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When same is (not) the aim: A treatise on organizational cultural fit and knowledge transfer☆

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ABSTRACT

Multinationals (MNCs) need to find the balance between developing a globally standardized organizational culture and having multiple locally- adapted organizational cultures. Past literature embodies the bias that differences between MNC units, unless managed, would lead to adverse consequences. To counter this negative bias, we focus on cultural fit, which is the amount of difference yielding maximum benefit. We argue that depending on comparison criterion and desired outcome, fit could be achieved by establishing similarities *or* maintaining differences. Using evolutionary economics, we explore knowledge transfer within MNCs and test our hypotheses on fit using a unique dyadic dataset from 186 MNCs.

1. Introduction

This paper explores the importance of the organizational cultural fit between the headquarters (HQ) of a multinational corporation (MNC) and a foreign subsidiary to facilitate knowledge transfer. Understanding what it is that creates the 'fit' between different MNC units is critical; given that the management of diversity and complexity is a key element that makes international business (IB) a unique field of study (Roth & Kostova, 2003). Compared to their purely domestic counterparts, MNCs are more likely to incorporate different organizational sub-cultures and need to deal with the resulting higher levels of complexity. Standard IB theories and approaches tend to view this plurality as a potential problem and a barrier for the efficiency and success of MNCs (c.f., Stahl, Tung, Kostova, & Zellmer-Bruhn, 2016). In other words, cultural differences are implicitly associated with negative outcomes. As Stahl and Tung (2014) systematically show, theoretical and empirical studies in the field of IB often make negative theoretical assumptions about the effects of cultural differences. Although this trend has recently started to shift, a negative bias towards cultural differences remains dominant.

Thus, an implicit claim of extant literature is that cultural fit between two units could be achieved when differences are minimized between these units. In this paper, we propose the alternative hypothesis that fit could at times be achieved when two units remain different from each other. Defining fit as the amount of difference that yields the maximum benefit, we hence argue that it would be too simplistic to equate fit with sameness. In other words, we argue that organizational culture fit works like personal attraction: many people are attracted to and end up marrying someone who is similar in some aspects (e.g., likes sports) and different in other aspects (e.g., enjoys gardening more than doing internal home improvements) rather than someone who is the same in all aspects.

Paralleling our personal attraction metaphor, organizations also differ in terms of their cultural values and characteristics. Therefore, understanding which aspects of organizational culture – the explicit focus of this paper – should be similar vs. different to create the desired outcomes is an important goal that motivates this paper. Knowledge transfer – the other explicit focus of this paper – is one such desired outcome since it has often been regarded as the main raison d'être of firms in general, and of MNCs in particular (Kogut and Zander, 1993,Kogut and Zander,1996 1996). Despite the centrality and importance of knowledge transfer across multiple cultural contexts, there is still lack of empirical consensus on the role of cultural differences and similarities in the ability of MNCs to transfer knowledge (Van Wijk, Jansen, & Lyles, 2008). To complement earlier research focusing on national culture (e.g., Ambos & Ambos, 2009) we focus on organizational culture and differ from earlier distance studies in several ways. First, past research has operationalized distance as a unitary concept in which different cultural dimensions are subsumed to calculate a

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singular index of distance. Using these unified measures, existing research often positions two entities vis-à-vis each other, and tests whether the cultural similarity between these two entities is able to explain success of the firm. However, such an approach cannot completely account for the distinct effect(s) of different cultural dimensions on a given outcome. Thus, despite its methodological convenience, the unification of culture/cultural distance under a singular index measure hides important sources of variation stemming from specific cultural dimensions and attributes. We will address this problem by keeping cultural dimensions separate in our analysis, so that we can identify those aspects of organizational culture for which achieving fit requires attaining similarities *or* maintaining differences.

Second, as a result of using index-based measures to calculate cultural distance, past studies can account only for the *degree* of difference without explaining the *direction* with which these differences affect cross-cultural phenomena. Aggregating culture to a unified index means that cultural distance must be an absolute measure that always has positive values. As a result, it has to be assumed that the effects of cultural differences are symmetrical, but there is no reason to assume that the effect of differences in organizational culture between two units has symmetrical effects on these units. Our approach in this paper relaxes this assumption, which helps us probe into both degree and direction of differences.

In our attempt to contribute to a more balanced and nuanced understanding of cultural differences (Stahl et al., 2016), we examine two well-established dimensions of organizational culture (i.e. internal integration and external adaptation), two distinct components of the knowledge transfer process (i.e. knowledge flows and knowledge implementation), and two directions of knowledge flow (i.e., inward knowledge flow and outward knowledge flow). Theoretically, we build our reasoning on evolutionary theories of organizational learning (Aldrich & Reuf, 2006; Zollo & Winter, 2002), and argue that for knowledge to flow between two units *different degrees of variation* are required. Accordingly, we argue that the direction of these knowledge flows depends on which of the two units has a higher level of external adaptation in its organizational culture. We show that knowledge flows from the unit with stronger external adaptation (generating higher variation) into the unit with weaker external adaptation (generating more limited variation). Further, we propose that the implementation of knowledge necessitates *similar selection* mechanisms, and therefore, benefits from higher similarity in terms of internal integration. In sum, we hypothesize that fit between two interacting units can be achieved by establishing similarities *or* maintaining differences, depending (a) on the criterion used to compare the two units (i.e., which dimension of organizational culture), and (b) the intended outcomes of the interaction (i.e., direction and component of knowledge transfer process).

The paper is organized as follows. In the next section, we define our key terms and concepts. We then develop our hypotheses drawing on evolutionary economics. Next, we explain our general research design, data collection procedure and methodological details. We will then present our empirical analyses and results, and conclude by positioning them against previous research.

2. Key terms and definitions

2.1. Knowledge transfer

The transfer of knowledge-based resources across different subunits has been a popular topic for IB studies. There is a stream of research that looks mainly at subsidiaries and examines the direction (e.g. inward vs. outward, vertical vs. horizontal) and amount of the knowledge flows within MNCs (Ghoshal & Bartlett, 1988; Gupta & Govindarajan, 1991, 2000; Harzing & Noorderhaven, 2006; Minbaeva, 2007; Monteiro, Arvidsson, & Birkinshaw, 2008). Focusing specifically on the effectiveness of knowledge transfer into subsidiaries, there is another stream of work which is concerned primarily with the drivers of successful organizational knowledge transfer across different subunits (Fey & Furu, 2008; Kostova & Roth, 2002; Kostova, 1999; Minbaeva, Pedersen, Björkman, Fey, & Park, 2003; Szulanski, 1996). While some studies define the success of the transfer process as the extent to which the knowledge is replicated by the recipient unit (Nelson & Winter, 1982; Szulanski, 1996), some others extend the scope of transfer success by measuring employees' ownership of, commitment to, and satisfaction with the transferred knowledge (Kostova & Roth, 2002; Kostova, 1999; Lervik, 2005). Thus, studies of knowledge flows look mainly at the *amount* of knowledge transferred into and/or from subsidiaries, whereas the studies on transfer success explore the extent to which the incoming knowledge is *implemented* by the recipient units.

In this paper, we regard knowledge transfer as a two-stage process consisting of both knowledge inflows and knowledge implementation. We also look at both directions of knowledge flow—knowledge inflow and knowledge outflow. In line with our general research design, we take the subsidiary as the main/focal unit of analysis. Accordingly, we define the degree of *outward knowledge flows* as the extent to which a subsidiary sends knowledge to the HQ, whereas the degree of *inward knowledge flows* is defined as the extent to which the subsidiary receives knowledge from its HQ. Thus, outward and inward knowledge flows capture the frequency of bidirectional communication between the subsidiary and the HQ. Knowledge implementation goes beyond mere exposure to new knowledge and refers to the degree to which subsidiary employees learn from the HQ and put HQ's knowledge into practice.

2.2. Organizational culture

Before proceeding further, it is important to clarify the level at which we examine culture. An MNC is normally comprised of a HQ and a number of subsidiaries in different countries. The organizational culture of an MNC subunit might be influenced by the national culture within which it operates (Hofstede, Neuijen, Ohayv, & Sanders, 1990) because of the need to adapt the organizational culture to the local environment. Previous research shows that national culture affects the type of organizational culture that is more effective in a particular country (Fey & Denison, 2003). Therefore, national culture to some extent is diffused into the firm's organizational culture. Diverse national cultures create pluralities and different organizational sub-cultures within MNCs. As a result, there is a need for globally standardizing a company's organizational in order to create consistency and coherence within the entire organization. In this regard, the MNC's home country culture also influences its (meta) organizational culture, which partly gives rise to an inherent tension between standardization and adaptation within an MNC. Balancing this tension is a key challenge for MNC management and parallels the need to balance the MNCs' strategic and organizational tensions as discussed in the classic work of Bartlett & Ghoshal (1988b).

Although some studies consider the role of organizational cultural differences (e.g. Fey & Beamish, 2001; Pothukuchi, Damanpour, Choi, Chen, & Park, 2002; Weber, Shenkar, & Raveh, 1996), extant IB literature focuses primarily on national cultural differences. As such, despite our focus on organizational cultural differences in this paper, we draw on work focusing on culture at the national level. Further, while it is beyond the immediate scope of this paper, our balanced interest in both positive and negative aspects of cultural similarities/differences is relevant to studies exploring the role of national culture differences and would be a useful topic for future empirical study.

We adopt Schein's (1992, p. 12) popular definition of organizational culture as the "pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration." We decided to adopt this definition, since (1) Schein's work is widely used (it has over 35,000 citations); (2) many of the major models of organizational culture are built upon the tension between external adaption and internal integration (e.g., Denison & Mishra, 1995; O'Reilly, Chatman, & Caldwell,