KNOWLEDGE SHARING IN A MULTINATIONAL CORPORATION

A case study of knowledge sharing between HQ and subsidiaries and the integration of marketing strategies

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Anna Schou Madsen, Valby, July 2014
EXECUTIVE SUMMARY

Effective knowledge sharing between a HQ and its subsidiaries can be one of the prerequisites for the MNC to ensure a competitive advantage, but the transfer of knowledge is affected by the relationship between the HQ and the subsidiaries. The relationship can either enhance or hinder knowledge sharing, and understanding the mechanisms behind can be valuable for the MNC. The MNC can transfer many different types of knowledge, but marketing strategies offers a particular challenge for the company as it consists of both explicit and tacit knowledge. Knowledge sharing is an area that continues to inspire researchers and managers, as knowledge is a resource that is difficult to manage. The thesis first identifies a theoretical framework based on agency theory and absorptive capacity. The purpose of this thesis is to research how the HQ can enhance the vertical knowledge sharing between itself and its subsidiaries, and how the absorptive capacity of the subsidiaries enhance the integration of HQ-initiated marketing strategies? The findings will add to the existing theoretical framework.

The topic of this thesis has been researched empirically through a case study of the Danish MNC, Oticon. The empirical data were collected through interviews with managers at the HQ at Oticon and among managers in Oticon’s subsidiaries. Given the focus of the research, all managers were working with marketing or sales.

My research data confirmed many of the observations found in the theoretical framework. It was found that the HQ could enhance knowledge sharing with its subsidiaries through the organisational culture, facilitation, and the IT systems. However, in those cases where the IT systems were not optimal for handling the knowledge, employees at the HQ could step in to replicate the missing functions of the system.

With respect to the integration of marketing strategies, the research data also confirmed the observation in the theoretical framework, but the findings highlighted adaptation and engagement as two key areas for enhancing the integration. The latter was not part of the theoretical framework, so further research is needed before it can become part of the framework. All the findings in this thesis require some sort of investment from the HQ, highlighting that as knowledge sharing increases so does the resources needed to facilitate it.
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ABBREVIATIONS

ASP: Average Selling Price
HI: Hearing Instrument
HQ: Headquarter
KMS: Knowledge Management Systems
MNC: Multinational Corporations
SMT: Sales, Marketing and Training seminar

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1. INTRODUCTION

In an ever-globalised world, all companies are facing increased competition from many sides, forcing the companies to adapt faster to a changing marketplace. This puts pressure on the multinational corporations (MNCs) that have subsidiaries spread across the globe. The physical distance between the HQ and the subsidiaries makes faster adaptation challenging.

To ease the adaptation, the MNC is dependent on a strong flow of knowledge between itself and its geographic network of subsidiaries (Gupta & Govindarajan, 1991). This network can collect knowledge and competencies from around the world that can give the MNC a competitive advantage (Bartlett & Ghoshal, 1987).

In order to collect and store knowledge in the organisation the MNC needs to invest in knowledge management systems (Nielsen & Michailova, 2007) that can ease these processes.

The relationship between the HQ and its subsidiaries play a key role in how efficiently knowledge can be exchanged between the two (O'Donnell, 2000) and agency theory (Eisenhardt, 1989A) has long been considered one of the main theories for studying HQ-subsidiary relationship. The theory highlights that information between the agent, in this case the subsidiaries, and the principal, which is the HQ, can be asymmetrically divided. Information asymmetry gives rise to agency problems that can have a harmful effect on the HQ-subsidiary relationship that can hurt knowledge sharing between the two. Because many studies have used agency theory as a framework for studying knowledge sharing in the MNC (O'Donnell, 2000; Mudambi & Navarra, 2004; Andersson, Björkman, & Forsgren, 2005; Fey & Furu, 2008), the theory is used as a starting point for analysing how the MNC can increase knowledge sharing with its subsidiaries. This constitutes the first part of analysis.

The fiercer competitive landscape also puts pressure on the marketing strategies of the multinational corporation and the integration of these in the subsidiaries’ markets. The MNC will have to make a trade-off between creating a global uniform image and
allowing the subsidiaries to adapt the strategies for their local markets. The absorptive capacity has become a key concept for explaining organisations’ long-term advantage over competitors (Cohen & Levinthal, 1990) by enhancing the organisations’ capability to create value from new knowledge (Zahra & George, 2002). Recently, it has been shown that the absorptive capacity can have a positive influence on the integration of the MNC’s marketing strategies in the subsidiaries (Schleimer & Pedersen, 2013). Hence, the second part of the analysis explores how the absorptive capacity can enhance the integration of marketing strategies in the subsidiaries.

This thesis argues that the MNC needs to make investments to both improve and maintain knowledge sharing with its subsidiaries, however, the literature has yet to agree on what specific areas the MNC should invest in. The aim of this thesis is therefore to investigate how the MNC can enhance knowledge sharing with its subsidiaries and enhance the integration of marketing strategies in the subsidiaries.

In order to do so, the following research questions are posed:

Applying agency theory, how can the HQ enhance the vertical knowledge sharing between itself and its subsidiaries?

How does the absorptive capacity of the subsidiary enhance the integration of the HQ-initiated marketing strategies?

1.1 THE RESEARCH DESIGN

The research uses a case study approach and a qualitative method. The qualitative method is preferred for an in-depth case study analysis where the aim is not to generalise across a population but to learn from individual statements. These statements will result in propositions that can make the foundation for further investigation.
Interviews were held with managers from seven subsidiaries spread across the world, and two managers from the HQ. The interviewees were given questions regarding the knowledge flow between the HQ and the subsidiaries, and among the subsidiaries themselves. To investigate how knowledge management systems (KMS) may affect knowledge sharing, questions concerning the use of different IT systems were asked. In order to explore how the absorptive capacity enacts in each subsidiary, questions regarding the integration of centrally developed marketing campaigns were also part of the study. To gain as much insights as possible, all participants in the study work with sales or marketing.

1.2 THE DELIMITATION OF THE THESIS

Traditionally, research has focused on either internal or external knowledge sharing. This thesis focuses on internal knowledge sharing. External factors such as national culture or macroeconomic conditions are outside the scope of the research and will not be part of the analysis. The effect the industry might have on knowledge sharing is also considered an external factor and is therefore not included in the thesis.

In a MNC, knowledge sharing happens across many types of departments, but the focus of this thesis has been limited to investigate how knowledge from the marketing department is shared with the subsidiaries. As the study evolved the focus of the research also included knowledge sharing among the subsidiaries.

In my data collection, I do not distinguish between whether marketing strategies are considered knowledge or information since it is reasonable to assume that they can contain both\(^1\). The two terms are therefore used interchangeable throughout the thesis. However, I do distinguish between whether knowledge is explicit or tacit. Explicit

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\(^1\) Some authors have categorised organisational knowledge as information and know-how (Kogut & Zander, 1992). Know-how is the knowledge of how to do something, whereas information implies knowing what something means. In other word, knowledge is what we know through experience and competencies, and information is captured data at a point in time that can change over time.
knowledge is easily codified and shared among individuals. This type of knowledge can easily be communicated and transferred (Grant, 1996). Tacit knowledge, on the other hand, cannot be codified and can only be observed through its application and acquired through practise. Therefore transfer of this type of knowledge is slow, costly, and uncertain (Kogut & Zander, 1992). Because tacit knowledge requires that the recipient has the ability to absorb the knowledge, it needs numerous individual exchanges in order to be received.

Many factors can affect knowledge sharing between a HQ and its subsidiaries. In order to limit the theoretical framework for this thesis, agency theory is used for analysing the HQ-subsidiary relationship (Eisenhardt, 1989A) and its effect on knowledge sharing. The absorptive capacity provides a framework for analysing the integration of marketing strategies in the subsidiaries. By using the term ‘integration’ rather than ‘implementation’ I wish to highlight that the subsidiaries adopt the strategy wholeheartedly and apply it to the best of their capabilities in their own market. The conventional definition of absorptive capacity as the ability to create value of new knowledge (Cohen & Levinthal, 1990; Zahra & George, 2002). In this thesis, ‘new knowledge’ is represented by the HQ’s marketing strategies. Abilities of both the subsidiaries and the HQ (Schleimer & Pedersen, 2013) are identified for enhancing the absorptive capacity.

1.3 THE THESIS STRUCTURE

This thesis follows a structure that creates a logical flow for the reader to follow my argumentation.

Section 2 presents the theoretical framework for this thesis. Emphasis is put on describing agency theory (Eisenhardt, 1989A) and absorptive capacity (Cohen & Levinthal, 1990; Zahra & George, 2002). The section concludes by presenting the theoretical framework for the thesis that the interview questions are based upon.
Section 3 describes the method. The qualitative method of conducting interviews and the focus on a single case study is identified as the optimal method for answering the research questions. The section presents the selected case and the considerations I as a researcher have made concerning interview and responds biases. The Danish multinational corporation Oticon was chosen as a good candidate for this thesis since the company has a reputation for a strong knowledge culture internally. It also has subsidiaries spread across the world. Using Oticon as case therefore provided an opportunity to investigate knowledge sharing within the MNC, and how the company can enhance the integration of marketing strategies in its subsidiaries.

Section 4 analyses the qualitative data. The section first analyses Oticon’s past and present organisational culture. Hereafter follows an analysis of the information systems used in Oticon. Finally, the subsidiaries integration of the marketing strategies is analysed. The analysis identifies four propositions that are presented in a new framework that concludes the section.

Section 5 presents the conclusive discussion. The section discusses the propositions and their implications for the MNC. The section also identifies limitations of the research and concludes the thesis with suggestions for future research.
2. THE THEORETICAL FRAMEWORK

The following section presents the theoretical framework for this thesis. This includes clarifications of key concepts such as agency theory and absorptive capacity.

The theoretical framework forms the foundation for the analysis and discussion of the qualitative data later in the thesis.

Below follows the first part of the theoretical framework that presents agency theory as a starting point for analysing the knowledge flow between the HQ and the subsidiaries.

2.1 THE AGENCY THEORY

Agency theory analyses phenomena within various topics in the organisational literature, from accounting to political science to sociology (Eisenhardt, 1989A). The central focus of the theory is the analysis of the relationship between one party (the principal) and another member (the agent). The relationship between the principal and the agent is formed when the principal transfers tasks and responsibilities to the agent. The transfer of responsibilities can give rise to problems that the principal wants to avoid by introducing a contract with the agent (Jensen & Meckling, 1976). However, because no contract can take into account all possible scenarios; two specific agency problems will arise. First, it is assumed that agents are not perfectly honest and dutiful (Hendry, 2002). Therefore, the principle cannot be certain that the agent fulfils the tasks to the principal’s satisfaction. Second, the principal and the agent will have different perceptions of risks. This will affect which actions they each find appropriate for dealing with certain risks.

The two problems highlight an important aspect of agency theory, namely that information between the agent and the principal is asymmetric (Hendry, 2002). The information asymmetry gives rise to two issues dealing with the risk that follows an agent-principal relationship (Eisenhardt, 1989A; Hendry, 2002). **Adverse selection** is the risk that occurs when agents misrepresent their abilities and claim to deliver outcomes
they know they cannot. This arises when the principal is unable to verify the skills of the agent at the time of hiring. Moral hazard is the risk that the agent will not put as much effort into principal’s objectives as agreed upon. If the relationship between the HQ and subsidiaries is characterised by adverse selection or moral hazard, then the information asymmetry between the two increases. Another important aspect of agency theory is the notion that the principal can invest in information, whereby it is treated as a commodity (Jensen & Meckling, 1976). The principal can therefore make specific investments that decreases the agency problems and restores information symmetry between the principal and the agent.

From agency theory, the assumption that information is asymmetrically distributed between principal and agent is applied to the HQ-subsidiary relationship. In this thesis, I assume that a decrease in the level of information asymmetry will have a positive effect on the knowledge flow between the HQ and the subsidiaries. The increase in knowledge flow is assumed to benefit the company economically through its effect on the company’s competitive advantage (Foss & Pedersen, 2002). If the HQ wishes to enhance the knowledge sharing between the HQ and the subsidiaries it should work towards decreasing information asymmetry.

2.1.1 What means can the principal use to solve the agency problems?

The principal can deal with these issues in two ways; by monitoring the agent’s actions or by using outcome-based compensation schemes (Eisenhardt, 1989A; Jensen & Meckling, 1976).

Monitoring the agent’s behaviour is also known as a behaviour-based contract. The monitoring could be done through personal supervision or through information systems that allow the principal to monitor the agent’s behaviour without a physical presence. Outcome-based compensation builds on an outcome-based contract where incentive systems are used to monitor the agent’s behaviour. For example, by compensating subsidiary general managers and other top subsidiary managers based on performance of the MNC as a whole, the knowledge transfer improves because both the principal (the
MNC HQ) and the agents (subsidiary managers) are aligned (Fey & Furu, 2008). The purpose of both types of contract is to restore the stage of complete information symmetry between the two parties, which eliminates the risks of adverse selection or moral hazard.

If the outcome of the contract is difficult to measure then a behaviour-based contract in the form of monitoring will be more attractive. Whereas, if the outcome is easy to measure then an outcome-based contract will be more preferable (Eisenhardt, 1989A). Setting the right expectations and ensuring that they can be measured is an important consideration that the principal should take before deciding which contract to use.

As mentioned, the principal can use monitoring to solve the agency problem. This could be activities or mechanisms used by the HQ to get information about the behaviour and decisions of the subsidiary managers (O’Donnell, 2000). The most direct form of monitoring is personal supervision of the managers (Eisenhardt, 1989A), but given the geographical dispersion of the HQ and subsidiaries in the MNC direct supervision would both be very costly and time consuming. Instead of using personal monitoring the MNC can use bureaucratic forms of monitoring like procedures or information systems that can track and collect decisions made by the subsidiary (O’Donnell, 2000).

If the relationship between the HQ and the subsidiary is characterised by a high level of information asymmetry, the effectiveness of the monitoring decreases. Two important factors affect the information asymmetry, the level of specialised knowledge in the subsidiary and the level of subsidiary autonomy (ibid). From an agency perspective, monitoring becomes difficult if the subsidiary possesses a high level of specialised information that the HQ does not. Specialised knowledge is often characterised as tacit or “sticky” (Szulanski, 1996) as it becomes embedded in the employees and managerial procedures in the subsidiary. Tapping into this knowledge can be both difficult and costly for the HQ, as it requires direct personal contact. A subsidiary with a high level of specialisation can be very valuable for the HQ since the subsidiary often develops a high level of specialised knowledge regarding products and distribution channels. For the subsidiary, a higher value also means a higher bargaining power and easier resistance of
any monitoring from the HQ’s side. Although not discussed in the reviewed literature it is assumed that the bargaining power of the subsidiary is also affected by the subsidiary’s sales volume. Subsidiaries with a higher level of sales relative to their geographical size will have more bargaining power compared to subsidiaries with smaller sales volumes.

Subsidiary autonomy is another characteristic that makes monitoring difficult. This is defined as the degree of strategic and operational decision-making authority that the subsidiary has (Garnier, 1982). The HQ can grant the subsidiary autonomy if the subsidiary is in a better position than the HQ of evaluating the needs and demands of its market. Autonomy grants the subsidiary managers greater discretion, which in return makes direct monitoring of agent behaviour more difficult and a less effective mean of control.

Scholars have in recent years, used agency theory to analyse the relationship between a HQ and its subsidiaries (O'Donnell, 1999; O'Donnell, 2000; Mudambi & Navarra, 2004; Andersson et al., 2005; Fey & Furu, 2008). The theory highlights the difficulties of an agent-principal type relationship. In the classical agency theory that Eisenhardt (1989A) and Jensen and Meckling (1976) promote, the agency relationship is seen as a contract between the agent and the principal. This contract builds on outcome-based incentives and on fulfilling the principal’s objective. Classic agency theory assumes that the contract can be fully specified. However, this may not be the case and the principal may have to provide precise specifications of the objectives. This will limit the scope for incompetence but also limit initiatives that could have benefitted the principal (Hendry, 2002). This provides a more nuanced view on the contract between the agent and the principal. It also indicate that the contract between the HQ and the subsidiaries will be affected by many factors, and by including some factors, it might exclude others.

If complete information symmetry exists between the principal and the agent, it is assumed that the agency problems would disappear, making the contract between the principal and the agent redundant. Complete information symmetry cannot be conjured
without the use of certain mechanisms. The next section describes these mechanisms when it explores aspects of how knowledge flows between the HQ and its subsidiaries.

2.2 THE KNOWLEDGE FLOW FROM HQ TO SUBSIDIARY

From an agency theory perspective, the interest of the principal and that of the agent are difficult to align if the objectives of the agent or the principal are very complex causing a large degree of information asymmetry to exist between the parties. This misalignment is assumed to have a harmful effect on the level of knowledge transfer between the HQ and the subsidiaries. Creating a better alignment, increases the level of understanding between the two parties. As the level of understanding increases, it is assumed that information asymmetry decreases. Literature has shown that the use of control mechanisms is one way to create alignment (Gupta & Govindarajan, 1991). These mechanisms represent both the formal and informal control system that the corporate HQ can use to shape decisions and actions of the subsidiaries. An alignment suppresses the opportunistic behaviour of either the HQ or the subsidiary since the outcome has been agreed upon.

The informal control system is part of the company’s organisational culture that consists of both formal and informal mechanisms. In this thesis, the overall purpose of these mechanisms is to increase the level of knowledge sharing between the HQ and the subsidiaries. These mechanisms are company-specific and cannot easily be copied and transferred to other companies.

An informal control system is not enough to secure knowledge transfer. The employees also need to be motivated to share knowledge. Incentive system can foster this motivation (O'Donnell, 1999) through a salary-based incentive scheme.

Finally, information technology (IT) is an imperative need in today’s modern companies. The IT systems are part of the company’s knowledge management systems (Nielsen & Michailova, 2007) and are considered a formal control system since it often consists of specific software systems. Other companies can also buy these systems. Therefore,
formal control mechanisms are not considered company-specific as the functions can be transferred to other companies.

2.2.1 Organisational Culture

In her book on organisational theory, Mary Jo Hatch (2006) describes organisational culture as a set of basic assumptions consisting of values and behavioural norms that the members recognise, respond to, and maintain. The members use the values and norms to make choices and take action. Values are seen as social principals that define what the members of a culture care about the most. The values are often deeply rooted in an organisation so changes to the organisational values are often a result of newcomers or outsiders. Norms are the unwritten rules that allow members of a culture to know what is expected of them. In some companies, the norms might be stated formally in the employee handbook or they may be left unstated forcing newcomers to adapt and learn what is acceptable ‘along the way’.

Hatch states, “values define what is valued, while norms make clear what it takes to be considered normal or abnormal” (Hatch & Cunliffe, 2006 p. 187). Based on this definition, organisational culture in a company can affect the company’s view on knowledge sharing. In some companies, sharing knowledge and information across the organisation are part of the values and norms. It may even be written in the company’s overall strategy and the company spend resources on systems that can facilitate knowledge sharing easily.

The organisational culture also affects the level of communication between the HQ and the subsidiaries. Gupta and Govindarajan (2000) found in their study on knowledge flows within multinational corporations that the knowledge flow from subsidiary to the HQ is greater for those subsidiaries that integrate more closely with the organisation. This integration is, among others, enhanced through (1) corporate socialisation mechanisms and (2) formal integration mechanisms. These are both part of the transmission channels between the HQ and the subsidiaries. The purpose of the first is
to build interpersonal familiarity, personal affinity, and create bonds between personnel across the organisation. The purpose of the second is to use formal structural mechanisms to link the subsidiary with the rest of the global network. Job rotations or participation in mentor programmes is one way to strengthen the bonds (Gupta & Govindarajan, 2000) and increase the amount of shared values within the MNC (Nohria & Ghoshal, 1994). Greater interpersonal familiarity and stronger bonds between the units will increase the openness of communication. A better communication between the subsidiaries indicates that richer transmission channels are established. The authors show that the level of knowledge transfer correlates positively with the richness of the transmission channels. If the company wants to improve the exchange of knowledge between the subsidiaries and the HQ, enhancing the transmission channels should be a priority. Evidence supports the theory (Minbaeva, Pedersen, Björkman, Fey, & Park, 2014) that internal communication can improve the knowledge transfer in the company.

Other authors have also identified that coordination mechanisms can improve the lateral relations as well as the communication in the organisation (Martinez & Jarillo, 1989). Today, these mechanisms seem simple as they focus on direct contact among managers through teams, committees and integrative departments. The purpose is to create relations across the formal structure and face-to-face interaction is an important feature. As the outcome of the mechanisms become more complex, the coordination equally becomes more sophisticated. By using a more sophisticated set of coordination mechanisms, the MNC can increase the level of flexibility within the company. This means it can respond more quickly to local differences, and take advantage of global synergies such as learning and exploiting local expertise at a global level. The companies that best manage these requirements will have a competitive advantage (ibid). Although the MNC focuses on enhancing both the transmission channels and the coordination mechanisms, it has been shown that knowledge with different characteristics also need different organisational mechanisms if knowledge sharing has to be facilitated (Foss & Pedersen, 2002). It can therefore be argued that the organisation has to apply many
different kinds of organisational mechanisms in order to ensure that knowledge sharing can happen.

Informal control system are considered company-specific, since these mechanisms take time to implement properly. They are part of the company’s organisational culture and can as such, have a large impact on the level of knowledge sharing. To increase this level, the organisation should foster strong personal links between the HQ and the subsidiaries, as direct interaction is important.

Organisational culture alone cannot secure that knowledge will be shared. Cognitive mechanisms such as motivation, is an equally important factor when it comes to knowledge sharing. There are two types of motivation, intrinsic and extrinsic that will be explored below.

**2.2.2 Intrinsic and Extrinsic Motivation**

Intrinsic motivation is defined as engaging in an activity because it corresponds with the individual’s interest and personal values rather than for an external consequence (Ryan & Deci, 2000). Intrinsic motivation implies that the individual is not under any form of pressure and tension when engaging in a particular behaviour. When intrinsically motivated you are more likely to engage in a task willingly. Intrinsic motivated employees work to improve their skills, which will increase their capabilities as well as the organization’s productivity.

Extrinsic motivation is defined as engaging in an activity to attain a certain outcome or to avoid a certain outcome (ibid). Extrinsic motivation focuses on goal-driven reasons, such as monetary rewards and career advancement. Typically, other individuals such as managers, colleagues, and customers administer the rewards. When extrinsically motivated the individuals feel pressure from the outside. An extrinsically motivated employee will only share knowledge if the perceived benefit exceeds or equals the perceived cost.
When employees have to learn, being intrinsically motivated gives a higher quality of learning. Encouraging intrinsic motivation should be done through autonomy rather than control. Ryan and Deci (2000) quote various studies that have shown that overly controlled students have difficulties learning complex material. Applying this reasoning to the relationship between HQ and subsidiaries would be too simplistic. However, research found that coordination, integration and the use of informal control mechanism can have a positive effect on knowledge sharing between the two (Fey & Furu, 2008; Andersson et al., 2005; O'Donnell, 2000; Gupta & Govindarajan, 2000; K. Roth & Nigh, 1992), but complete subsidiary autonomy can be harmful for knowledge sharing within the MNC. It is therefore important that the MNC finds a proper balance between enhancing motivation and granting autonomy to its subsidiaries.

Scholars have mostly focused on the use of extrinsic motivations in their studies on the use of an incentive system to enhance knowledge sharing in an MNC (Fey & Furu, 2008; O'Donnell, 2000). This idea comes from agency theory that states that an incentive system is a more effective way of aligning the interests of the principal with that of the agent, than using direct monitoring, if the agency relationship is characterised by information asymmetry (Eisenhardt, 1989A; Jensen & Meckling, 1976). The purpose of the incentive system is to design a system that rewards when a specific outcome has been achieved. Through the system, the principal can ensure that the goals of the agent are aligned with those of the principal by tying the rewards to the achievement of those specific goals (O'Donnell, 1999). A key assumption regarding incentives is that managers will make decisions so to increase their total compensation. Therefore, if their compensation ties to a particular performance criterion that increases company performance, then an incentive system can enhance the company’s performance. Thus, the company’s strategic objectives should be the criteria on which managerial compensation is based on. In the case of the MNC, the goal of an incentive system could be to increase the proportion of subsidiary management’s pay that is outcome-based. An outcome-based rewards system would help align the interests and, thus, the decisions of subsidiary management with those desired by the headquarters (ibid).
An incentive scheme can help decrease the information asymmetry between the HQ and the subsidiary, decreasing the agency risks. Furthermore, by linking compensation of the subsidiary managers to the overall goal of the company, the system can enhance the transfer of knowledge.

Because an incentive system ties its rewards to the fulfilment of a specific objective, the system depends on measurable objectives. The more difficult it is to measure, the less effective the incentive system is (Eisenhardt, 1989A; O'Donnell, 2000). Therefore, an effective incentive system needs measurable objectives.

2.2.3 Information Systems and Knowledge Management Systems

Traditionally, agency theorists have seen information systems as a means for monitoring top executives. The classic example is the use of the board of directors who acts as an information system that the shareholders of large companies can use to monitor the decisions of the top management (Eisenhardt, 1989A). In her review, Kathleen Eisenhardt (1989A) mentions that companies can invest in information systems that make monitoring easier. This idea of treating information as a commodity the company can invest in is an important aspect of the agency theory. Eisenhardt did not see information systems as a technological system. Rather it was seen as additional layers of management that through the company’s governance structure could monitor the agents. Today, larger companies still use the board of directors for monitoring the top management, but due to the evolution in technology, monitoring of the agents can be done more efficiently by investing in a knowledge management system.

Knowledge Management Systems (KMS) are defined as information technology-based systems, designed specifically to facilitate the sharing, integration and utilisation of knowledge (Nielsen & Michailova, 2007). The IT department rather than its HR counterpart (Cabrera, Collins, & Salgado, 2006) often drive the KMS, thereby making it an essentially part of the company’s strategy for codifying knowledge. This approach allows knowledge to be coded and stored as documents in the system, making it
available for employees across time and distance. The more complex the knowledge is, the more the company relies on a system to codify the knowledge (Alavi & Tiwana, 2002). Codification of knowledge is essential if the knowledge has to create value for the company. Value is only created once the knowledge is located, transferred from that location, and applied where needed (ibid). To make the KMS a fruitful investment, the company has to ensure that the system is used and that employees can locate the right knowledge when needed.

Information technologies such as intranets, databases and data mining techniques can systemise and enhance large-scale intra- and inter-firm knowledge management by organising the processes of knowledge creation, storage/retrieval, transfer, and application (Alavi & Leidner, 2001). Companies that excel at applying the knowledge they have are better at continuously translating their intellectual capital into innovative products and services.

In most companies, the KMS will take form of a ‘knowledge repository’ – a place where information is stored as documents posted by the employees and where everyone has access. Contribution to the knowledge repository is often on a volunteer base and access to the database is irrespective of whether or not, or how much, a member has contributed in the past (Cabrera et al., 2006). How useful a KMS is to the company is highly dependent on contributions to the systems by the employees. The biggest obstacle can be the level of attention (Ocasio, 1997) the employee wish to use on codifying their knowledge, and how easy it is to both upload the information in the system and locate it again (Eppler & Mengis, 2004). The employees can bypass the KMS if they feel the system cannot fill the knowledge gaps (Hansen & von Oetinger, 2001). For example, if the KMS does not provide the needed knowledge or does not provide it in an easy-to-consume form, users will seek knowledge elsewhere. An effective and efficient KMS therefore takes into consideration the nature of the knowledge. An effective KMS is defined as systems that are easy to use and do not require too many technical skills. A KMS is thought to be efficient if the needed knowledge is stored in a place that is intuitive and easy to find.
The way the company comprehends the concept of knowledge, will also influence the type of knowledge management system they will implement (Nielsen & Michailova, 2007). Accordingly, knowledge can be viewed as either an object, a process, or a capability. As an object, the KMS will have a strong focus on gathering, storing and transferring data. This approach is often adopted by centralised-structured companies where focus is on developing the knowledge centrally and then transfer it to dispersed subsidiaries (Bartlett & Beamish, 2011). A KMS in a centralised MNC builds linkages between the HQ and the subsidiaries, increasing the understanding between the two. It also allows the subsidiary to be more involved in centralised decisions and tasks.

When knowledge is seen as part of a process (Nielsen & Michailova, 2007) the knowledge transfer can be enhanced using reward systems. A process-based KMS is often adopted in MNCs with dispersed subsidiaries that use their own resources and capabilities to create innovation and learnings (Bartlett & Beamish, 2011).

Viewing knowledge as a capability requires that the company invest in a KMS that focuses on enhancing the intellectual capital in the organisation. A capability-based KMS uses tools that develop both individual and organisational competencies (Nielsen & Michailova, 2007), so knowledge can flow freely between all layers of the organisation. It requires the involvement of all management levels since the ultimate goal is to create a knowledge organisation where training or the employees and the reward-system all links to knowledge and innovation.

As the view of knowledge moves from object to capabilities, the level of complexity of the KMS also increases.

So far, the theoretical framework has identified organisational culture, motivation, and information systems as areas that can enhance the vertical knowledge sharing between HQ and subsidiaries.

Below follows the second part of the theoretical framework, where absorptive capacity is identified as a framework for enhancing the integration of marketing strategies in the subsidiaries.
2.3 THE ABSORPTIVE CAPACITY OF THE MNC’S SUBSIDIARIES

Knowledge sharing within a MNC can be measured using different parameters. Some studies focus on R&D knowledge (Sorenson, Rivkin, & Fleming, 2006), some focus on new product development (Hansen, 1999), and others focus on knowledge in general without specifying the type (Foss & Pedersen, 2002; Minbaeva et al., 2014). The focus of this thesis is knowledge in the form of marketing strategies that are developed at the HQ and are to be integrated in the subsidiaries. The integration is affected by different factors that all contribute to the subsidiary’s absorptive capacity.

Absorptive capacity is a concept that explains how existing knowledge in a company can help maintain a long-term advantage over competitors. It is defined as the company’s ability to recognize the value of new external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990). Accordingly, the company’s absorptive capacity becomes crucial for its innovative capabilities. A central point in the concept is that the company needs some prior knowledge in order to recognise new knowledge. This enhances learning which in turn also enhances problem-solving skills for the employees.

By the time of publication, Cohen and Levinthal (1990) focused solely on the company’s R&D capabilities as part of a company’s absorptive capacity, but in a review from 2002 the authors Zahra and George broaden the concept to also encompassing other capabilities. They see absorptive capacity as “a dynamic capability that influences the firm’s ability to create and deploy the knowledge necessary to build other organisational capabilities (e.g. marketing, distribution, and production.) These diverse capabilities give the firm a foundation on which to achieve a competitive advantage (…)” (Zahra & George, 2002, p. 188). Although this definition incorporates organisational aspects outside those of R&D, it neglects the role of individuals in the organisation. This neglect has allowed others to explore which individual capabilities might enhance the MNC’s absorptive capacity.
In a recent reprint of their article from 2003, the authors Minbaeva, Pedersen, Björkman, Fey and Part (2014) identify that the interaction between the employees’ ability and their motivation is a key aspect in the company’s absorptive capacity. Their findings also show that training has a significant positive relationship with the employees’ abilities, and that performance-based compensation and internal communication have a significant positive effect on the employees’ motivation. Absorptive capacity has been extensively used in the management literature the last 20 years, and it is applied to many different fields in the management literature (Volberda, Foss, & Lyles, 2010). The concept offers important insights that can be used for analysing the integration of marketing strategies in the subsidiaries.

2.3.1 The Absorptive Capacity’s Effect on the Integration of Marketing Strategies

Marketing strategies can be highly relevant for firms since they incorporate knowledge related to market segmentation, targeting and the development of a positioning strategy (Kostova, 1999). In a global MNC, marketing knowledge is typically part of the marketing strategies, developed to promote a certain brand. These strategies can be very expensive to develop, so the MNC tries to capitalise as much as possible on them. Effectively transferring marketing strategies between the HQ and the subsidiaries can affect how successful the MNC is on a global scale regarding sales and brand awareness. The determination and implementation of appropriate strategies globally is at the core of an MNC’s ability to compete (Schleimer & Pedersen, 2013).

Because marketing knowledge is often attached to a cultural context, it is referred to as ‘sticky’ (Szulanski, 1996), transferring marketing strategies across time, space, and culture is difficult both for the initiating HQ and the receiving subsidiary (Schleimer & Pedersen, 2014). The MNC has an active interest in increasing the subsidiary’s ability to absorb knowledge, as this will ultimately benefit the MNC’s global competitiveness (Foss & Pedersen, 2002). Since the HQ has a certain authority over the subsidiary’s activities, it can influence the subsidiary’s ability to absorb new knowledge (Schleimer & Pedersen,
The subsidiaries will typically possess specialised competencies of the market due to their knowledge of competitors and new market trends (Holm & Sharma, 2006). This specialised knowledge is a direct benefit of the subsidiary’s location. The presence of specialised knowledge increases the information asymmetry between the subsidiaries and the HQ. The information asymmetry can make the integration of marketing strategies difficult but for the subsidiary, it may also enhance performance since the subsidiary can combine distinct knowledge in new ways creating firm-specific advantages.

Concerning the integration of marketing strategies, the absorptive capacity of the subsidiaries can be measured along three dimensions identified by Schleimer and Pedersen (2013). (a) **Value recognition** describes the subsidiary manager’s ability to recognise and understand the importance of the marketing strategy. (b) The **assimilation** ability describes the subsidiary manager’s ability to understand how the marketing strategy is applied successfully at the subsidiary level, and finally (c) the **application** ability that describes how well the subsidiaries were able to apply the assimilated marketing strategy and if they could exploit the strategy after its integration.

Whereas the three dimensions above measure the abilities of the subsidiaries, the HQ can also influence the absorptive capacity through its social structure and effort (Schleimer & Pedersen, 2014). The company’s social structure determines the ability of the organisational units to learn from each other through creation and transfer of new knowledge. The authors have measures social structure through decentralisation and normative integration (ibid).

Decentralisation moves the decision-making downward in the hierarchy, which exposes the subsidiaries in the MNC to a larger diversity of knowledge enhancing the probability that the subsidiary recognises the value of the new knowledge. Normative integration is a social control mechanism that the company can use to fuel the flow of knowledge and ease the communication (Nohria & Ghoshal, 1994). By promoting an open and trusting relationship, it will have a positive impact on the subsidiaries’ absorptive capacity.
Effort is measured along three dimensions, resource commitment, adaptation, and articulation. Resource commitment is the time allocated by the HQ to communicate the marketing strategy to the subsidiary. It is assumed that the more time the HQ spends on communicating the strategy, the more likely it is that the subsidiary is able to understand the more complex and tacit elements of the strategy. Adaptation measures the degree to which the HQ allows the subsidiary to modify the strategy to local needs. This is also thought to help the subsidiary recognise the value of the strategy. Finally, articulation is the effort the HQ put into explaining the benefits and value of the strategy to the subsidiary. Proper articulation also decreases misunderstandings and misinterpretations of the strategy. A higher absorptive capacity enhances the possibility that the subsidiary can use the marketing strategies to create more sales and a better penetration in the market.

The new study shows that when it comes to increasing the absorption of marketing strategies, it is better for the company to invest in fostering normative integration and a learning culture (Schleimer & Pedersen, 2013). An enhancement of these organisational mechanisms can increase the absorptive capacity of the subsidiaries. This should ease the integration of marketing strategies from the HQ to the subsidiaries.
2.4 THE THEORETICAL FRAMEWORK FOR THIS RESEARCH

To recap what has been identified as the theoretical framework for this thesis, figure 1 and 2 graphically presents agency theory and absorptive capacity respectively.

**Agency Theory & Knowledge Sharing**

Agency theory provides valuable insights of the relationship between a HQ and its subsidiaries by treating them as an agency relationship. The theory assumes that an agency type relationship will always incur problems since it is impossible to make a contract between the principal and the agent that gives perfect information symmetry. Instead, the contract will be characterised by misalignments that will lead to information asymmetry. Because information asymmetry is present, it is assumed that the problems that follow information asymmetry will discourage knowledge sharing between two. The principal will therefore have to make investments that lower the asymmetry. Figure 1

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2 Own model based on Eisenhardt’s (1989A) review on agency theory.
describes the relationship between the principal and the agent. The figure is kept simple so to highlight which areas the framework has identified that the principal, being the HQ, can invest in to lower information asymmetry. The areas identified are, 
*organisational culture, extrinsic and intrinsic* motivation, and *information systems*. The assumption follow that as information asymmetry decreases, alignment between the HQ and the subsidiaries increases, which enhances the likelihood of a smoother knowledge exchange between the two.

**Absorptive Capacity (AC) and Integrating Marketing Strategies**

![Diagram of Absorptive Capacity and Marketing Strategies](image)

**Figure 2. Theoretical Framework – Absorptive Capacity**

Figure 2 shows the theoretical framework where absorptive capacity is a key element for enhancing the integration of marketing strategies in the subsidiaries. The framework shows that the HQ can influence the subsidiaries’ absorptive capacity through two tasks,

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3 Own model but based on the framework created by Schleimer and Pedersen (2014).
effort and social structures. Each is divided into smaller tasks that are important for enhancing the absorptive capacity of the subsidiaries. The framework further identifies value recognition, assimilation, and application as three capabilities of the subsidiaries that increases the absorptive capacity with respect to integration of marketing strategies. It is therefore assumed that if the HQ increases the absorptive capacity of the subsidiaries, it will increase the likelihood that the HQ’s marketing strategies are integrated in the subsidiaries.

I would argue that both frameworks are highly dependent on each other, which is also confirmed by the number of studies that have included agency theory and absorptive capacity in their analysis of knowledge sharing in a MNC (Gupta & Govindarajan, 2000; Foss & Pedersen, 2002; Minbaeva et al. 2014). Although this dependence exist, the two frameworks are kept separate for simplicity and because the focus of each deviates slightly. Each framework provides a strong tool for analysing knowledge sharing in a MNC and the integration of marketing strategies, respectively, and by using both the theoretical framework provides a good setting for a holistic analysis. Using the framework in the analysis will lead to the development of propositions that can be added to this identified framework.
3. THE METHOD

This thesis uses a case study approach to elaborate on the identified theoretical framework. The new framework is based on an inductive approach and case study investigation has been proven an effective method for theory development (Eisenhardt, 1989b) rather than theory testing.

A case study consists of an in-depth analysis of a specific and complex phenomenon, set within its real-world context (Yin, 2013). Using the case study method for theory development allows me to investigate a topic from different angles. Ideally, theory-building research should be performed without any prior theoretical considerations or hypotheses to test. However, for this research it was felt that prior theoretical knowledge was needed in order to conduct a meaningful and insightful research. Although the development of theory calls for a more inductive approach, I have taken a more pragmatic stand allowing myself to develop interview questions based on the existing theory on knowledge sharing and absorptive capacity.

When existing literature is used as a starting point for developing theory, the strategy is to collect what is known from the existing literature and compare it with the findings from the field data (M. S. Roth, Jayachandran, Dakhli, & Colton, 2009). The extant research has identified specific themes that have been used to develop the interview questions. Hereafter, semi-structured interviews were conducted with MNE managers involved in marketing knowledge transfer and subsidiary managers at the field locations.

The research area of knowledge transfer within a MNC can be analysed from many different angles. Given the timeframe and page limit of the thesis, the research focus is to analyse the knowledge transfer between the HQ and the subsidiaries and the implementation of marketing strategies. The external environment of both the HQ and the subsidiaries and its effect on knowledge sharing is outside the scope of this research, and therefore not part of the analysis.
3.1 THE SELECTION OF CASE – OTICON A/S

Having established that the case study method is the appropriate method for fulfilling the aim of the thesis, the next step is to find a MNC that could be used as a case.

Access was negotiated with the Danish multinational company Oticon, which is the biggest company in group of companies under the brand William Demant Holding. The company is one of the world’s largest producer of hearing instruments (HI) and operates in a very competitive industry with few large competitors and non-differentiated products. Due to its product life cycle, it is a very knowledge-intensive company with strong focus on technology and innovation. A high level of knowledge flow both internally at Oticon’s HQ and between the HQ and its subsidiaries is pivotal for staying competitive.

Given the research focus of the study, Oticon provides a particular compelling example of the challenges of knowledge transfer between HQ and subsidiaries. In the last 20 years, Oticon has had a strong focus on becoming a knowledge-based company where employees can easily seek and share knowledge. The research will show whether the company has succeeded in this ambition and which challenges the company face today that affect knowledge sharing with its subsidiaries.

3.1.1 The Hearing Instrument Industry

As mentioned then the industry for hearing instrument (HI) have few sellers of a homogenous product. This oligopolistic market structure (Salvatore, 2006) is characterised by high competition among the producers with little room for increasing the market shares.

For many years, six players (known as the big 6) have dominated the industry⁴. They account for 95% of the market (Vance, 2013), and since they share much of the same

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⁴ The six players are Swiss company Sonova (Phonak), Danish company William Demant (Oticon), Danish company GN Resound, Danish company Widex, US company Siemens, and US company Starkey.
technologies and their products are not easily differentiated from producer to producer, the competition for market shares is fierce (Annual Report, 2012).

Due to the oligopolistic nature of the industry, both the release of new products and the distribution of the products are highly affected by the behaviour of the firms within the industry. Gaining market shares is often achieved through a lowering of the price or by differentiating the product through innovations. None of the producers are interested in lowering the price too much as it will cause the average selling price (ASP) to fall, thereby hurting the whole industry. In the industry, gaining market share by differentiating on technology is difficult because the renewal of products is happening at a high frequency. Once a new product has been released, competitors will try to introduce newer features next time, or refine the production method so they can produce at a lower cost.

Although an increase in market shares does happen through price reductions and product differentiation, the preferred method is through acquisitions. By acquiring distribution channels such as HI chains, or by lending money to individuals opening up clinics that fit and sell HIs (Zigler, 2014) can the company increase its market shares. Despite the fact that the competition between the big six is intense, the current owner-structure is stable, and there is no sign of further consolidation within the industry (Tüchsen, 2013).

Because of the oligopolistic market structure, the introduction cycle for new products from each company has a tremendous effect on timing of the release. For many years, the introduction of new products followed a similar cycle for each company in the industry. Most product families within HI are sold at three different price points; low, mid, and high. The higher the price point the more advanced the instruments. It has been common practice to introduce a new instrument in a specific price range every six months, thereby renewing a product family every 18 months. However, last year two of the companies within industry, GN Resound and Phonak, launched a complete product family with instruments at every price range all at once (Falk-Sørensen, 2014).
This came as a surprise for Oticon (Annual Report, 2012) and the company lost market shares at some price points. If Oticon continues to follow the traditional product introductions, the products should sustain a longer lifecycle to maintain competitiveness. Innovation and a flexible knowledge-based organisation (Annual Report, 2013) is vital for staying competitive in today’s HI industry.

3.1.2 The Sales Companies

Oticon’s subsidiaries are dispersed geographically all over the world. They vary in size from the office in United State, which is one of the biggest, to the office in Turkey, which is one of the smallest. The sales companies in Oticon are, as the name indicates, responsible for sales and marketing in their respected areas. Besides sales, they are also responsible for training, distribution, customer service, and repairs. They are the first point of contact for the customers, and are therefore highly dependent on getting the latest knowledge of the products. Oticon has 100% ownership of 23 sales companies (Annual Report, 2013 and Appendix 2) but is present in most markets all over the world. Where there are no sales offices, the company often has private distributors that ensure that the products are available for the local customers.

All subsidiaries have access to the marketing strategies developed centrally at the HQ, but where subsidiaries in some MNCs have to use the promotional material developed by the central HQ, the subsidiaries in Oticon have more freedom. They can choose exactly the types of materials they want for their market, or decide to develop their own material independent of the HQ. They also have the freedom to adapt and customise any of the promotional material.

3.2 THE DATA COLLECTION

As established, the research is based on a qualitative case study of the Danish multinational company Oticon. The research specifically investigates the transfer of
knowledge and information between the marketing department at the HQ of Oticon and the geographically dispersed subsidiaries.

A way to measure the level of transfer is to look at how the marketing strategies, developed centrally at the HQ, are integrated locally in the subsidiaries’ markets.

The case study method relies on the triangulation method. Triangulation helps create a holistic analysis, and increases the quality of the findings by using various data sources. The use of many different sources of evidence that is a major strength of a case study (Yin, 2009). There are various types of triangulation but data triangulation is thought to be one of best ways to ensure the validity of the case study (Yin, 2013). The collected data is therefore a combination of primary and secondary data. The primary data is the interviews that is presented below. Secondary data consisted of annual reports, newspaper articles, scientific articles about Oticon, and internal information.

3.2.1 Primary Data

Two managers from the HQ at Oticon were selected for this study. One of the selection criterions was to interview a manager with high seniority since more senior employees often have extensive knowledge of the company’s history and the way the organisational culture has evolved. HQ Manager A has worked in the company for 11 years and thereby fulfils this criterion.

The second criterion was to interview a manager who has daily contact with the subsidiaries regarding the communication of the marketing strategies. HQ Manager B is a senior marketing coordinator at Oticon who is responsible for distributing the strategies to the subsidiaries thereby fulfilling the criterion.

Both managers are part of the marketing department at Oticon and they each perform an important role in the transfer of knowledge to the subsidiaries.

From the subsidiaries, marketing managers and coordinators from seven selected countries were interviewed. The selected individuals covered markets in Europe,
America, Africa, Asia, and Australia. Some of Oticon’s biggest markets in terms of sales were covered such as USA and Export, but also some of the smaller markets were selected to participate such as South Africa. By choosing both larger and smaller markets, the findings could be representative for most of the subsidiaries in Oticon.

The interviews with the subsidiary managers were primarily performed via the internal conference system Lync, or face-to-face. In one occasion, the questions were answered by email. The interviews lasted from 30 to 50 minutes. Each interview was recorded and can be found on the USB key as Appendix 5.

The table below shows which countries were interviewed, as well as the interviewee’s title, and number of years at Oticon. A similar table can be found in Appendix 3 with more elaborated interview observations.

<table>
<thead>
<tr>
<th>Country</th>
<th>Years at Oticon</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>18 years</td>
<td>Product and Marketing Manager.</td>
</tr>
<tr>
<td>Spain</td>
<td>1 year</td>
<td>Marketing Manager.</td>
</tr>
<tr>
<td>Australia</td>
<td>10 years</td>
<td>Marketing Manager.</td>
</tr>
<tr>
<td>China</td>
<td>7 years</td>
<td>Business Director.</td>
</tr>
<tr>
<td>France</td>
<td>3 years</td>
<td>Marketing Manager</td>
</tr>
<tr>
<td>South Africa</td>
<td>3 years</td>
<td>Marketing Manager</td>
</tr>
<tr>
<td>Export</td>
<td>15 years</td>
<td>Marketing Coordinator</td>
</tr>
<tr>
<td>HQ Manager A</td>
<td>11 years</td>
<td>Senior Director, Paediatric Marketing</td>
</tr>
</tbody>
</table>
Table 1. List of interviewees.

| HQ B Manager | 2 years | Senior Marketing Coordinator |

Graph 1. Markets participating in study.

As can be seen from Graph 1, the markets interviewed represent 30% of Oticon's total markets.

Graph 2. Oticon’s revenue by geographic region (Annual Report, 2013)
Graph 2 displays revenue by geographic region. The chosen managers from table 1 are representative for the regions where Oticon is present with one interviewee from North America, one from Asia, one from Oceania, one from Other Countries, and three from Europe.

A small calculation based on Table 1 shows that the interviewees have, on average, worked at Oticon for 7.7 years. This is thought to be a relatively high seniority. A high seniority increases the quality of the interviews since the employees that have worked longer in a company are more likely to provide knowledgeable answers to the interview questions.

The interviews were open ended and based on a common set of questions, although slight alterations were made between the questions to the HQ and those to the subsidiaries. The full set of questions is available in the interview guide in Appendix 1A and 1B. The questions covered themes identified in the theoretical framework e.g. the use of incentives, the IT systems, and Oticon’s organisational culture for affecting knowledge sharing between the HQ and the subsidiary. The interviews also covered questions concerning the use of the marketing strategies in the subsidiaries, and which factors the subsidiaries and the managers felt were important for increasing the integration.

The order in which the questions were asked differed from interview to interview as it was deemed important to maintain a flow in the conversation. However, by having a fixed set of questions that were common for all the interviewees, the task of comparing the answers was easier.

A major pitfall when conducting interviews is the interviewer and response bias (Saunders, Lewis, & Thornhill, 2009). Interview bias relates to whether the comments, tone or non-verbal behaviour of the interviewer affects the responses of the interviewees. There is always a risk of unconsciously imposing own beliefs or opinions on the interview subjects. By having a set list of questions the bias can be minimised. Another bias relates to how the researcher interprets the responses and answers, and
how the interviewees interpret the questions. For this study, half of the interviews were conducted in English and the other half in Danish. In two cases, English was not the first language of the interviewee. In order to reduce the risks of misunderstandings, acceptance was given that the interviewer could contact the interviewee if clarifications were needed.

Response bias relates to how the interviewee’s perception of the interviewer may affect their answers. There is always a risk that the answers given are those the participant believes the interviewer wants to hear, rather than the honest answers. One way to reduce this bias is to ask open-ended questions that allow the participant to define or describe a situation or event. By obtaining an elaborate answer, it opens the possibility for further exploration by the interviewer.

### 3.2.2 Secondary Data

The secondary data used for this paper included publicly available data such as a complete set of historical annual reports, newspaper articles, and analyst reports on the HI industry. Furthermore, internal information found on the company’s intranet has been used in the analysis. This included data on how much marketing material each of the subsidiaries interviewed for this paper has ordered for the last five campaigns. Internal evaluations from each campaign were also read to increase my knowledge of the issues that may affect the knowledge sharing between the HQ and the subsidiaries.

### 3.3.3 Preparation of the Data

The analysis of qualitative data starts with the preparation of the data. For this thesis each interview was listened to carefully and semi-transcribed. It was decided by the

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5 The internal evaluations are confidential and therefore not included as appendices to this thesis. The author will share them upon requests.

6 A full 1:1 transcription was not done. Instead, notes were taken and very detailed summaries created. Interesting quotes were transcribed 1:1. The semi-transcriptions are found in Appendix 5 – USB key with interviews in Audio and Written.
author that semi-transcription would be sufficient for the analysis rather than performing a full transcription. Full transcriptions are useful when the data consists of an interview survey with identical questions for each participant. For this thesis, the semi-structured interview approach meant that the questions deviated slightly from interview to interview. During the interview-phase the analysis already began by letting later interviewees comment on statements made by earlier interviewees. This interaction between data and analysis makes it possible for the researcher to recognise themes, patterns and relationships in the answers of the interviews. It cannot be denied that this affected the answers of the interviewees, but in the situation, I felt it would allow me to obtain more elaborate answers to my questions. The interviewees were not given the identity of those that had made the statements and it was therefore only the statements they had to reflect on.

With this study, it was not my goal to be able to generalise across a population. Rather I wanted to gain an in-depth understanding from my research subjects that could be used to elaborate on the existing theoretical framework. That being said, the use of a qualitative method should not be any hindrance for obtaining findings that could be similar for other firms with a similar structure as Oticon.
4. THE ANALYSIS OF THE QUALITATIVE DATA

The analysis section will follow a similar structure as the theoretical framework section. The first part analyses Oticon’s past and present organisational culture, and how this affects the company’s exchange of knowledge with its subsidiaries. It is further explored what means of motivation the company can use to enhance knowledge sharing.

The second part analyses the current IT systems as an information system the HQ uses to both enhance knowledge sharing and monitor the subsidiaries.

The last part of the analysis section explores how the absorptive capacity of the subsidiaries affects the integration of marketing strategies, and how the HQ can enhance the absorptive capacity.

4.1 OTICON’S ORGANISATIONAL CULTURE

As one of the oldest companies in Denmark, Oticon was until the 1990s known for its innovative products rather than its organisational culture. However, in the beginning of the 90s that radically changed as CEO at the time, Lars Kolind, introduced a new organisational structure. This transformed Oticon from a traditional hierarchical structure to a structure-less organisation, known as ‘the spaghetti organisation’. This was seen as a radical organisational experiment (Foss, 2003) attempting to infuse the company with elements of market control and to create an inimitable source of knowledge-based competitive advantage. The spaghetti organisation was an attempt to reignite the company’s innovative capability and enable it to face increased competition in the industry.

The spaghetti organisation’s objective was to create an organisation that was flexible and effective (Annual Report, 1992) and it did so in a radical fashion. In the new organisational structure, there was no formal hierarchical structure, no traditional management positions, and no advancement programmes (Larsen, 2002). All personal desks were eliminated and no one had any permanent location. Everyone would move
around according to the projects they were working on, and the whole work structure was entirely based on projects. Therefore, only three managerial roles were in principal needed; project managers, senior specialists, and coaches that would function as a type of HR management (ibid).

CEO Kolind wanted to create an organisational culture built on volunteerism and self-motivation (Birkinshaw & Mol, 2006) where information sharing was the employees’ key focus. The vision of having an information-rich environment (Foss, 2003) was achieved when the company moved to a new spacious office location that was designed specifically for the purpose of increasing the interaction of the employees. By increasing the interaction between the employees, the organisational environment encouraged the exchange of more tacit knowledge. Tacit knowledge can contain important information but because of its nature it can only be shared through personal interaction and often it requires numerous exchanges (Kogut & Zander, 1992).

Kolind also introduced ‘the paper-less organisation’ (Larsen, 2002) where all incoming mail was scanned and filed electronically and hereafter the mail was shredded. Printing was kept at a minimum and written communication had to be done electronically. To encompass these needs, a comprehensive information technology system was introduced. This decision decreased administration expenses considerably (Foss, 2003), but a system that has to encompass all incoming knowledge, places high demands on the usability of the IT system to codify and classify the incoming knowledge. A paper-less system must also have affected the way the employees codify knowledge themselves. How the employees classify the knowledge and filter it so only the most important parts are shared in the organisation are defined as the employees’ information management skills (Eppler & Mengis, 2004). Often the company will have to train its employees to enhance these skills and the employees will also have had to allocate time and attention for these tasks (Ocasio, 1997; Hansen & Haas, 2001).

Through the introduction of the spaghetti organisation, Lars Kolind was trying to change the norms and values of the company giving it a new organisational culture and identity. Although cultural perceptions can be hard to measure (Barney, 1986), it is clear from
reading the annual reports that the company did undergo radical changes that also had a positive effect on its revenue and number of innovations. The inimitable was taken to an extreme through the physical changes the company underwent ensuring that the new organisational culture was impossible to imitate. In many ways, the culture fulfilled the criteria set by Barney (1986) for becoming a source of sustained superior financial performance. The culture was valuable for the company in the sense that it focused on resource efficiency and increasing the sales. It was seen as rare and the attributes of the culture were not common. Finally, the culture could not be imitated without causing disadvantages to those who tried. Research has not indicated that any other companies attempted to make similar changes, and given the description above, the organisational changes would have been difficult to implement by most companies. It would have required a very charismatic leader that could unite the entire organisation around one common goal, and it would require a large amount of resources in the form of money and time to not only change the cultural values but also the physical surroundings.

Although the culture enhanced the financial performance and improved Oticon’s market position radically in the 90s, eventually the organisational costs of the ‘spaghetti structure’ were higher than the organisational benefits (Foss, 2003). As the company grew in size so did the need for a more systematic knowledge sharing with tighter control over the project development and the resources spent on each project. In 1996 many of the ‘spaghetti elements’ were replaced with a more traditionally structured system.

The change in the organisational structure and culture was so radical that up until today people still associate Oticon with the spaghetti structure (Rosendal, 2009). The old company culture was strongly built on the idea of knowledge sharing and creating a knowledge-based organisation. Today, Oticon’s organisational structure is focused on delivering continuous innovations (Annual Report, 2013) and a structured knowledge sharing is an important part of this goal.
“A structured knowledge sharing is the only way to secure a strategic innovation ability (...) if you cannot ensure a knowledge flow from the organisation to the outside world and internally in the organisation, then you cannot maintain the ability to innovate again and again.” (Own translation, HQ manager A 2014).

In the last couple of years, the company has focused less on knowledge sharing concerning marketing campaigns in the different markets. Instead, an increased focus has been on increasing Oticon’s technological knowledge and sales competencies of the subsidiaries. However, as the next section will show, there is still a willingness and an expressed need from the subsidiaries to have more knowledge sharing with the HQ and among each other.

4.1.1 Knowledge Sharing at Oticon Today

Although Oticon still focuses on becoming a knowledge-based organisation (Annual Report, 2013), the communication flow between the HQ and the subsidiaries is mainly one-way, and it is rare that the HQ asks the subsidiaries to share knowledge with them. For some of the subsidiaries the one-way communication creates the feeling of misalignments between the two. This can have a negative effect on the knowledge sharing if it enhances information asymmetry (Eisenhardt, 1989A) between the subsidiary and the HQ. The information asymmetry can show itself as frustrations with the way things are done at the HQ and that the realities in the subsidiaries are too distant from the HQ.

“I think there is more communication from the HQ to us than from us to the HQ”. ; “The strategy and everything flows from the perspective of the HQ but they don’t think of the problems of the different countries for example, the HQ has a lot of people that individually work on one thing. But in most countries they are a team of 3-4 people that have to do everything.” (Spain, 2014)
Increasing the communication flow between the HQ and the subsidiaries does not happen automatically and it can often be linked to a lack of resources when the communication fails or is mainly one direction. Often it is not possible for the subsidiaries to respond to the HQ’s requests immediately because they do not have the workforce to handle all the requests they get. Some respondents also explained that due to time constraints they would be selective with only answering requests from the HQ that could benefit themselves. These examples show that knowledge sharing also require resources to handle the increased flow of information. The lack of resources means communication between the two is not completely symmetric. This could give rise to an agency problem like *moral hazard*, which is the risk that the subsidiary does not put as much effort as agreed into fulfilling the HQ’s goal (Hendry, 2002). The company can lower the risk of agency problems through monitoring or incentive-based schemes (Eisenhardt, 1989A) but Oticon’s current organisational culture does not include incentive-based schemes and the autonomy of the subsidiaries makes monitoring difficult.

“One of the biggest barriers to an effective knowledge sharing (...) is challenged by the autonomy the sister companies possess (...) the structure of power in the company means the subsidiaries can make their own decisions (...) they have the freedom to do as they please” (Own translation, HQ Manager A, 2014).

The organisational culture in Oticon today, is still influenced by the very consensus-based culture in the past. It is expressed through the full autonomy given to the subsidiaries where there are no financial consequences if the subsidiary deviates from the strategy made by the HQ. The subsidiaries therefore hold more power over the HQ than the HQ does over the subsidiaries. As confirmed by other researchers (O’Donnell, 2000) the full autonomy of the subsidiaries can complicate knowledge sharing and it makes it more difficult for the HQ to decrease information asymmetry through monitoring and incentive-based schemes (Eisenhardt, 1989A).
Instead, the company has to rely on other means to increase alignment with the subsidiaries and enhance the communication flow. One way is to create strong personal links with the subsidiary managers (Gupta & Govindarajan, 2000). Usually, the HQ managers have daily contact with the subsidiary managers through emails, phone calls, and conference calls. However, it is at the bi-annual Sales, Marketing and Training seminars (SMT) that the personal relations between the managers become established. These meetings allow the managers to meet face-to-face and establish personal relations. Meeting in person helps create familiarity and stronger bonds between units that creates a better communication and enhances the knowledge sharing between HQ and subsidiaries and among the subsidiaries (Martinez & Jarillo, 1989; Gupta & Govindarajan, 2000; Minbaeva et al., 2014). Meeting more often than two times a year would therefore be beneficial for enhancing the personal relations, but it would also be very costly for the company.

The mechanisms above all focus on the enhancing the vertical knowledge sharing between the HQ and the subsidiaries, but the organisational culture can also promote horizontal knowledge sharing between the subsidiaries. Horizontal knowledge sharing can incur if the subsidiaries already have strong bonds between themselves.

“I must admit, I think I am more hesitant to send out email for all the marketing sister companies because you don’t really know who all of them are. So even if I would like more input from them and see what they are working on...also I don’t know where I would find the list of all marketing sister companies to send out a bulk of email or to request material. That’s why predominately I would just contact Canada or USA because I know that they’ll send it to us and it’s maybe easier for me and it’s in English...” (South Africa, 2014)

“It could be interesting to have some figures on the results of each country since this is a good example of a success indicator and therefore experience that could be shared.” (France, 2014)
“I might have a campaign that works really well or maybe I am developing something and want to see what someone else is doing so I have a set of countries that I actually email but that can mean that other countries miss out on that conversation.” (Australia, 2014).

If the MNC can enhance both the vertical and horizontal knowledge flow, it increases the MNC’s ability to exploit its entire network (Bartlett & Ghoshal, 1987; Bartlett & Ghoshal 1990) moving from an international organisation towards a transnational. The transnational organisations can exploit learning capabilities and foster a multidirectional flow of skills between different subsidiaries in the company’s global network (Hill, 2009). There is a willingness from the subsidiaries to share more knowledge with each other, and enhancing the horizontal knowledge flow would benefit both the subsidiaries and the HQ. It would increase the capabilities of the subsidiaries to learn from each other, and for Oticon it would make the organisation more flexible and adaptable to market changes enhancing the company’s competitive advantage. In the current organisational culture horizontal knowledge sharing is not a priority, and the lack of resources in the subsidiaries means that only those that already have personal links with others in the organisation are sharing knowledge. Therefore, horizontal knowledge sharing will not happen spontaneously. As horizontal knowledge sharing were not part of the theoretical framework, the following proposition is proposed:

**Proposition 1:**

Horizontal knowledge sharing is positively linked with the personal relations of the subsidiary managers, but negatively linked to lack of resources at the subsidiaries. Horizontal knowledge sharing does therefore not happen spontaneously. Facilitation by the HQ can enhance the knowledge sharing between the subsidiaries.

As indicated earlier, the subsidiaries sometimes struggle to handle the requests from the HQ, due to lack of resources, but at the same time they would like more knowledge
sharing between themselves. When the HQ facilitate the knowledge sharing, the subsidiaries will not have to use resources on facilitation themselves. It will therefore be a cost for the HQ that it has to decide if it is willing to endure. The theory has shown that enhancing both vertical and horizontal knowledge sharing can bring many benefits to the organisation, but it will require that the HQ is willing to invest in the facilitation.

4.2 OTICON’S KNOWLEDGE MANAGEMENT SYSTEMS

According to the theoretical framework, agency theory sees information systems as a monitoring device that, if used effectively, lowers the agent’s opportunism towards the principal (Eisenhardt, 1989A). In today’s modern MNC, knowledge management systems (KMS) perform many of the monitoring tasks. A principal can use the KMS to lower information asymmetry as the systems are meant to ease information sharing. The systems often include programs that make monitoring easier e.g. telecommunication programs or email programs that informs the sender if the email has been read.

Knowledge and information sharing were central aspects of the organisational changes Oticon underwent during the 90s. In the annual report from 1997, Oticon first describes itself as a knowledge-based organisation with one specific objective: to build, maintain, and utilise the total sum of the employees’ knowledge and competencies.

By focusing on becoming a knowledge-based organisation, knowledge is seen as a tool for helping the company become a learning organisation where knowledge is integrated in both strategic decisions and everyday life of the organisation. Investing in a shared IT platform was an important part of Oticon’s knowledge strategy.

From 1997 to 1998, the IT-infrastructure in Oticon underwent extensive development to ensure that all employees across the different brands could use the same software on the same network, and that information could be stored in one central archive.

As part of the Oticon’s strategy to codify its knowledge an intranet called KiteNet was introduced in 1998. The intranet is still used today (see appendix 4A) as mainly a document library where the employees at the HQ and in the subsidiaries can locate
information about products and services. The intranet is an important part of Oticon’s KMS and today, where the company has expanded to many different locations, the intranet’s main task is to make codified knowledge available for the whole organisation.

Today, a company can chose between hundreds of different IT systems that are tailored to the particular organisation, but there are some basic requirements that the system as a minimum should fulfil (Alavi & Tiwana, 2002). First, it should be easy to locate the needed knowledge regardless of who needs it. Second, it should be easy to transfer the knowledge from one individual to another. Finally, the knowledge should come in a form that makes it easy for the recipient to apply the knowledge. Having the knowledge come in the right form puts high demands on the previous tasks. It both demands a lot from the IT system in the way that codified knowledge can be stored and retrieved, and it demands that the individuals can communicate their knowledge in a clear and meaningful manner. IT systems are, as a starting point, build to handle explicit knowledge that can be codified. Tacit knowledge, on the other hand, is embedded in the individual but can be transferred over time through personal interactions. Having a system that can handle tacit knowledge requires that it can facilitate interaction, and it is assumed that the easier and more intuitive the system is to use, the more likely it is that users will exchange tacit knowledge. For marketing strategies that can contain both tacit and explicit knowledge the demands for the IT system are high.

In this thesis, the focus is the use of the IT systems the marketing managers use to locate information about products and strategies and all managers have access to the same systems. In commenting on the use of the current IT systems to share knowledge, some managers mentioned that they struggled to use the systems for locating specific information.

“I don’t know if it [KiteNet] is completely logical about the search.”;
“You need to know where to look. You can’t just use common sense to find the things.” (Own translation, Export 2014)
“It’s [KiteNet] completely functional but it is an ugly looking site (...) I’ve had a lot of new staff over the last 4 years and they don’t find it so intuitive on where to find things. They’re kinda clicking through a lot of stuff to find it.” (Australia, 2014)

“It’s [KiteNet] a little heavy. There is too many places to jump, too many clicks. But it’s better than it used to be but the only thing I see as a downside is that there is too many old stuff on there” (USA, 2014)

When looking at KiteNet as an intranet, the centre of the intranet page is a table with internal news. Any employee at the HQ can use this space to give information either to the whole organisation or to a specific part. The screenshot in appendix 4A is from the 28th of March. The day shows some typical posts with internal news. Most of the internal news is practical information e.g. packages in the post, visit from the blood bank, and changes in the building. The layout of the site highlights that internal news is important for the company as this is the most visible table and the one that would immediately draw your attention. As one of the HQ’s manager notes,

“I actually think we are better at sharing information about what leisure activities are available, birthdays, and stuff like that. Than we are at sharing information about success stories from the R&D, Sales, or Marketing. So we have an intranet that is designed to handle things like that and it is like a portal to a lot of knowledge about our staff handbook and all these sorts of things.” (Own translation, HQ manager A 2014).

The quote above also reflects how other managers see the site. One manager uses the words “compilation and catalogue” (France, 2014) to describe the intranet. Throughout the interviews, it was clear that the subsidiary managers had difficulties locating information on the marketing support site (see appendix 4B) and on the photo archive

7 To see a screenshot of KiteNet as it appears to the HQ go to Appendix 4A.
which one interviewee described as “not so user-friendly.” (South Africa, 2014). In many cases, the lack of search function was attributed as the main cause of difficulties.

The amount of stored information in Oticon has been accumulating since the IT systems were introduced in 1998, which also adds to the challenges of locating the needed information. One solution could be to have a program that removes or archives old material once it has reached a certain age. However, due to the characteristics of Oticon’s products, decreasing the amount of old materials can be a particular challenge. Many HI users are wearing old models so old product information, specifications and sales material still needs to be available for the subsidiaries to use for customer support. Another reason old material is needed is due to long registration processes in some countries. So when a new product is released in a country, it may already be considered old in terms of marketing strategies. It is therefore not as easy as it may sound to remove old material after a certain period.

So far, the findings indicate that the current IT systems at Oticon do not fulfil the requirement of making it easy to locate the information. Consequently other methods will be used instead to obtain the information needed (Hansen & von Oetinger, 2001), for example by contacting people you have met before.

“I think our systems are good. I think you can find a lot. I also think, and that is including myself, that we do not use the systems as well as we could (...) I still think it depends on who you have met face to face, and who you have spoken with on the phone. Those are the people that first pop up as a solution” (Own translation, China 2014).

The Chinese manager makes the point that personal interaction is used as a substitute when the IT systems fail. Whereas there can be many advantages of personal interaction, one main disadvantage is that the knowledge shared between two individuals might not spread to the rest of the organisation.
If the current IT systems cannot be used optimally, the company might miss important internal or external knowledge. Research has shown (Alavi & Leidner, 2001) that a company that makes it easier for its employees to apply knowledge is better at translating their intellectual capital into innovative products and services. If Oticon wants to stay competitive then it is important they it focuses on enhancing the usability of the systems.

Where the section above highlights the importance of effective systems for locating, retrieving, and sharing knowledge. The next section highlights the importance of training the employees to manage large amounts of information. The use of IT systems today enhances the risk of information overload in the recipients (Hansen & Haas 2001; Eppler & Mengis, 2004). As already mentioned, the employees will seek knowledge elsewhere, often by contacting people they already know, if the IT systems fail their purpose. The next section therefore also highlights that some employees will acts as information gatekeepers and information suppliers to maintain the tasks that the IT system should have fulfilled.

4.2.1 Information Overload & Information Gatekeepers

Information overload is a general term used to describe the feeling a recipient can experience when the level of received information is so high that the recipient cannot process it without getting stressed, distracted or making errors (Edmunds & Morris, 2000). Consequently, the information receives inadequate attention, or it might be interpreted wrong, or it is simply not dealt with because the messages pile up. Information overload can also be seen as a flaw in the way attention by the employees is divided among various tasks (Ocasio, 1997). Companies can be described as systems of structurally distributed attention where the employees, as decision-makers, can decide where to focus their attention (ibid). Because they have a choice, the management has to establish procedures and communication channels that can facilitate the decision-making activities in the company. In Oticon, one of the main communication channels is
emails, however, the HQ usually does not differentiate in the emails it sends to different subsidiaries. Consequently, the subsidiary managers struggle to give equal attention to all emails and a far worse consequence might be that they do not pay attention to important emails.

“I find it really hard...you get so many emails. I think that is a problem, because you don’t get to read them properly.” (Own translation Export, 2014).

It should be the principal function of the HQ to regulate and govern organisational attention (Ocasio, 1997), but in Oticon information overload hinders a proper division of attention. The result is a vicious circle where the HQ continues to send follow-up emails because they cannot be sure that the subsidiaries have read the material.

“Now for example I have just written them [the subsidiaries] – we wrote them last week – we wrote them a planning mail specifying what they need to work on the next six months and then we wrote again last Friday, a follow-up email to many of the countries...I called some of the countries and asked ‘have you read the mail?’ because sometimes it can drown in all the other stuff...I could just hear that they were too busy with other things.” (Own translation, HQ manager B 2014)

A feeling of information overload can be a side effect if the attention of the subsidiaries is dependent on the activity load rather than long-term learning. If Oticon introduces procedural and communication channels that enhance long-term learning many of the decisions made by the subsidiaries would be of a more automatic character leaving room for those decisions that are more demanding by nature.

When new information is gathered and stored in the company’s electronic databases, the accumulating amount of information can create a processing problem for the employees (Hansen & Haas, 2001). Thereby it is not information that becomes a scarce
resource but rather the level of attention the employees can dedicate to find, analyse, and retrieve the information. Only if the IT systems provide a very elaborate search function or if by chance you know whom to ask, will it be possible to locate the needed information. Unfortunately, the research shows that many of the IT systems Oticon uses have a very limited search function.

“It’s really hard for the countries to find pictures and large files. And also pdf’s of the material because then they have to search using multiple search criteria. You have to have tried it many times for our system to make sense.”; “It’s our current IT system that does that we have to place the material many locations. If we had a proper media library where we could have both files, pictures, materials and templates…then we could have it all at one place.” (Own translation, HQ manager B 2014)

When a system cannot fulfil its intended purpose, the users will find alternative means of getting the information. As the study evolved, it became clear that in the case of Oticon there was one small department in particular that were responsible for the daily communication with the subsidiaries and for introducing them to the new marketing strategies. During the research, the department consisted of three persons where mainly one was responsible for uploading information from the marketing department to the subsidiaries. By filtering the information from the HQ to the subsidiaries these individuals act as information gatekeepers. Information gatekeepers are traditionally thought of as individuals who bring in external knowledge to the organisation (Mitchell, Boyle, Burgess, & McNeil, 2014) and translates the knowledge so it corresponds to the world-view of the recipient. There are different roles an information gatekeeper can undertake. Most common is the role of editor who decides what news should be published, and the role deciding who should get access to certain knowledge (Barzilai-Nahon, 2009). It is not a concept that has been explored in depth in the management literature (ibid) but rather it has been explored as part of larger studies. These show that
the information gatekeepers can help achieve effectiveness and efficiency by translating and facilitating the flow of information between units or organisations.

By assuming the role as information gatekeeper, the employees from the HQ have control over who gets access to the knowledge but they also have the role of information supplier (Hansen & Haas, 2001) since they select and screen the information before it is made available for the subsidiaries.

Acting as an information supplier minimises the risk that similar information is spread to too many locations and they ensure that the information uploaded is of a certain quality. Whether intentionally or unintentionally, the company delegates a large responsibility to these few individuals, as they are the subsidiaries’ main point of contact for getting information. It can have dire consequences for the company if these employees exclude some recipients deliberately or go against company wishes. Therefore is must be expected that the information supplier receives certain rewards or motivation through performance evaluations or social rewards such as respect or status for providing information (ibid). The final task of the knowledge supplier is to decide where to place the information on the IT sites. Creating a logical structure that will ensure that it is easy for each market for find the information needed is challenging. In a large marketing department, like the one in Oticon, abbreviations for materials and special names for campaigns quickly become part of the work language. When this language is reflected in the structure on the marketing campaign site, it can be difficult for the subsidiaries to locate information they need.

The findings above were not part of the theoretical framework leading to the development of the following proposition:

**Proposition 2:**

Employees can act as information gatekeepers by selecting the information available for the subsidiaries. The employees can also act as information suppliers by filtering the information before the subsidiaries see it and deciding where it should be located. When the IT systems fail at making information
accessible, these employees can ensure that knowledge still flow between the HQ and the subsidiary. In doing so, the use of information gatekeepers and information suppliers can enhance the knowledge sharing from the HQ to the subsidiaries.

The organisational structure can also affect how the company sees knowledge, which in turn can affect the system used for managing the knowledge. Oticon has a centralised organisational structure (Hill, 2009) where the primary functions, such as R&D, Marketing, and Production are located at the HQ. Knowledge is therefore primarily moved from the HQ to the subsidiaries. Because knowledge is moved like an object, the KMS does not have to be as complex (Nielsen & Michailova, 2007). However, given the statements above, it would appear that the users of the current system struggle even to move information from one location to another.

We cannot know if an upgrade of the current IT systems alone would improve knowledge sharing while still controlling information overload, since research has shown that educating individuals in information processing can be just as crucial as having proper IT systems (Edmunds & Morris, 2000). One factor that is clear from the analysis is that until Oticon decides on an official strategy for the communication between the HQ and the subsidiaries, much of the responsibility for ensuring that the subsidiaries have access to the needed information rests on a small group of individuals.

The analysis, so far, have highlighted an interesting paradox; on the one side the subsidiaries would like more knowledge to flow between them and the HQ and among themselves, but on the other side they also have a feeling being overwhelmed with information form the HQ. Whereas knowledge sharing can decrease information asymmetry, the increase in knowledge sharing will also incur costs for both the sender and the recipient in the form of resources needed to provide the knowledge and interpret it. Fostering an organisational culture that not only promotes knowledge sharing but also train its employees and give them information management skills (Eppler & Mengis, 2004) would make it less likely for the company to incur the issue
above. Another way would be to Invest in IT systems that are both effective and efficient (Edmunds & Morris, 2000; Nielsen & Michailova, 2007) thereby making it easier for the recipients to handle the information flow.

The final part of the analysis looks at the effect of the subsidiaries’ absorptive capacity on the integration of marketing strategies.

4.3 INTEGRATION OF MARKETING STRATEGIES IN OTICON

The absorptive capacity of Oticon’s subsidiaries reflects how well they can use both external knowledge from their environment and internal knowledge from the HQ to build up capabilities that can offer a competitive advantage (Zahra & George, 2002). A framework has been developed where the absorptive capacity is measured along three dimensions (Schleimer & Pedersen, 2013) that combined indicate how well a strategy has been integrated in the subsidiary. The three dimensions are value recognition, assimilation ability, and application ability.

The first dimension measures if the subsidiary manager can recognise the value that a specific strategy can bring. By analysing data from the company regarding how much material, the different countries participating in this research, have ordered for the last eight campaigns, a pattern emerged.

Looking at Graph 3, it shows that there have been some campaigns where the countries have only ordered small amounts of material. This indicates that some campaigns were not well received by the subsidiaries, and that the managers could not see any particular value of implementing the campaign. One clear example is the campaign for H2 2010 called ‘Consumer Insight’ where only Australia ordered a small amount of materials. This campaign did not introduce a new hearing instrument. Instead, the campaign strategy was centred on results from a large survey that had been conducted.
Graph 3. Marketing material orders from the last 8 campaigns.

The graph shows a similar result for H2 2012; the fall campaign that year was called ‘The Audiological Intent’. The campaign focused on Oticon’s mission, and the way the company wanted to position itself in the market. This campaign also did not introduce any new products, as it focused more on the brand-strategy of Oticon.

Although many other factors could contribute to the way the graph looks, the fact that there were some campaigns where few materials were ordered, indicate that the subsidiary marketing managers did not see the campaign or the marketing material as bringing value to their market. Therefore, it would seem that less value is placed on campaigns that do not introduce new products. A reason for this could be if the material in the marketing campaign target the provider of the hearing instrument rather than the hearing instrument user. These customers are often more interested in new products or new features than campaigns with a brand-oriented focus.
“I think that what works is information that is as fact-based as possible. What does the product do? What is the product? This kind of information is what they [the customers] primarily want. Other campaigns that we sometimes make that maybe are more...to create a profile or a space...a more soft communication purpose...those campaigns are more difficult to adapt out here. It’s more to-the-point. It’s more facts that they need.” (Own translation, China 2014)

Based on these findings, one might pose the question of why Oticon develop ‘softer’ campaigns if the subsidiaries do not find them valuable.

The HQ finds the softer campaigns important because “we have centrally a wish to focus more on branding and the overall thematisation [of Oticon]” (Own translation, HQ manager A 2014). As one of the market leaders in the industry, Oticon uses the softer campaigns to send an important message concerning branding and communication.

The second and third dimensions in the framework for measuring the absorptive capacity in the subsidiaries, measures the manager’s ability to understand how the strategy is applied successfully at the subsidiary level and the subsidiary’s ability to exploit the strategy after its integration.

These dimensions are more difficult to measure given the method of my research. To measure these dimensions would require a more in-depth study of each individual subsidiary, preferably longitudinal. However, my research did find that many of the marketing departments in the subsidiaries are smaller in terms of employees. This can make the application of the strategy in the subsidiary easier since there are fewer people that the subsidiary manager has to ‘get on board’. On the other hand, the smaller amount of employees can make it difficult for the subsidiary to use the strategy after its integration, as resources are required to keep a campaign active in the market for a longer period.
Regarding the exploitation of the strategy after its integration then there has not traditionally in Oticon been a continuous communication between the HQ and the subsidiary after a campaign has been launched, but recently the company introduced post-campaign evaluations. These evaluations also included questions concerning post-launch activities so the HQ could get an idea of how the subsidiaries could continue to exploit the strategy after its integration.

The theoretical framework for the thesis identified that the HQ could enhance the absorptive capacity of the subsidiaries through effort and the company’s social structure in the form of decentralisation and normative integration (Schleimer & Pedersen, 2014). Decentralisation is thought to enhance the leaning capabilities of the subsidiaries by exposing them to more knowledge when decision-making is moved downward in the hierarchy (ibid). In Oticon, the autonomy of the subsidiaries mean that the HQ have delegated many decision-rights to the subsidiaries concerning the use of marketing strategies. The relationship between decentralisation and absorptive capacity is not investigated directly in this thesis. However, due to the autonomy of the subsidiaries, the HQ should place more effort on explaining the value of a strategy since the subsidiaries have the rights to discard it.

Normative integration is closely linked with the company’s organisational culture and the way the culture can create an atmosphere that fosters trust and personal relations (Gupta & Govindarajan, 2000). As shown in the first part of the analysis, the integration between the HQ and the subsidiaries and among the subsidiaries has not been reached completely. It is therefore hard to say how normative integration would enhance the absorptive capacity in the subsidiaries in Oticon. If an organisational culture that fosters more trust among the entities were established, I would expect it to have a positive influence on the absorptive capacity and the integration of marketing strategies because it would establish some shared values (Nohria & Ghoshal, 1994) in the company that could have a positive influence on communication and knowledge sharing.
At Oticon, the effort of enhancing the absorptive capacity is primarily performed by the deployment team. This team is both responsible for communicating and articulating the strategy to the subsidiaries. Part of the effort the company can make to increase the absorptive capacity is to allow the subsidiaries to adapt the strategies for their local markets. This observation made by Schleimer and Pedersen (2013) also seem to be applicable in Oticon, however, it would appear that having the subsidiaries engaged in developing the marketing strategies also enhances the integration. Both adaptation and engagement are explored below.

4.3.1 Adaptation

Allowing the subsidiaries to adapt the marketing materials makes the integration easier because it permits the subsidiary to maximise the fit with the local environment (Schleimer & Pedersen, 2014).

In recent years, the discussion whether a MNC should follow a standardisation or adaptation approach when exporting abroad has had a large role in the management literature (Sousa & Lengler, 2009; Tan & Sousa, 2013). When discussing the use of a standardisation versus an adaptation strategy, it is important to distinguish between strategies that involve a product and strategies that purely involve promotion. For this thesis, the latter is the case since the subsidiaries in Oticon purely deal with sales, marketing and support without any product development or R&D.

Although the subsidiaries are not directly involved in the development of the products, the characteristics of the products are still a large factor to consider when making the promotional material. The characteristics of a Hearing instruments (HI) makes it a peculiar product to promote. The average user would have a hard time distinguishing between products from different brands, and with the exception that there can be regional difference in which colours are most popular, there are no physical differences between a HI sold in Denmark or in Japan. However, once the instrument is fitted to its intended user it becomes 100% personalised and adapted to that user. It would not be
possible to lend your instrument to someone else and providing them with the same experience.

The HQ at Oticon exports its marketing strategies to the subsidiaries as more or less finished packages of brochures, newsletters, videos etc. Therefore, it is valid to ask if the company should standardise its campaigns for all markets or allow the markets to adapt the campaigns. One the one hand, the characterises of the HI as a product favours a standardised marketing strategy. On the other hand, customers of HI are not all the same, and one region might focus on some features which another region would ignore. This favours a more adaptive marketing strategy.

There are certain advantages of the standardisation strategy (Tan & Sousa, 2013) that are not found in the adaptation strategy, such as economies of scale, creating a consistent worldwide image and less friction between the HQ and the subsidiary. Despite these advantages, Oticon has decided to follow a more adaptive strategy allowing the subsidiary full control to change the material to fit their local needs.

“(…) maybe they’ll use our materials in a way we hadn’t thought of originally but that’s okay as long as the result is the same and they increase the sales, well then we are happy.” (Own translation, HQ manager A 2014)

Allowing the countries to adapt the materials can have both advantages and disadvantages. One advantage is that adaptation is thought to increase sales because the subsidiaries can make a strategy customised to their local needs. However, there are also disadvantages of this strategy.

“(…) sometimes they adapt into something that is not aligned with what we imagined…that creates a big difference…and that’s where my concern is if it could hurt our brand.” ; “It could be the pictures, which again have advantages and disadvantages, because maybe it’s pictures that are more appropriate for their markets, but sometimes the pictures are so different with
regards to what I believe Oticon stands for that it can have a negative value.” (Own translation, HQ manager B 2014)

With an adaptation strategy for promotional material, then the HQ transfers some control to the subsidiaries over the company brand. Having an adaptation strategy makes it harder to maintain a uniform image of the company. Another disadvantage of the adaptation strategy is that the HQ first uses resources on development and then the subsidiary uses resources on adapting it. The HQ therefore has the difficult task of developing campaigns that are generic enough to be used by most of the world and can, if needed, easily be customised to local taste. Avoiding duplication of material and having a uniform brand could be ensured through a standardisation strategy, but applying an adaptation strategy eases the integration of the marketing strategies in the subsidiaries. The countries are willing to use more of the materials if they are allowed to change the images and the text. These are the two most common ways to adapt the material, as it often fulfils both cultural and linguistic needs.

“(…)the best is not only to change the pictures but also to focus on making the language understandable for our audiologists and users because sometimes we find that you [the HQ] use complicated language. Not only because of the difference between English and Spanish, but what you present is sometimes not clear. We have to talk more about the benefits than the features, and that is something we need to adapt to Spain normally every time we use any kind of material.” (Spain, 2014)

The disadvantages could also be avoided if the company had a more elaborate knowledge sharing culture where the HQ knew how the strategies were used in the countries, and the subsidiaries knew what each other were doing. This would allow the HQ to develop strategies that were more tailored the subsidiaries’ needs, and the subsidiaries could get inspiration from each other’s campaigns and use the same elements as other subsidiaries have developed.
The theoretical framework promotes decentralisation as a way to enhance absorptive capacity (Schleimer & Pedersen, 2014). The autonomy of the subsidiaries makes it hard for the MNC HQ to control the outcome of the marketing strategies, and it would also be reasonable to expect that conflicts could arise if the MNC gave the subsidiaries’ autonomy over some decisions while following a strict standardization strategy.

In MNC with tight control over their subsidiaries, it would be plausible to expect that a standardisation promotional strategy would be preferred. Whereas, for those MNCs with autonomous subsidiaries where decisions rights are delegated (Garnier, 1982), it is plausible to expect that the adaptation strategy would be the preferred strategy. In the case of Oticon, it would therefore seem like adaptation is a consequence of the organisational structure. The findings does not indicate that autonomy alone enhances the integration. Rather it is the case that adaptation enhances the integration whereas the autonomy limits the control the HQ have other the integration. Therefore, adaptation is the deciding factor rather than decentralisation when it comes to integration. This finding differs from the theoretical framework and the following proposition is therefore suggested:

**Proposition 3:**

The autonomy structure of the subsidiaries favours an adaptive strategy but it is adaptation rather than decentralisation that enhances the integration of marketing strategies in the subsidiaries.

The marketing strategies in Oticon are developed as buffets so to cater to the different tastes in each country and the subsidiaries can chose and mix the right combination for their markets. By allowing the subsidiaries to adapt the material, Oticon enhances the absorptive capacity, as it is easier for the subsidiaries to see the value of a strategy if they can adapt it to their local market.
4.3.2 Engaging the Subsidiaries

The second dimension that enhances integration of the campaigns is to engage the subsidiaries in the development of the strategies, by getting them to give input.

In Oticon, the three biggest markets (USA, France, and Germany) are planning partners, when new marketing strategies have to be developed. Besides having a large share of the total sales, the three markets are also important due to their demographics. USA is typically a market for high-end HI, France focuses on the more clinical and technical aspects of the HI, whereas Germany sells more low-end HI. Therefore, the input from each market also fulfils a strategic objective for Oticon by providing market knowledge that can be used in the development of marketing material. During the interviews, it was discovered that other markets have also been asked to give input previously. For those who were asked, it created a better bond with the HQ and it also made the subsidiaries more engaged in the strategy.

“It’s great, it’s really great. We feel like we have actually contributed quite strongly to the Alta, Nera, and Ria campaigns” (Australia, 2014)

“Because we get to shape it from the beginning and that’s what’s so phenomenal to give so much input in the beginning, and it’s a nice reflection on the fact that they respect our opinion and the fact that we have been doing it for a long time and we are closer to the market so it’s a nice collaboration.” (USA, 2014)

The three markets mentioned above have a strategic significance for Oticon, and their input is therefore valuable for the company. Therefore is it not often that other markets are invited to give input, but the quote from the Australian manager confirms, what other interviewees also expressed, that it increases the motivation (Minbaeva et al., 2014) and engagement of the subsidiaries for integrating a strategy when they are asked to provide input. The engagement can also be expressed as an increase in organisational commitment (Cabrera et al., 2006), which is the psychological attachment an employee
has to an organisation. Organisational commitment is found to have a positive correlation with knowledge sharing (ibid). As a psychological determinant for knowledge sharing then the HQ in Oticon can increase the subsidiaries’ organisational commitment by making them more engaged in the development of marketing strategies. An increase in organisational commitment could be a plausible outcome of engaging the subsidiaries, and could also be a plausible explanation for why the subsidiaries are more likely to integrate the marketing strategies.

Another outcome could be that for those that give input, it provides extrinsic motivation for the subsidiaries. In the short run, there are no financial incentives for the subsidiaries, but in the long run they might be able to sell more HI because the promotional material is more suited their market. If ‘giving input’ is instead seen as a task providing intrinsic motivation, it could help explain why some subsidiaries might provide input despite not having any effect on the integration of the strategy. An example is Germany who traditionally is asked to provide input but usually makes their own promotional materials different from the HQ. Unfortunately, Germany did not participate as an interviewee but using the findings for intrinsic motivation (Ryan & Deci, 2000), a plausible explanation could be that Germany does not see the task of giving input as a reward and therefore it does not affect their integration of the marketing strategies. The HQ feels they should get Germany’s input as it is an important strategic market but they can only guarantee better integration with the German subsidiary if the German manager sees the task of giving input as meaningful and rewarding.

Using engagement as a way to enhance integration and consequently the absorptive capacity of the subsidiaries were not part of the theoretical framework. Therefore, the following proposition suggested:

**Proposition 4:**

By getting input from the subsidiaries for the development of the marketing materials, the subsidiaries feel closer to the HQ and more committed to use the material. Therefore, seeking
input from the subsidiaries on the marketing material enhances the integration of the marketing strategy.

It would be very time consuming for the HQ to get input from all 25 markets, and given the timeframe for new product introductions, it would be virtually impossible. However, the opinions expressed by the interviewees, show that the subsidiaries would be glad to provide input.

Getting the subsidiaries engaged in the development of the marketing strategies increases the integration of the strategies in the subsidiaries. It also enhances the subsidiaries’ absorptive capacity since it more likely that the subsidiary recognise the value of the strategy when they have been part of the development, and that the strategy can bring value to the subsidiary because it is customised the subsidiary’s needs.

4.4 TOWARDS A NEW FRAMEWORK

The key findings from the empirical research for this thesis are conceptualised as the four propositions mentioned above. These serve as the foundation for a new framework that is presented graphically below.

A New Framework

![Diagram of new framework]

Factors affecting knowledge sharing
- P1: HQ takes an active role in facilitating knowledge sharing.
- P2: HQ acts as information gatekeepers/ information suppliers when the IT systems fail.

Factors affecting the integration
- P3: Allowing the subsidiaries to adapt the knowledge.
- P4: Engaging the subsidiaries in the knowledge development.
The theoretical framework identified in section 2, and graphically displayed as figure 1 and 2, were based on agency theory and absorptive capacity. The theoretical framework identified organisational culture, motivation, and information systems as areas that could enhance the knowledge sharing between the HQ and the subsidiaries. The new framework found large support for the identified mechanisms in the theoretical framework. Figure 3 therefore only shows the new findings in the form of four propositions that could enhance the subsidiaries’ absorptive capacity and increase the integration of marketing strategies.

The new framework share many similarities with the theoretical one concerning the importance of organisational culture and motivation for enhancing knowledge sharing. However, proposition 1 emphasises that the HQ use resources on not only facilitating vertical knowledge sharing but also with respect to horizontal knowledge sharing in order to create a flexible knowledge-based company.

Whereas agency theory originally saw information systems as an extra layer of management (Eisenhardt, 1989A), the new framework sees it as an IT system that can both push information to the subsidiaries but also pull information from them. The framework identifies the importance of the IT systems for handling knowledge in the company and the consequences if these systems fail. If the systems do not fulfil their purpose, proposition 2 states that the company can use resources in the form of employees at the HQ that can sort, filter, and locate the knowledge for the subsidiaries. In the new framework IT systems, when applied effectively, can decrease information asymmetry by improving how knowledge is shared within the MNC (Alavi & Tiwana, 2002; Nielsen & Michailova, 2007).

The theoretical framework identified three dimensions; value recognition, assimilation, and application (Schleimer & Pedersen, 2013) that effects the subsidiaries’ absorptive

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8 Own model based on the identified propositions.
capacity for integrating marketing strategies. The thesis’ method, made it difficult to measure the assimilation and application as it would have required more insights into the daily work of the subsidiaries, which was not obtained through the interviews. However, the interviews and internal data did show that value recognition enhances the likelihood that a strategy is integrated in the subsidiary. In the case of Oticon, those campaigns that did not offer an immediate benefit for the subsidiaries because no new products were introduced, were less likely to be integrated. The theoretical framework also identified tasks that the HQ could undertake to enhance the absorptive capacity. These were effort, decentralisation and normative integration (Schleimer & Pedersen, 2014). The analysis found that elements of all three tasks were present in Oticon.

Part of the HQ’s effort was to allow the subsidiaries to adapt the strategies and the new framework, and proposition 3 also confirms that this is an important aspect of enhancing the absorptive capacity. Adaptation has also been found to be a more profitable strategy (Albaum & Tse, 2001; Sousa & Lengler, 2009; Szymanski, Bharadwaj, & Varadarajan, 1993; Tan & Sousa, 2013) as the subsidiaries can make more customised strategies that support sales in their local markets. The effort of the HQ was also measured in the resources allocate to communicating the strategy and how well the value of the strategy was made clear to the subsidiary managers (Schleimer & Pedersen, 2014). Some strategies were considered less valuable by the subsidiary managers, which was reflected in the amount of materials ordered for the campaign. In the case of Oticon, the strategies where a new product was not introduced were more difficult to integrate in the subsidiaries. This is an area where allocating more resources on communicating and describing the value of those strategies could be beneficial for enhancing the integration.

One area that had not been identified in the theoretical framework for absorptive capacity was reflected in proposition 4. This proposition showed that engaging the subsidiaries during the development of the marketing strategies enhance the likelihood of integration of the strategies. This proposition could reflect that engagement both affects the subsidiaries’ motivation (Minbaeva et al., 2014) and organisational
commitment (Cabrera et al., 2006) increasing the likelihood that the subsidiaries see the value of a particular strategy and can use it to create value in their own market.

The implications of the findings for the organisation is discussed in the next section.
In this thesis, I have addressed the issue of HQ-subsidiary knowledge sharing and the integration of marketing strategies by developing a new framework based on a case study of the Danish MNC, Oticon.

The new framework found many similarities with the identified theoretical framework and any novel findings were presented as propositions.

The study of the integration of marketing strategies in the subsidiaries could not have been undertaken without the study of knowledge sharing between the HQ and subsidiaries. I would argue that the link between knowledge sharing and the absorptive capacity of the subsidiaries is so close that all identified proposition would enhance both. Another common denominator for the identified propositions is that they all require that the HQ invest resources, e.g. time or money, in executing them.

The thesis therefore found support for the argument that to enhance and maintain knowledge sharing in the MNC, investments are required.

In this thesis, knowledge was categorised as marketing strategies so the findings might not be applicable to all types of knowledge. Marketing strategies often contain both tacit and explicit knowledge (Schleimer & Pedersen, 2013), which increases the challenges for the MNC as tacit knowledge can be particular difficult to transfer (Szulanski, 1996). The transfer depends on both formal and informal systems (Gupta & Govindarajan, 2000) and especially the informal systems depends on human behaviour, which makes it difficult to manage and formalise (Fey & Furu, 2008).

From my analysis, I identified four propositions that extended the identified theoretical framework. The managerial implications for each proposition is discussed below.

**Horizontal Knowledge Sharing**

The analysis showed that the HQ should play an active part in enhancing the horizontal knowledge sharing between the subsidiaries. It was found that knowledge sharing did
happen between the subsidiaries but only to the extent that personal relations were already established. This confirm findings by other authors that promoting socialisation mechanism enhances knowledge sharing (Gupta & Govindarajan, 2000; Björkman, Barner-Rasmussen, & Li, 2004). The HQ can facilitate horizontal knowledge sharing by increasing personal interaction between the managers. In Oticon, the company used to allocate time at the bi-annual Sales, Marketing and Training Seminar (SMT) where the subsidiaries could present experiences from past campaigns. Facilitation could also be done by using the IT systems to create a virtual space where the subsidiaries could share inspirations. Both areas require that the company is willing to spend resources on it, but it is likely that by enhance the flow of knowledge between the subsidiaries the flow from subsidiary to HQ is also strengthen. Enhancing both the vertical and horizontal knowledge flow would make the company flexible and adaptable to market changes (Hill, 2009). In an industry characterised by strong competition between few players, the ability to adapt quickly would be a strong competitive advantage. Functioning more like an interorganisational network would also allow the MNC to benefit from its strong global presence. Today, the subsidiaries act as separate entities with no close connection to the HQ or each other, so if the company wants to reap the benefits of the geographical dispersion fostering a normative integration culture could strengthen the ties between the divisions.

**Information Sharing vs Information Overload**

The analysis showed that for today’s MNC having the appropriate IT systems could have a large effect on knowledge sharing. Using the right systems makes knowledge transfer easier and it can help the employees work more efficiently when information is easy to locate. However, the use of IT systems have not only contributed positively to the companies but have also proved to affect information overload (Hansen & Haas, 2001; Eppler & Mengis, 2004). As the level of knowledge sharing increases, the amount of resources needed to interpret the knowledge, classify it, and store it, increases as well. To use knowledge and the knowledge systems effectively in the company, the employees need information management skills. These skills have to be obtained
through training and although the MNC would have to allocate resources for this, it could enhance the efficiency of the organisation in the long run. If training is not allocated, then the implemented IT system needs to handle the tasks instead.

To become truly knowledge-based, the company needs to invest both in training and IT systems as well as implementing a knowledge strategy for the entire company. This would help the company balance the promotion of more knowledge sharing with the risk of information overload.

Absorptive Capacity

Adaptation and engagement appear to be an important factor for the absorptive capacity that increases the likelihood that the subsidiary recognise the value of the strategy (Schleimer & Pedersen, 2014) and also increases the motivation for using the knowledge (Minbaeva et al., 2014). So far, this thesis has taken the stand that it would be beneficial for both subsidiaries and HQ if the subsidiaries integrated the marketing strategies. This logic only hold as far as the strategies truly are beneficial. The HQ should keep in mind that the markets could have rational reasons for not integrating a campaign. If the subsidiary manager knows that a specific campaign will not bring value to the market, it is in the interest of both the subsidiary and the HQ to allow the manager to use his resources elsewhere. Enhancing the marketing department’s understanding of the market situations would increase the likelihood that the department could develop generic campaigns that might be focused on geographical regions instead of separate markets. It would increase the resources needed in the HQ but minimise the resources needed for adaptation.

5.1 LIMITATIONS

As with all research, there are weaknesses that need to be addressed. Research projects are always confronted with limitations on resources such as time or sample size, and in most cases, you will have to make a trade-off between the two. As a result, this thesis has several weaknesses.
It would have been informative to perform a dual case study so to compare the findings with an MNC in the same industry but with a different approach to knowledge sharing or a different organisational setup.

It would have been interesting to increase the sample size at the HQ and include more subsidiaries in the research to get a more accurate and detailed understanding of the knowledge sharing processes and the integration of marketing strategies across the whole MNC.

The data was collected via face-to-face interviews and by use of a virtual conference system, and although no noteworthy differences were detected, the difference in interview method may have affected the results.

Knowledge sharing is an issue that has been widely studied in the management literature through many decades and researchers have used various theories to analyse the issue. Therefore, the use of agency theory and absorptive capacity also adds limitations to the research because they focus on some aspects while ignoring others. A similar research but a different theoretical framework could result in a different set of findings.

The results of a qualitative investigation are only as good as the subjects participating in the research. It must be expected that different results would have been obtained if other managers had been interviewed.

Finally, the theoretical framework process does not provide an exhaustive account of all facts from one sample. Thus, the generalizability of the framework depends on further research that focuses on verifying the propositions identified in this study.

Despite these limitations, the research method allowed me to conduct an in-depth investigation of knowledge sharing using samples both from the HQ and the subsidiaries, something other scholars have requested in their research (Schleimer & Pedersen, 2013). In addition to the findings, this thesis also identified several promising areas for future research.
5.2 FUTURE RESEARCH

The analysis confirms that there are indeed mechanisms from agency theory that are applicable for today’s modern MNC where the interaction between a HQ and its subsidiaries still can be characterised as an agency relationship. However, the findings indicate that more research is needed in the area of using information gatekeepers inside the company to enhance knowledge sharing by decreasing information asymmetry.

The analysis also highlights the need for further research in the mechanisms that increase the absorptive capacity of the subsidiaries. Both adaptation and getting input enhances the subsidiaries’ willingness to use and integrate the marketing strategies from the HQ.

Since the thesis concludes that there are areas, the MNC should invest in to enhance knowledge sharing it could be interesting to quantify the costs of each initiate and compare it with the perceived benefits. This would give the MNC an idea of how much the extra spending it would cost to enhance knowledge sharing.

Lastly, this thesis did not go into depth with the implications of the subsidiaries’ autonomy and its effect on agency theory and absorptive capacity. This could be an interesting topic to pursue as research has shown that autonomy can be harmful for knowledge sharing in an agency relationship (O’Donnell, 2000), but at the same time some autonomy is also useful for the subsidiaries’ absorptive capacity (Schleimer & Pedersen, 2013; Minbaeva et al., 2014). It could therefore be interesting to investigate how the concept of autonomy clash between these two concepts and what implications this have for the level of subsidiary autonomy allowed by the HQ.

In the end, the study has offered new empirical findings about the use of agency theory for analysing the knowledge sharing within a MNC, and the use of absorptive capacity as a measurement for the integration of marketing strategies in the subsidiaries. The case study has identified areas that the MNC should focus its resources on to enhance knowledge sharing and the integration of marketing strategies in the subsidiaries. The
propositions were identified as extensions to the theoretical framework but further testing is needed before they can be fully integrated in the framework.
6. THE BIBLIOGRAPHY


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APPENDIX 1A. INTERVIEW GUIDE – SUBSIDIARIES

1. First, could you tell me what your current role is at Oticon? How long have you been in the company? Could you give some examples of your daily tasks?

2. How would you describe the overall level of knowledge flow in Oticon? Is it heavy, medium or light?
   a. How often do you receive emails from Kongebakken (HQ at Oticon)?
   b. Is it clear from the emails if the information they contain is important?

3. Can you give some examples of information or knowledge that is important for your daily work?
   a. Do you feel Kongebakken provides this information to you?
   b. Can you understand why some knowledge is not shared from Kongebakken?

4. Do you think knowledge sharing is important for a company like Oticon? Why?

5. When you receive important information from Kongebakken how is the information shared in your office? How it is ensured that everyone have received and understood the information?

6. Do you see the communication flow between the Kongebakken and you as strong or weak?
   a. Can you give me an example where you felt it was strong/weak?
   b. Are you sometimes asked to share your experience with Kongebakken?
7. Could you tell me where on Kitenet (Oticon’s intranet) do you normally find information?
   a. Is it easy to find the information?
   b. Is there specific information that you cannot find on Kitenet?

8. What words would you use to describe the intranet Kitenet?
   a. Why did you choose those words?

9. How should an ideal intranet work? What would you focus on?

10. Do you feel there is a general encouragement at Oticon to share knowledge?

11. Do you think Oticon should use some kind of incentives to increase knowledge sharing?

12. In your market, do you use the marketing materials developed at Kongebakken?

13. How do you get an understanding of the key messages and goals of a campaign?
   a. Can it sometimes be a challenge to understand these?
   b. Do you find it important to understand these in order to use the campaign properly?

14. Do you feel you have an influence on the look and content of the material? If you have suggestions for the material, is it taken into consideration?
   a. Does this affect how you use the material or how willing you are to order the material?

15. Can you give me an example of a campaign where you felt it was easy to use the material and it did not require too many changes?
16. Do you have an example of a campaign that did not work or where it was not easy to use the material developed?
   a. Why was it difficult to use this campaign in your market?

17. What do you think of the ordering process for getting the materials?

APPENDIX 1B. INTERVIEW GUIDE – HEADQUARTER

1. First, could you tell me what your current role is at Oticon? How long have you been in the company? Could you give some examples of your daily tasks?

2. How would you describe the overall level of knowledge flow in Oticon? Is it heavy, medium or light?
   a. How often are you in contact with the sister companies?
   b. What do they typically ask about in their emails?

3. Do you think knowledge sharing is important for a company like Oticon? Why?

4. When do you typically inform the sister companies about a new campaign and what kind of information do you provide?

5. Is there some information that is deliberately not given to the sister companies?

6. Do you think the knowledge flow at Kongebakken also affects the knowledge flow to the sister companies? And in which way?

7. Do you see the communication flow between Kongebakken and the sister companies as strong or weak?
   a. Can you give me an example where you felt it was strong/weak?
8. Can you think of some situations where it is important to share knowledge with the sister companies?
   a. What makes these situations important?

9. Are there some sister companies that is more difficult to communicate with than other?
   a. What is it that makes it difficult?

10. Where do you see the strengths or weaknesses of the current systems?
    a. Is it easy to find the information?
    b. Is there some information that cannot be shared, using the current system?

11. What words would you use to describe the intranet Kitenet?
    a. Why did you choose those words?

12. How should an ideal intranet work? What would you focus on?

13. Do you feel there is a general encouragement at Oticon to share knowledge?

14. Do you think Oticon should use some kind of incentives to increase knowledge sharing?

15. Do you think more subsidiaries would use the marketing materials if certain incentives were in place?

16. How many sister companies would you say order the marketing materials?
    a. Can you understand why some sister companies might not use the material?
17. What challenges do you see with the current ordering system?

18. How do you ensure that the sister companies have understood the campaign’s key messages and purpose?
   a. Can you give an example of where the messages were not understood?

19. Do you think there should be a closer connection between Kongebakken and the sister companies?
## APPENDIX 2. OTICON’S SUBSIDIARIES

<table>
<thead>
<tr>
<th>Companies of the William Demant Group</th>
<th>Subsidiaries</th>
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<th>Acquired</th>
<th>Participation</th>
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<td>Parent Company</td>
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<td>Maico S.T.I.</td>
<td></td>
<td>■</td>
<td>Italy</td>
<td>1995</td>
<td>100%</td>
</tr>
<tr>
<td>Bernafon UK Ltd.</td>
<td></td>
<td>■</td>
<td>Great Britain</td>
<td>1995</td>
<td>100%</td>
</tr>
<tr>
<td>Bernafon-Maico Inc.</td>
<td></td>
<td>■</td>
<td>USA</td>
<td>1995</td>
<td>100%</td>
</tr>
<tr>
<td>Bernafon Denmark A/S</td>
<td></td>
<td>■</td>
<td>Denmark</td>
<td>1996</td>
<td>100%</td>
</tr>
<tr>
<td>Bernafon AB</td>
<td></td>
<td>■</td>
<td>Sweden</td>
<td>1996</td>
<td>100%</td>
</tr>
<tr>
<td>Bernafon K.K.</td>
<td></td>
<td>■</td>
<td>Japan</td>
<td>1996</td>
<td>100%</td>
</tr>
<tr>
<td>Bernafon S.r.l.</td>
<td></td>
<td>■</td>
<td>Italy</td>
<td>1998</td>
<td>100%</td>
</tr>
<tr>
<td>Australian Hearing Aids Pty. Ltd.</td>
<td></td>
<td>■</td>
<td>Australia</td>
<td>1995</td>
<td>100%</td>
</tr>
<tr>
<td>Phonix Ear Holdings, Inc.</td>
<td></td>
<td>■</td>
<td>USA</td>
<td>1997</td>
<td>100%</td>
</tr>
<tr>
<td>Phonix Ear, Inc.</td>
<td></td>
<td>■</td>
<td>USA</td>
<td>1997</td>
<td>100%</td>
</tr>
<tr>
<td>Phonix Ear Ltd.</td>
<td></td>
<td>■</td>
<td>Canada</td>
<td>1997</td>
<td>100%</td>
</tr>
<tr>
<td>Logia A/S</td>
<td></td>
<td>■</td>
<td>Denmark</td>
<td>1972</td>
<td>100%</td>
</tr>
<tr>
<td>Maico Audiometer GmbH</td>
<td></td>
<td>■</td>
<td>Germany</td>
<td>1995</td>
<td>100%</td>
</tr>
<tr>
<td>EthnoMetrix A/S</td>
<td></td>
<td>■</td>
<td>Denmark</td>
<td>1996</td>
<td>100%</td>
</tr>
<tr>
<td>WDH Nr. 1 A/S</td>
<td></td>
<td>■</td>
<td>Denmark</td>
<td>1998</td>
<td>100%</td>
</tr>
<tr>
<td>Bancotech A/S</td>
<td></td>
<td>■</td>
<td>Denmark</td>
<td>1996</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Associated Companies**

- Otewidan ApS: Denmark, 1963, 52%
- Hearing Instrument Manufacturers Software Association A/S: Denmark, 1993, 25%
- National Hearing Aid Systems Pty. Ltd.: Australia, 1995, 50%

■ Sales and Service  ■ Production  ■ Finance  ■ Research and Development
### APPENDIX 3. INTERVIEWEES

<table>
<thead>
<tr>
<th>Country</th>
<th>Years in Oticon</th>
<th>Work area</th>
<th>Interview comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>18 years</td>
<td>Product and Marketing Manager, paediatric. Responsible for the sales team. Develop training material, ads, conferences, sponsorships. Responding to email requests.</td>
<td>Interview was held in a meeting room at the HQ. It was face-to-face and lasted around 30 minutes. The interviewee was very willing to answer the questions and the answers were clear and easy to understand.</td>
</tr>
<tr>
<td>Spain</td>
<td>1 year</td>
<td>Marketing Manager. Responsible for the marketing requirements. Take care of the campaigns. Responsible for the life of the products. Anything with communication or mass media.</td>
<td>Interview was done via Lync. The connection in Spain was not as good as here in Denmark so there were some delay but the speech was still clear and understandable. Some questions had to be repeated and re-phrased as English was not the first language of the interviewee.</td>
</tr>
<tr>
<td>Australia</td>
<td>10 years</td>
<td>Marketing Manager. Localise the campaigns from the HQ. Product launches. Customer service. Making the marketing plan together with the general manager.</td>
<td>Interview was done via Lync. The internet connection in Australia is not as fast as here but the sound went through clearly. The interviewee had a lot of knowledge about Oticon and were also able to express a more critical view on the way things are done.</td>
</tr>
<tr>
<td>China</td>
<td>7 years</td>
<td>Business Director. Assist Oticon medical getting into the Chinese market.</td>
<td>Interview was done via Lync. The interview were conducted in</td>
</tr>
<tr>
<td>Location</td>
<td>Years</td>
<td>Position</td>
<td>Notes</td>
</tr>
<tr>
<td>--------------</td>
<td>-------</td>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Market reports and sales reports. Help maintain the Oticon brand on the Chinese market.</td>
<td>Danish since the interviewee is Danish. Sound was clear but the image quality was low. The interviewee has worked 6 years in the HQ and 1 year in the Chinese subsidiary.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>3</td>
<td>Marketing Manager Marketing and logistics for Oticon medical and pediatrics. Counselling and technical assistance for the FM product line – Amigo.</td>
<td>Interview was done via email since the interviewee were not comfortable speaking English. The interview questions were sent and the interviewee were given 2 weeks to answer the questions.</td>
</tr>
<tr>
<td>South Africa</td>
<td>3</td>
<td>Marketing Manager</td>
<td>Interview was done via Lync. The connection was not very good and therefore it was recorded without image. Sometimes the sound would disappear which have made the transcription a challenge.</td>
</tr>
<tr>
<td>Export</td>
<td>15</td>
<td>Marketing Coordinator Arrange seminars for distributor regarding training and new products. Gives technical and marketing assistance.</td>
<td>The interview was done in Danish and face-to-face since the export group is located at the HQ.</td>
</tr>
<tr>
<td>HQ: Manager 1</td>
<td>1,5</td>
<td>Senior Marketing Coordinator Part of the deployment team responsible for the communication of the marketing strategies from the HQ to the sister companies.</td>
<td>The interview was done in Danish and face-to-face.</td>
</tr>
<tr>
<td>HQ: Manager 2</td>
<td>11</td>
<td>Senior Director, Paediatric Marketing Part of the senior management group. Responsible for activities within paediatric marketing and product development.</td>
<td>The interview was done in Danish and face-to-face.</td>
</tr>
</tbody>
</table>
APPENDIX 4B: THE MARKETING SUPPORT SITE

Marketing Support Material

Select language:
English (International)

Select product/campaign:
2013 - H1 Unlock the Power of Personalisation (Alta)

Select type of material:
- All material -

Price and availability (optional)
Enter your customer number:

Search

Search by SPM number
Enter all or part of the SPM number: