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**Global leadership development programs
as a means to develop the social capital necessary
for knowledge sharing in multinational enterprises**

by

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Global leadership development programs as a means to develop the social capital necessary for knowledge sharing in multinational enterprises

Abstract

This working paper explores if Global Leadership Development programs (GLD programs) can be a vehicle for developing the social capital of Multinational Enterprises (MNEs) and ultimately enhance knowledge sharing across organizational units. Drawing on both qualitative interview and survey data from a Norwegian MNE, we argue that how and to what extent a GLD program can be a means for developing social capital that promotes cross-border knowledge sharing depends on how such a program is designed. We find one factor crucial for social capital development and knowledge sharing: the GLD program has to be based on an assumption that leadership is a function of the social resources and capabilities that are embedded in heedful and trustful relationships in organizations. Thus, a GLD program that is based on a traditional, individualistic conceptualization of leadership (associated with self-interests) does not lead to development of social capital.

Introduction

In the case of Multinational Enterprises (MNEs), it has been argued that increasingly firms are investing abroad not only to exploit their knowledge advantages but also to explore and exploit foreign created knowledge assets (Dunning, 1997). It has also been suggested that one way to secure knowledge sharing within and between diverse and geographically dispersed organizations is by developing the firm's social capital (Nahapiet and Ghoshal, 1998).

A number of approaches including international project groups and task forces have been suggested as means for the creation of MNE-wide arenas that could enable key employees to interact with one another in order to develop networks, common norms, common understanding, and shared beliefs that are necessary for inter-unit knowledge sharing. One particularly prevalent approach is that of global leadership development (GLD) programs (Gooderham, 2007). From this view, GLD programs aim at creating network links, common

understandings, and common norms among participants with diverse organizational and cultural backgrounds without damaging what Moosmüller et al. (2001: 221) refer to as “the potential gain through diversity”. That is, such programs have to balance unity and diversity. The purpose of this working paper is to explore and analyze the role of GLD programs in terms of creating social capital that enhances knowledge sharing. From this perspective, the research question is: How can a GLD program be designed as a means to develop social capital.

GLD programs as a means to develop social capital

According to Nahapiet and Ghoshal (1998), social capital consists of three dimensions: The rational, the cognitive, and the structural. The structural dimension refers to the presence or absence of specific networks or social interaction ties between organizational units of the MNE and the overall configuration of these ties. The relational dimension encompasses such facets of personal relationships as trust, obligation, friendship which together increase the motivation and capability to engage in exchange and combination of knowledge. Hence this dimension describes the quality or the nature of the connections between individuals in an organization. The cognitive dimension refers to shared language in terms of interpretations and codes that provide the foundation for communication; or it refers to “a set of individual attributes that enable an individual to influence individuals, groups, and organizations from diverse social/cultural/institutional systems.”(Javidan, Steers and Hitt, 2007: 3). From this view, concepts such as 'global mindset' are presumed to be associated with knowledge sharing in MNEs.

Two constructs - cosmopolitanism and cognitive complexity – seems to underlie a “global mindset.” A leader who has developed cognitive complexity is presumed to perceive nuances and subtle differences within and across organizational and cultural contexts. A leader who adheres to the idea of cosmopolitanism is presumed to believe that all kinds of human groups in the organization belong to a single community - based on shared values and norms. These three dimensions are highly interrelated, so that in practice it is problematic to differentiate them.

While there is increasing interest in social capital as a means for securing knowledge sharing. Much of the literature acknowledges the role of social capital for exchange and combination of knowledge in complex organizations, but little attention has been directed to accumulating knowledge on how to build organizational social capital. From a development perspective, Gooderham (2007) claims that social capital within and across MNEs is enhanced by socialization mechanisms. On such mechanism might GLD programs which can be seen as a means to develop the social capital necessary for knowledge sharing. However, what remains unclear is how GLD programs should be designed in order to enhance the development of social capital for knowledge sharing purposes.

A GLD program will commonly have one of its core aims to develop the individual leader, that is to say the individual level of knowledge, skills, and competencies. However, a GLD program may also create an arena or an organizational context in which social capital potentially can be developed. Bringing leaders together in a GLD program might create a process that enhances development of network ties, trusting relationships, and a shared

mindset. At the core of the difference between leader development and leadership development is an orientation toward developing human capital (leader development) as compared with social capital (leadership development). Orientation toward human capital emphasizes the development of individual capabilities, and orientation toward social capital emphasizes the development of reciprocal obligations and commitments. Leader development is for the most based on a traditional, individualistic conceptualization of leadership. The underlying assumption is that more effective leadership occurs through the development of individual leaders. On the other hand, leadership development assumes that leadership is a function of the social resources and capabilities that are embedded in heedful and trustful relationships.

In the next session we present the content and format of a CLD program in a Norwegian multinational company, Yara.

Yara

Our data has been collected within one Norwegian MNE, Yara, which manufactures and supplies mineral fertilizer (Espedal et al., 2010). It has 7,000 employees spread across operations in 40 countries. Until 2007 Yara had no formalized global leadership program, indeed top managers were primarily recruited among employees at corporate headquarters. Yara's top leadership team concluded in early 2007 that this was unsatisfactory because considerable global leadership talent in its many non-Norwegian business units was not being utilized. It was therefore decided to initiate a GLD program, "LEAD", which would develop "high potentials" regardless of unity and nationality.

Selection of “high-potentials”

Our quantitative data set is derived from Yara’s pool of “high potentials”, that is employees either selected for Yara’s initial LEAD program that commenced November 2007, or earmarked for future LEAD programs. Our qualitative data set, which will be described in more detail below, revealed that the selection process leading to “high potential” status was somewhat complex in that a number of different criteria were applied at various stages of the overall selection process. In the initial selection phase candidates for LEAD were identified on the basis of two processes. First, Yara’s management identified 400 candidates among junior managers who were viewed as having global leadership potential. Additionally, in order to ensure that all new potential leadership talent became visible, Yara encouraged all junior managers with a strong motivation to excel in key leadership roles to nominate themselves. About 250 employees made use of this “democratic” opportunity.

The 650 nominated and self-nominated candidates were then subjected to an assessment process conducted by an external consultancy that was designed to evaluate their leadership potential. After this assessment, each participant and their manager received a report titled “Talent View of Performance Feedback Report.” This document included information about the participant’s work performance and capabilities. Each participant also received verbal feedback from one of the external consultants. The intention was that the feedback should be helpful for the individual in identifying and understanding both their strengths and developmental needs – in a discussion with their manager.

Based on an evaluation of the reports, Yara’s management selected 100 participants to participate in an extended assessment. This was carried out at an Assessment Centre in

Brussels. After each assessment activity participants received direct individual feedback from the consultants and from observers from Yara. Finally, based on observed actions and performance during the assessment activities, each participant received a report and personal feedback. The participants could use this information when discussing and creating developmental plans, and when making career decisions. A set of management reports were also created. The management reports consisted of information about each participant and this information was intended to give top management the opportunity to compare individuals objectively.

However, when the results of the assessment process were made available to the various business units in Yara, senior subsidiary managers requested that other criteria should be taken into consideration. In particular they succeeded in having recent performance appraisal data and line managers' recommendations included, and also in incorporating an assessment of suitability in relation to Yara's business needs. Thus, the decision regarding selection of "high potentials" was based on three types of criteria:

- Information from assessment tests and activities
- Information about individual actions, interactions and performance in the daily work situation (information that formed or constructed reputation regarding collaboration, knowledge sharing, and commitment to Yara's values)
- Yara's business needs (the leadership profile the company needed for the future, for ensuring balance between business segments, and for diversity regarding mindsets, skills, education, experience, and age)

The application of these criteria resulted in a pool of "high potentials" of about 100 employees of which 38 were selected for the inaugural LEAD program. Our quantitative data

is drawn from this pool and our qualitative data are also largely drawn from it. However, our qualitative data also involved discussions with senior managers and archival data. We draw on these latter sources of data in order to describe the intentions underlying the LEAD program.

The LEAD program

LEAD was developed in collaboration with a leading international business school, and comprised three five-day events that were spread evenly over an eight month period. Each five-day event involved a series of intensive sessions starting at 9.00 am and lasting until 9.00 pm at dedicated sites in the UK, Brazil and Qatar. The input comprised a mix of formal lectures, informal discussions and interactive exercises. Between the events the participants working in project groups analyzed business challenges deemed particularly critical by Yara.

The main goal of LEAD was to map potential leaders and to thereafter train and develop them in accordance with Yara's business challenges and organizational and leadership values and norms. In regard to business challenges, LEAD was to develop a group of potential change agents who by acting in accordance with the company's strategic goals were to drive Yara forward to being an "industry-shaper". Concerning values and norms, LEAD was intended by Yara's top management to develop:

- i) A collective and mutual understanding of what was "true, reasonable, and right" – regarding leadership action and interaction within Yara and between Yara and its various environments.

- ii) Capabilities related to team working: leadership was seen as central in fostering team and network success, and teams and networks were seen as central to organizational success. As a Yara top manager said, “a proper leader should have passion about what to do and compassion for co-workers”.
- iii) A sense of belonging to a specifically Yara culture: the participants were to learn Yara ways and norms in order to be able to act in an appropriate manner regardless of the situation.

Thus, Yara defined the concept of the global leader as comprising not only knowledge and capabilities but also values and norms. In these ways, the LEAD program was intended to develop social capital, which again would be a force for coherence in an organization characterized by diversity.

Participation in the LEAD program in itself was not a guarantee of becoming a top leader in Yara. The individual participant’s action, interaction, and performance in the program was observed and evaluated in order to select potential top leaders.

Quantitative data

Our quantitative data were 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 inaugural LEAD program in late November 2007. All 38 completed and returned the questionnaire. In addition, shortly afterwards, in January 2008, we acquired responses from 15 of the “high potentials” who had not been selected for participation in the inaugural LEAD program. These 15 were

selected as being “representative candidates” of the 62 high potential candidates who had not been finally selected for the inaugural LEAD program. Thus, all 15 were regarded by Yara as likely candidates for future LEAD programs. Our screening of the characteristics of these 15 candidates, based on their completed surveys, showed a satisfactory degree of variance in nationality, gender, age and duration of their employment at Yara. Thus our total sample at “Time 1” comprises 53 Yara employees all of whom were considered by Yara to be “high potentials”.

In late June 2008 we distributed a second questionnaire to participants at their third and final session of the LEAD program. We received 30 completed questionnaires. Of the eight LEAD participants who did not complete the questionnaire these persons had either left Yara and therefore dropped out of the program, or, because of illness or other “legitimate” reasons, were not present at the final session. Shortly after this, in early September 2008, the second questionnaire was distributed to the control group of 15 “high potentials”. All 15 returned their questionnaire. Thus at “Time 2” our total sample comprised a total of 45 “high potentials”. The data derived from “Time 1” (November/January) was coupled to the data at “Time 2” (June/September).

The main finding from the quantitative data

The most striking finding from the quantitative data is that the LEAD program did not have a positive effect on Knowledge Sharing (Espedal et al., 2010). Indeed it appears that by the conclusion of LEAD it actually had a somewhat negative impact. This negative effect of LEAD at Time 2 suggests that the impact of Relational Social Capital on Knowledge Sharing that existed at Time 1 has been nullified at Time 2 by participation in the LEAD program. In

other words as participation in LEAD has continued our findings suggest that LEAD participants have actually been excluded from “the knowledge-sharing loop” regardless of their belief that knowledge sharing is the norm in Yara. In order to understand this finding we now turn to our qualitative data.

Explaining the negative effect of LEAD participation – regarding knowledge sharing

The theory suggests that GLD programs enhance social capital which again may enable exchange and combination of knowledge in MNEs. The theory also suggests that GLD programs may have a direct impact on knowledge sharing in that they potentially represent arenas for novel forms of social interaction that would be beneficial for exchange and combination of knowledge. Our quantitative findings from Yara not only failed to support these notions but actually suggested that participation in Yara’s GLD program had a negative impact on knowledge sharing. This caused us to enter a second, explorative phase of enquiry in search of an explanation for these findings.

Qualitative data

The qualitative data were mapped through archival data (program description, and reports about Yara on internet) and semi-structured interviews conducted with 22 informants from three groups:

- Twelve informants who participated in the LEAD program (31 % of the participants).
- Seven informants who belonged to the “high potentials” category but who did not participate in the LEAD program.

- Three key informants: two from Yara's management and one from the consulting company that executed the LEAD program.

The interviews with the informants focused on a) the LEAD program (goals, structure, stages, and outcomes), and b) individual and organizational conditions for learning and knowledge sharing in the organization. Each interview took between 60 and 90 minutes and was carried out at the office of the informant being interviewed. The findings from the qualitative analysis are illustrated using statements constructed by the researchers that summarized the opinions of at least eight of the 12 participants we interviewed. We employed the qualitative data in order to address the question: How can we explain the un-intended consequence of the LEAD program – regarding knowledge sharing?

One key issue we addressed with our informants was the concept of local embeddedness as it related to Yara. Local embeddedness was associated with specific tasks, technologies, organizational routines, cost-efficiency, and time pressures, all of which required local knowledge sharing and local solutions. This emphasis on local solutions worked against sustained social interaction between organizational units. All of our informants concurred that business units that were highly locally embedded, interacted with other business units in Yara to a significantly lesser extent than those which were less locally embedded. In other words local embeddedness was characterized by exploitation of local knowledge and techniques. Thus it did not promote exploration in terms of any need to learn from other units or to attempts to transfer ideas, knowledge, and practices to other units. Thus, while local embeddedness stimulated knowledge sharing within the business unit it did not produce any rationale or motivation for behaviors that would be beneficial for exchange and combination of knowledge between units.

On the one hand, business units could build their own routines and culture out of their own experiences. On the other hand, Yara had technology and routines that would enable business units to share information and coordinate their activities. However, there were challenges. According to those informants who had participated in the LEAD program:

“Connection by technology and organizational routines without trust is merely traffic... The motive to want to collaborate has to be there for the technology and routines to work... Collaboration can be viewed as a mutual helping process... For the organization to function effectively requires a motivation to be mutually helpful rather than a frame of reference that reifies competition as the basic motivator... Trust must be built, and we have to build trust that lies in the relationships, not in the structure.”

According to the theory, we have indicated that a GLD program could potentially constitute an organizational context in which participants are “allowed” to social interact in ways that are not possible in the formal organizational setting. A GLD program may represent a temporary organizational context in which local embeddedness is not an issue thereby providing them the possibility of interacting in new ways. Thus there is the possibility that participants from locally embedded business units may discover that collaboration and knowledge sharing are actually beneficial and this may lead to behavioral changes when they return to their formal organizational context. In this way, a GLD program such as LEAD may create a rationale and motivation for cooperative behavior in the sense that exchange and combination of knowledge between business units is perceived as being of value. In this way, a GLD program might create links where there are common understanding. Once that common understanding has been achieved, building trust becomes possible. We explored this line of reasoning with those of our informants who were LEAD participants. These

informants recounted that while the program did develop positive dyadic relationships, it did not provide the basis for the development of networks beyond the purely dyadic. Thus, typically it was remarked by LEAD participants that:

“Within the program we developed friendships.... But we were never more than just a bunch of individuals who really did not have common interests in the sense of common everyday tasks that would have facilitated the development of a network. In fact a lot of our interactions were distinctly competitive rather than collaborative.”

The LEAD participants did not experience any new types of interaction, nor did those from the locally embedded units develop any rationale for developing network ties across Yara. In general the participants concluded that:

“Networking does not emerge without a common task which serves some objective purpose... Networking emerges, over time, within an organizational context which is demanding, which sets constraints, but which also opens up for choices and agency...Common identities evolve from the practice of expert cooperation around specific tasks.”

LEAD was unable to identify tasks that were perceived by participants as important and common across the organization. That is, the participants continued to view the rationale for knowledge sharing as being embedded in the formal organizational tasks. As such the LEAD program failed to produce a structure that might have shaped cooperative behavior and knowledge sharing between business units. Equally LEAD was unable to create an experience that would have provided reasons for the development of new interaction ties that would have

facilitated exchange and combination of knowledge between locally embedded business units and the rest of the MNE.

As we spoke with Yara managers our attention was increasingly drawn to Yara's history which dates from 1905. It emerged that over the years Yara had inevitably developed a set of understandings of the nature of its business, of its identity and of what constitutes right and proper behavior. Thus Yara managers acted according to highly institutionalized mutual understandings of appropriateness. We identified two key institutionalized norms at Yara. The first of these norms is that of local autonomy and discretion. As a number of informants, both participants in the LEAD program as well as non-participants, effectively observed:

“Most of the time we attend and handle problems locally... I know what I am doing and I don't need to talk much about it... I am working in a context in which I know what I need to know for purposes of coordination and performance.”

The second key norm is that of loyalty to Yara. This was expressed by our informants as taking pride in working for Yara and because of Yara's emphasis on values associated with egalitarianism, respect for diversity, and voluntary collaboration. This loyalty generated a deep allegiance to Yara and created bases and motivation for knowledge sharing within networks. Yara's employees acted in accordance with a common organizational identity and followed specific rules of the game. Thus, the company had developed cognitive social capital and had also established a psychological contract, based on emotional loyalty, which augmented the motivation of individuals to share knowledge.

When we discussed the selection process preceding the LEAD program and the LEAD program itself with the informants, we perceived that there was general agreement that the development, over time, constituted deviations from the two core norms. The introduction and implementation of a centralized leadership development initiative challenged local autonomy and thereby undermined pride associated with local identification. Furthermore, as the competition for selection to LEAD progressed, a new identity emerged – that of the corporately mobile manager, driven by self-interest and divorced from his or her local setting. As the program progressed, the participant informants admitted to us that they gradually developed expectations of great personal career consequences as a consequence of their participation. They started to think about themselves as Yara’s chosen few who could expect a corporate leadership career. By non-participants this was regarded as provocative. Participants were so acutely conscious of this reaction that in many cases they attempted to conceal from colleagues when they were due to go to LEAD sessions.

Non-participants began to view LEAD participants as being no longer “one of us”. As a consequence, our informants related that the LEAD participants became increasingly more isolated so that their opportunities for knowledge sharing decreased. It is precisely this outcome that emerges in our quantitative data at Time 2. Thus, our qualitative findings confirm the suggestion from our quantitative analysis that the impact of LEAD, regarding knowledge sharing, was negative - as identities and motivations for knowledge sharing, over time, changed. In short, although LEAD was intended to facilitate *global leadership development* in Yara, it was perceived by participants and non-participants alike as corporately driven individualized career development for a coming-elite. One year after the GLD program had ended, 50% of the LEAD participants had proved that they were the

coming-elite; i.e. they had advanced to new and higher leadership jobs in the organizational hierarchy.

We have described and discussed how the LEAD program affected development of social capital and knowledge sharing in the short run, but what about longer term effects? In order to address this question, a mixed-methods research approach was adopted. In May 2010 we interviewed 12 LEAD-participants face-to-face for one hour each with each interview also comprising a number of explicit questions to which they were asked to respond.

Long term effects of the LEAD program

In May 2010 the 12 respondents were asked to respond to the question:

Looking back on the LEAD program, how do you evaluate the program? On a scale from 1 to 5, to what extent has the learning outcome of the program been important for you as a leader in Yara (1= little extent, 5= high extent)

1 2 3 4 5

The mean response was 3,9, and this finding shows that most of the respondents had positive, personal experiences from the LEAD program; i.e. in their view the program had helped them to develop capabilities that were perceived as beneficial for them in terms of a leadership role.

A second question was:

On a scale from 1 to 5, to what extent did the LEAD program develop identification with Yara's organizational (cultural) values (1= little extent, 5= high extent)

1 2 3 4 5

The mean for the answers was 3,9, and this finding indicates that most of the respondents felt that the LEAD program had increased their identification with Yara's cultural values. That is,

the program had been beneficial for development of the cognitive aspect of social capital. Tsai and Ghoshal (1998) argue that the cognitive dimension is an important precursor or condition for the development of the relational dimension of social capital. Regarding this condition, however, we have to make a distinction between attitudes and behavior. The cognitive aspect might be more related to attitudes than to behavior. One of the respondents argued:

“Co-operation is a key in the workplace in Yara, but in this program many people ended up competing instead. We know we need to collaborate, but we became focused on individual success.”

Yara had intended to select and develop a group of high-potential leadership candidates, i.e. the LEAD participants could be seen as a coming or latent elite or a group people that would *generate* success *for* the organization. Thus we asked the following questions: a) To what extent did the Lead-participants look at themselves as a group, and b) To what extent did other people in Yara look at LEAD participants as a group?

Question a):

On a scale from 1 to 5, to what extent do you feel identification with the other LEAD participants as a group? (1= little extent, 5= high extent)

1 2 3 4 5

Question b):

On a scale from 1 to 5, to what extent do you think people in Yara look at the LEAD participants as a group? (1= little extent, 5= high extent)

1 2 3 4 5

Regarding question a), the mean for the answers was 3,1; and regarding question b, the mean was 2,3. These findings show that it was problematic to define the selected high potential leadership candidates as a group. The perception of our informants is that stakeholders and other actors in the organization did not view the LEAD-participants as a group. We speculate that this might reflect a basic antagonism to the notion that there exists a latent elite within Yara.

Development of network ties is an important aspect of social capital, and the respondents were therefore asked questions about networking:

On a scale from 1 to 5, to what extent did the LEAD program develop networks for knowledge sharing in Yara (1= little extent, 5= high extent)

1 2 3 4 5

On a scale from 1 to 5, to what extent is your most important network for knowledge sharing the same as the most important network you had before you participated in LEAD? (1= little extent, 5= high extent)

1 2 3 4 5

In that the mean regarding new network ties was 3,2 the respondents had to some extent experienced that the LEAD program developed new networks ties that were beneficial for knowledge sharing in Yara. However, in regard to their old network links the mean was only 2.2 indicating that old network links had largely evaporated. That is, the respondents had organizationally or mentally distanced themselves from knowledge sharing associated with the old network links. As, a consequence of participating in LEAD, old network links had vanished.

Conclusion

Yara's intention was to select and develop a group of high potential leaders. The findings show that the program had intended consequences regarding development of individual capabilities, but the program also had unintended consequences regarding development of the relational dimension of social capital. The selection and development process created competition rather than collaboration, and it created expectations that resulted in a "prima donna" effect. Further, it caused former networks to virtually disappear while new network ties had only been developed to a limited extent.

As a conclusion, a global leadership development program might be a vehicle for developing relational dimension of social capital of MNEs and ultimately enhance knowledge sharing across organizational units and borders. One important condition for such a development, however, is a mindset that defines leadership as a function of the social resources and capabilities that are embedded in heedful and trustful relationships.

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