term problems in the form of low motivation to share knowledge and know-how leakages. Saving on human resources in the knowledge intensive industry “sacrifices resources for the sake of profit.” It is also claimed that retaining know-how through hard times will pay off many times in good times (Rumelt 2009). Yet, Sveiby (1997) reminds that retaining all the employees is often against the common good of the company.

As a part of the transition period in the banking industry, many nations have removed traditional regulatory barriers which have prevented banks from expanding to new markets (Berger and Smith 2003). With the transition banks pursue to become also more flexible and dynamic in the local business operations and, thereby, gain loyalty through increased customer satisfaction. In addition, a more dynamic model allows them to gain market share from less flexible institutions (Samsung.com). For example, by restructuring and standardizing their IT architecture and knowledge sharing procedure, the banks can manage international knowledge flows more efficiently (Schoder and Madeja 2004; cited in Hafizi and Zawiyah 2009).

Training programs are often used in the banking industry as a knowledge sharing instrument. The new employees get educated to sharing because banks increasingly recognize the value of knowledge sharing even on the local branch level. However, it is not only about educating newcomers but updated knowledge must be transferred to all members of the subsidiary. Teaching the employees who are used to working according to the established or even outdated principles might not always go as smoothly as planned. Furthermore, the value does not come from sharing systems alone but also from social interaction that is needed to strengthen organizational learning (Martín Rubio 1998, Wafa and Jalal 2011).

## 2.4.2 Consulting

Knowledge sharing in the consulting industry is driven by knowledge intensity of the companies. Michailova and Gupta (2005) outline that in order to learn faster than the

competitor and provide quality and value to their clients, global consulting companies need well-organized and managed cross-departmental knowledge sharing processes. Furthermore, the context specific knowledge should not be shared only through a single technical system because different departments have diversified needs. Although social interaction among the employees in different departments can improve learning and understanding, knowledge sharing hostility is a dominant phenomenon in organizational reality (ibid).

Also, it is not only technology itself which defines knowledge sharing in consulting but the way it is applied. Technical competencies tend to have “little immediate value beyond the individual MNC” (Gooderham and Nordhaug 2003) and, therefore, it is more important to consider the framework beyond the system.

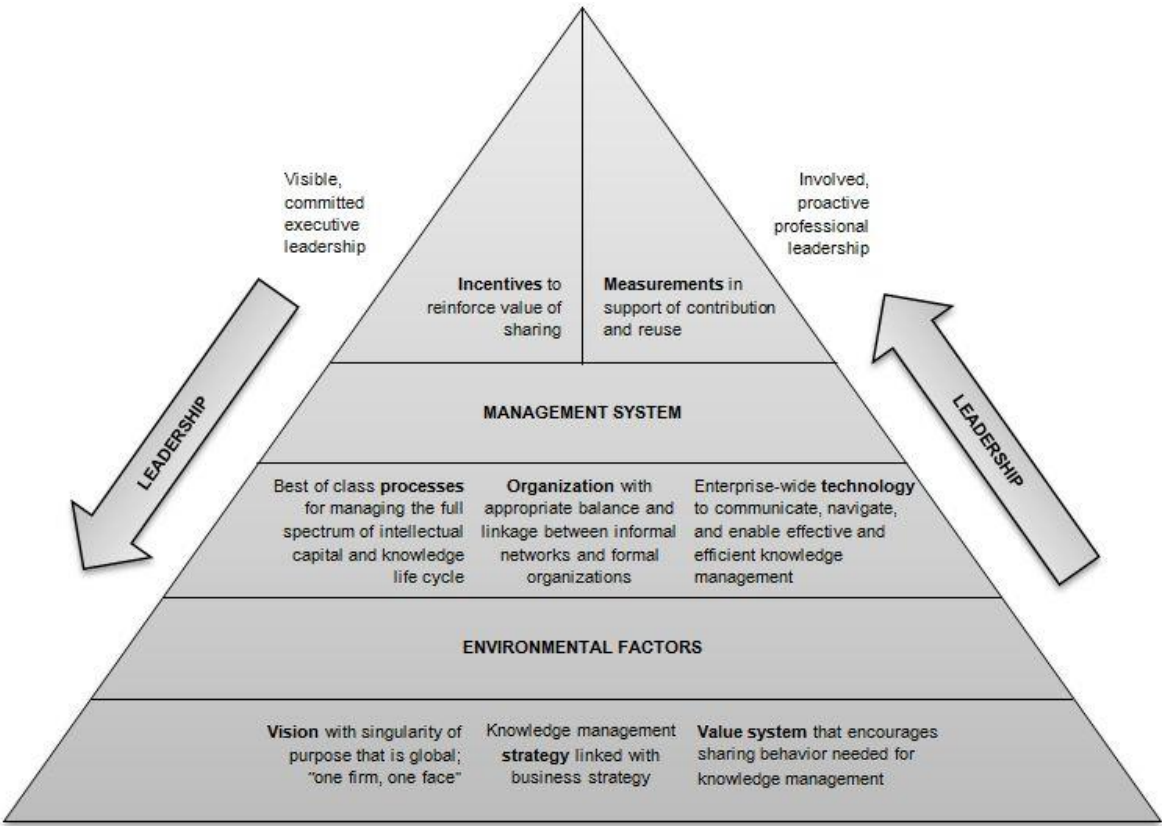


Figure 2.2. IBM Knowledge Management framework. (Source: Gongla and Rizzuto 2001)

Figure 2.2 illustrates an example of a knowledge management program, the KM program which IBM Global Services introduced in 1995. The purpose of the program is to benefit an individual employee and the organization as a whole. It relies on the creation and development of informal knowledge networks which consist of professionals who foster a sense of community internationally. Among their responsibilities are collecting, evaluating, structuring, and forwarding knowledge to the peer communities (Gongla and Rizzuto 2001).

Figure 2.2 summarizes the key components which support knowledge management on different levels: vision, strategy, and value system on the bottom line, processes, organization, and technology in the middle, and measurements and incentives on the top. The key components are all interlinked through leadership. The program addresses the importance of collective learning; by enhancing the interaction of employees, the consulting company enhances knowledge sharing, especially tacit knowledge sharing (ibid).

### 2.4.3 Main Differences between the Industries

Main differences between the banking and consulting industries originate from the organizational structure. Banks have traditionally operated in a limited market which has made controlling for the HQ easier. Also, the standardized operations, such as lending, current accounts, and payment transfers (Berger and Smith 2003) do not require extensive knowledge sharing across the operations.

The structure of the consulting MNC can be described as a global network in which the HQ does not exercise as comprehensive control over the subsidiaries as opposed to that in the banking industry. While banks have focus on finance, consulting companies operate with more diversified themes around problem solving and value creation. Thus, consulting companies have a broader scope of knowledge available for the advisory projects for different kinds of companies in different industries (EconomyWatch 2010, The Editors 2012).

The global consulting industry has traditionally been highly knowledge intensive and sharing-oriented and the knowledge sharing policies have been established over a long period of time. However, as banks are gradually growing more international today, they are making a great effort to improve their knowledge sharing policies (Berger and Smith 2003). Although both industries operate by selling knowledge services, the core of the banking industry is to provide access to credit, investments, and savings while the consulting industry provides solutions and advice to clients in a wide range of business problems (EconomyWatch 2010, The Editors 2012).

## 2.5 Cultural Characteristics

Cultural identity of the MNC can hardly be ignored in knowledge management; Watson (1998, cited in Leidner and Kayworth 2008) refers to a study by Ernst and Young which identifies culture as the main hindrance to knowledge transfer. More specifically, it is organizational culture and the inability to change people's behavior that complicates knowledge sharing. For example, Ruggles (1998; cited in Leidner and Kayworth 2008) found out that over half of the 453 firms surveyed in the study indicated that organizational culture is the main barrier to success in knowledge management.

Because organizational culture derives many elements from the country of origin of the MNC, national culture is presented as a foundation of organizational culture in our research model. Therefore, the following sections introduce the characteristics of national culture followed by the effect of the MNC structure on organizational culture.

### 2.5.1 Cultural Identity and the Country-of-Origin Effect

Despite their multinational presence, the identity of MNCs is often national (Hollinshead, 2010:10). Hofstede's research about cultural dimensions is among the most applied theories in the field of cross cultural management. The survey from the early 1970s, based on about 116 000 IBM employees in over 60 countries, led to five cultural dimensions that are used to distinguish national cultures. These cultural dimensions are Power Distance (PDI), Individualism vs. Collectivism (IDV), Masculinity vs. Femininity (MAS), Uncertainty Avoidance (UAI), and Long- term vs. Short- term orientation (LTO). The cultural dimension theory aims at clarifying how certain norms and values influence individual and organizational behavior (Hollinshead 2010:32-33).

An essential learning outcome of Hofstede's theory for MNCs is to recognize that "culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster" (The Economist: Geert Hofstede 2008). Awareness and understanding of cultural differences in knowledge sharing is highly important when it occurs through direct communication between the employees in a multicultural environment; what may be acceptable in one country can be offensive in another (Wardrobe 2005).

Banks interviewed in this thesis are culturally connected to Norway and Portugal, and the consulting firms derive their origin from the United States. However, the scope of our study

is limited to assess national culture in the country of the operational unit and, therefore, we devote less attention to the US culture.

Norway and Portugal are different in many cultural aspects and, hence, we present the countries in figure 2.3. Furthermore, recognizing the possibly negative impact of the country of origin brings a crucial aspect to the MNC operations: can subsidiaries really trust that the best practices are transferred and applied internationally or is it the country-of-origin effect which prevails? (Noorderhaven and Harzing 2003)

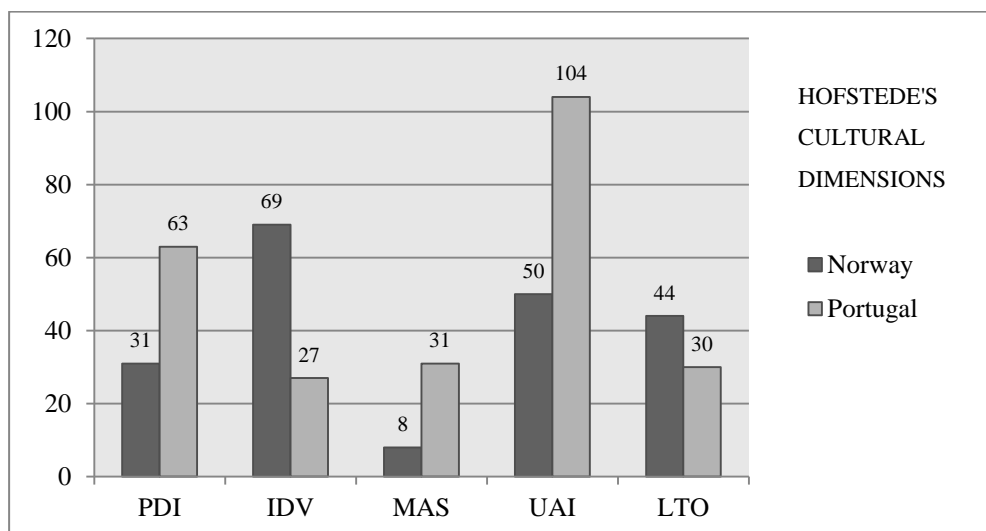


Figure 2.3. Hofstede's cultural dimensions: Norway and Portugal (Source: The Hofstede Center)

As illustrated in figure 2.3, the PDI in Portugal is rather high in comparison to Norway expressing that there is inequality in the power distribution; in companies the power distribution can be seen as a greater hierarchical distance.

The individualism dimension measures the degree of interdependence among individuals and locates Portugal low and Norway high. Thus, organizational culture in the Portuguese companies is characterized by e.g. loyalty and long-term commitment to the 'group', which might be regarded even as an extended family. Moreover, the promotions and recruitment must take relationships into consideration. In contrast, the lower score of Norway signals "a loosely-knit society" and e.g. promotions are based on the evidence of qualifications.

The MAS for Norway is the second lowest in the whole study after Sweden. A low score indicates softer aspects in working life, such as pursuit of well-being, flexibility, solidarity,

and dialogue in decision-making. The Portuguese score is not significantly higher but expresses more masculine values, such as success and attaining higher status through e.g. monetary rewards.

According to Hofstede, “if there is a dimension that defines Portugal very clearly, it is the Uncertainty Avoidance.” On this dimension the country receives clearly a higher score than Norway, which can be described as more uncertainty accepting, having curiosity towards new and innovative things, and less emotionally expressive.

Finally, the long-term orientation is slightly higher in Norway. In the Norwegian organization this dimension can be observed as appreciation for truths and concern for stability as well as value for leisure time. Portugal is more short-term oriented and e.g. business performance is measured on a short-term basis (The Hofstede Center).

### 2.5.2 The Effect of the MNC Structure on Organizational Culture

MNCs can be structured according to the market circumstances in which the MNC operates. There are four different types of MNCs which affect organizational culture and knowledge sharing mechanisms (Bartlett and Ghoshal 1989, cited in Hollinshead, 2010:51):

1. The Multidomestic
2. The International
3. The Global
4. The Transnational

In the Multidomestic type, the products and services are differentiated to meet the local demands, and the products are often locally produced. The organizational structure is decentralized, with a low level of control from the HQ. This type of the MNC is common e.g. in the food industry (Hollinshead, 2010:51).

The International MNC is a type of a company in which the subsidiary is dependent on the HQ to a great extent regarding new products and services. The power is centralized on the HQ level and this type of an MNC is fairly common e.g. in the telecommunications industry (ibid).

Production in the Global MNC is integrated and rationalized to deliver standard products in a cost efficient way. Control over the subsidiaries is often centralized and bureaucratic making

the subsidiaries dependent on the parent. The Global MNC type is common e.g. in consumer electronics, computers, and automobiles (ibid).

The Transnational MNC adapts to local conditions while seeking to maintain the economies of scales in the market environment in which the competition is increasing (Hollinshead, 2010:52). To remain locally responsive, the subsidiary is responsible for research and development while the parent has certain control rights to keep the operations globally efficient. For example, the parent company is responsible for incorporating the subsidiary managers into the corporate ethos by establishing interactive networks between the parent and subsidiaries. The Transnational MNCs is a common type e.g. in the pharmaceuticals (ibid).

Figure 2.4 illustrates the MNC types in relation to their level of global integration of operations and local responsiveness. The trend among many MNCs especially in consulting, accounting, and advertising is a transition to a broader “transnational arena.” In this arena the management principles are derived centrally from the HQ but decision-making, R&D, and marketing, for example, are locally adjusted due to the local knowledge being embedded socially and historically in each individual market (Geppert and Clark 2003; Kobrin 2008).

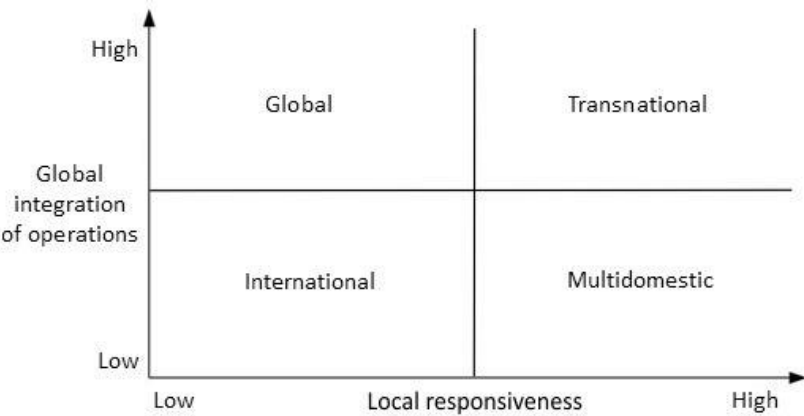


Figure 2.4. MNC Structures (An adaption from Gooderham and Nordhaug 2003:56)

As presented in Chapter 1, our research locates banking in the global dimension and consulting in the transnational dimension. Banks are usually characterized by more pronounced global HQs whereas consulting companies follow a partner model in which the HQ and subsidiaries resemble network organizations with a great level of local responsiveness as well as integrated operations.



## 2.6 Summary of the Literature Review

This section summarizes the main aspects from the literature review. We use the findings from the existing literature to discuss, compare, and analyze our findings from the empirical research in Chapter 5.

Knowledge management and efficient knowledge sharing mechanisms are essential to service MNCs because their business is based on delivering value from knowledge. There are various issues which contribute to knowledge flows between the HQ and subsidiaries. The knowledge flows across the operations can be mutual or one-sided depending on e.g. the structure and organizational culture of the MNC, type of knowledge to be transferred (tacit vs. explicit), knowledge intensity, centralized or decentralized decision-making, cultural distance, and sharing systems, to name a few.

The social capital theory consists of three dimensions: relational, cognitive, and structural dimensions. Social capital derives value from social networks and cooperation between individuals and groups. Together with a well-established knowledge management system, the MNC can gain significant competitive advantage from the phenomenon. Social capital is interlinked with the knowledge governance approach (KGA) which together can create an optimal platform for knowledge sharing.

The KGA theory divides the incentives to share knowledge in three groups: market-based, hierarchical, and social mechanisms. These mechanisms include e.g. rewards systems (market-based), rules and regulations (hierarchical), and acknowledgement and self-development (social) which influence social capital. The mechanisms may also strengthen trust towards colleagues and, thereby, promote knowledge sharing (Foss 2006).

Knowledge sharing is a sum of many elements, such as collaboration, content management, organizational behavior, and technology (Herschel and Jones 2005) but may also be affected by industry and culture. For example, they may bring challenges for knowledge management through the industrial changes or cultural differences. In the end, rather than perceiving knowledge management as a source of cultural conflicts or costs, it should be seen as a way to make the organization more efficient when the right kind of knowledge is available at the right time.

### **3. Methodology**

In this chapter we present the methodology for this thesis. We combine the main theoretical elements from the literature review to create a theoretical framework for the research. The thesis is qualitative in its nature because we consider meeting the exploratory research objectives better with this method.

This part starts by introducing the basic conditions for qualitative academic research followed by an illustration of the research model. Then, we describe the data collection process and give brief information about the companies which we have chosen for the empirical research part. We also introduce the methods for the data analysis. Finally, we address the reliability and validity of the research.

#### **3.1 Research Method and Design**

##### **3.1.1 Qualitative Research**

Qualitative research is based on observations and non-numeric data, such as words, images, and video clips. This research type is often used for data collection e.g. in interviews for analysis that aims at gaining a comprehensive understanding of a specific phenomenon (Saunders et al. 2012). We have chosen to use qualitative research method because it seeks to explain the underlying motivations and reasons while quantitative research pursues to generalize results based on a large sample. Qualitative research provides insights into problem statements which can be used for quantitative study later on by developing hypotheses based on the insights and findings of qualitative research. The sample of a qualitative study is normally a small number of well-selected respondents (Woods 2006). In this thesis, the sample consists of eight people from seven multinational companies in Norway and Portugal.

The techniques in qualitative research consist mainly of interviews. The two major types of interviews are unstructured and semi-structured interviews. An unstructured interview is similar to a conversation and can consist of a single question to which the interviewee is

allowed to reply freely. The interviewer can react to the points that seem meaningful and worth follow-up to ensure enough information is available for the research process.

A predefined list of questions and topics, i.e. an interview guide, is a common starting point for the semi-structured interview. The interview guide can define the order of the questions but it is also common to let the interviewee reply freely to the starting questions and adjust the order of the remaining questions on topics that are covered as the interview proceeds. In the end, even though the interview guide would not be followed in order, all the questions will be asked (Woods 2006; Cooper and Schindler 2008).

### 3.1.2 Advantages and Disadvantages

Qualitative research is a fairly common research method especially in the field of human and organizational behavior because it is a flexible approach to data collection. By flexibility it is meant that this research method type does not use or manipulate variables and the concepts and data collection can be adjusted to the research process. Qualitative interviewing differs from quantitative interviewing in a number of ways. For instance, qualitative research has a less structured approach to the research topic because there is a great interest in the interviewee's point of view. For example, “going off at tangents” in the interview is often encouraged because it can reveal relevant insights into the topic (Gordon 2009).

Additional advantages of qualitative research include its investigative nature: it relies primarily on first-hand experience, truthful reporting, and quotations of conversations. Regarding knowledge management, qualitative research method can help to create an optimal research model for understanding how interviewees “derive meaning from their surroundings, and how their meaning influences their behavior” (CSU 2013).

Some disadvantages of qualitative research method are identified by the California State University (2013). First of all, they list qualitative research to be time-consuming. In addition to time, there is usually a lot of data to be transcribed and it might be difficult to code and quantify e.g. an interview because of the nominal level data. Also, controlling observer biases may be difficult especially when the data goes through the researcher before it is on the paper. As mitigation it is suggested that the data should be able to “bear the weight of any interpretation” (Rajendran 2001). Furthermore, it is claimed that the data collection gives usually more detailed description of the research topic “rather than even the

most creatively prejudiced mind might have imagined prior to the study” (Bogdan & Biklen 1982).

Regarding the results, qualitative research may not yield any directly applicable findings to a widely dispersed field because of its limited sample. Therefore, qualitative research is described as being more like a case study with limited applicability to other situations. However, as already stated, qualitative research can provide many useful insights and a basis for a later quantitative study. Moreover, the distinction between qualitative and quantitative research may not always be clear since many studies combine both to explain the phenomenon or subject of the study (Woods 2006; Cooper and Schindler 2008).

### 3.1.3 Research Model

The purpose of this thesis is to study the mechanisms used by service MNCs to promote knowledge sharing across the operations. More specifically, we focus on how banks and consulting MNCs transfer knowledge. In order to answer our research questions (see section 1.3), we have chosen to use semi-structured interviews as a data source for the empirical research part. We think that the semi-structured interview fits well to our research because it allows the interviewee to talk freely and give in-depth insights into knowledge sharing in the company. Also, we have formulated an interview guide which is attached in Appendix 1.

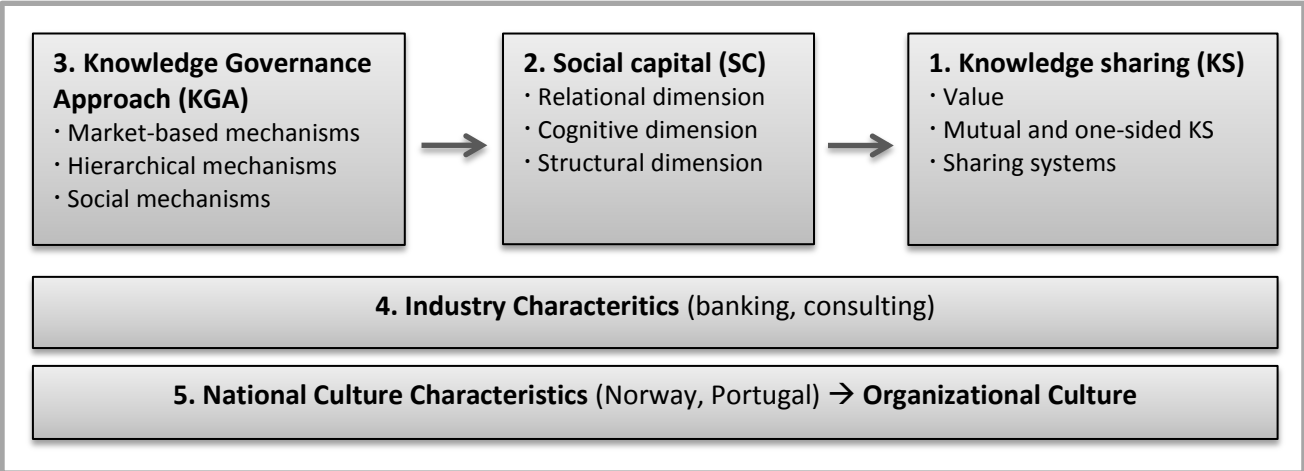


Figure 3.1. Research model on the determinants of knowledge sharing mechanisms

As introduced in Chapter 1, our research model (repeated in figure 3.1) takes into consideration the three types of knowledge governance mechanisms and the social capital theory in knowledge sharing. The comparative analysis of this thesis discusses the

phenomena in accordance with the research model: the impact of industry and culture on the KGA, SC, and KS.

Based on the literature review, we have also developed three propositions to stimulate discussion around possible future research in Chapter 5. We discuss the propositions after answering the research questions in Chapter 5 and give suggestions for future research.

*Proposition 1: Industry is more important in determining knowledge sharing mechanisms than culture.*

*Proposition 2: The use of social capital in knowledge sharing varies significantly between the banking and consulting industries.*

*Proposition 3: The role of social mechanisms is greater in consulting than in banking.*

## 3.2 Data Collection

We defined three to four multinational banking and consulting companies both in Norway and Portugal to give a sufficient basis for the comparative analysis. The companies included in the empirical research are IBM Norway, Accenture Norway, DNB, IBM Portugal, Accenture Portugal, Millennium bcp, and BES. As for the Accenture Portugal, we received assistance also from the Research Center in Madrid due to the shared KS operations with Spain.

The companies for the comparative analysis were identified based on their international presence. As knowledge management may be embedded in many departments, we first approached the HR department to be forwarded, if necessary, to the relevant units in each organization. Hence, in addition to the HR department, the final group of interviewees consists of employees in management positions in departments such as foreign business support, research and development, talent and organization, and marketing and communications.

The interviews were conducted anonymously, though we mention the background of the interviewees in table 3.1 to get understanding of their experience in the company and the relation of their position to knowledge sharing. As a limitation we note that their perspectives or ability to answer questions might be shaped by the length of their

employment. In addition, their answers might reflect stronger views from the perspective of their working unit. Also, we note that the interviews were conducted in English and as far as we know, none of the interviewees is native in English. Therefore, the foreign language might affect their ability and willingness to talk about knowledge sharing openly.

Company	Industry	Unit interviewed	Interviewee position	Experience
<b>DNB</b>	banking	HQ, Oslo 26 April 2013	HR Project Manager	7 years
<b>BES</b>	banking	HQ, Lisbon 23 April 2013	HR Director	12 years
<b>Millennium bcp</b>	banking	HQ, Lisbon 9 April 2013	Director of Foreign Business Support Unit	19 years
<b>Accenture Norway</b>	consulting	Subsidiary, Oslo 16 April 2013	Analyst in the Talent and Organization department	1.5 years
<b>Accenture Portugal</b>	consulting	Subsidiary, Lisbon and Madrid 30 April 2013 and 22 April 2013	HR Director Portugal Spain & Portugal Research Lead	17 years 18 years
<b>IBM Norway</b>	consulting	Subsidiary, Oslo 17 April 2013	Marketing & Communication Manager / Communication Advisor for the leadership team	9 years
<b>IBM Portugal</b>	consulting	Subsidiary, Lisbon 12 April 2013	IBM Employee Development Facilitator	14 years

Table 3.1 Information about the companies and interviewees

The companies were contacted by email and telephone to organize personal meetings with the company representatives. However, in two cases we relied on an email and/or phone interview due to the traveling distances (DNB and Accenture Madrid office). The interviews were conducted in April 2013 and we used recorders and/or took notes to support the interview process. All interviewees allowed publishing the company names in this thesis.

### 3.2.1 Introduction of the companies

This part introduces the banking and consulting MNCs we have chosen to study in the thesis. We first introduce the banks, DNB from Norway and BES and Millennium bcp from Portugal followed by the consulting companies IBM and Accenture.

## **DNB**

DNB is the largest financial services group in Norway with the HQ in Oslo. The bank was founded in 1822 and besides Norway, has currently operations or representative offices in Denmark, Finland, Sweden, Germany, Estonia, Latvia, Lithuania, Luxembourg, UK, US, China, Singapore, Brazil, Chile, India, Russia, Greece and Poland. The bank has a great specialization in shipping and energy finance sectors.

As of April 2013, DNB employs more than 10,000 people in Norway and based on the revenue figures in 2011, is listed as the 9th largest company in the country. The values of DNB are being helpful and professional at the same time showing initiative (Annual report DNB Group 2012; Valved 2010, DNB Official Website 2013).

## **Banco Espírito Santo**

Banco Espírito Santo (BES) is the second largest private bank and the largest listed bank in Portugal. Founded in 1920, BES operates in 20 countries in 4 continents today: Portugal, US, Spain, UK, France, Luxembourg, Italy, Poland, China, India, Mozambique, Angola, South Africa, Libya, Algeria, Morocco, Cape Verde, Brazil, Venezuela, and Mexico. The company pursues to expand even more in the future based on solid strategic rationale with a great focus on the high growth potential markets that have cultural and economic relations with Portugal: the strategic triangle is in the Africa-Brazil-Iberia region.

As of December 2012, the market share of the bank is approximately 19.3% and the number of employees in Portugal is 7,477. BES pursues to create value for its shareholders, customers, and employees in a sustainable manner that contributes to the social, cultural, and environmental development (Banco Espírito Santo: Annual Report 2012).

## **Millennium bcp**

Millennium bcp (Banco Comercial Português) is the largest private bank and the second largest bank in terms of market share in Portugal. The bank was established in 1985 and since then has expanded to Poland, France, Luxembourg, Mozambique, Angola, Romania, and Switzerland. Internationalization has always been regarded as an important part of the business strategy and the bank has based its expansion on prospects of international growth and profitability.

As of September 2012, Millennium bcp has a market share of about 20% and the number of employees in Portugal is 9,866. The values of Millennium bcp are respect for people and institutions, focus on the client, working for excellence, trust, and ethics & responsibility (Millennium bcp: 2012 First Half Report and the 3rd Quarter 2012).

## **IBM**

IBM (International Business Machines Corporation) is a US-based multinational technology and consulting company which today operates in more than 170 countries. IBM was founded in 1911 and since then has grown to be one of the most successful MNCs in the world: for example, the company has been ranked on a global level as the 31st largest in terms of revenue as of 2011. IBM's operations consist of manufacturing and marketing of computer hardware and software, as well as offering consulting services in areas ranging from mainframe computers to nanotechnology (ibm.com: about IBM).

In our research countries, Norway and Portugal, IBM is among the largest technology companies and employs approximately 1,200 and 560 people respectively. The values of IBM are dedication to every client's success, innovation that matters for the company and for the world, and trust and personal responsibility in all relationships (ibm.com/no: om IBM and ibm.com/pt: IBM em Portugal).

## **Accenture**

Accenture is a global management consulting, technology services and outsourcing company which originates from the accounting firm Arthur Andersen. Until its splitting from the parent in 1989, Accenture was the division for business and technology consulting of Arthur Andersen. Although founded in the United States, the company is now headquartered in two locations: Dublin, Ireland (tax and legal purposes) and Chicago, US (operational administration). As of 2012, it is one of the largest technology consulting companies in the world measured by revenue. Accenture is present in more than 120 countries and has organized itself in three primary cross-functional groupings: workforces, operating groups, and growth platforms. The company highlights commitment to deliver innovation and collaboration with the clients to achieve high performance.



Accenture employs approximately 1,100 people in Norway and 600 people in Portugal. The values of Accenture are stewardship, best people, client value creation, one global network, respect for the individual, and integrity ([accenture.com/no](http://accenture.com/no): about Accenture).

### 3.3 Data Analysis

Data analysis in this thesis is carried out by analyzing the findings in two dimensions: industry (banking and consulting) and culture (Norway and Portugal). The findings are discussed in the light of the research model (figure 3.1) which denotes the KGA and SC as a path to knowledge sharing.

The discussion encircles the research questions which allow logical and systematic presentation of the results. The discussion is structured as follows: promotion of knowledge sharing in the service MNC, the impact of industry and culture on social capital, and knowledge governance mechanisms. The main discussion is followed by managerial implications and suggestions for future research.

### 3.4 Reliability and Validity

The literature in this thesis is primarily retrieved from the academic journals and articles from online databases as well as books about knowledge management for educational purposes. Therefore, peer reviewed articles and academic books being the main source of literature, the thesis is primarily contributed by scientific publications. However, few annual reports and publications from organizations, such as OECD and McKinsey & Company, were consulted to support the research process.

Regarding the empirical part of the thesis, we address our awareness of the research bias which might occur e.g. in the form of prejudices or attitudes. The research bias is often, if not always, present in qualitative research because objectiveness is not straightforward when the observer may record e.g. what he or she wants to hear and see rather than what is actually there (Rajendran, 2001). Besides research bias, the sample may be limited to certain extent because the empirical part consists of interviews with only one company representative

which was assigned by the company. Additionally, their working experience for the current company varied from 1.5 years closer to 20 years which may affect their ability to give in-depth answers about the topic.

During the research process and the interviews we have pursued to stay as neutral as possible and we have no personal interest in the companies interviewed in this thesis. All of the interviews were conducted in English and have been interpreted according to our best understanding to make the study as accurate and truthful as possible.

## 4. Findings

This chapter presents the empirical research findings. We first introduce findings from the interviews with the banks from Norway and Portugal followed by the findings from the consulting companies from both countries. The findings follow the order of our research framework which consists of Knowledge sharing (1), Social capital (2), and Knowledge Governance Approach (3). Finally, we give a summary of the knowledge sharing practices in the banking and consulting industries in table 4.1.

We note that the quotations in Chapter 4 are taken from their original context and are used according to the authors' interpretation.

### 4.1 Knowledge Sharing in Banking

This section covers the interviews with DNB in Norway and BES and Millennium bcp in Portugal. We first present the grounds for knowledge sharing: the value of knowledge sharing, the direction of knowledge flows (mutual or one-sided), and the sharing systems.

#### 4.1.1 The Value of Knowledge Sharing

The knowledge sharing process at DNB has evolved much after they started using SharePoint and Lync and removed the restrictions on access to their document library. Furthermore, they have changed their knowledge sharing guidelines to explain the importance of sharing by stating that “sharing is a way to win.” After training the employees to communicate through chat and video tools, they have also observed a growing culture of knowledge sharing. According to the interviewee, “people in general share more and they use modern and effective ways to work.”

DNB regards knowledge sharing as an extremely important part of their future. They continue strengthening the knowledge sharing culture by connecting sharing with the concept of success. The interviewee says that the key to knowledge sharing is also “a generation change.” The younger employees are usually more used to working in an open way and share knowledge, which may help to change the organization to respond to the fast-changing market trends.

The banking sector in Portugal is currently going through tough times but the interviewee at BES identifies their current knowledge sharing as sufficient. However, he highlights that their future knowledge sharing processes must pay more attention to the quality of knowledge. The interviewee at BES describes the value of knowledge sharing as follows:

“It will be difficult to distinguish the relevant knowledge from the irrelevant knowledge. Furthermore, because it’s impossible to know everything, we must ensure that we have diversified people working with us.”

- Interviewee at BES

In another Portuguese bank, the situation is somewhat similar in terms of the quality of knowledge. The interviewee at Millennium bcp mentions also that they focus on improving sustainability and ensuring profitability through knowledge sharing between the international units in the stronger markets so that they can offset temporary losses in the weaker markets.

#### 4.1.2 Mutual and One-sided Knowledge Sharing

The structure of the banks affects the knowledge sharing capacity. The interviewed banks seem to follow the global MNC structure in which decision-making is centralized in the HQ unit. The HR Director of BES describes the relationship of the HQ and subsidiaries as autonomous:

“The units around the world don’t have independence but autonomy – they can for example make a product or design a knowledge sharing policy but they need approval from the HQ.”

- Interviewee at BES

The aim of all the banks interviewed is to practice bi-directional knowledge sharing. However, the transfer capacity or volume is seldom equal. For example, the objective of DNB is to share knowledge bi-directionally, but in practice the HQ and bigger subsidiaries transfer knowledge in larger volumes. Yet, the interviewee at DNB highlights equality between the units:

“It has been very important for us to try to realize that every part of the bank is equal, and it is just as important to bring information to the HQ as it is to the subsidiary. Also, possible special knowledge of any unit must be recognized: for example, our Singaporean office can have a great contribution

to knowledge sharing when it comes to shipping.”

- Interviewee at DNB

The Portuguese banks do not identify remarkable developmental changes in the recent years. BES has invested more in the HR practices and international department to maintain close relationship with the subsidiaries. Millennium bcp states that they have reached their current knowledge sharing level through close cooperation with the subsidiaries and they keep on cooperating the same way.

#### 4.1.3 Sharing Systems

Connectivity of the employees in banking is supported by technology and, for example, DNB has introduced systems based on basic Microsoft products as well as an intranet to enable knowledge sharing.

“We want information to be available in both ways, and we spend a lot of money to introduce systems making it possible for anyone to connect with anyone in the bank.”

- Interviewee at DNB

For example, if DNB has a global customer, such as Statoil, knowledge management systems allow the employees working with the client to gather and share information safely and effectively online, which improves efficiency when people do not have to spend time on traveling. This is a concrete example of value that knowledge sharing can bring to the banking operations and customer service: fast communications and crucial information about the customer available for the employees helps to keep the quality of service high. Moreover, the system also works as a complementary channel to socialization to enhance trust.

The technical solutions for knowledge sharing at BES and Millennium bcp consist primarily of intranet, email, video conferences, and Skype calls. Also, the interviewee at BES emphasizes the power of personal meetings in the Portuguese culture and in contrast to the time-saving argument at DNB, BES draws attention to the advantages of traveling: for instance, traveling to London to discuss the banking policies face-to-face is very common and contributes positively to their understanding of shared objectives. Moreover, the interviewee at BES says that they have also an international division of two-three people

who are responsible for enhancing international connections between the units. According to the HR Director of BES “they are on the road quite like all the time.”

Personal meetings as knowledge sharing instruments are also preferred at Millennium bcp. The interviewee explains that the national units have their own management body from a legal and business perspective and they conduct their daily operations on a separate basis. Yet, close connection to the HQ in Portugal is maintained through so called “European banking committee” which consists of bank managers and executives from each country unit. The function of the committee is described as follows:

“We meet on a rotational basis typically once in two months and the meetings take place in each unit in a cyclical order. We discuss several subjects and share ideas varying from credit recovery to the best HR practices of the local units. Also, we aim to foster discussion to find the best strategic solutions for us as a group.”

- Interviewee at Millennium bcp

## 4.2 Social Capital in Banking

All the interviewees in the banks address the necessity of social interaction in knowledge sharing. The interviewees give examples of mechanisms how they promote creation and development of social capital in relational, cognitive, and structural dimensions.

### 4.2.1 Relational Dimension

Trust is emphasized in the relational dimension by the interviewees in the Norwegian and Portuguese banks. The interviewee at DNB describes trust as a key component of knowledge sharing:

“Trust means that you can find the right information. There has to be trust in the system that the information is available. And there has to be trust that people will share, so I have to trust that any colleague will share their competencies and that the information is correct.”

- Interviewee at DNB

Moreover, trust in banking is not reflected only in internal knowledge sharing but also in external relations. The interviewee at BES expresses the importance of trust by portraying it to their performance: “Trust is basically what a bank sells. Trust is our product.” The interviewee at Millennium bcp adds further that being in contact with the foreign units daily ensures the development of trust among the employees, and thereby, knowledge sharing.

Social capital in relational dimension derives elements also from the subsidiaries to the HQ in banking. The interviewee at BES gives an example of the development of social capital based on the subsidiary norms. Although the HQ is in Portugal, the US offices have contributed a lot to their trust-related practices and establishment of different kinds of equality policies in the HQ. “The US department is more developed and experienced in the matters regarding e.g. sexual discrimination,” as explained by the interviewee at BES. Moreover, he continues that learning from other units about their cultural knowledge helps the bank as a whole to tolerate cultural differences. For example, although equality policies have gained a lot of content from the US, they have needed to adjust the HR principles for women e.g. in Libya due to the Muslim culture.

The value of well-established and good relations in the working community is reflected in the efficiency of knowledge sharing. Collaboration at DNB, which has been actively encouraged through a special program for three years now, enables the bank to follow their principle, “the art of meeting the customer.” It is about being reliable both internally and externally and sharing knowledge with colleagues to achieve high quality service.

BES highlights value creation for their shareholders, customers, and employees. This is achieved through “service excellence as well as addressing permanent focus on the customer.” Sustainable development from social, cultural, and environmental perspectives is in the core of the operations and knowledge sharing is done accordingly.

The interviewee at Millennium bcp mentions also the importance of focus on the customer in knowledge sharing and the bank perceives even internal communications as a form of customer service.

“Internal communications is the path to customer satisfaction. We want to see the world through the client’s eyes and help to make their dreams come true. Focus on cooperating with your colleagues, building trust, and using your established connections in the group promotes knowledge sharing in the bank.

It all allows focusing on the client which is probably the most important guiding value that we have – both internally and externally.”

- Interviewee at Millennium bcp

Furthermore, the interviewee at Millennium bcp continues by listing the other guiding values: respect for people and institutions, vocation for excellence, trust, and ethics and responsibility. The values are achieved through knowledge sharing because it allows Millennium bcp to spread the best practices across the company as well as develop their skills and operations in every unit. The bank sees knowledge sharing also as a key to long-lasting relationships and sustainable development inside and outside the organization.

#### 4.2.2 Cognitive Dimension

The cognitive dimension can be seen e.g. in Millennium bcp’s operations by considering their business model which supports sharing and spreading the ideas from different cultures and allows the company to strengthen shared interpretations e.g. about customer service. The interviewee at Millennium bcp gives an example of how they transferred the concept of a new kind of customer service from Portugal to Greece.<sup>1</sup> According to the interviewee:

“Greeks had previously had long queues in the branches but our bank wanted to increase the market share by exceeding the customer expectations and introducing something new to the Greek market: better customer service. By better customer service we mean the efficiency of the operations. For example, before the policy was transferred from Portugal, the Greek unit had long waiting times and a lot of hassle even in simple tasks. Opening a new bank account took ages. Now it’s only about 15 minutes.”

- Interviewee at Millennium bcp

In addition to the shared interpretation about the service quality, the banks express cognitive dimension when introducing knowledge sharing tools to older employees. One of the current challenges in the banking industry is aging and ensuring that the younger and older employees share the same views about knowledge sharing principles and have the same skills to use the tools is sometimes difficult. The interviewee at DNB describes:

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<sup>1</sup> At the moment of the interview Millennium bcp was negotiating about selling the Greek unit. The selling process was completed and confirmed in the end of April 2013 (Reuters 2013).



“When people are used to working in an old-fashioned way, and of course we have a challenge that the average age in the bank is quite high, there are a number of employees who have difficulties to adopt the modern tools.”

- Interviewee at DNB

Furthermore, there is also resistance to change which might be due to the limited basic IT skills. What DNB has done to overcome these challenges is easy training and easy language that everyone can understand. However, tough competition with the reluctance to change creates another challenge: prioritizing the training sessions in the times when they should increase sales is difficult.

Besides aging, a remarkable cultural challenge in the cognitive dimension is common time perception. Because face-to-face meetings are appreciated and preferred in certain occasions as knowledge sharing instruments, the parties may need to review their understanding of time. The interviewee at BES describes the case as follows:

“In Portugal we only set up meetings in half-hour preciseness (e.g. at 10:00 or 10:30) because some participants would come a bit later anyway. Also, we usually meet a bit later than the banks in Northern Europe. In certain cultures we still must be aware of being more punctual, such as in London, where being late might cause serious consequences for the business relations. However, the other end of the continuum is Africa where time works completely differently: you go there and may need to wait three to four days to be called to a meeting. You only buy a one-way ticket and take a lot of other things to do aside on your business trip because there is no pre-agreed time when the meeting would take place. This is how it works and you need to adapt to that.”

- Interviewee at BES

In addition, the interviewee at BES emphasizes the uncertainty and risk of the African market but on the other hand sees great banking opportunities. The degree of development of the markets defines knowledge sharing direction at BES. The interviewee at BES outlines about the in-transfer capacity of the subsidiaries as follows:

“As in the world, developed countries tend to generate more knowledge and so it is also in our company. The direction of knowledge flows is more from a

developed market to a developing market. For example, the key knowledge centers are London, the US offices, and Paris; they export a lot of knowledge e.g. to Venezuela and Angola.”

- Interviewee at BES

### 4.2.3 Structural Dimension

The structural dimension allows the banks to develop their dynamic and operational capabilities through linkages created by expatriation. DNB, BES, and Millennium bcp all use and emphasize expatriation as an essential tool for knowledge sharing now and in the future. Building linkages between the HQ and the subsidiaries is valuable because established connections make communication and sharing knowledge easier.

The value of expatriation for the banks comes from better relations not only between the HQ and the subsidiary but also between individual employees. For instance, the interviewee at Millennium bcp has personally spent five years in Greece and describes the experience as follows:

“The time abroad has allowed me to build good relations with the Greek people which ease my job afterwards here in the HQ in Portugal. There is personal trust between us and when I contact them, they know me already. Expatriation supports knowledge flows in both ways and also helps the HQ to get a better glimpse of the local daily activities in the subsidiary.”

- Interviewee at Millennium bcp

According to the interviewee at DNB, it is quite common for their employees to spend a few years abroad and the personnel in the foreign offices consist in general of about 30-50% of Norwegians. In the Portuguese banks, expatriates are expected to stay abroad approximately two to five years and help to build a strong corporate culture based on the HQ values from the very beginning of a new subsidiary. The operations in a new country are supported with a greater number of expatriates at first but they pursue to balance the mixture of local employees and expatriates once the business has settled. Both Portuguese banks see expatriation relevant in their future operations.

Despite the banks giving a strong impression of the global structure, there seems to be willingness to grow towards the transnational MNC type. For example, the interviewee at

DNB says that it would be ideal to increase local decision-making in the future. Also, the interviewee at Millennium bcp addresses the importance of local responsiveness by referring to their committee which tours in the subsidiaries frequently and “signals decentralized flare to encourage local employees to get involved in decision-making.”

## 4.3 Knowledge Governance Approach in Banking

Social capital in the banks is promoted and supported by the knowledge governance mechanisms. The banks do not use market-based mechanisms to enhance social capital but hierarchy and social recognition determine knowledge sharing to a great extent.

### 4.3.1 Market-based Mechanisms

Observing knowledge management with the market-based mechanisms approach, DNB does not use a financial reward system to promote knowledge sharing but relies more on explaining the contribution of sharing to performance and encouraging employees to use the knowledge sharing systems. The Portuguese banks do not reward financially for knowledge sharing either but communicate the purpose of sharing clearly to the employees.

### 4.3.2 Hierarchical Mechanisms

The interviewees from the banks describe the decision-making process centralized to a great degree but the foreign units have a right and in certain occasions even an obligation to adjust operations to the local conditions. For example, according to the DNB interviewee, decision-making in the bank is centralized in Oslo but decisions regarding local markets must be adapted accordingly.

The employees at DNB are naturally expected to follow the established rules and guidelines. The local offices have their own sessions for knowledge sharing but the managers from the HQ participate often in the sessions too. In addition to the rules and guidelines, DNB uses a feedback system in the form of questionnaires to enhance knowledge sharing. The questionnaire may ask questions, such as “to what degree do you use the systems, and to what extent do you think your manager is good at using them and showing the value of sharing.”

BES has adopted a policy which also outlines certain knowledge sharing responsibilities for the employees. However, the interviewee at BES admits that occasionally hierarchy can make sharing more complicated when the distance between the different “hierarchical layers” separates employees. He specifies further that when the distance originates from “artificial sources”, such as titles, the diffusion of knowledge may suffer significantly due to the prejudices that “the lower level” has towards managers.

The interviewee at Millennium bcp does not address any negative aspects from hierarchy but rather presents it in a different way: the employees and subsidiaries are of course expected to follow the knowledge sharing rules but it is only because guidance from the HQ is based on experience. The interviewee at Millennium bcp justifies as follows:

“To avoid making the same mistakes, it is of high importance that the units and employees follow the guidelines.”

- Interviewee at Millennium bcp

Rules and guidelines may create a hierarchical framework for operations but sometimes hierarchy may originate from the length of employment. For example, the interviewee at DNB is able to identify a hierarchical issue which is typical in the finance institution. According to the interviewee, employments are traditionally long-lasting in financial institutions which as such might be only an advantage by keeping the employee turnover low.

However, long-term employments may create certain powerful roles and positions especially when people have worked for the bank for several years and, therefore, knowledge sharing with new employees could be distracted due to the structural issues. However, the interviewee points out that “for the past five to six years, after DNB hired a new CEO, we’ve tried to alter the culture to become more easy-going and flexible as well as to have a greater readiness to adapt to the changes.”

### 4.3.3 Social Mechanisms

The social mechanisms to support knowledge sharing at DNB are primarily training and learning from the colleagues. Learning and training contribute to personal and professional development which is a distinctive social mechanism.

“We do expect and encourage people to use new systems and they have been given extensive training. The training sessions explain the technology, but also why we need to share. The emphasis is on sharing, being together, and collaborating.”

- Interviewee at DNB

Openness and transparency are also valued and, for example, DNB advises the employees to make their calendars open so that everyone can see what they are currently doing.

Learning is a key social mechanism in knowledge sharing in the Portuguese banks too. Especially now that the global financial crisis has hit the banking sector hard, both of the Portuguese banks stress the importance of learning and development. The interviewee at BES says that they try to focus on the good things they can learn from the difficult times, such as openness, although he admits that acknowledging employees for good performance gets hard (e.g. promotions and salaries). The bank is currently focusing on developing better non-financial incentive systems. Also, as a developmental step they have extended cooperation with the foreign units continuously.

The interviewee at Millennium bcp states similar aspects. An important social knowledge governance mechanism is definitely development of new skills in cooperation with the foreign subsidiaries. Cooperation with the foreign units allows also updating knowledge sharing strategy. For example, Poland represents currently a profitable market for the bank and they pursue to strengthen their presence in the country by cooperating increasingly and sharing more knowledge with the Polish unit.

Besides learning in formal sessions and social interaction at work, the banks can enhance the development of personal relations outside the office hours. For example, BES organizes social activities to bring the employees together and strengthen their personal interaction. There are activities, such as horse riding, designed by professionals and the bank makes sure there is always someone to explain the purpose of the social activity. This is how BES pursues to provide the employees with learning outcomes from the social events. Furthermore, the company arranges team building and does “wrap-ups” after each session. The new employees at BES are introduced to the knowledge sharing policies of the company with a welcome package. The material is also available online and there are video tutorials to support the learning process. E-learning allows also teaching more technical matters.

However, in addition to the guided learning sessions, the company also expects self-studying.

Team spirit and belongingness at Millennium bcp are fostered by doing non-work-related activities together and according to the interviewee, every employee should have a reason to feel proud of being a member of the work community. However, the interviewee at Millennium bcp mentions that social ties can be strengthened even without any special training moments:

“Social interaction in knowledge sharing is basic element in the daily operations but sometimes even a simple part of the day, such as lunch, can be more meaningful from a social perspective than any bigger special occasion that is intended to build trust between the employees.”

- Interviewee at Millennium bcp

## 4.4 Knowledge Sharing in Consulting

Knowledge sharing in consulting seems to be based on the social dimensions more than in banking. The consulting companies deal with more diversified themes in their operations and, therefore, social capital and interaction are vital for their existence.

### 4.4.1 The Value of Knowledge Sharing

The high status of knowledge sharing in the strategy indicates the value that the consulting companies give for knowledge. Knowledge sharing at IBM is a top priority because as stated by the Norwegian interviewee, “to get the best of the best in any situation and any project across the globe, the company needs to learn from other projects that have been successful.” The Portuguese interviewee at IBM adds further that:

“Knowledge sharing in a big organization is important because transferring knowledge allows more efficient operations and the employees can use information that has already been created.”

- Interviewee at IBM Portugal

Development of knowledge sharing at IBM is a result of more than 100 years of history. The Norwegian interviewee at IBM emphasizes the ability to adapt to the changing industry trends as a core element in their business and as a reason for their long existence. Also, IBM has not only developed its own internal knowledge sharing but has provided other companies with solutions for knowledge sharing.

Accenture has developed its knowledge sharing mechanisms continuously over the years. The interviewees do not go far back in the history but mention that as a consulting company, Accenture has focused on finding and investing in the most effective knowledge management solutions. In addition, they have developed their HR policies to retain talent in the company. Getting “fresh ideas” is also vital for the continuous improvement and a way for the company to achieve this is to attract students and newly graduated people to apply for an internship. The Norwegian interviewee describes the summer internships at Accenture as a subject to competition and it is also an internal honor to arrange projects with the interns.

The Research Lead from Accenture Madrid office says that the future for them is currently restructuring operations and focusing on maintaining the service level. “Value comes from intangible resources and, therefore, knowledge sharing must be given a high priority.” Although he suspects that they feel the effect of the crisis still in their future operations, the Accenture units in Lisbon and Madrid have encouraged a cooperative attitude both on the individual and organizational level.

#### 4.4.2 Mutual and One-sided Knowledge Sharing

Despite being governed by the corporate HQ, the interviewee at IBM Norway describes the unit as “an independent subsidiary” with its own Board of Directors and General Manager. She explains further: “We make local decisions according to the local market, because we know the local market.” The interviewee at IBM Portugal gives similar insights about the Portuguese operations. They receive most of their instructions from the UK office and are seldom in direct contact with the US HQ. However, the Portuguese interviewee clarifies that “being in touch with the US office is also dependent on one’s tasks: e.g. the global compensation leader is Portuguese and based in Lisbon, and reports directly to the US.”

Knowledge sharing at IBM is based on one of the most advanced tools in the whole industry and the interviewee at IBM Portugal recalls the time when she started at IBM:

“From the very beginning of my career, the Portuguese unit had a special need for developing HR practices and knowledge sharing. I contributed a lot to the Portuguese unit by finding the right experts. On the global scale, intranet has been developed a lot since I started and there is more interaction thanks to the advanced technology these days. Career development has also allowed developing knowledge sharing when people need to consider how to contribute positively to collaboration in their annual objectives. In the old days the objectives were manually written in word doc, today it’s done online and information is more up-to-date.”

- Interviewee at IBM Portugal

Accenture develops the knowledge sharing principles based on the best practices that they have identified globally. Knowledge sharing is intensive and highly bi-directional between certain main units but the smaller markets, such as Portugal, are “more in the role of the recipient,” as described by the Portuguese interviewee. Organizational culture has a great impact on knowledge sharing but national culture may shape knowledge sharing mechanisms, such as a rewarding system, in accordance with the local market conditions. Moreover, there are units which are more active in knowledge transfer due to their functions. For example, the interviewee from Accenture office in Madrid says that:

“The research department serves the whole Iberian Peninsula and Israel as well as the developing markets in Africa where local conditions must be taken into consideration while designing knowledge management tools. No matter if it’s technology or a principle, local strategies are needed.”

- Interviewee at Accenture Madrid office

#### 4.4.3 Sharing Systems

Social media is in daily use at IBM to share knowledge and interact across the units. The company has applications such as Lotus® Notes, Connections, instant messages, communities, video conferences and presentation, and blogs. Furthermore, the employees are provided with learning sessions about media-related topics and collaboration in social media. As the Norwegian interviewee at IBM describes, “knowledge sharing systems are essential to reach the right person.” With social media IBM can get hold on the experts who have the



greatest know-how in the field which in turn helps the company to generate value for its clients.

Accenture uses enterprise social networks as a knowledge management tool and the company has many platforms for knowledge sharing. The Norwegian interviewee gives an example of knowledge management applications, such as KX and Lync. Furthermore, he continues with an example of Yammer which is a tool to increase efficiency by exchanging short answers to simple questions.

Challenges at IBM originate from “the burden of knowledge.” Because of the large databases, the company has accumulated a lot of material and distilling relevant knowledge from irrelevant “is not an easy task, let alone quick,” as described by the Portuguese interviewee. She gives an example of a training session for the new employees that took 30 minutes and after the session there were employees who were not able to distinguish what is the most important message in the content.

In addition to the learning sessions, IBM uses social networking as a knowledge sharing instrument. However, social media can be a medium for knowledge sharing but it may also raise concerns regarding efficiency. The Norwegian and Portuguese IBM interviewees talk about cases in which the employees may end up spending too much time e.g. by instant messaging and crossing the point after which social media affect working efficiency negatively. Yet, they do not suggest a complete ban for online interaction in any case. Instead, they trust that the employees have a sense of responsibility to realize that the personal loss is greater if the use of social media reaches the inefficient level and prevents the individual from meeting their targets.

Like the interviewees at IBM, the interviewees at Accenture identify also the amount of knowledge as a challenge. The knowledge reservoirs have grown enormous and, therefore, finding the right and relevant material and processing it properly takes time even with the most up-to-date knowledge management systems. Also, the Norwegian interviewee suggests that the diversified format of knowledge will add its own challenge to the overall situation. There are many forms of knowledge, such as videos, instant messages, and forums, which all are not connected.

## 4.5 Social Capital in Consulting

Social capital is regarded as a key asset in both consulting companies. Social interaction is a corner stone of Accenture's culture. IBM highlights the value of social capital by including a clause about helping others to achieve their annual objectives in their career development policies.

### 4.5.1 Relational Dimension

The relational dimension denotes the value of established relationship. The Portuguese IBM interviewee perceives that the global teams add value by providing the company with an opportunity to network and learn from foreigners. Furthermore, IBM Portugal promotes helping and learning in social interaction with the colleagues because they want to prevent the employees from wasting time and resources in reinventing the already existing clear solutions. Also, the interviewees in both consulting companies emphasize the importance of trust.

“Trust is explained to you in the first training sessions, and the organization is based on trust: the employees are explained the business conduct guideline and how people should behave if problems occur.”

- Interviewee at IBM Portugal

Considering the relational dimension and how social capital can be valuable for the organization, the Norwegian interviewee at Accenture puts emphasis on cooperation:

“We are dependent on each other in terms of knowledge – everyone has a different background and different strengths and weaknesses. Building on each other means that we need to use our strong sides and trust our colleagues and the quality of their work. One cannot do everything alone so it's all about team work. I work rarely just on my own.”

- Interviewee at Accenture Norway

The international training sessions help to establish personal connections with Accenture employees from other countries and enable knowledge exchange. The employees have diversified skills globally and networking enables teaching other employees. The Norwegian interviewee gives an example of cooperation with his colleague in the Mexican unit:

“I was going to use an exchange management tool some months ago and I didn't have any real experience with it. I had an access to it so I could just see how it looks but I didn't know how to use it. I've only seen it in use in different labs but I knew a manager in Mexico who had used it for many years. So, I asked her to call to me, share her experience, and go through all the steps in the tool. I had also gathered my Norwegian colleagues who didn't have experience with it and we found this a great opportunity to learn.”

- Interviewee at Accenture Norway

#### 4.5.2 Cognitive Dimension

The Portuguese interviewee at IBM is able to identify a minor negative effect of the high uncertainty avoidance index of Portugal on the cognitive dimension: there have been few cases in which collaboration and helping colleagues has been “postponed” so that the employee has prioritized reaching their own targets at first. Especially now that IBM has restructured operations in Portugal and the unit is expected to deliver high results, some employees have gotten stressed and insecure about their positions to that extent that they become less motivated to help others. The interviewee at IBM Portugal describes the problem as follows:

“This is only a minor issue but thinking ‘I need to get mine done first before I can help anyone else’ can impact the working atmosphere as well as forgetting to say ‘thank you.’ There are frustrating moments these days but everyone should remember that social ties will always play a role and showing a little courtesy can prevent a lot of harm.”

- Interviewee at IBM Portugal

The cognitive dimension makes the consulting companies to balance operations globally because of shared understanding about the value of experienced employees: Spain, for example, has a lot of knowledge resources currently because the business climate is tough and there are fewer jobs for people. Therefore, it can provide a pool for other Accenture units to recruit talented people with precious know-how and already established social connections to other Accenture employees.

Shared values enhance knowledge sharing when the employees understand what the company expects from them. The values of IBM are dedication, innovation, and trust. These

are shared globally and “owned by every employee”, as the interviewee at IBM Norway explains. Furthermore, IBM has a technically oriented culture in which “intellectual property, knowledge, and know-how are highly valued and the employees are definitely expected to share their knowledge.”

Similarly, Accenture denotes the importance of shared interpretations through their core values which are stewardship, best people, client value creation, one global network, respect for the individual, and integrity. Everyone in the company is expected to take responsibility for their actions and high quality in actions is a key to success. For example, the Oslo and Madrid office interviewees at Accenture highlight “quality assurance” in knowledge sharing by which they refer to the strict knowledge sharing rules. The employees cannot add anything in the Accenture database simply because they like it but it must go through the quality assurance process.

### 4.5.3 Structural Dimension

Governance and knowledge sharing at IBM has been organized according to the markets (figure 4.1). There is one big growth market unit which covers the countries that grow mainly by two digits (China, India, and certain Latin American countries). Another main cluster consists of the “older” markets in which IBM has already reached a rather stable position: the US, Japan, and Europe. Norway and Portugal belong to the “old market” in the European unit in which IBM Norway is a part of the Nordic cluster and IBM Portugal the so called SPIG cluster together with Spain, Italy, and Greece. Both of the interviewed subsidiaries are ultimately managed from the corporate HQ in the United States: processes, strategy, policies, and financial procedures are directed and transferred from the corporate HQ to all operational units globally.

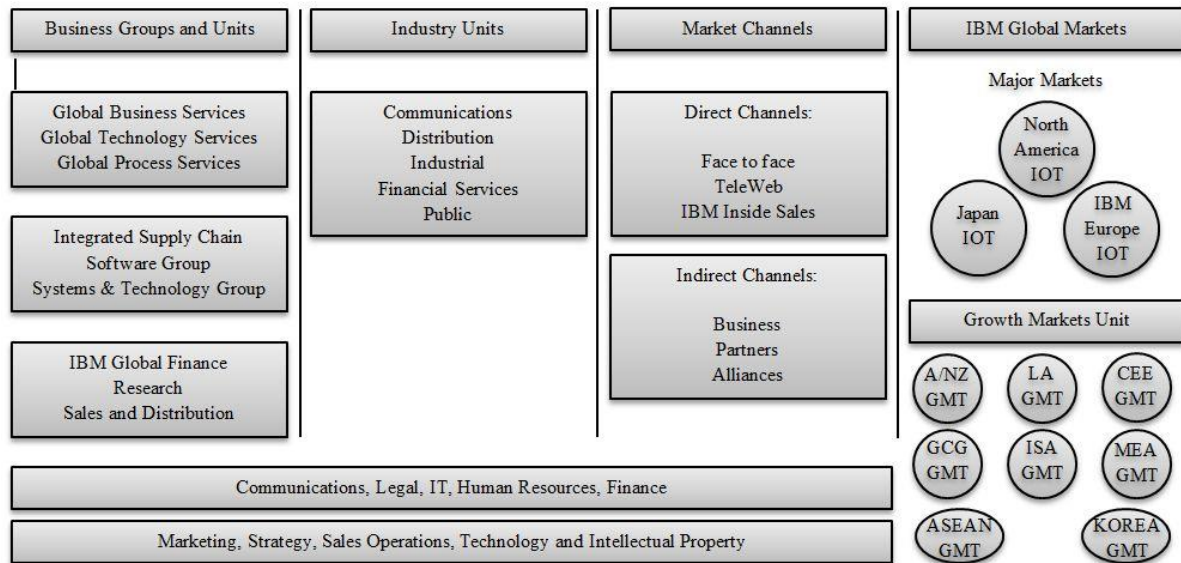


Figure 4.1. IBM Organization Overview (Source: Interview with IBM)

The structure at Accenture follows a partner model in which the HQ and subsidiaries create a network organization. The company has some centralized decision-making policies but the local units contribute to management by making adaptations to fit the markets. Local decision-making covers e.g. salaries and investments. The Norwegian interviewee at Accenture describes the diversified structure of the company by stating that because they are a transnational company, they do not really have one major HQ but key locations where important operations take place, e.g. training and research. Accenture Norway belongs to the Nordic region in Accenture’s structure and Portugal is a part of the SPAI cluster (Spain, Portugal, Africa, and Israel).

The interviewee at IBM Portugal explains that as operations have been shifted from Portugal to other countries, fear of losing job has increased. However, the structural dimension can in certain cases benefit the MNC by enabling relocation inside the network instead of terminating employment and, thereby, prevent knowledge leakages. Also, intranet enables remote working and might even yield cost savings to the company when working can be done online with less traveling days.

According to the interviewee at Accenture Portugal, “connecting human capital programs to strategic outcomes” is the foundation of social capital in the company. Social capital contributes to better overall performance through efficient knowledge sharing and developing the dynamic capabilities of the employees. For example, the Norwegian

interviewee at Accenture talks about special interest groups which are formed around different projects and themes:

“You can join a group if you have a special interest in a certain topic. The community meets regularly and there are presentations and experience and research sharing among the members which gives us a chance to gain new insights. I’m a member of several communities in which I can update my skills and knowledge in different areas.”

- Interviewee at Accenture Norway

## 4.6 Knowledge Governance Approach in Consulting

### 4.6.1 Market-based Mechanisms

IBM Norway has a reward system for sharing knowledge but according to the interviewee, the company has reward system basically for everything. However, she avoids highlighting the system and explains that “knowledge sharing is a reward itself; you do not need incentives to see the value of knowledge sharing.” IBM Portugal does not mention any special award or bonus for active knowledge sharing.

Similar to IBM Portugal, Accenture Portugal does not mention any financial reward system simply for knowledge sharing. The Norwegian interviewee at Accenture comments briefly on the reward system by stating that the company has naturally a rewarding scheme. The reward system consists of points which entitle the employee e.g. to a gift card but in the long run active and high quality knowledge sharing will most likely contribute to promotions. However, he reminds that knowledge sharing should always come naturally because it is a fixed part of their organizational culture and every employee understands its positive effect on organizational performance.

### 4.6.2 Hierarchical Mechanisms

Hierarchy at IBM comes visible in their corporate culture. According to the interviewees, IBM is process-oriented company and as a gigantic global operator, there must be rules and standards to set clear guidelines to the employees. Reporting can be done through different

tools but it must be done in a certain manner which gives the managers on the higher levels a clear understanding of the current performance. Clarity and following certain hierarchical steps in knowledge sharing is important in all departments because it makes working more efficient for every level. For example, standard reporting reduces traveling days of managers and, hence, saves resources to be used for the value-adding projects.

As the Norwegian interviewee at Accenture outlines, the hierarchical dimension at Accenture sets special expectations to the senior employees: “the more senior you are the more you’re expected to contribute to knowledge flows.” However, the interviewee notes that even the senior management is dependent on other employees in terms of knowledge. Cooperation should come naturally and the existence of knowledge sharing guidelines and practices is not the ultimate driver for knowledge sharing.

#### 4.6.3 Social Mechanisms

The interviewee at IBM Portugal emphasizes the importance of organizational culture which she describes as “pretty strong.” Social recognition is probably the most rewarding outcome that one can receive by sharing knowledge and helping other. The interviewee gives an example of their virtual reward called “Blue Thx” which is a message with a blue ribbon:

“It’s a thank you message that you can and actually should send after your colleague has helped you. It’s visible to the recipient and their connection board which includes the managers.”

- Interviewee at IBM Portugal

In addition to the Blue Thx, the employees are expected to address their colleagues in their annual development plan. The interviewee at IBM Portugal clarifies the career development process in the company:

“They go through their career development objectives in collaboration with their supervisors and team leaders. Collaboration notes also the methods how an individual employee is going to help the colleagues to achieve their objectives.”

- Interviewee at IBM Portugal

The IBM interviewee in Norway describes the use of social mechanisms through appreciation the IBMers get not only from their colleagues but also from the society in

general. Working with great minds in advanced and demanding projects is highly valued among Norwegians.

The social mechanisms of IBM include developmental programs for the employees: new talents and potential leaders can enter a corporate citizen program in which they work voluntarily on NGO projects from four to six weeks in third world countries. The program gives them precious knowledge management and leadership experience abroad and is a good merit for a new employee who pursues to become an IBM manager.

Besides the developmental programs, the interviewee at IBM Portugal mentions working communities as social mechanisms: both enable the employee to develop personal and professional skills. Working communities are special groups organized around projects or different subjects, such as Talent Hub, Business Analytics and Employee Learning Facilitator Community. The communities were initially established to provide informal learning experiences and knowledge exchange internally. There is a section for the communities on the intranet where the community members have blogs and discussion forums to go through problems and solutions together. The members can add content and comments on the topics which remain in the name of the “owner” i.e. the one who started the topic.

The social governance mechanisms at Accenture are among the main drivers of knowledge sharing. The Accenture interviewees describe recognition in the working community as a result of sharing skills and knowledge with colleagues. Social interaction at Accenture is encouraged through feedback the employees can give to each other. They are evaluated by their colleagues and one dimension in the evaluation process is collaboration.

“If you only sit alone behind your computer, other people won’t notice you and you cannot contribute to collaboration and sharing,” states the Norwegian interviewee at Accenture. Furthermore, he continues with an example of gatherings. The employees of Accenture Norway may gather together in different kinds of events and meetings which are mainly designed for socialization. The content and activities can vary from an analytical presentation to a less formal case study in groups. The Portuguese interviewee at Accenture supports the Norwegian interviewee by describing their practices: “Even a coffee break together may have a remarkable impact on knowledge sharing and social interaction. In relation to its cost, I find the outcome many times more precious.”



The training of the “IBMers” is done online to a great extent. The interviewee in the Portuguese unit says that the Lead Learning Center is in Malaysia and education is organized through a learning tool which every IBM employee can access independent of their location. The Norwegian subsidiary adds further that IBM uses workshops to train the employees to use e.g. social media.

## 4.7 Summary of the Findings

The findings from the interviews in this chapter are summarized in table 4.1 and we use the content of the table in the discussion in Chapter 5. The table follows the structure of the research model by showing Knowledge Sharing (KS), Social Capital (SC), and Knowledge Governance Approach (KGA) in the left column. The industry (banking and consulting) can be seen on the top row of each research dimension. The culture (Norway and Portugal) is included in each research dimension and under both industries.

	<b>BANKING</b>	<b>CONSULTING</b>
<b>1. KS</b>	<b>Norway:</b>	<b>Norway:</b>
	<i>Value</i> – KS culture been developed increasingly over the past few years; KS expressed as “a way to win”	<i>Value</i> – KS has a top priority because value in consulting comes from knowledge; KS enhances the ability to adapt to changes
	<i>Mutual / one-sided</i> – the HQ and bigger subsidiaries transfer knowledge in larger volumes	<i>Mutual / one-sided</i> – very independent subsidiaries which receive only main principles from the HQ; otherwise more KS and communications with the Nordic cluster
	<i>Systems</i> – intranet, email, SharePoint, Lync, document library	<i>Systems</i> – intranet, instant messages, video conferences, presentations, blogs, enterprise social network tools (e.g. Yammer), and Lotus® Notes
	<b>Portugal:</b>	<b>Portugal:</b>
	<i>Value</i> – KS is valuable when the quality of knowledge is good and relevant; KS can improve sustainability and profitability in banking	<i>Value</i> – KS has a top priority because value in consulting comes from intangible resources; KS enables more efficient operations because employees can use knowledge that has already been created
	<i>Mutual / one-sided</i> – the HQ and subsidiaries in the developed markets send more knowledge to the subsidiaries in the less developed markets	<i>Mutual / one-sided</i> – the Portuguese consulting units operate in a small market from the global perspective and the units receive more knowledge than send; also, interaction is more frequent with the units which are in the same cluster (e.g. Spain)
	<i>Systems</i> – F2F meetings, intranet, email, video conferences, Skype	<i>Systems</i> – intranet, instant messages, video conferences, presentations, blogs, enterprise social network tools (e.g. Yammer), and Lotus® Notes
	<b>BANKING</b>	<b>CONSULTING</b>
<b>2. SC</b>	<b>Norway:</b>	<b>Norway:</b>
	<i>Relational</i> – values, especially trust, are the result of collaboration which has been actively encouraged through a special program; relational dimension enables to follow the principle “the art of meeting the customer”	<i>Relational</i> – international training helps to develop personal connections with employees in the other MNC units; employees are encouraged to provide and ask for help to avoid wasting time on reinventing the already existing solutions
	<i>Cognitive</i> – the employees should share the same knowledge and basic skills e.g. in IT; the simple language is a key to understanding	<i>Cognitive</i> – values promote the relational dimension: “values are shared globally and owned by every employee”
	<i>Structural</i> – networking with the subsidiaries through expatriation; a fixed part of the MNC structure and it is common for the employees to spend a few years abroad	<i>Structural</i> – little control in the KS processes from the HQ, the responsibility for certain key operations e.g. R&D or training are decentralized in the subsidiaries

<b>Portugal:</b>	<b>Portugal:</b>
<i>Relational</i> – trust comes from personal and well-established relationships with other employees and customers; “trust is our product”	<i>Relational</i> – the relational dimension contributes to trust; global teams and established connections between the foreign MNC units enhance knowledge sharing
<i>Cognitive</i> – KS helps to develop shared interpretation about the business, e.g. shared idea of customer service	<i>Cognitive</i> – focus on the cognitive dimension in social capital: shared values and interpretations e.g. about the quality of knowledge and the value of sharing; however, the high score in UA index in Hofstede’s dimensions seems to prevail occasionally and employees may neglect the cognitive dimension
<i>Structural</i> – social capital derived mainly from the structural dimension: expatriation used on a rather large scale to build and develop networking and knowledge sharing between the HQ and subsidiaries	<i>Structural</i> – little control in the KS processes from the HQ, the responsibility for certain key operations e.g. R&D or training are decentralized to the subsidiaries
<b>BANKING</b>	<b>CONSULTING</b>
<b>3. KGA Norway:</b>	<b>Norway:</b>
<i>Market-based</i> – no market-based mechanisms	<i>Market-based</i> – some market-based mechanisms in use but their deployment is seldom based solely on knowledge sharing; no clear emphasis given on the market-based mechanisms
<i>Hierarchical</i> – authority-based hierarchy: the HQ has superior knowledge and the management is centralized	<i>Hierarchical</i> – consensus-based hierarchy: rules, standards, and guidelines for knowledge sharing
<i>Social</i> – encouraged self-development through learning from others, openness and transparency; e.g. open calendar for colleagues to see what one is doing and when	<i>Social</i> –KS tools to collaborate across operations; social knowledge governance mechanisms in use are mainly formal and informal social events, personal development, and acknowledgement (e.g. IBM Blue Thx)
<b>Portugal:</b>	<b>Portugal:</b>
<i>Market-based</i> – no market-based mechanisms	<i>Market-based</i> – no market-based mechanisms
<i>Hierarchical</i> – authority-based hierarchy: the HQ has superior knowledge and management is centralized	<i>Hierarchical</i> – consensus-based hierarchy: rules, standards, and guidelines for knowledge sharing
<i>Social</i> – formal and informal social mechanisms: learning and developing skills through interaction with colleagues, lunch, and non-work-related activities	<i>Social</i> –KS tools to collaborate across operations; social knowledge governance mechanisms in use are mainly formal and informal social events, personal development, and acknowledgement (e.g. IBM Blue Thx)

Table 4.1. Summary of the findings

## 5. Discussion

Chapter 5 discusses our findings in relation to the research model. Furthermore, this chapter presents answers to the research questions and assesses the validity of the propositions. We start by going through the research questions and analyzing the impact of industry and culture on knowledge sharing, social capital, and knowledge governance mechanisms. The comparative analysis leads us to discuss managerial implications of the thesis as well as suggestions for future research.

As one of our main findings we identify that industry determines knowledge sharing more than culture; the findings are more homogenous from the industry perspective (e.g. Norwegian consulting vs. Portuguese consulting) than from the country perspective (Norwegian companies vs. Portuguese companies). Based on the findings (see table 4.1), we present answers to our research questions in the following sections.

### 5.1 Promotion of Knowledge Sharing in Service MNCs

Knowledge sharing in service MNCs is a notable resource because in comparison to other resources, its value increases when used. The more knowledge is shared, the more value is created (Becker 1999, Adler 2001). Knowledge is shared through IT-based instruments, such as document management systems (Smits and de Moor 2004) but to respond to “the context-specific knowledge-sharing needs”, the MNC must facilitate sharing and interaction across the MNC operations (Michailova and Gupta 2005). Our first research question pursues to define how knowledge sharing is promoted in a specific service industry:

- 1) How do MNCs promote knowledge sharing in different service industries, such as banking and consulting?

The findings of our research suggest that the consulting MNCs use more social knowledge governance mechanisms to share knowledge than the banks. Both industries have established KS policies and principles to promote knowledge flows but the consulting MNCs seem to have embedded knowledge sharing more extensively in their organizational culture. A reason for the stronger knowledge sharing culture in the consulting MNCs may be the

development of consulting-specific knowledge sharing mechanisms over a long period of time; for example, IBM has a long history of knowledge sharing in the multinational environment.

### 5.1.1 Promotional Mechanisms

Personal relationships between employees are valued in both industries and trust is developed through social interaction. Socialization with colleagues in formal and informal events and training sessions are regarded as an essential method to create pathways for knowledge sharing. In addition to personal social interaction, MNCs use many kinds of technical instruments to share knowledge: emails, intranet, and video conferences, for example, are used on a daily basis.

The use of knowledge sharing systems has two distinctive dimensions in the studied industries. Our findings suggest that the consulting MNCs take better advantage of virtual interaction through instant messages and enterprise social networks, such as Yammer and Lotus® Notes. The interviewees reveal that the consulting MNCs encourage establishing connections through social networking tools with employees in other MNC units across their global operations. Networking for knowledge sharing purposes in MNCs improves efficiency because employees can reach each other better and cooperate despite the physical distance. For example, the Norwegian interviewee at Accenture explains the value of networking by giving an example of knowledge management tool training in a video conference. The Norwegian interviewee did not know how to use the tool but knew a colleague in Mexico who was able to teach him and his colleagues in Norway the basics of the system.

In contrast to virtual meetings in the consulting MNCs, personal social interaction seems to be a preferred knowledge sharing instrument in banking. For example, the interviewees in the banks highlight expatriation as a mean of knowledge sharing and regard it as an essential part of their future operations. According to the interviewed bank representatives, expatriation is also an important bridge between the HQ and subsidiaries and helps to build a corporate culture based on the HQ values.

Although our research suggests industry to have a greater impact on the deployment of knowledge sharing mechanisms, culture still has some effect on knowledge sharing. For example, regarding social interaction, the Portuguese interviewees highlight the value of

personal meetings because as a part of their culture, non-verbal communication and gestures tell a lot. The Norwegian interviewees signal more orientation to technology-based communication in their answers. As the interviewee at DNB explains, they have invested a lot in knowledge sharing systems, teaching the basic IT skills to the employees, and simplifying language to promote connectivity and knowledge sharing.

## 5.2 The Impact of Industry and Culture on Social Capital

Adler and Kwon (2002) describe social capital as “a long-lived asset into which other resources can be invested, with the expectation of a future (albeit uncertain) flow of benefits.” Hoffman et al. (2005) suggest that social capital contributes to sustained superior performance, because organizations with high levels of social capital have more effective knowledge management than the organizations with low levels of social capital. Furthermore, social capital enhances social networking and collective cohesiveness between focal actors in the MNC, which enables “the pursuit of collective goals” (Adler and Kwon 2002: 21; cited in Gooderham et al. 2010). Our second research question observes the creation of social capital and the influence of social capital on knowledge sharing:

- 2) What industry and cultural factors contribute to social capital and how does social capital affect knowledge sharing?

### 5.2.1 Industry Factors

Our research identifies the structural dimension of social capital as a dominant phenomenon in banking. The banking industry is characterized by the global MNC structure in which the operations are integrated but local responsiveness is limited. Considering the industry, the banking operations are well-defined due to the standard activities and products, such as lending, current accounts, and payment transfers (Berger and Smith 2003). Moreover, the global banking industry is a relatively new phenomenon because previously many nations have had strict regulatory barriers to international banking. However, removal of the regulations and advances in technology allow expansion to new markets; banks are capable of managing and transferring larger knowledge flows than before. Modern knowledge sharing allows also more cost-efficient risk management (ibid).

In comparison to the banking activities, the consulting activities are more diversified due to the dynamic business environment and highly knowledge-intensive services (Michailova and Gupta 2005, Buono 2002: 21). Our findings support that the existing literature, which states that the consulting industry is dependent on the knowledge and expertise of the consultants as well as their ability to create further knowledge (Buono 2002: 21). Moreover, the interviews with the consulting MNCs indicate that the consulting industry has accumulated more experience in multinational knowledge sharing based on its longer presence in the international markets. Therefore, the consulting MNCs have been able to develop social capital to promote knowledge sharing which increases innovativeness, flexibility, and competitive advantage. Furthermore, the existing sharing systems offer “a way to integrate management tools like total quality management, business process reengineering and organizational learning” (Michailova and Gupta 2005).

### 5.2.2 Cultural Factors

According to our research, national cultural factors do not affect the banking industry on a large scale but there are minor occasions in which national culture of the employees may interfere. For example, the interviewee at BES describes how hierarchy can affect knowledge sharing negatively when the position and title of the employee is known. Considering the PDI score of Portugal in Hofstede’s cultural dimensions, this finding confirms the high power distance in Portugal.

Although the US culture can be considered to affect organizational culture at IBM and Accenture in various ways due to the country of origin effect (Noorderhaven and Harzing 2003), there are some factors in national culture which may occasionally prevail over organizational culture. For example, although the consulting companies denote the importance of cooperation and helping colleagues to achieve success, our research has discovered that some employees at IBM Portugal may prioritize their own tasks and goals before helping others. Recalling Hofstede’s cultural dimensions and the high UAI of Portugal, these findings are in line with the existing theory. Furthermore, it is worth noting that Hofstede’s theory is indeed based on the findings from the surveys with the IBM employees, though in the 1970s.

The Norwegian interviewees did not reveal any noteworthy cultural factors that would have a major negative or positive effect on social capital or knowledge sharing. However, we

might consider the rather low PDI score of Norway to result in flat hierarchy which may be supported by the low MAS score. Recalling that low masculinity in culture indicates softer values in the organization, e.g. solidarity and dialogue in decision-making, organizational culture in Norway is characterized by equality and flexibility. This is confirmed by the interviewee at DNB who describes how the bank has pursued to alter the culture to become more flexible to adapt better to the changing market trends.

With only a few findings about the effect of national culture on the organizations, we can suggest that the cultural factors have some influence on the development of social capital. However, it might be insufficient to conclude any pronounced statements based on our research with a limited sample.

### 5.2.3 Social Capital

Due to the structural dimension in banking, the HQ exercises fairly extensive control over the subsidiaries. Organizational culture is based on the country of origin; however, our research does not indicate major national cultural factors in banking that would affect knowledge sharing. Also, organizational culture in banking is somewhat similar in the international banks and defined by the industry characteristics to a great extent. The values of international banks consist mainly of value creation for the customer and trust and transparency in the operations: “Trust is the product,” as expressed by the interviewee at BES.

Our findings support the strong control of HQ in banking because the interviewees highlight expatriation as a knowledge sharing instrument. For example, the Portuguese interviewees emphasize the support from the HQ and more developed subsidiaries especially in the start-up phase of a new subsidiary until the operations are well-established and stabilized. Their operations e.g. in Africa require expatriation because the markets are risky and the level of trust is still low due to the weak relational and cognitive dimension of social capital.

The cognitive dimension includes e.g. shared interpretations which can help to build trust when the different MNC units understand the collective goals the same way. The interview with Millennium bcp reveals an example of concrete knowledge sharing. As a result of knowledge sharing and the developed cognitive dimension, the shared idea of customer service led the bank to introduce the concept of more efficient customer service from Portugal to their Greek operations.



The relational dimension in social capital is still about to develop in banking and, for example, the Norwegian interviewee at DNB explains that they have actively encouraged collaboration through a special program. Herschel and Jones (2005) identify collaboration as one of the key aspects to knowledge sharing, which also helps the banks to follow their values in the daily operations. For example, the value for customer seems to be a core element in banking and, therefore, the relational dimension of social capital can strengthen relationships between the employees and promote sharing, knowledge creation, organizational creativity, and performance across the operations (Choi and Lee 2002). The interviewee at DNB gives an example of Statoil as a customer; by sharing knowledge they can improve efficiency and the quality of service for the client.

According to our research, the consulting industry is more developed in the cognitive dimension of social capital. The cognitive dimension is supported by the structural dimension: the structure of consulting MNCs resembles a network organization in which the subsidiary is more equal with the HQ. For example, Accenture does not really have a clear HQ but rather decentralized key locations which are responsible for specific operations, such as R&D and training. Similarly, IBM has also decentralized global units which are responsible for certain operations, such as Global Finance or Sales and Distribution.

The consulting MNCs interact with client companies from different industries to solve their various kinds of problems and needs and, therefore, the employees understand the value of knowledge sharing to meet the shared objectives. The networking structure of the consulting MNCs enhances the cognitive dimension and shared understanding about their mission. The transfer of diversified competencies between the subsidiaries and the HQ brings a larger resource base available for the consulting MNC and because knowledge in the consulting industry is often in tacit format (Nahapiet and Ghoshal 1998; Clegg et al. 2010: 348), the company has designed an organizational culture which encourages social and virtual interaction to make the knowledge flow. Our interviews reveal that e.g. instant messages and enterprise social network tools are widely used for knowledge sharing.

In conclusion, we have found out that the consulting industry has accumulated a longer experience in the multinational markets and, hence, has learned to use social capital more effectively in knowledge sharing. The cognitive dimension in the consulting industry seems to be particularly well-established: the flexible structure of the consulting MNC helps to spread shared interpretations and, thereby, develop trust in the relational dimension. In

comparison to the consulting industry, the banking industry is dominated by the structural dimension but is experiencing a structural transition and, thereby, knowledge sharing. For example, our research reveals that there have been recent investments in upgrading the knowledge sharing systems and altering their organizational culture towards a more flexible structure.

Due to increasingly internationality and expansion into new markets in the banking industry, there might be significant developmental steps also in the cognitive and relational dimensions in the future. Because social capital may lose its efficacy over time due to the industry changes, the banking MNCs should renew and reconfirm their social capital periodically (Adler and Kwon 2002).

### 5.3 Knowledge Governance Approach

The Knowledge governance approach, KGA, is an emerging theory about knowledge governance mechanisms which describes the intersection of knowledge and organization (Foss 2006; Gooderham et al. 2010). The theory seeks to act as a way to match knowledge transactions and knowledge governance mechanisms by "using economic efficiency as the explanatory principle" (Foss 2006). Our third research question studies the differences in the use of knowledge governance mechanisms between the industries:

- 3) What are the differences in the use of knowledge governance mechanisms between the banking and consulting industries?

#### 5.3.1 The Differences in the Use of Knowledge Governance Mechanisms

Our findings suggest that market-based mechanisms are seldom applied because they are not regarded as the most efficient way to promote knowledge sharing. The interviewees in the banks do not mention any market-based mechanism in their operations.

Also, the consulting units in Portugal do not refer to any market-based mechanisms in the interviews. In contrast, the consulting units in Norway mention that they have rewarding systems but the assessment of knowledge sharing in the systems is based on several variables, such as quality.

Regarding the hierarchical mechanisms, the banking industry relies more on hierarchy than the consulting industry. The global MNC structure in the banking industry makes the knowledge transfer process relatively one-sided because the HQ transfers often more knowledge to the subsidiaries than vice versa. One-sided knowledge sharing may cause the dependency of the subsidiary on the HQ: for example, the interviewee at BES describes the subsidiaries as autonomous i.e. they are not completely independent.

The consulting industry uses hierarchical mechanisms only to keep the knowledge resources manageable in the large MNC. As explained by the interviewee at IBM Portugal, the rules and standards in knowledge sharing clarify processes and increase efficiency in every department. When e.g. reports are in a standard format, the management is able to interpret them more easily and, thereby, can devote time and resources on value-adding projects.

Social mechanisms in banking are still in a developmental phase. So far the banks seem to rely on the basic social knowledge governance mechanisms to promote knowledge sharing. Such basic mechanisms can be e.g. self-development by providing a document library or e-learning opportunities to the employees. Another kind of a social knowledge sharing tool can be personal meetings. For example, by sending a HQ representative to train the employees in the subsidiaries may be regarded as an acknowledgement from the HQ's side: the subsidiary is important to the MNC and the HQ actively aims at developing the relations and collaboration with the subsidiary. Our research gives examples both from Norway and Portugal: DNB managers from the HQ may participate in training sessions in the subsidiaries and encourage learning and developing skills by socializing with colleagues. Thereby, the employees do not have to create all knowledge from scratch.

The Portuguese banks acknowledge the importance of subsidiaries by arranging the regular strategic meetings in a cyclical order in each foreign unit. Furthermore, they foster team spirit and belongingness by doing non-work-related activities which provide often self-developmental aspects for the employees.

In comparison to banking, consulting uses more developed social based mechanisms. For example, acknowledgement at IBM can be done with a virtual "thank you ribbon" which expresses gratitude to colleagues and is visible also to the supervisors. Furthermore, due to their presence in a number of countries, the consulting MNCs encourage e.g. the use of instant messages and virtual communities to cooperate and network with colleagues in other

MNC units. Regarding knowledge sharing in virtual communities, the organization must have developed many elements of social capital, such as “social interaction ties, trust, norm of reciprocity, identification, and shared vision and language” (Choi and Lee 2002). Even then, the challenge of voluntary knowledge sharing remains: willingness to share may not always be a top priority for everyone. As already outlined in paragraph 5.2.2 about cultural factors, national culture can sometimes become a dominant factor in certain knowledge sharing cases and interfere collaboration when the employee might be passive in helping colleagues.

All in all, the differences in the use of knowledge governance mechanisms between the banking and consulting industries are basically defined by the MNC structure. The banking industry is more attached to the hierarchical mechanisms because the structure requires relatively extensive control by the HQ. The consulting industry has also some hierarchical mechanisms in use to keep operations manageable but the greatest focus is on the social mechanisms. The market-based mechanisms are hardly applied in banking and seldom in use in consulting too.

## 5.4 Managerial Implications

This thesis studies social capital and knowledge sharing mechanisms and we think our research can give distinctive implications to business management. This section pursues to explain the learning outcomes for the practical business management.

Our thesis relies on primary data to a great degree which we have collected from in-depth interviews with the banking and consulting MNC representatives in Norway and Portugal. Due to the semi-structured interview method, the interviewees were able to give many practical insights into knowledge sharing in their industries. Because we have used real cases, the learning outcomes might first and foremost benefit the Norwegian and Portuguese businesses. However, because our findings suggest only minor impact of national culture on social capital and knowledge sharing and greater impact of industry, the thesis could in general offer implications for any banking or consulting MNC.

The secondary data sources constitute primarily of academic journals. We have studied social capital and knowledge sharing by combining findings from the existing literature to create a research model that can be used in a comparative analysis on service industries.

Based on our research, we present the following key implications for business management:

1) Virtual interaction as a complementary tool to personal social interaction

Personal social interaction is a preferred way to share knowledge in many occasions but our findings especially from the consulting industry support an increasing use of virtual interaction in the MNC. When the company has units in several countries, virtual communities can contribute to the overall cost-efficiency. As a result of virtual communities, the company can achieve e.g. substantial cost savings when traveling to the same location is not necessary. Also, working efficiency can be improved when the employees have access to the material and colleagues available to help.

However, it is important to consider the restrictions in the use of virtual communities. First, trust is still a key element in knowledge sharing and sharing crucial knowledge online with colleagues the employee may have never met in person could become an issue. Therefore, virtual communities can work better when there is an established personal connection between the members of the community. Second, the context matters in knowledge sharing. For example, if the employee was working on a project with possibly significant effect on profitability, the MNC management might require closer personal social interaction and advise to use virtual interaction as a complementary tool to share knowledge. Also, in long-term projects personal social interaction may result in a better outcome.

Besides the use of virtual communities in knowledge sharing, we have another implication for business management regarding social capital:

2) Frequent renewal of social capital to ensure efficacy

Management of social capital is not to be taken as granted but the MNC management must evaluate the dimensions of social capital constantly. According to Adler Kwon (2002), social capital may lose its efficacy if not reconfirmed periodically. Hence, the multinational banks, for example, should consider if the hierarchical dimension is the most effective dimension to apply in knowledge sharing. As banks expand to new markets and increase their knowledge databases, developing the cognitive and relational dimensions of social capital could become

necessary. Finally, the MNC management should understand the true value of social capital. Too many times social capital is perceived only as an abstract concept. However, as stated by Hoffman et al. (2005), high social capital leads to a higher knowledge management capacity.

## 5.5 Suggestions for Future Research

As explained in Chapter 3, we have developed the following propositions to stimulate discussion around future research. The first proposition addresses the grounds for knowledge sharing.

*Proposition 1: Industry is more important in determining knowledge sharing mechanisms than culture.*

The findings of this thesis support this proposition: it is indeed the case in the banking and consulting MNCs which we have interviewed. The differences in knowledge sharing between the industries are greater than the differences between the countries. However, because our research has a limited sample, it might be necessary to conduct more detailed research about the effect of certain cultural dimensions. For example, in the case of Norway and Portugal, the focus could be set on the dimensions with remarkably wide gaps, such as Individualism, Masculinity, and Uncertainty Avoidance.

Furthermore, although our research suggests that industry has a greater impact on knowledge sharing, there is need for research in service industries other than banking and consulting. It could be that e.g. telecommunications and airlines are more sensitive to cultural characteristics than industry characteristics.

Our second proposition denotes the use of social capital:

*Proposition 2: The use of social capital in knowledge sharing varies significantly between the banking and consulting industries.*

Based on our research, there is no evidence for a significant variance but rather moderate differences in composition of the dimensions. We suggest that service industries do use social capital differently due to the industry and cultural conditions. However, more research

could be done to identify the specific factors which determine the use of social capital in banking and consulting and if e.g. a change in the MNC structure would affect the use of social capital.

Moreover, with our qualitative research we have identified that market-based mechanisms are hardly in use while hierarchical and social knowledge governance mechanisms are more common. A quantitative research could be needed to measure the shares of the different knowledge governance mechanisms in the banking and consulting industries.

The final proposition of our thesis discusses the role of social mechanisms:

*Proposition 3: The role of social mechanisms is greater in consulting than in banking.*

Our findings support this proposition. The activities in banking are more standardized and require less acknowledgement and self-development to promote knowledge sharing. In contrast, the consulting industry is more dependent on diversified knowledge and expertise because the business is related with creativity, creation of new knowledge, and problem solving. Therefore, knowledge sharing encouraged through social knowledge governance mechanisms could be a more powerful tool than e.g. hierarchical mechanisms used in banking.

However, as we have discussed in this thesis, the banking industry seems to be in a transition due to the growth in the international market. Studying the effect of industry changes, such as increasing internationality, on social knowledge governance mechanisms could be an interesting and important topic for future research.

## 6. Conclusion

The purpose of this thesis is to study the mechanisms used by service MNCs to promote knowledge sharing across their operations. The scope of this study covers knowledge sharing mechanisms in banking and consulting. More specifically, we focus on the role of social capital in knowledge sharing. The thesis is qualitative in its nature and uses semi-structured interviews to conduct empirical research. We have interviewed three banks (DNB, Millennium bcp, and BES) and two consulting companies (IBM and Accenture) in Norway and Portugal.

Knowledge management is a systematic process which improves the way information is organized and managed in MNCs (Herschel and Jones 2005). Knowledge sharing is an essential part of knowledge management and consists of activities of transferring and disseminating knowledge from one actor to another (Lee 2001). Knowledge intensive MNCs are found to support and develop knowledge sharing systems actively because the companies have recognized the importance of an efficient knowledge sharing system (Geisler and Wickramasinghe 2009).

Our research reveals that the value of knowledge sharing is understood rather well in the banking and consulting industry. The companies interviewed in this thesis all work actively to maintain and improve knowledge flows across their operations. Knowledge sharing in banking and consulting is implemented through similar technical systems. However, the consulting industry uses more virtual interaction tools while the banking industry regards personal social interaction necessary to the development of trust and ultimately knowledge sharing.

Social capital originates from the behavior and interaction of individuals and groups. Personal relationships established over time create a basis for networking which helps to build further trust. As a result of the unique social networks, MNCs can support collective actions and make knowledge sharing more fluent (Nahapiet and Ghoshal 1998).

Our findings suggest that the consulting industry is more developed than banking in terms of social capital. While the banking industry is characterized by a well-established hierarchical dimension, the consulting industry signals a stronger cognitive dimension and, thereby, more developed relational dimensions as well. The more developed cognitive dimension (e.g.



shared interpretations) and relational dimension (e.g. trust and norms) in the consulting industry could be a result of a longer presence in the multinational markets. The banking industry is in transition and about to grow globally (Berger and Smith 2003) which might ultimately require renewal of social capital in MNCs (Adler and Kwon 2002).

Knowledge governance approach (KGA) is a theory consisting of three types of mechanisms; market-based, hierarchical, and social mechanisms. The theory presents the knowledge governance mechanisms as a way to affect knowledge sharing e.g. by fostering cooperation. Cooperation may not only make knowledge sharing more efficient but can strengthen shared values and understanding of the collective goals (Nahapiet and Ghoshal 1998; Foss 2006).

The objective of this thesis is to identify the most effective knowledge governance mechanisms in multinational banking and consulting industries. Our findings suggest that the banking industry uses primarily hierarchical mechanisms in knowledge sharing. In contrast to the hierarchy in banking, the consulting industry favors social mechanisms due to their network organization structure. Based on our empirical research, the market-based incentives are not widely adopted and reasons could be derived from the literature about the usability of the market-based mechanisms. It is argued that organizational culture which supports learning and sharing through non-financial incentives leads to more sustainable knowledge sharing (Evans 2003; Currie and Kerrin 2003).

The findings of this thesis suggest that the impact of culture on knowledge sharing mechanisms is less than the impact of industry. We found only few examples of situations in which national culture may prevail over organizational culture. However, the limited sample of the study is not enough to confirm a major impact of culture. According to our research, the impact of industry is dominant in the deployment of knowledge sharing mechanisms in the banking and consulting industries.

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# Appendices

## Appendix 1: Interview questions

### 1. Background information

- Position, background (how long the interviewee has worked in the company)

### 2. Type of the MNC and the relationship of the HQ and the subsidiary

- In how many countries does your company have operations?
- How is your company managed/structured? (multidomestic, international, global, transnational)
- How is the relationship between the HQ and subsidiaries? For example, in terms of recruitment (expatriation vs. local people) and decision making (centralized vs. decentralized)?
- Describe the culture of your organization.  
(A strong organizational culture may e.g. affect and encourage knowledge sharing in the working community; open working community can influence knowledge sharing positively.)

If the company to be interviewed is a subsidiary:

- How do you perceive your position in relation to the HQ / other subsidiaries?

### 3. Social capital and knowledge sharing (KS)

- How have you organized knowledge sharing between the HQ and the subsidiary?
- To what extent is knowledge sharing bidirectional between the HQ and the subsidiary? (In addition to explanation: on a scale from 1-5: unidirectional-bidirectional)
- What kinds of technological knowledge sharing systems do you use? Alternatively, is the KM system outsourced?
- How important is knowledge sharing across the domestic and international units in your company? (In addition to explanation: on a scale 1-5: unimportant-important)
- Why is KS important?
- How do you address the values and norms in the daily operations?
- What does trust mean for your company in knowledge sharing? (In addition to explanation: on a scale 1-5: unimportant-important)
- Can you give examples of the value that KS adds to the company?
- How does knowledge sharing and need for knowledge transferring vary in your company? (Is there e.g. a unit which is more knowledge intensive than others?)

If the company to be interviewed is a subsidiary:

- What kind of knowledge do you receive from the HQ?



#### **4. Knowledge Governance Approach (KGA)**

- What mechanisms are used for knowledge sharing? (e.g. reward systems, job design, organizational structure, information systems, standard operating procedures, authority, rules/regulations, professional and personal development)

Hierarchical: To what extent are the employees expected to follow the established KS practices?

Social: What kinds of systems do you have for training and encouraging employees to cooperate and share knowledge?

Market-based: What kinds of reward systems or incentives do you have to promote knowledge sharing?

#### **5. Internal and external challenges in knowledge sharing**

- What kinds of internal challenges do you encounter in knowledge sharing? How do you deal with them? (e.g. cultural challenges)
- What kinds of external challenges do you encounter in knowledge sharing? For example, what kinds of effects has the financial crisis had on your knowledge sharing?

#### **6. Knowledge management system development and future prospects**

- Can you mention any changes in your KS practices in the past few years?
- What are the major steps that have been taken to reach your current knowledge sharing policy?
- What kind of a role will knowledge sharing have in your organization in the future?
- How do you plan to respond to the knowledge sharing challenges in the future?

