The International Headquarters–Subsidiary Relationship: Projecting Economic Cultural Influences on Management within Selected EU Countries

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Through the recent European Union (EU) enlargement it is now supposed that there exists significant divergence within European economic cultures that can negatively impact international managerial functions. This article systematically investigates two dimensions through which economic culture can be measured and compared between four EU countries: Slovenia, a new Central European entrant into the EU, and Germany, Austria and Denmark, three westernized EU members, and projects their respective impacts onto several international management functions. The findings suggest that there exists a strong link between highly interpersonal and institutional trust driven economic cultures (IITDEC) to induce increased horizontal knowledge sharing. Further evidence was found, although statistically weaker, that IITDEC is negatively correlated to expatriate utilization. Results were also obtained regarding authority driven economic cultures (ADEC). A negative correlation between ADEC and decentralization was established as well as a negative correlation between ADEC and vertical knowledge flows.

Key Words: economic culture, headquarter–subsidiary relationship, international management

JEL *Classification:* Z10, F23

Introduction

A cardinal purpose of the European Union (EU) is to facilitate the workings of international business within a community of countries that are similar enough to agree upon certain trade conformities and harmonization. Although the essence of this purpose is irrefutable on a macro level, it raises the question of whether the multinational companies (MNCs) within the EU are indeed similar enough to arrive at a consensus regarding the fundaments of international business and management across borders on a micro level. This question gains in merit considering the

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recent EU enlargement that engulfed a further 10 countries, each with a score of companies with new and unique sets of differences and opinions concerning the method and tone with which international management should occur.

Addressing the inherent differences between management methodologies of the EU member countries and understanding the rudiments from which the differences stem are thus key to successfully managing international business across a multitude of imperceptible barriers that require international managers of multinational corporations to adhere to several simultaneous, yet conflicting, demands relating to cross-market integration, national responsiveness and worldwide learning (Bartlett et al. 2004). A large number of survey projects and research of a multicultural nature address these issues and have been published throughout the recent past (e. g. Trompenaars and Hampden-Turner 2004; Trompenaars and Woolliams 2003; Throsby 2001; Schneider and Barsoux 1999; Sachs 2000; Mattock 1999; Martin 1992; Inglehart 1997; Holden 2002; Hofstede and Hofstede 2005; Hofstede 2001) which suggests that the topic of national differences and management variances is recognized as being of major importance to the success of international business.

The present article builds on the work of these authors by systematically linking variances in economic culture across four EU countries to respective variances in the management of an international headquarters–subsidiary relationship (HSR). Specifically, the economic cultures of three elder EU members: Germany, Austria and Denmark, are projected against the economic culture of a new EU entrant, Slovenia, which has long been recognized as being one of the most economically advanced transition economies and has displayed significant growth in the recent years (Jaklic and Svetlicic 2003; Novak 2003).

The Economic Culture Perspective

The concept of economic culture is derived as a variance, or subunit, of national culture and addresses the economic and business facets related to that culture. It is within these facets that the four focus countries of this study drastically differ, thus making them worthy of analysis to explain how their economic culture differences impact the management of an international HSR. Particularly, the economic culture of the new EU entrant, Slovenia, is of interest as its membership extended the cultural variance spectrum within the common market to encompass an ex-socialist business culture. Zver et al. (2004) propose that through the EU enlargement there now exists a significant economic culture gap within the EU between Central and Eastern European Countries (CEEC) that have recently joined the EU and elder EU members.

In an effort to depict this gap, two dimensions through which economic culture can be measured have been assembled in order to portray variances, pertinent to economic culture, between the four analyzed countries. The rationale is to understand how these variances influence the management of the HSR, specifically, decentralization levels, knowledge flows, knowledge sharing and expatriate utilization.

The two dimensions absorb economic and business values that exist within the national culture of a country and represent values germane to Slovenia's, Germany's, Austria's and Denmark's economic cultures. They build on the work of several authors' (Hall 1981; Hofstede 1984; 1997; 2001; 2005; Herzberg et al. 1993; Hardin 2002; Levi 1996) contributions to variances in, and definitions of, national culture. The usefulness of the two economic cultural dimensions (termed drivers from here on) becomes apparent when benchmarking an individual country's economic culture against that of the others. This allows for comparisons between countries and for visible results to be ascertained, which in turn sets the stage for succeeding arguments to emerge concerning the HSR management pillars.

The two drivers measure the extent to which the workforce of a country is inclined to be biased towards a specific preference of economic cultural values and probe specifically into cultural particularities germane to European countries. They consist of:

- *Authority driven economic culture* (ADEC) – the extent to which employees revere their superiors.
- *Interpersonal and institutional trust driven economic culture* (IITDEC) – the extent to which employees are receptive to inputs stemming from people and from institutions or systems.

To quantify the degree to which the sample countries are polarized within each driver, numerous sources of composite data from the European Values Study (EVS[1]) provided reliable indicators on several comparable and related themes within economic culture.

The first driver draws heavily from Hofstede's (1984; 1997; 2001; 2005) power distance theories and strives to examine the variances in boss–subordinate and subordinate–subordinate relationships that exist in various cultures and organizations. Viewed as a spectrum on which a culture is either authority driven or subordinate driven, authority driven employees tend to greatly revere their managers who consequently have a great impact on the actions of their subordinates. In comparison, subordinate driven employees, who revere managers and co-workers equally, are not especially biased towards the inputs stemming from managerial sources and consequently do not automatically comply with managerial orders but retain the ability to question the logic or motives behind a particular action. In essence, this implies that subordinate driven employees are affected by their managers and the managers are affected by the subordinates, whereas authority driven employees are mainly affected by their superiors but the superiors are only mildly affected by the inputs generated by the subordinates.

Distinctive features of a highly ADEC are centralization of power, hierarchical and tall organizational pyramids, little questioning of authority, acceptation of inequality, diminutive levels of trust and a comparatively low qualification of the lower strata of employees. Contrarily, a low ADEC, or highly subordinate driven economic culture, is based on equal rights and a high level of cooperativeness, less centralization of power and flatter organizational pyramids, low levels of supervisions and a comparatively high qualification of the lower strata of employees.

The following EVS data have been utilized to measure the extent to which the sample countries are biased towards a highly ADEC or, conversely, biased towards a subordinate driven economic culture:

- The extent to which an increase in respect for authority would be viewed positively.
- The extent to which employees are free to make decisions at work without consulting with their managers.
- The extent to which a manager's orders must always be followed.

The EVS data provided a detailed, numerical breakdown of country biases within each dimension through 5 point Likert scaling, normalized agreement scaling and dichotomous responses that subsequently were successfully standardized into a ten point referencing scale by computing each dimension separately and setting its lower and upper boundaries equivalent to 0% and 100%, respectively. This was beneficial as it distributed equal weight to all five dimensions and, more importantly, maintained a uniform multivariate measuring standard that ensured fixed and accurate dimensional representation for each country's economic culture. Proceeding in this manner, the results indicate that Ger-

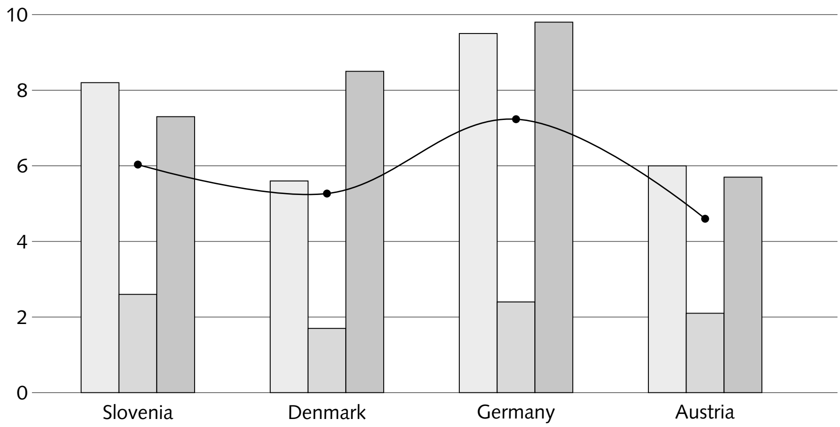

FIGURE 1 ADEC levels for the four sample countries
respect authority, no decision making freedom, always follow orders, level of authority driven. Source: own creation based on composite EVS data.

many and Slovenia are the two most ADECs with scores of 7.23 and 6.03 respectively, while Denmark and Austria are the least ADECs, or most subordinate driven economic cultures, with scores of 5.27 and 4.60, respectively (see figure 1).

The second driver differentiates itself from the previous driver as it does not measure the extent to which there is a bias towards interpersonal trust opposed to institutional trust. The reasoning for this is that there may be a causal relationship between institutional trust and generalized trust in people, which implies that this driver cannot be measured along an interpersonal trust – institutional trust continuum as the two variables can be, and most likely are, interdependent. Consequently, a decrease in institutional trust would not necessarily induce an increase in interpersonal trust thus thwarting the ability to contest these two variables against each other. To overcome this predicament, the two variables are measured independently on a high–low spectrum to yield impartial results about employee receptiveness towards interpersonal and institutional inputs.

The driver components are based on Hardin's (2002) and Levi's (1996) findings on the levels of trust that may be sustained and fostered within certain institutions and within people. As such, it seeks to measure the amount of confidence employees retain towards their fellow employees and the magnitude of confidence allocated to institutions or systems.

Interpersonal trust is grounded in the experiences employees have with each other and the familiarity that has been built. However, employees high on interpersonal trust will extend this mindset to encompass trusting strangers, as well because the belief that people in general can be trusted is strong. Institutional trust is based on the theory that institutions provide reliable sources of input that are less likely to be tainted by individual motivations or perceptions which therefore increase its credibility and allow for deeper allocated levels of trust.

Interpersonal trust driven characteristics include having assurance and conviction along with high levels of confidence and loyalty in fellow employees. Institutional trust characteristics also bear remnants of high levels of assurance and confidence but are directed towards institutional sources that are less likely to be biased. To quantify the extent to which the sample countries rank high or low on institutional trust and interpersonal trust, one EVS statistic that directly measures the intensity of interpersonal confidence has been utilized and three EVS statistics have been applied to measure the intensity of institutional confidence in three different systems.

- The extent to which employees feel that other people can be trusted (interpersonal).
- The extent to which employees trust parliamentary systems (institutional).
- The extent to which employees trust the social security system (institutional).
- The extent to which employees trust the justice system (institutional).

The weighted scores, calculated in the same manner as the previous driver, expose that Denmark is the most IITDEC (6.93) followed by Austria (4.87) and Germany (4.25). Slovenia ranks as the least IITDEC (3.17; see figure 2).

The International HSR Management Perspective

A further source of research helps explore the management aspects pertinent to this study. The rationale is to prepare the variances within the management aspects of decentralization and vertical knowledge flows (those occurring between headquarters and its subsidiaries) to be linked with variances in ADEC, and horizontal knowledge sharing (that which

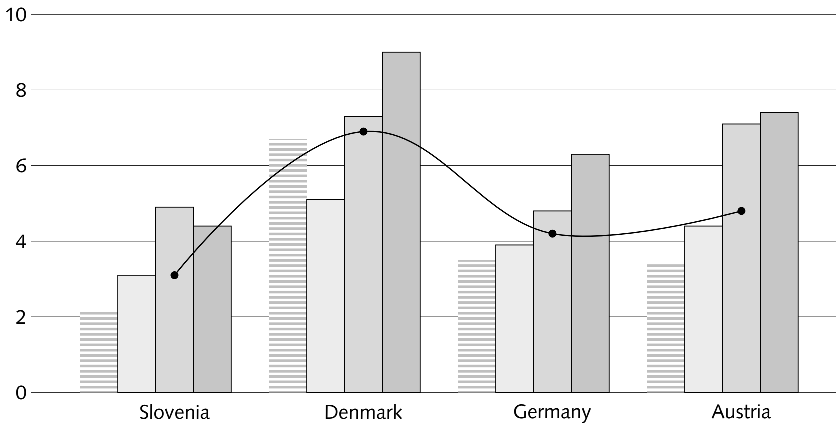

FIGURE 2 Interpersonal and institutional driven levels for the four sample countries institutional – trust in parliament, institutional – trust in social security system, institutional – trust in justice system, interpersonal – trust in people, level of interpersonal and institutional trust. Source: own creation based on composite EVS data.

occurs between co-workers of similar status) and expatriate utilization to be linked with variances in IITDEC.

In relation to the EVS based ADEC scores, the German and, to a lesser extent, Slovenian MNC employees favour organizational structures that bear remnants of an authoritative nature; namely tall organizational pyramids, high levels of respect and reverence for their superiors and limited questioning of authority compared to their subordinate driven counterparts. Such a structure is aided through centralized and concentrated decision making conducted by a few select groups of managers who maintain focused overviews and thwart the ability and need for decision making to trickle down throughout the organization. In comparison, subordinate driven employees, in their extreme, respect managers, co-workers and subordinates equally and thus are likely to absorb inputs from local, host country environments as frequently as from the home country or headquarters; a trait generally conducive to decentralization. Hence, taking into account the focus countries' ADEC scores, a prediction towards higher levels of centralization in German and Slovenian MNCs emerges compared to Austrian and Danish MNCs.

HYPOTHESIS 1A: *German and Slovenian* MNCs *will be comparatively more centrally run with less authority and trust delegated downwards compared to Austrian and Danish* MNCs *that will be relatively more* *decentralized as a result of the former countries having a comparatively higher* ADEC *than the latter countries.*

A key aspect of promoting knowledge flows within MNCs is to foster an environment of openness and support for cross-fertilization of ideas and implementation of best practices (Dowling and Welsch 2004). The obstacles to achieving this are manifold and relate mainly to cognitive (thinking, reasoning, remembering) and motivational challenges that inherently hamper key elements crucial in the empirical development of an integrated understanding of knowledge dissemination within the MNC (Mahnke and Pedersen 2004).

Consequently, the extent to which the cognitive and motivational challenges negatively impact vertical knowledge flows is dependent on the qualifications of the employees within the organization and the pro-knowledge sharing environment established among the co-workers. As previously established, the upper and especially lower strata of employees within subordinate driven economic cultures tend to be highly qualified and retain the ability to dispute managerial decisions while simultaneously harbouring a pro-knowledge sharing environment based on equal rights and a high level of cooperativeness between administrative levels. This positively impacts the extent to which organizational members can and will influence the actions and thoughts of their superiors. Thus, a prediction towards a positive relation in Austrian, and in part, Danish MNCs to foster two-way vertical knowledge flows (as a result of being subordinate driven) and a prediction in German and, in part, Slovenian MNCs to create one-way vertical knowledge flows (as a result of being authority driven).

HYPOTHESIS 1B: *Vertical knowledge flows in Austrian and, in part, Danish* MNCs *are predominantly two-way, from headquarters to the subsidiaries and vice versa, whereas German and, in part, Slovenian* MNCs *have comparatively greater extents of one-way knowledge flows from headquarters to the subsidiaries.*

The knowledge sharing disposition on a horizontal level is fundamentally a property of the composition of individualistic employee traits as individuals embody the behavioural rudiments associated with knowledge sharing. These inherent rudiments vary in accordance to interpersonal and institutional trust driven preferences and influence the deployment levels of tacit and explicit knowledge. Therefore, it is expected that organizational compositions of highly interpersonal trust driven employees intrinsically maintain a tacit knowledge flow predisposition whereas institutionally driven employees sustain explicit knowledge inclinations. This prediction is based on the former involving higher levels of unconscious knowledge transfer that act as tacit knowledge breeding grounds and the latter being the result of repetitive and systematic knowledge transfers. However, since these two components are not mutually exclusive, it is conceivable to have simultaneous high levels of institutional and interpersonal trust driven employees in one organization and simultaneous low levels of institutional and interpersonal trust driven employees in another which would induce high and low levels of horizontal knowledge sharing, respectively as high levels of interpersonal and institutional trust act as knowledge sharing catalysts, albeit in two different forms.

HYPOTHESIS 2A: *Horizontal knowledge sharing will occur to a lesser extent in Slovenian* MNC*s compared to German, Austrian and especially Danish* MNC*s as a result of lower levels of* IITDEC *within the Slovenian* MNC*s.*

The interpersonal trust and institutional trust driven orientation of organizational employees refers to the predisposition of employees to bond and connect with co-workers and managers and the systematic results they produce. Consequently, it is assumed that organizational members high on both interpersonal and institutional trust will place considerably more confidence in the inputs that stem from their colleagues through either personal or systematic based communication than organizational members that are low on both. This will further manifest itself in the manner in which the headquarters tries to align its objectives with its subsidiaries' through its staffing policies; subsidiaries with highly IITDECs will have lesser levels of personalized headquarter participation, in the form of a low number of expatriates, compared to subsidiaries with low IITDECs which rely more on personalized headquarter participation. This is a result of the former being more prone to personally and institutionally trust their subsidiary colleagues, and do not feel it necessary to personally observe subsidiaries but rather trust the results they produce, whereas the latter feels that a high level of headquarter participation is necessary to compensate for low levels of institutional and interpersonal trust.

HYPOTHESIS 2B: *Slovenian* MNC*s will utilize a larger proportion of expatriates within their foreign subsidiaries to align goals of the entire*

MNC *as a result of having low levels of* IITDEC *compared to Danish* MNCs *that are highly interpersonally and institutionally trust driven.*

The Study

The empirical data for the research was collected as part of a larger project researching a total of 4 economic cultural drivers and five management aspects. The data was extracted from 103 sources spread over 54 European subsidiaries that typified large (over 300 employees) and successful (over ten years of international operations with consecutive positive turnover and a five year averaged positive profitability rating) companies. Industry specific classifications were limited to the pharmaceutical and manufacturing industries with 40% of the MNCs being Slovenian, and the remaining 60% roughly equally distributed between the German, Austrian and Danish MNCs. The effects of unequal country representation in the sample data were discounted during the analysis and interpretation of the obtained results. Data collection was conducted through a uniquely constructed survey questionnaire that gathered descriptive data along a cross sectional representation of the focus countries' MNCs and specifically probed the intricacies of the HSR management perception and economic culture aspects.

The questions pertaining to decentralization probed subsidiary autonomy levels and subsidiary managers influence levels on the entire MNC. Questions related to vertical knowledge flows pivoted around the extent to which strategic information streamed vertically between headquarters and its subsidiaries and between subsidiaries and the headquarters. The respondents were also given the opportunity to directly express whether they felt knowledge was flowing one-way as opposed to two-ways within their organization. The questions linked to horizontal knowledge sharing focused on the extent to which sharing of knowledge occurred horizontally, between intra-co-worker and intra-manager environments. Finally, the questions concerning expatriate utilization explored the current number of home country nationals employed within the foreign subsidiaries. The respondents' answers to the questions were scaled against each other for ease of comparison.

In order to gauge the actual respondent's economic culture fit with the predictions of the EVS, the questionnaire first sought to identify how he or she valued certain characteristics pertinent to the economic culture drivers around which this study pivots. This was necessary as it verified that the underlying premises from which the hypotheses were made were still valid. Succeeding questions probed the perceptions of the HSR along management dimensions within the realm of decentralization, expatriate utilization, horizontal knowledge sharing and vertical knowledge flows that the economic culture influences. The questionnaire consisted of multiple-choice closed-ended questions, five point Likert scale questions and normalized 10 point preference scaling questions. These facilitated point accumulation methods, which made it possible to compare stances on the different aspects of the HSR.

Two separate methods of empirical data analysis were utilized in order to validate the results. Spearman rank correlation tests were used to determine the direction and strength of the individual relationships between economic culture and the four HSR management aspects within each surveyed MNC, and standard linear correlation tests were used to directly quantify the association levels between economic culture and management without assigning rank values (as Spearman rank correlation tests do) but by using weighted averages. Together, they provide compared and direct correlation results, respectively.

Finally, in a survey of this nature that gauges soft values and perceptions among several countries, it is not rewarding to regard the data from each country on various subjects as the decisive truth – the data does not permit for such a degree of precision. It is the broad contrast between high and low scores that ultimately validates connections between economic culture and HSR management. Consequently, in situations where one or two of the survey countries were not polarized at an economic culture extreme, it was omitted from the standard linear correlation hypothesis testing as its economic culture score was too neutral to justify any predictions. The omitted country data is, however, considered anew during Spearman rank correlation tests and when attempting to build credibility to the trends emerging from the hypotheses.

Results and Analysis

Results regarding the empirical fit of the respondents' economic culture with that of the EVS data revealed similar, although not identical, patterns. Most notably, the Danish respondents' economic culture pertaining to IITDEC dropped 4.6% from the EVS forecast whereas all other countries increased by an average of 13.6% (see figure 3). A further analogous reduction was apparent mainly as a result of Slovenia's empirical IITDEC score increasing compared to its EVS counterpart. Nevertheless, the country rankings are in complete accordance with the EVS as

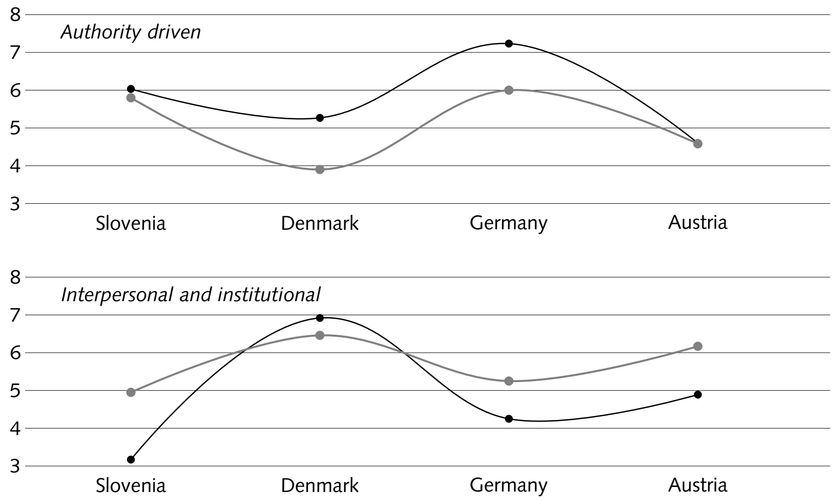

FIGURE 3 Comparison of ADEC and IITDEC stances of surveyed MNCs with EVS
EVS, empirical.

Denmark still ranks as being most interpersonal and institutional trust driven, followed by Austria, Germany and finally, Slovenia. Concerning ADEC, the Danish and German respondents scored as being considerably less authority driven, or more subordinate driven than the EVS indicated, while the Slovenian and Austrian ADEC scores were almost identical to the EVS. This divergence causes the Danish ADEC to fall from a neutral ranking to being least authority driven. These discrepancies are however minute and they do not distort the foundations on which the EVS based hypotheses are made.

Consequently, although the exact values of the empirical economic culture scores vary from the EVS predictions it is not to a detrimental extent, as the comparative standings are still remarkably similar. Here it is important to remember that it is not the exact values of each country's economic culture score that is of cardinal importance but rather their comparative standings, as only those validate the sought for HSR management connections. The slight alterations do therefore not have a significant bearing on the premises from which this study begins and the validity of the hypotheses remains intact.

Results relevant to hypothesis 1a confirm, albeit not pristinely, the theory. The Slovenian and German ADEC are ranked as being the most authority driven cultures, while united scoring lowest on organizational decentralization levels (ODL), and the Austrian ADEC, which scored lowest, ranked comparably higher on the decentralization scale (see table 1). For the standard linear correlation tests the Danish MNCs' results were omitted, as the country's neutral economic culture score did not allow for valid knowledge flow pattern predictions. Accordingly, the results of this test advocate that there is a negative correlation between ADEC and ODL. Furthermore, the Spearman rank correlation test reveals a strong negative correlation (0.566/.05) at a 95% confidence interval between the level of ADEC and the ODL.

Thus, the hypothesis is accepted although the results are not pristine. The German and Slovenian MNCs, when grouped together, score a lower decentralization score than the Austrian and Danish MNCs, as the hypothesis predicts. However, the fact that Slovenia is less authority driven from an economic culture perspective than Germany, yet has more centralized MNCs, foils any decisive conclusions to be made regarding direct linkages using the standard linear correlation test. Furthermore, the large variance spectrum displayed between the German and Austrian ADEC scores (2.63) is not reflected by an equally large variance fluctuation in ODL (0.808). This suggests that decentralization levels are not perfectly correlated to ADEC levels as the large ADEC decrease is mirrored only by a small ODL increase. Consequently, it appears that there is a tendency for high levels of ADEC to be accompanied by low levels of decentralization, or high levels of centralization, although it is not a precise relationship.

The empirical economic culture results for all four countries may provide an understanding of the origins of the small abnormalities from the otherwise overall negative relationship. The empirical ADEC score for the surveyed Danish MNCs was substantially lower (3.90) than its EVS equivalent and is in fact the lowest ADEC ranking of both the empirical and EVS findings. It is possible that the surveyed Danish subsidiaries strayed from the forecasted EVS predictions resulting in an artificially high ADEC score for the Danish MNCs. If this is the case, the corresponding OCL score displays a perfect positive correlation in accordance with the hypothesis; Denmark's low empirical ADEC score corresponds faultlessly to high ODLs. Similarly, the discrepancy in the German and Slovenian correlation, which contradicts the general trend, is minimized through the empirical economic culture data. The EVS economic culture data has the two aforementioned countries' economic culture scores separated by more than a full point (1.20), a substantial division considering their respective ODL scores that oppose the direction of the general correlation displayed by the overall country and MNC data. However, this divide is significantly lessened in the empirical ADEC scores (0.17). The empirically small ADEC divide radically condenses the irrationality of the reverse correlation between these two country factors and helps explain how the surveyed German MNCs display a higher ODC score than the surveyed Slovenian MNCs. This still does not align the German and Slovenian country data with the direction of the hypothesis correlation but it does provide counter argumentation for the observed EVS correlation contradiction.

Results regarding hypothesis 1b act in accordance with the theory. All countries' MNCs ranked as having a predominant use of two-way vertical knowledge flows between headquarters and its subsidiaries (all MNCs averaged above-mean score of 5: Germany: 5.21, Slovenia: 6.39, Austria: 6.5, Denmark: 7.46). Again, for the standard linear correlation tests the Danish MNCs' results were omitted, as the country's neutral economic culture score did not allow for valid knowledge flow pattern predictions. Testing the three remaining countries' MNCs reveal a direct negative linear correlation between scoring as highly authority driven and having comparatively lower levels of two-way vertical knowledge flows than the highly subordinate driven MNCs (see table 1). The negative relationship is most apparent and precise through the German and Slovenian compounded ADEC scores and corresponding amalgamated two-way vertical knowledge flow scores. The 1.20 composite downward drop in the German to the Slovenian ADEC score is almost identically inversely represented with a 1.17 knowledge flow increase. The linearity of this precise relationship is however not equally reflected by the fused Austrian ADEC results. Here the 2.63 ADEC decrease between the German and Austrian scores is only marginally represented with a composite 1.286 increase in knowledge flows. Nevertheless, the sought for negative relationship between these two variables is ascertained as all three countries' ADEC scores and HSR two-way vertical knowledge flow scores display a habit of dependency, albeit to varying extents.

The Spearman rank correlation test reveals a weak negative correlation (–0.38/.05) between the level of ADEC and two-way knowledge flow levels tested at a 95% confidence interval for all the countries' MNCs. Accordingly, the hypothesis is confirmed as there does appear to be an association between high levels of subordinate driven preferences and greater inducement of vertical two-way knowledge flow. This suggests that the more autonomy an employee feels she is empowered with, the more

TABLE 1 Authority driven levels in relation to decentralization and knowledge flows

	(1)	(2)	(3)
Germany	7.23 (6,04)	3,573	5,214
Slovenia	6.03 (5,87)	3,189	6,384
Denmark – omitted	*5.24 (3,90)*	*6,388 – omitted*	*7,458 – omitted*
Austria	4.6 (4,58)	4,381	6,5

NOTE Column headings are as follows: (1) authority driven; (2) level of decentralization; (3) level of two way knowledge flows. Results in brackets represent the empirical equivalent.

likely she is to relay knowledge back in the direction of the headquarters. Hence, where MNCs with a high ADEC might have a high amount of *information* flowing from the subsidiaries to the headquarters, it appears that MNCs with a high subordinate driven economic culture have a high amount of *knowledge* transmitted back to the headquarters. The empirical economic culture outcomes lend further support to this negative correlation. The slight variations in the empirically obtained ADEC results, compared to the EVS ADEC results, yield an unflawed linear correlation; incremental increases in empirical ADEC scores correspond perfectly to incremental decreases in two-way vertical knowledge flow scores.

Results regarding hypothesis 2a provide strong, unanimous support for the theory. The standard linear correlation test reveals a direct, although not perfectly uniform, correlation between high IITDEC with high levels of horizontal knowledge sharing; as IITDEC levels rise for the sample countries there is an associated rise in horizontal knowledge sharing (see table 2). However, the respective upsurges and reductions in IITDEC and horizontal knowledge sharing are not proportionately distributed in relation to each other. This is most apparent with the Danish and Austrian economic culture and MNC data. The Danish IITDEC ranks more than a full point ahead of the Austrian economic culture, yet the horizontal knowledge sharing levels are almost identical, with the exception that the Danish MNC levels just out-edge the Austrian MNC's knowledge sharing levels by a fraction. Thus, the large gap in economic culture between these two countries is not represented with an equally large gap in horizontal knowledge sharing levels. Furthermore, low IITDECs are accompanied by lesser, but not low, levels of horizontal knowledge sharing. For this realization it is noteworthy to recognize that all countries' MNCs scored a horizontal knowledge sharing grade above 5 and, as such, are all considered fairly knowledge sharing prone. Consequently, Slovenia's very low level of IITDEC (3.17) is not reflected in a very low horizontal knowledge sharing score but in actually a fairly high horizontal knowledge sharing score (6.19).

Furthermore, the Spearman rank correlation test revealed a strong positive correlation (0.69/.05) between IITDEC levels and horizontal knowledge sharing tested at a 95% confidence interval for all the countries' MNCs. Together, the standard linear correlation tests and the Spearman rank correlation tests advocate that there is a direct correlation (although not perfectly linear) between high levels of interpersonal and institutional trust driven employees and their proneness to share knowledge with their colleagues, which implies that the qualities an individual with high interpersonal and institutional trust driven tendencies has promote knowledge sharing within an organization.

Results regarding hypothesis 2b provide support, although weak, for the theory. As the intensity of IITDEC increases, expatriate utilization decreases (see table 2). The Spearman rank correlation test reveals a negative correlation (–0.224/.05) between IITDEC and expatriate utilization as the hypothesis predicted. However, the negative correlation is too weak to pass the 95% critical confidence interval ($r = -0.224 > -0.41 =$ critical negative value). Thus, the Spearman rank correlation test does display the sought for negative relation between IITDEC and expatriate utilization, albeit at an insignificant intensity level.

The standard linear correlation test reveals a direct, although not perfectly uniform, relationship between high levels of IITDEC and low expatriate utilization levels; as IITDEC levels drop, there is a corresponding increase in expatriate utilization. Slovenia, ranking lowest with regards to IITDEC, utilizes the highest number of expatriates with an average of 1.69% expatriate utilization per foreign subsidiary whereas Denmark, ranking highest with regards to IITDEC, utilizes the lowest average number of expatriates with an average of 0.73% expatriate utilization per foreign subsidiary. The German and Austrian MNC and economic culture data go in exact accordance with the negative relationship between interpersonal and institutional trust and utilization of expatriates. However, although the strength of the correlation is strong using the standard linear correlation test, the difference in expatriate usage between the Danish foreign subsidiaries and the Slovenian foreign subsidiaries, which are at opposite extremes, is only 0.96 percentage points per subsidiary. Had the proportional differences been greater, it would have provided further

TABLE 2 IITDEC in relation to horizontal knowledge sharing levels and expatriate utilization

	(1)	(2)	(3)
Germany	4.25 (5.25)	7.406	1.45%
Austria	4.87 (6.18)	8.550	1.14%
Slovenia	3.17 (4.95)	6.190	1.69%
Denmark	6.93 (6.47)	8.595	0.73%

NOTE Column headings are as follows: (1) IITDEC; (2) horizontal knowledge sharing; (3) average expatriate utilization per subsidiary. Results in brackets represent the empirical equivalent.

strength to the correlation and provided auxiliary validation to the negative relationship.

The empirical economic culture data conforms to the EVS IITDEC findings and displays proportionately decreasing levels of expatriate utilization with increasing IITDEC scores. In large, this strengthens the proposed weak link that the standard linear correlation tests supports. A surprising revelation of the survey was that a vast amount of the surveyed subsidiaries across all four countries employed zero or only a singular expatriate at the foreign subsidiary. For the Slovenian subsidiaries, in order to correspond to the low IITDEC score, a much high number of expatriates was expected. Although the Slovenian composite expatriate score was comparatively higher than the three other focus countries' MNCs, as the hypothesis predicted, it does not fully harmonize with the underpinning logic that low IITDEC will be compensated for with high expatriate utilization in order to ensure trust and alignment of headquarters objectives. However, it would be inappropriate to discredit the negative IITDEC – expatriate utilization correlation as there does seem to be a connecting factor, but, simultaneously, it is also clear that the sought for correlation is not as powerful as the theoretical findings predicted and thus it is conceivable that other factors are likely to have an inductive persuasion on the relationship.

For international HSR management, these findings have multiple ramifications. The strong evidence of an ADEC to induce centralization infers that ADEC prone MNCs are at risk of being deprived of decentralization benefits which can promote entrepreneurial skills and attitudes that can otherwise be difficult to reproduce at the subsidiary management level, which, in turn, can lead to subsidiary stagnation and prevent the subsidiary from moving forward in developing its own success pillars. However, it must simultaneously be respected that the reverse is equally true; MNCs with low ADECs may be managed under exaggerated decentralized operations that inadvertently thwart scale operations and decreases cost advantages. The extremity of both scenarios would seldom be the result solely of an ADEC influence, however the inherent ADEC predilection within an MNC certainly can influence where the MNC structure ultimately ends up on the decentralization–centralization spectrum. In further accordance, the negative ADEC – two-way vertical knowledge flow correlation suggests that MNC managers within highly ADEC entities should be aware that knowledge flows may unwittingly be hindered within the organization and installing measures that boost knowledge flow levels, if deemed of interest to the MNC, are warranted. As such, the speed and efficiency with which valuable knowledge can be vertically transmitted and understood by the receiving partner, be it headquarters or subsidiaries, can be maintained and overall detriment to the MNC – in the form of knowledge losses – can be minimized.

The positive IITDEC – horizontal knowledge sharing correlation equally provides insight into optimizing international HSR management for MNC managers. MNCs endowed with a high IITDEC appear to be better suited to overcome motivational and cognitive horizontal knowledge sharing barriers that pre-empt the effective reuse of organizational knowledge. Therefore, managers from MNCs with a low IITDEC should be aware that the sought for level of knowledge-sharing is contingent on the inherent human traits that impact the learning intent and learning capacity of the organization's employees. In the same vein, MNC managers' utilization of expatriates appears, at least to a small extent, to be dependent on MNC IITDEC levels. Low IITDEC levels within the MNC can induce a greater utilization of expatriates as a suitable conduit for relaying strategic objectives, and thus compensate for low levels of interpersonal and institutional trust at the subsidiary level. For MNCs operating with a high IITDEC the need for this is alleviated and MNC managers should remain aware that trust and alignment of headquarters' objectives can be achieved through far more cost efficient methods than expatriation.

Conclusion

The results of this study provide further nourishment for researchers and practitioners who subscribe to the notion that national management models do persist in Europe (see also Klarsfeld and Mabey 2004) and that HSR management is influenced, in multiple ways, by variances in economic cultures. Although the results of this research do not provide indications that CEECs' and westernized European countries' economic cultures and HSR management are continuously at opposing poles, it does imply that the Slovenian economic culture and HSR management in relation to decentralization, two-way vertical knowledge flows, horizontal knowledge sharing and expatriate utilization substantially differ, in some ways, to the three elder EU members also included in this survey. This could further complicate the manner in which Slovenian EU integration occurs, and also the management methodology through which Slovenian MNCs can reap economic gains through the common market. In an attempt to further divulge complications that can arise from this, the current article has depicted two dimensions through which economic culture can vary and impact international management in different ways.

Specifically, the study shows that there are some direct linkages between ADEC and IITDEC on decentralization, vertical knowledge flows, horizontal knowledge sharing and expatriate utilization within the HSR of a MNC. Evidence, although not pristine, was found that highly ADECs are more likely to be prone to centralized MNC structures and lesser vertical knowledge flows compared to highly subordinate driven economic cultures. Further evidence was found that expatriate utilization is negatively correlated, although only by a weak margin, to highly IITDECs. However, a very strong positive correlation was detected between horizontal knowledge sharing and highly IITDECs; high levels of interpersonal and institutional trust driven preferences induce more horizontal knowledge sharing.

The purpose of this research is not to suggest an alignment of economic cultures across the EU in order to ease international HSR management variations. In fact, it is the author's strong conviction that economic cultural variances, rather than being interpreted as a source of international conflict and managerial disagreement, should be utilized as a managerial asset that can be converted into a resource for underpinning managerial and MNC core competencies. In purely Ricardian terms, tapping in to differing natural endowments has been the logical foundation from which comparative advantages have been justified for many years. The leap from this commonly accepted thought line to gaining comparative advantages through differing economic cultural endowments is small. Differing economic cultures harbour inherent organizational benefits which, when managed correctly, provide an MNC with a comparative advantage. For MNCs wanting to obtain a comparative advantage that is not directly ascertainable through its own economic culture, internationally merging of the MNC with employees of a foreign economic culture that harbours the inherent sought for managerial advantage can be an integral part of achieving such a comparative advantage and bettering the overall construct of the MNC.

Notes

1 The European Values Study is a large-scale, cross-national and longitudinal survey of moral, religious, political and social values. The survey was designed to investigate the nature and inter-relationship of value systems, their degree of homogeneity, and the extent to which they are subject to change across time.

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