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**Leadership development programmes  
and the development of social capital  
in MNEs**

**by**

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## **Leadership development programmes and the development of social capital in MNEs**

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### **Introduction**

It has been argued that knowledge transfer in firms is primarily about the development of the relationships among knowledge holders rather than the development of information and communication technologies (Hansen et al. 1999; Nahapiet et al., 2005; Newell, Robertson et al., 2002). This is a particular challenge for multinational enterprises (MNEs) seeking inter-unit knowledge integration. Not only are they usually relatively large but their business units and key knowledge holders are separated by geographical and cultural distance (Ghemawat, 2001) and by varying degrees of local embeddedness (Forsgren et al., 2005; Newburry, 2001). Consequently MNEs have to purposefully engage in fostering intra-firm networks of relationships if knowledge is to successfully flow internally. The resources inherent in and derivable from these networks such as common obligations and norms have been referred to as relational social capital and constitute critical facilitators of knowledge sharing (Nahapiet and Ghoshal, 1998). This raises the issue of how social capital for knowledge sharing purposes may be developed in MNEs (Gooderham, 2007).

One approach to establishing the necessary inter-unit linkages has been to select high global leadership potentials across the MNE and then bring them together on internal global leadership development programmes. The aim is that these key employees should through their participation develop into a “social community” (Kogut and Zander, 1996) characterized

by common values in regard to knowledge sharing and thereby a common knowledge sharing praxis. We will refer to this as “bonding”.

While not dismissing this approach, the overall aim of this paper is to critically examine its limitations. In particular we examine the impact of the subsidiary embeddedness of individual participants. By this we not only refer to the degree to which the individual identifies with her own business unit but also the degree to which the business unit to which the individual belongs is entrenched in business relationships external to the MNE. We contend that this can vary considerably and that this impacts on the network centrality of the business unit in relation to the MNE. The effect is that participants in global leadership programmes will significantly vary in their proclivity to bond with the MNE as a whole and that a lack of bonding will undermine their propensity to engage in knowledge sharing.

Thus we will argue that, despite sharing common leadership potential characteristics, the tendency of participants in internal global leadership programmes to integrate in inter-unit knowledge sharing networks will vary according to the degree to which the individual participant believes knowledge sharing as a commonly shared value. Second, we will argue that this bonding will be influenced by the degree to which business units are objectively embedded in their local environments. In other words global leadership programmes aiming at greater bonding have to contend with objective differences in the network centrality of the business units to which participants belong. Moreover, these differences cannot be successfully addressed by global leadership programmes. We empirically test both of these contentions by drawing on a data set collected at the initial stage of an internal programme for 38 global leadership talents organized by a Norwegian MNE, Norfert (pseudonym), in collaboration with a leading international business school.

The paper is structured as follows. First we define social capital and establish its significance for knowledge sharing in MNEs. Thereafter we argue that the impact of internal

global leadership programmes on knowledge sharing is influenced by a number of factors, including the external embeddedness of the business units of participants. Hypotheses are introduced and tested.

### **Social capital and knowledge sharing**

During the early part of the 1990s MNE scholars observed the pioneering attempts by MNEs to achieve the integration of their knowledge-rich subsidiaries. It was not unusual that MNEs sought to develop formal structures as a means to minimise potential conflicts and enhance cooperation between global product managers and country heads. However, while formal structure matters it was concluded that it only constitutes at best a partial answer for MNEs seeking a closer integration of their knowledge-rich subsidiaries (Bartlett and Ghoshal, 1995). For example at ABB in the late 1980s a matrix structure was introduced meaning that accountability was shared by country heads and product heads. However, the result was one of conflict and confusion, turf-wars and informational log-jams. Thus while structure has a role to play there is a growing acceptance that one must go beyond structure and develop “network organizations”. As Bartlett and Ghoshal (1995: 483) argue, “in an operating environment in which managers are separated by distance and time barriers, *shared management understanding* is often a much more powerful tool than formal structure and systems in coordinating diverse activities.”

One compelling line of theorizing and research in regard to the role a “shared management understanding” can play in relation to knowledge sharing is represented by social capital theory. Although there is no unanimity as to how social capital should be precisely defined (Nahapiet, 2008), there is broad consensus in regard to its essential properties. Adler and Kwon (2002:17) define it as “the good-will that is engendered by the

fabric of social relations that can be mobilised to facilitate (knowledge-sharing)”. Nahapiet and Ghoshal (1998:243) employ a somewhat broader definition defining social capital as “the sum of the actual and potential resources embedded within, 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.” What these definitions share is the notion that networks of social relations can engender resources that enable social individuals and social groupings to achieve performance consequences they could not otherwise accomplish.

Social capital theory can be usefully divided into two approaches, the brokerage view (Burt, 1992; Lin, 2001) and the closure view (Coleman, 1988, 1990). While the former operates at the level of the individual actor who spans structural holes and who thereby benefits by controlling the flow of resources between the separate clusters of the social network, the latter operates at the level of the collectivity and argues that benefits from social capital such as commonly held values and mutual obligations derive from network ties. Our paper is located within the closure approach and focuses on the way in which competing external social networks can undermine the formation of the intra-MNE linkages necessary for social capital formation. In turn this impacts negatively on knowledge sharing.

Like Tsai (2000:927) we regard social capital as primarily comprising a structural component “which manifests itself in attributes of an actor’s network position”, and a “relational component” which according to Nahapiet and Ghoshal (1998) will comprise common norms and obligations. The implication is that there is both a “linkage” and a “bonding” aspect to the social capital of a collectivity. The linkage aspect relates to the centrality of the location of an organizational unit in relation to the inter-unit network of the MNE, whereas the bonding aspect concerns the features of those linkages that give the collectivity cohesiveness.

Tsai and Ghoshal (1998) argue that it is this relational or cohesiveness dimension of social capital that is the immediate precursor or condition for knowledge sharing across multi-unit organizations such as MNEs. In terms of knowledge sharing relational social capital in the MNE would be typified by a pronounced belief or conviction that the sharing of knowledge with other business units is valued across the MNE.

While relational social capital or bonding is the major immediate antecedent of knowledge sharing within the MNE it does not arise of itself. It depends on there existing network linkages that provide access to other parties. Although in the main, social capital is created as a by-product of activities engaged in for other purposes intentional, direct and purposeful investment in social capital is possible (Nahapiet and Ghoshal, 1998). Arguably, internal global leadership programs constitute an attempt to develop social capital in that they have as their aim to create interdependence through common objectives as a consequence of concentrated interaction with managers from other units.

### **Global leadership development programmes**

The globalization of business has challenged companies to identify leaders with potential global leadership competencies and to develop these. Although the concept of global leadership competencies is not well-understood (Suutari, 2002) and therefore the process of and the tools for developing global leader competencies is lacking in clarification (Morrison, 2000; Roberts et al., 1998) a number of development methods may nevertheless be observed (Suutari, 2002). One of the most traditional, but also one of the most costly methods, is some form of internal training and development program that aims “to promote integration, cross-cultural interaction and networking” in accordance with the MNE’s “specific strategic imperatives” (Suutari, 2000). As Suutari (2002) observes, such tailored programmes are “very expensive to arrange”. Their expense is of course even greater when they have been preceded

by some form of assessment centre designed to identify participants with attributes that are deemed indicative of global leadership potential.

The capacity of global leadership programs to foster the conditions for relational social capital or bonding among participants is dependent on a number of conditions extraneous to the program itself. It will be argued that even with an intake of participants with similar leadership capacities or aptitudes, their business unit membership may act as a substantial constraint on creating inter-unit linkages and therefore bonding with the MNE as a collectivity. In particular we will argue that a particular constraint is the degree to which the business unit is embedded in external business networks. Any lack of bonding or relational social capital will have, we will argue, profound consequences for the involvement of participants in knowledge sharing within the MNE.

Our first hypothesis is therefore concerned with the impact of bonding among participants with the MNE on their propensity to engage in knowledge sharing, with bonding conceived as the belief that reciprocal knowledge-sharing is a commonly held core value in the MNE,:

Hypothesis 1: The greater the bonding that has occurred the greater the propensity of participants to engage in knowledge sharing with other units.

### **External embeddedness and bonding**

Andersson et al. (2007) point to a dilemma faced by the headquarters of MNEs. On the one hand business units that are embedded in external unique, local business contexts can provide access to competencies from which the whole of the MNE can benefit. On the other hand business units that are highly embedded in local business contexts may equally be less interested in the overall performance of the MNE than those which are more embedded within



the MNE. That is when business units are largely involved in long-term business interactions in their local environment “the possible result (is) that issues external to the MNE are prioritized” (Andersson et al., 2007: 816). To the extent externally embedded business units are interested in the MNE the tendency is to try and influence the strategy of the MNE on the basis of its own local business agenda. The implication is that MNEs should be viewed as organizations whose degree of bonding will vary according the strength of the business unit’s linkages with its local environment. Rather than being interested in contributing to the MNE’s overall performance, the externally embedded business unit is characterized by a rent-seeking or self-interested attitude and a lack of commitment to the MNE as a whole that manifests itself in paying “lip-service” to the concerns of headquarters.

It is reasonable to suppose that individuals participating in global leadership programs will be imbued with the rationales pertaining to their respective business-units. In other words participants who are members of business units that have strongly externally embedded business relations will be less likely to be closely bonded with the MNE as a whole. This will be reflected in a significantly weaker degree of belief in reciprocity of knowledge sharing within the MNE. We therefore hypothesize that:

Hypothesis 2: The greater the degree of external embeddedness of participants’ business units, the weaker their degree of bonding with the MNE.

### **Other factors**

In addition to the impact of the objective local business network of the business unit to which participants belong on bonding, we will examine the impact of their MNE social identities and the culture of the business unit to which they belong. Finally, we will take into consideration the deployment of tangible incentives for bonding.

### *Social identity and bonding*

As noted above Nahapiet and Ghoshal (1998) regard identification with the collective as one of a number of key components of the relational dimension of social capital along with trust, common norms, obligations and expectations. “Identification is the process whereby individuals see themselves as one with another person or group” (1998:256) and represents a source of anticipation of value to be achieved through knowledge sharing. One aspect to the MNE is the possibility of distinct competing or contradictory social identities in the sense that MNE employees will be embedded in two particular social networks, their own business unit and the MNE itself. The former of these two identities may constitute a significant barrier to identifying with the MNE as a whole and therefore for bonding. In that sense identification may be distinguished from the other components of bonding or relational social capital in that it is a condition for the establishment of the other components of relational social capital. Thus we hypothesize that:

Hypothesis 3a: The greater the degree participants identify with their business unit the weaker their degree of bonding with the MNE.

Hypothesis 3b: The greater the degree participants identify with the MNE the greater their degree of bonding with the MNE.

### *Business unit culture*

The Globe research project (House et al., 2004) measured culture both as practices and values at various levels including the organizational and then related culture to outcomes. In relation to knowledge sharing they identified two dimensions of culture with a particular bearing on knowledge sharing. Organizations characterized by low levels of power distance are associated with information sharing and the belief that knowledge is sharable, and

organizations characterized by low levels of assertiveness are associated with cooperation. Thus we hypothesize that

Hypothesis 4a: The lower the level of power distance in the business units in which participants are employed, the greater their degree of bonding with the MNE.

Hypothesis 4b: The lower the level of assertiveness in the business units in which participants are employed, the greater their degree of bonding with the MNE.

#### *The deployment of incentives*

Gooderham et al. (in review) have pointed out that one significant theoretical development in regard to comprehending how knowledge processes could be influenced and directed is to be found in knowledge governance approach (KGA) (Grandori, 2001). It has as its focus the role organizational routines such as reward systems can play in directing individual behavior in order to achieve desired organizational ends. Thus KGA asserts the need to build micro-foundations grounded in individual action and interaction for organizational knowledge-based phenomenon such as knowledge sharing (Felin & Foss, 2005). As Foss (2007) explains, governance mechanisms are deployed in the belief that influencing the conditions of individual actions in a certain manner will lead employees to take those decisions that when aggregated lead to favorable organizational outcomes such as inter-unit knowledge sharing.

As Bock et al. (2005) assert “every organization we interviewed had implemented monetary incentives, points towards promotion, or both as extrinsic motivators for knowledge sharing” (p.91). One of the well-known examples is Siemens ShareNet, which measured and

rewarded employees for knowledge sharing. Especially at the beginning, when ShareNet was in its infancy, the reward system was designed to create a critical mass of content by making users aware of the system and encouraging contributions. This was accomplished through a competitive reward structure based on the number of contributions made (Nielsen and Ciabuschi, 2003). Thus, despite criticism of this approach by social capital theorists such as Nahapiet et al. (2005) we hypothesize that:

Hypothesis 5: The greater the degree to which participants are financially rewarded for sharing knowledge, the greater their degree of bonding with the MNE.

### **Data and operationalizations**

In order to test our hypotheses we draw on a data set collected in November 2008 at the initial stage of a programme for 38 global leadership talents organized by a Norwegian MNE, Norfert, in collaboration with a leading international business school. Norfert is a supplier of mineral fertilizer with 7,000 employees spread across operations in 40 countries. The concept of the global leader was defined by the programme as comprising not only knowledge and skills but also “values”. By values is meant common values in that one of the main aims of the programme is to “create a group of change agents who can drive Norfert forward to being an industry shaper by ... acting as evangelists (on behalf of Norfert management)”. The 38 individuals on the programme had been selected for the programme on the basis of an assessment centre and supplementary interviews. The assessment centre narrowed down potential candidates from 650 to 100 individuals and the interviews resulted in a further narrowing of the candidates to the 38 participants. While the assessment centre measured attributes, the interviews were aimed at confirming motivation for a global career.

The data was collected using a questionnaire which was distributed to all 38 participants at the start of the fifth and final day of the first session of the global leadership programme. All 38 completed and returned the questionnaire.

The variables are operationalized in the following way:

***External embeddedness*** of the business unit is measured using two separate composite variables with values ranging from 2-10 .

The first of these is *Degree of interaction with external suppliers* which comprises two variables both measured on a scale ranging from 1 (strongly disagree) to 5 (strongly agree). The first component variable is “My unit has more interaction with external suppliers than with other units of Norfert” and the second “ I have more interaction with external suppliers than with other units of Norfert”. Cronbach alpha is .816.

The second composite variable also comprises two variables also both measured on scales from 1 (strongly disagree) to 5 (strongly agree). The first component variable is “My unit has more interaction with external customers than with other units of Norfert” and the second “I have more interaction with external customers than with other units of Norfert.” Cronbach alpha is .871.

***Social identity*** is measured using two separate variables both measured on scales ranging from 1 (strongly disagree) to 5 (strongly agree). The first variable is *Identification with business unit* and comprises responses to “I strongly identify with my current unit”. The second variable is *Identification with the MNE* and comprises responses to “I see myself as “a Norfert person”

**Business unit culture** is measured using two separate variables, *Power distance* and *Assertiveness* both of which have been derived from the Globe Study (House et al. 2004) and both which are measured on scales from 1-7. The *Power distance* scale is measured as “In my unit subordinates are expected to obey their boss without question” (1) to “In my unit subordinates are expected to question their boss when in disagreement” (7). The *Assertiveness* scale is measured as “In my unit people are generally assertive” (1) to “In my unit people are generally non-assertive (7)”.

**Financial rewards** is a single item measured on a scale from 1 (little or no extent) to 5 (very large extent) with respondents responding to, “To what extent are you currently rewarded for sharing knowledge in your company by increments/bonuses?”

**Bonding** is a single item measured on a scale ranging from 1 (strongly disagree) to 5 (strongly agree). Respondents respond to the statement “Knowledge sharing with other units in the MNE is greatly valued in Norfert”.

**Knowledge sharing** is a composite variable comprising three items each of which is measured on scales ranging from 1 (strongly disagree) to 5 (strongly agree). The items are “I have acquired important knowledge from other units in the MNE”, “I have used important knowledge from other units in Norfert” and “I have contributed important knowledge to other units in Norfert”. The range of values of the composite variable is 3 to 15. Cronbach alpha for the scale is .900.

**Control variables.** A number of demographic and other individual variables were also included in the analysis. These are: Gender, Age, Participation in previous Norfert global leadership programmes (yes/no), Number of future country relocations one is prepared to undertake for Norfert in the course of the next ten years, Nationality (Norwegian =1; Other = 0), Length of employment (number of years in Norfert).

## **Results**

In addition to a correlation analysis (Table 1) we conducted a regression analysis (Table 2). Looking at this latter analysis it is apparent from model 1 that only three factors have any significant impact on the degree of bonding with the MNE by participants, with bonding conceived as the belief that reciprocal knowledge sharing with other units in the MNE is a commonly held core value. Of these three two have a negative impact, *Interaction with external suppliers*, and *Identification with the business unit*. Only *Increments/bonuses* has a positive impact. Thus while hypothesis 2 receives partial support (interaction with external suppliers but not interaction with external customers), hypotheses 3a and 5 are supported. Hypotheses 3b, 4a and 4b are rejected.

In terms of model 2 we hypothesized (hypothesis 1) that the greater the degree of bonding the greater is the propensity of participants to engage in knowledge sharing with other units. This is supported. We may note that the model indicates no other significant effects.

## **Discussion**

Our analysis indicates that differences in bonding or relational social capital do indeed have substantial consequences for knowledge sharing. In other words any strategy that has as its aim that of Norfert to create a group of “evangelists”, characterized by knowledge sharing

across business units, must take into consideration the determinants of bonding. We note the issues of business unit culture, power distance and assertiveness, invariably a focus of global leadership development programs, have no impact on bonding. This was also the case for another stock theme in such programs, that of the need to enhance identification with the MNE. Table 1 indicates that this is generally strong anyway which is hardly surprising given the program selection processes.

Instead our findings indicate that of the three factors that impact on bonding two are factors that cannot be obviously dealt with by global leadership development programs. The one concerns the degree of external embeddedness of participants' business units in terms of relations with external suppliers. Our findings indicate that the greater the business unit is involved with external suppliers the weaker the bonding of the individual participant. This factor can only be addressed through purposely constructing business linkages between externally embedded business units and other business units. The other factor that lies beyond the scope of global leadership programs is the issue of the deployment of financial rewards for knowledge sharing. Our findings suggest that such rewards increase the belief that reciprocal knowledge sharing with other units in the MNE is a commonly held core value. This is an issue that global MNE management should address independently of global leadership development programs. It is also an issue that theoreticians of social capital such as Nahapiet et al. (2005) who are at odds with those, like Foss, who argue that largely economic micro-foundations will deliver outcomes such as cooperation and knowledge sharing will have to address.

Thus variations in the degree of network centrality between the participant's business unit with the rest of the MNE have profound implications for participants' bonding with the MNE not least in terms of knowledge sharing proclivities and practices (Adler and Kwon, 2002; Tsai 2000). Moreover, we will argue that the effect of variations in inter- business unit



bonding, given their being rooted in objective business relations, is beyond the scope of global leadership programmes.

What does remain for global leadership programs to tackle is the issue of conflicting identities. Our findings indicate that the greater the degree participants identify with their business unit the weaker their degree of bonding with the MNE. Table 1 indicates that this is not rooted in the objective interaction of the business unit with external suppliers so it would appear to be amenable for change through global leadership development.

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Table 1. Means, Standard Deviations and Correlations

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
<b>External embeddedness:</b>										
1. Interaction external suppliers	5,68	2,50								
2. Interaction external customers	6,21	2,67	.347*							
<b>Social identity:</b>										
3. Identification with business unit	3,84	0,97	.034	.181						
4. Identification with MNE	4,36	0,63	-.402*	.259	.097					
<b>Business unit culture:</b>										
5. Power distance	5,71	0,96	-.175	-.257	.153	.136				
6. Assertiveness	3,73	1,46	-.060	-.183	.008	-.009	.133			
7. Increments/ Bonuses	2,26	1,24	.010	.075	.258	-.058	.020	.039		
8. Bonding	3,47	1,13	-.527**	-.038	-.175	.391*	.130	.126	.197	
9. Knowledge sharing	10,53	3,00	-.239	-.054	-.262	.085	.204	-.063	.235	.399*

\* Correlation is significant at the 0.05 level (2-tailed); \*\* Correlation is significant at the 0.01 level (2-tailed)

**Table 2. Regression analysis of impact of factors on bonding (model 1) and knowledge sharing (model 2)**

	Model 1			Model 2		
	B	S.E.	Sig.	B	S.E.	Sig
<b>External embeddedness:</b>						
Interaction external suppliers	-,223	,089	,020*	,155	,303	,614
Interaction external customers	,096	,082	,259	-,085	,314	,789
<b>Social identity:</b>						
Identification with business unit	-,442	,189	,029*	-,226	,694	,748
Identification with MNE	,311	,417	,464	,384	1,240	,760
<b>Business unit culture:</b>						
Power distance	,124	,224	,586	,241	,694	,726
Assertiveness	,124	,136	,371	-,471	,405	,259
<b>Increments/ Bonuses</b>						
	,308	,147	,049*	,196	,540	,721
<b>Bonding</b>						
				1,445	,643	,037*
Adjusted R2	,314			,177		

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\* significant at 0.05 level

**Controls – all non-significant at 0.05 level in both models:**

Gender, Age, Previous global leadership programmes, Number of country Relocations, Nationality , Length of employment