chapter

1

The Challenges of International Human Resource Management

SUMMARY

Challenge

Many companies struggle to implement global strategies that call for local responsiveness to capture market opportunities *and* global integration to gain from economies of scale and scope

Analysis

Successful multinationals align elements of the *HRM Wheel* to support:

- Building differentiating organizational capabilities in line with the global strategy
- Leveraging a balanced portfolio of control and coordination mechanisms

Solutions

- Recognize the importance of people management for responding to challenges of globalization
- View *HRM* from the perspective of guiding principles, practices, and functional roles and learn how they lead to superior outcomes
- Support the transnational organization through structural coordination, social architecture, and global *HRM* processes
- Avoid pendulum swings by embracing competing dualities

The International Journey of Lincoln Electric

The 120-year-old Ohio-based Lincoln Electric has long been a favorite case used by business schools to show how human resource management (HRM) can contribute to sustainable business performance. The largest manufacturer of welding equipment in the world, Lincoln motivates its American employees through a distinctive compensation system and a culture of cooperation between management and labor, based on one of the founders' fervent beliefs in self-reliance, the necessity of competition for human progress, and egalitarian treatment of managers and employees. Introduced by family management in the 1930s, the incentive system is based on piece rates and an annual bonus linked to profits that can amount to over half of employees' income. To determine the bonus, production employees are appraised on four criteria: output, quality, dependability, and ideas/cooperation.

Abroad, Lincoln Electric invested successfully in Canada (1925), Australia (1938), and France (1955), but until the late 1980s the firm still focused mostly on its domestic market. The company had enjoyed unrivaled and much-acclaimed growth and prosperity, driving its domestic competitors (including GE) out of the business. Led by a management team that had never worked outside the US, the firm then decided on a bold strategy for internationalization, spending the equivalent of over half its sales on building new plants in Japan and Latin America and on 19 acquisitions in various European countries and Mexico.[1] Senior executives envisioned opportunities to leverage Lincoln's manufacturing expertise and HRM system internationally, implementing its motivational and incentive system, which already worked well in France and other foreign operations. Combining the most productive and low-cost manufacturing operation with high quality, Lincoln seemed destined to dominate the global market.

The rapid international expansion turned out to be a failure. Lacking managers with international experience, the firm was forced to rely on acquired managers who were not familiar with Lincoln's culture and who wanted to maintain their autonomy. The only new country where its incentive system and culture took gradual hold was Mexico. In most of Europe and Japan, where piece-rate payments are viewed with deep suspicion, Lincoln's approach was rejected. In Germany, with its 35-hour working week, employees would not agree to work nearly 50 hours when necessary, as they did in the US. The tight link between sales and manufacturing—another pillar of Lincoln's success—disintegrated, and inventory ballooned while sales stagnated in the recession of the early 1990s. The control and coordination challenges associated with the rapidly internationalizing operations were of a different magnitude than the organization had handled in the past. To fix the problems, senior managers with strong international track records were recruited from outside the company. A new team then sold off or restructured most of its international acquisitions.

Lincoln's failure was in part a consequence of poor transfer of HRM practices abroad, in spite of the phenomenal success of its approach at home. When Lincoln again expanded its international operations in the late 1990s, it kept the expensive lessons from its previous internationalization attempt in mind. The company relied more on joint ventures and other alliances and, when necessary, adapted its management approach to fit local conditions.[2] It also gradually built a cadre of managers with international experience who were transferred to the foreign units. By 2015, the company came back to enjoying record sales and profits, with a third of sales from foreign operations. However, in spite of the significant progress made, Lincoln still experienced challenges in managing people in some of its overseas units. For instance, in China it was difficult to find, develop, and retain talented local professionals and managers, and the company was struggling to reach profitability in Asia Pacific.[3]

OVERVIEW

A look at the history of international business shows that the dilemmas faced by Lincoln Electric have always existed: how to build on the existing strengths of a company when going international but also be flexible and responsive to local needs, and how to control and coordinate diverse units and people as well as capture the scale advantages of international operations.

We explore first the challenges faced by companies as they internationalize their operations. We address the question of how HRM adds value in international firms, arguing that it can best contribute to firm performance when HR practices support the organizational capabilities that allow the company to compete successfully. We also review the HRM domain, represented by the segments of an HRM Wheel that ties strategy with organizational capabilities and how these capabilities are developed.

DEFYING BORDERS: WHAT'S NEW?

International business is not a recent phenomenon; nor is international HRM a product of the twentieth or twenty-first century. The Assyrians, Phoenicians, Greeks, and Romans all engaged in extensive cross-border trade. There is evidence that shortly after 2000 BC, Assyrian commercial organizations already had many of the traits of modern multinational companies, complete with head offices and branches, clear hierarchy, foreign employees, and value-adding activities in multiple regions.[4] While empire-building was the primary goal of Roman-style international expansion, commerce was a by-product of the need to clothe and feed the dispersed garrisons.[5] So when can we situate the birth of international companies?

International Operations in the Pre-Industrial Era

The real pioneers of international business were the sixteenth- and seventeenth-century trading companies—the English and Dutch East India companies, the Muscovy Company, the Hudson's Bay Company, and the Royal African Company.[6] These companies exchanged merchandise and services across continents and had a geographical spread to rival today's multinational firms. They signed on crews and chartered ships, and engaged the services of experts with skills in trade negotiations and foreign languages, capable of assessing the quality of goods and determining how they should be handled and loaded. The companies were obliged to delegate considerable responsibility to local representatives running their operations in far-away countries, which created a new challenge: how to develop control structures and systems to monitor the behavior of their scattered agents?

Distance makes control more difficult. This was particularly true in an era when the means of transport and communication were inseparable and slow.[7] Initially, companies demanded not only accounts but also written records of decisions and notification of compliance with directives from home. The high volume of transactions then led to the creation of administrative units to process receipts and accounts and to handle correspondence at the home office. By

the mid-eighteenth century, the Dutch and English East India companies each employed over 350 salaried staff involved in office administration.

Establishing formal rules and procedures was one way of exercising control but other control measures were also developed, such as employment contracts stipulating that managers would work hard and in the interests of the company. Failure to do so could lead to reprimand or dismissal. Setting performance measures was the next step. These included the amount of outstanding credit on advance contracts, whether ships sailed on time, and the care taken in loading mixed cargoes.

Further, systems were installed to provide additional information about employees' behavior and activities. Ships were staffed with pursers, ships' captains were rewarded for detecting illegal goods, and private correspondence was read to minimize the risk of violations. In addition, bonds were often required from managers as insurance against private trade. However, there were also generous financial incentives, such as remuneration packages comprising a fixed cash component and a sizeable bonus. Such a mix of control approaches was not far off contemporary methods used to evaluate and reward managerial performance in large multinationals.

The Impact of Industrialization

The Industrial Revolution originated in Britain in the late eighteenth century. The emergence of the factory system had a dramatic impact both on international business and on the management of people.

The international spread of rail networks and the advent of steamships brought new speed and reliability to international travel, and the invention of the telegraph uncoupled long-distance communication from transportation. Improved communication and transportation opened up new markets and facilitated access to resources in distant locations. Cross-border manufacturing began to emerge by the mid-nineteenth century. The Great Exhibition of 1851, staged in London, was an early forum for international benchmarking and exposed visitors to a number of US products.[8] Among these products were the Singer sewing machine and the Colt repeating pistol. Not surprisingly these firms established two of the earliest recorded US manufacturing investments in Britain: Colt set up a plant in 1853 and Singer in 1867.

Still, it was difficult to exercise real control over distant operations. The rare manufacturing firms that ventured abroad often used family members to manage their international operations. For example, when Siemens set up its St Petersburg factory in 1855, a brother of the founder was put in charge. In 1863 another brother established a factory to produce sea cables in Britain. Keeping it in the family was the best guarantee that those in distant subsidiaries could be trusted not to act opportunistically.

Prelude to the Modern Era

The late nineteenth and early twentieth centuries saw a number of developments in international business, leading to a degree of internationalization that the world would not see again until it had fully recovered from the damage to the global economy created by two world wars.

By 1914, the list of companies with foreign subsidiaries was starting to have a contemporary look about it (see Table 1-1). Singer's second Scottish sewing

Company	Nationality	Product	No. of foreign factories in 1914	Location of foreign factories
Singer	US	Sewing machines	5	UK, Canada, Germany, Russia
J & P Coats	UK	Cotton thread	20	US, Canada, Russia, Austria-Hungary, Spain, Belgium, Italy, Switzerland, Portugal, Brazil, Japan
Nestlé	Swiss	Condensed milk/baby food	14	US, UK, Germany, Netherlands, Norway, Spain, Australia
Lever Brothers [today: Unilever]	UK	Soap	33	US, Canada, Germany, Switzerland, Belgium, France, Japan, Australia, South Africa
Saint-Gobain	French	Glass	8	Germany, Belgium, Netherlands, Italy, Spain, Austria-Hungary
Bayer	German	Chemicals	7	US, UK, France, Russia, Belgium
American Radiator	US	Radiators	6	Canada, UK, France, Germany, Italy, Austria-Hungary
Siemens	German	Electrical equipment	10	UK, France, Spain, Austria-Hungary, Russia
L.M. Ericsson	Swedish	Telephone equipment	8	US, UK, France, Austria-Hungary, Russia

TABLE 1-1
Large Multinational Manufacturers in 1914

Source: Adapted from G. Jones, *The Evolution of International Business* (London: Routledge, 1996), p. 106.

machine factory, opened in 1885, was actually bigger than any of its domestic factories in the US. The company went on to open plants in Canada, Austria, Germany, and Russia. The first large cross-border merger, between Britain's Shell and Royal Dutch, took place in 1907.

The growth in international manufacturing sustained a flourishing service sector, which provided the global infrastructure—finance, insurance, and transport—to permit the international flow of goods. Multinational activity had become an important element in the world economy. It was a golden age for multinationals, with foreign direct investment (FDI: assets controlled abroad) accounting for around 9 percent of world output.[9]

However, the outbreak of World War I abruptly ended the growth in international business. Furthermore, with the loss of direct investments in Russia in the wake of the 1917 Communist Revolution, firms began to think twice about foreign investment. In an environment of political uncertainty and exchange controls, this caution was reinforced by the Great Depression at the end of the 1920s, followed by the collapse of the international financial system. The adverse conditions during the interwar years encouraged firms to enter cross-border cartels rather than risk foreign direct investment. Trade barriers were erected as countries rushed to support local firms, effectively reducing international trade.

World War II reshaped the global economic system. While US firms emerged from the war in excellent shape, European competition was devastated, and the large Japanese corporations (known as *zaibatsu)* had been dismembered. Also, the war had stimulated technological innovation and American corporations had every incentive to expand their activities beyond the home market. A new era of international business had begun.

EMERGENCE OF THE MODERN MULTINATIONAL

Although Europe had a long tradition in international commerce, it was the global drive of US firms after World War II that gave birth to the multinationals as we know them today. American firms that had hardly ventured beyond their home markets before the war now began to flex their muscles abroad, and by the 1960s, US companies had built an unprecedented lead in the world economy.

Many American firms moved abroad through acquisitions, followed by investments in the acquired subsidiary.[10] This was the approach taken by Procter & Gamble (P&G), who established a presence in Continental Europe by acquiring an ailing French detergent plant in 1954.[11] An alternative strategy was to join forces with a local partner, as in the case of Xerox, which entered global markets through two joint ventures with an English and a Japanese firm in the late fifties.

American service firms followed their clients abroad, but internationalization strategies varied. The advertising agency J. Walter Thompson had an agreement with General Motors that it would open an office in every country where the car firm had an assembly operation or distributor.[12] In professional services, McKinsey scrambled to open its own offices in foreign countries through the 1950s and 1960s. Others, such as Price Waterhouse and Coopers & Lybrand,[13] built their international presence through mergers with established national practices in other countries. For most others, the route was via informal federations or networks of otherwise independent firms.

Advances in transport and communications—such as the introduction of commercial jet travel and the first transatlantic telephone link in 1956—facilitated this rapid internationalization. More significant still was the emergence of computers as business tools by the mid-1970s. Computers had become key elements in the control and information systems of industrial concerns, paving the way for later complex integration strategies. Taken together, these developments contributed to a "spectacular shrinkage of space,"[14] a process which has continued until today with the Internet and will accelerate in the future.

By the end of the 1980s, international competition was no longer the preserve of industrial giants; it was affecting everybody's business.

Deepening of Globalization

Globalization surfaced as the new buzzword at the beginning of the 1990s. Economic barriers such as national borders gradually became less relevant (but not irrelevant!) as governments dismantled the barriers to trade and investment. At the same time, deregulation and privatization opened new opportunities for

international business in both developing and developed countries. The multinational domain, long associated with the industrial company, was shifting to the service sector, which by the mid-1990s represented over half of total world FDI.[15] Problems of distance and time zones were further smoothed away as communication by fax gave way to e-mail and fixed phone networks to wireless mobile technology.

Globalization was further stimulated by the fall of communism in Russia and Eastern Europe. Together with China's adoption of market-oriented policies, huge new opportunities were opened to international business as most of the world was drawn into the integrated global economy. World trade was growing faster than world output, and global FDI was increasing even faster than trade.

International business was not just growing in volume; it was also changing in form. Most early multinationals had followed a step-by-step progression to international status;[16] now many companies were learning how to internationalize rapidly through various types of alliances, including international licensing agreements, cross-border R&D partnerships, and joint ventures that were commonly used to expand quickly into emerging markets. Cross-border acquisitions began to grow rapidly.

Multinationals increasingly located different elements of their value-adding activities in different parts of the world. Formerly hierarchical companies with clean-cut boundaries were giving way to complex arrangements and configurations, often fluctuating over time. The new buzzword from GE was "the boundaryless organization."[17] With increasing cross-border project work and mobility, the image of an organization as a network was rapidly becoming as accurate as that of hierarchy. For example, a European pharmaceutical corporation could have international R&D partnerships with competitors in the US, and manufacturing joint ventures with local partners in China, where it would outsource sales of generic products to a firm strong in distribution.

Another characteristic of the emerging competitive environment was the breakdown of historic sources of strategic advantage, leading to the search for new ways to compete. Traditionally, the only distant resources that multinationals sought were raw materials or cheap labor. Everything else was at home: sources of leading-edge technology and finance, world-class suppliers, pressure-cooker competition, the most sophisticated customers, and the best intelligence on future trends.[18] The home base advantage was so strong that multinationals could maintain their competitiveness while they gradually learned to adapt their offerings to fit better with local needs.

Global competition was now dispersing some of these capabilities around the world. India, for example, developed its software industry using a low-cost strategy as a means of entry but then quickly climbed the value chain, just as Japan had done previously in the automobile industry. The implication of such developments was that multinational firms could no longer assume that all the capabilities deemed strategic were available close to home.

The process of globalization has continued in the twenty-first century. In his influential book *The World Is Flat*, Thomas Friedman suggests that the world has become "flat" and argues that there is a more level competitive playing field for individuals, groups, and companies from all parts of a shrinking world. While the process of globalization was previously driven mostly by countries

and then by corporations striving to expand their influence and integrate their activities, what Friedman calls "Globalization 3.0" is driven more by the ability of firms to collaborate and compete internationally using the tools of the increasingly virtual world.

The forces described by Friedman have contributed to many of the recent changes in the world economy. China has consistently attracted large amounts of FDI as it developed into the factory for the world,[19] while India has become an incubator of new multinationals in global businesses that did not even exist 20 years ago, in fields such as IT support and business process outsourcing. Multinationals from high-growth emerging markets have turned into major global players. International acquisitions by firms like Mittal Steel from India and Mexico's CEMEX, now two of the world's largest building materials companies, have transformed industries that were traditionally led by firms from developed countries. The US and Japan no longer dominate lists of the world's largest companies, with a large number of Chinese corporations but also Brazilian, Indian and Russian firms joining the elite club.[20] On its Internet platforms, Alibaba handles a larger volume of goods than Amazon and eBay combined.

With the erosion of traditional sources of competitive advantage, multinationals needed to change their approach to doing business around the world—including managing employees. To compete successfully, multinationals had to do more than exploit their old advantages. A new way of thinking about the multinational corporations came out of studies of how they were responding to these challenges: the concept of the transnational organization.

The Roadmap for Managing Global Tensions

If there is a single perspective that has shaped our understanding of the multinational corporation and its HRM implications, it is the concept of the dual strategic imperatives that emerged from the research on multinational strategy and the tools of control and coordination available to firms competing globally.[21] According to this perspective, multinational firms face one central problem: responding to a variety of national demands and opportunities while maintaining a clear and consistent global business strategy. This tension between strong opposing forces, dubbed local responsiveness and global integration, was captured by Sony's "think global, act local," aphorism, since then adopted by many multinationals as their guiding motto.[22]

These concepts were developed further by Bartlett and Ghoshal in their path-breaking study of nine firms in a sample of three industries (consumer electronics, branded packaged goods, and telephone switching) and three regions (North America, Europe, and Japan).[23] They discovered that these companies seemed to have followed one of three internationalization paths, which they called "administrative heritages":

- One path emphasized responsiveness to local conditions, leading to what they called a "multinational enterprise" and which we prefer to call **multidomestic** (we use the term "multinational" in its generic sense, as a firm with operations in multiple countries). This led to a decentralized federation of local units enjoying a high degree of strategic autonomy. Close to their customers and with strong links to the local infrastructure,

the subsidiaries were seen almost as indigenous companies. The strength of the multidomestic approach was local responsiveness, and some European firms, such as Unilever and Philips, embodied this approach.

- A second path to internationalization was that of the "global" firm, typified by US corporations such as Ford and Japanese enterprises such as Panasonic.[24] Since the term "global" as used by Bartlett and Ghoshal is now, just like the term "multinational," commonly applied to any large firm competing globally, in this book we prefer to call such a firm the **meganational** firm. Here, worldwide facilities are typically centralized in the parent country, products are standardized, and overseas operations are considered as delivery pipelines to access international markets. The global hub maintains tight control over strategic decisions, resources, and information. The competitive strength of the meganational firm comes from efficiencies of scale and cost.

- Some companies appeared to have taken a third route, a variant on the meganational path. Like the meganational, their facilities were located at the center. But the competitive strength of these "**international**" firms[25] was their ability to transfer expertise to less advanced overseas environments, allowing local firms more discretion in adapting products and services. They were also capable of capturing learning from such local initiatives and then transferring it back to the central R&D and marketing departments, from where it was reexported to other foreign units. The "international" enterprise was thus a tightly coordinated federation of local firms, controlled by sophisticated management systems and corporate staffs. Some American and European firms such as Ericsson fitted this pattern, heralding the growing concern with global knowledge management.

Certain firms were doing well because their internationalization paths matched the requirements of their industry closely. Consumer products required local responsiveness, so Unilever thrived with its multidomestic approach, while Kao in Japan—centralized and meganational in heritage—was hardly able to move outside its Japanese borders. The situation was different in consumer electronics, where the centralized meganational heritage of Panasonic seemed to fit better than the more localized approaches of Philips and GE's consumer electronics business. And in telecommunications, the "international" strategy of Ericsson, transferring its learning from abroad, led to superior performance in comparison with the multidomestic and meganational strategies of its competitors.[26]

In all of these three industries, leading firms had to become more **transnational** in their orientation (see Figure 1-1)—more locally responsive *and* more globally integrated *and* better at sharing learning between headquarters and subsidiaries. What has been driving this change? Increasing competition was shifting the approach of these firms from *either/or* to *and*.[27] The challenge for Unilever was to maintain its local responsiveness but at the same time to increase its global efficiency by eliminating duplication and integrating manufacturing. Conversely, the challenge for Panasonic was to keep the economies of centralized product development and manufacturing but to become more responsive to differentiated niches in markets around the world.

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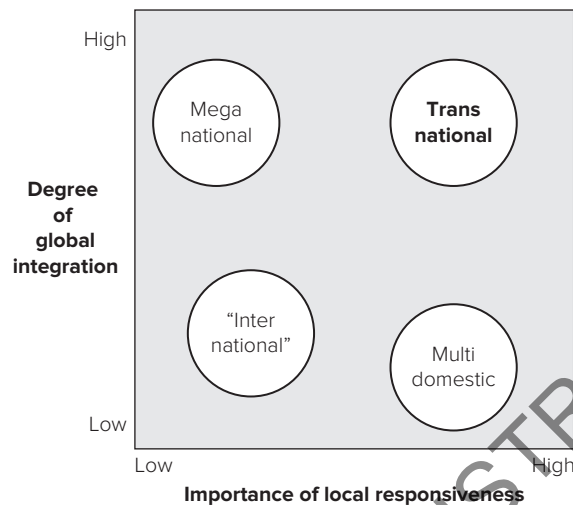
Source: Adapted from Bartlett and Ghoshal (1989), p. 438.

The Transnational Solution

The defining characteristic of the transnational enterprise is its capacity to steer between the contradictions that it confronts. As Ghoshal and Bartlett put it:

> Managers in most worldwide companies recognize the need for simultaneously achieving global efficiency, national responsiveness, and the ability to develop and exploit knowledge on a worldwide basis. Some, however, regard the goal as inherently unattainable. Perceiving irreconcilable contradictions among the three objectives, they opt to focus on one of them, at least temporarily. The transnational company is one that overcomes these contradictions.[28]

However, it is not clear that all international firms are destined to become equally "transnational." While most companies are forced to contend with the dimensions of responsiveness, efficiency, and learning, these demands are not equally salient in all industries. Transnational pressures have been strongest in industries such as pharmaceuticals and automobiles where firms must be close to local authorities and consumers, while at the same time harnessing global efficiencies in product development, marketing, and manufacturing.

The transnational tensions are not limited to corporate strategy; they also appear within the HRM domain.[29] For example, a very relevant question is the extent to which HRM policies and practices should be left to local subsidiaries and adapted to fit the local cultural context and institutional rules. If the multinational decentralizes the responsibility for HRM and adapts practices to the local environment, it could suffer from a lack of global or regional scale advantages within the HR function, forego the possibilities of inter-unit learning within the corporation, and fail to use HRM effectively to enhance global coordination.

Moreover, the pressures do not apply equally to all parts of a firm. One subsidiary may be more local in orientation, whereas another may be tightly integrated. Even within a particular function, such as marketing, pricing may be a local matter whereas distribution may be controlled from the center. In

HR, performance management systems may be more globally standardized, whereas reward systems for workers may be left to local discretion. Indeed, this differentiation is another aspect of the complexity of the transnational—one size does not fit all.

While industry characteristics influence the strategic approach of the firm[30]—multidomestic, meganational, or transnational—companies also have some degree of choice. Take the case of the brewing industry, where two neighboring firms have taken contrasting paths. Everyone has heard of the Dutch company Heineken through its global Heineken and Amstel brands. But how many had heard of InBev before it acquired the American Anheuser-Busch with its iconic Budweiser beer? Based in Belgium, InBev came about through a merger of Belgian and Brazilian brewers, and in addition to Budweiser, it now owns over 200 beer brands across the world, including Stella Artois, Corona, Becks and Skol. InBev is increasingly leveraging its top global brands but also continues to invest in its large portfolio of local and regional brews. Thus, notwithstanding industry imperatives, different models may be equally viable provided that there is good execution, consistency in implementation, and alignment between HRM and competitive strategy—expressed mainly through application of various control and coordination mechanisms.

Global Control and Coordination and the Evolution of International HRM

Since the onset of international economic activities, organizations have struggled with the problems of how to control and coordinate their cross-border operations; for a definition of the two terms see the box below. A key challenge for multinationals is how to enhance alignment and collaboration across geographically dispersed units, and people management is an important part of how global firms can respond—and the traditional control mechanisms simply cannot cope with the complexity of the transnational.[31]

Early in their internationalization, the emphasis is typically on the staffing of key positions in foreign units, often with people (expatriates) from the home country of the corporation. Individuals have to be persuaded to move abroad—those with needed technical skills as well as managers who will exercise control over foreign subsidiaries and help coordinate activities with those of other international units. It is not only a question of persuading

The Difference Between Control and Coordination

Sometimes, there is confusion between the meaning of these two terms, but in this book the term **"control"** refers to visible *hierarchical* structures (authority over decision-making, responsibilities, and reporting lines) and organizational procedures, while **"coordination"** refers to tools that facilitate alignment and collaboration through *lateral* structures, steering procedures, social architecture (social capital and shared values), and organizational processes, including HRM.

people to move abroad; the challenge is above all how to help them be successful in their roles.

Some firms have already for a long time used expatriate assignments for developmental reasons rather than just to solve an immediate job need. The assumption is that with growing internationalization, *all* senior executives need international experience, even those in domestic positions. The link between international management development and the problems of control and coordination was established in a landmark study of the expatriation policies of four multinationals, including Shell.[32] The research showed that these companies had quite different levels and patterns of international personnel transfer.[33] There were three motives for transferring managers abroad. The first and most common was to meet an immediate need for particular skills in a foreign subsidiary. The second was to develop managers through challenging international experience. However, the study of Shell revealed a third motive for international transfers—as a mechanism for control and coordination. The managers sent abroad were steeped in the policies and style of the organization, so they could be relied on to act appropriately in diverse situations. Moreover, frequent assignments abroad developed a network of personal relationships that facilitated coordination.

Shell was able to maintain a high degree of control and coordination while at the same time having a more decentralized organization than other firms. Social networks and shared global values can be built through appropriate HR practices, minimizing the necessity for centralized headquarters control or bureaucratic procedures.

These findings also lend substance to earlier research by Perlmutter, suggesting that multinationals vary in the "states of mind" characterizing their operations.[34] The first is the *ethnocentric orientation*, where subsidiaries are required to conform to parent company ways regardless of local conditions. The second is the decentralized *polycentric corporation*, where each subsidiary is given the freedom to develop with minimal interference, providing it remains profitable. The third is the *geocentric orientation*, where "subsidiaries are neither satellites nor independent city states, but parts of a whole whose focus is on worldwide objectives as well as local objectives, each making its unique contribution with its unique competence."[35] A geocentric orientation can be built when an individual's skills counts more than his or her passport, and there is a high degree of mobility not only from headquarters to subsidiaries but also from subsidiaries to headquarters and between the subsidiaries themselves, as with Shell. Perlmutter saw the route from initial ethnocentrism to geocentrism as tortuous but inevitable.

Thus, international HRM is much more than just a question of sending expatriates abroad and putting the right person in the right place in foreign environment. It plays a crucial role in the strategic and organizational development of the multinational corporation.[36] This view is at the heart of Bartlett and Ghoshal's notion of the transnational and discussed by other early writers on strategic HRM in multinational enterprises.[37]

As we have seen, the challenges of foreign assignments, adapting people management practices to foreign situations, and coordinating and controlling distant operations have existed since antiquity. The centrality of these issues has increased over time. The scope of expatriation has changed; today expatriates come not only from the multinational's home country but also from

other third countries. Localization of key staff across foreign units has become a new imperative, leading to the complex task of tracking and developing a global talent pool. As globalization started to have an impact on local operations, for example in China, it also became clear that even local executives need to have international experience. With the acceleration of globalization, firms with superior international HRM capabilities are likely to have a competitive advantage. As Floris Maljers, former co-chairman of Unilever, put it: "Limited human resources—not unreliable or inadequate sources of capital—has become the biggest constraint in most globalization efforts."[38] Many scholars studying the multinational firm today, whatever their discipline or background, would agree.

However, the opportunities for HRM to impact how multinational firms tackle the challenges of globalization go well beyond supply and motivation of talent. Sustainable competitive advantage rests not only on designing smart global strategies but also on building layers of organizational capabilities supporting their execution—an area where HRM plays an increasingly critical role.

BUSINESS STRATEGY AND ORGANIZATIONAL CAPABILITIES

Since the inception of the field of strategic management, its main preoccupation has been with the question of why some firms are more successful than others. Initially, little attention was paid to the role played by human resources, and strategy meant competitive positioning based on the analysis of industry characteristics.[39] But it soon became clear that having the right strategy is not enough; what also matters is the capacity to execute that strategy. Execution is to a greater or lesser extent always a question of people—having the right leaders to implement the strategy; training and coaching people in the new skills and behaviors that are required; realigning performance management and rewards to the new strategy; and having an organization whose members share values, beliefs, and behavioral norms in line with the chosen strategy. In other words, human resource management is key to strategy implementation, closely associated with the management of change.

But short-term success is not enough. The *resource-based view of the firm* provides a complementary view of strategic management, shifting the focus to sustainable performance and turning the spotlight even more on the firm's internal resources. To prepare the basis for superior, long-term economic performance, the organization's resources should be valuable to the customer, rare, and difficult to purchase or imitate.[40] Today, this view is widely accepted in the field of strategic management, where human resources and other intangible resources, like organizational culture and reputation, have moved squarely to the center of the debate about why some firms are more successful than others. The firm's pool of human resources as well as its processes for managing them can constitute bases for long-term competitive advantage.[41] They must also be intimately linked to the firm's business model and strategy. This brings us to the concept of organizational capabilities.

Organizational Capabilities

A formal definition of organizational capability is "the ability to perform repeatedly a productive task which relates to a firm's capacity for creating value through effecting the transformation of input to output."[42] In short, organizational capabilities refer to the firm's ability to combine and leverage their resources to bring about a desired end.[43] 3M's long-term track record in innovation, Toyota's continuous improvement process in manufacturing, and the ability of Southwest Airlines to deliver excellent customer experiences at a low price are examples of such capabilities.[44]

From this perspective, the HRM elements of an organizational capability are inseparable from its business model and strategy. Such capabilities are often difficult to unravel and thus hard to imitate. The box "Organizational Capabilities of Lincoln Electric" examines the case of Lincoln from a capability perspective.

In most cases, a firm must put in place a range of capabilities to create value, although usually there are only a few that drive the company's competitive advantage. These *differentiating* capabilities must satisfy three criteria:[46]

- They must create value for the customer—doing something that does not add value to the customer, however well it is done, cannot be a source of competitive advantage.

Organizational Capabilities of Lincoln Electric

A casual observer may consider Lincoln's piece-rate incentive system as driving the business model—aggressive pay-for-performance stimulates high productivity. This is combined with a distinctive and strong employer brand that especially in the area around Cleveland, Ohio, where the center of the US operations is located, helps the firm recruit highly efficient employees attracted by promises of generous rewards in exchange for extraordinary productivity.

In addition to workforce productivity, at the core of Lincoln's successful business model is the elasticity of its cost structure—the ability to transform fixed costs into variable cost, essential in an environment with high volatility of demand. Anything that HRM at Lincoln can do to convert fixed cost to variable cost is given priority; so production workers are expected to reduce their working hours in economic downturns and increase them when demand is high.

However, there is another more intangible element in Lincoln's way to operate. Piece-rate systems of pay are often associated with adversarial relationships between employers and employees but, at Lincoln, the relationship between management and employees is characterized by a high degree of mutual trust. Without the trust that has evolved over decades in the US plant, Lincoln's capabilities would fall apart.

Its executives are conscious of this. Careful attention is paid to fixing the piece rates, which do not change unless there are unusual circumstances and full consultation. When the disastrous foreign expansion led to large corporate losses in the 1990s, Lincoln borrowed money to be able to continue to pay bonuses to its US workers since these generous bonuses were a part of the psychological contract that existed between the workforce and the company.[45] If the company had broken its side of the deal, this would have seriously jeopardized the employees' trust in management and destroyed the workers' belief in what is fair—high financial rewards in return for high productivity and flexible work practices.

- The capability has to be rare and unique—if competitors have a similar capability, it cannot be a source of competitive advantage.
- The capability has to be difficult to duplicate—otherwise it will quickly be replicated by competitors.

It should be noted that certain capabilities, even if they do not satisfy these criteria, may be essential just to participate in a business; we call them *enabling* capabilities.[47] The difference between enabling and differentiating organizational capabilities is important; only the latter contribute to competitive advantage. For example, in the pharmaceutical industry, conducting R&D in strict compliance with regulatory rules is an enabling capability, while doing it faster and more cheaply than competitors may deliver differentiation.

However, an additional perspective is critical for understanding—and building—capabilities. Focusing on the scope of capabilities, both enabling and differentiating capabilities can be also classified as *functional* capabilities or *coordination* capabilities.[48] The former (well understood in the strategic literature) allow the firm to perform the essential activities and routines within a specific function, segment of a value chain, or geography.

Less understood by both academics and industry executives are coordination capabilities that come into play when functional resources and routines need to be aligned across different parts of the organization or even across a third-party network to deliver products or services to customers. From an organizational perspective, functional capabilities are essentially "vertical"—embedded in distinct functions, units, and departments. In contrast, coordination capabilities are essentially "horizontal"—spanning and crossing multiple intra- and inter-organizational boundaries. Figure 1-2 shows the overall capability framework.

For example, in the global automotive parts and production equipment business, functional capabilities include various elements of product development from engineering design, testing, validation, and technical integration, to deploying tools like CAD, as well as applying state-of-the-art lean manufacturing concepts. Functional capabilities are often directly comparable between
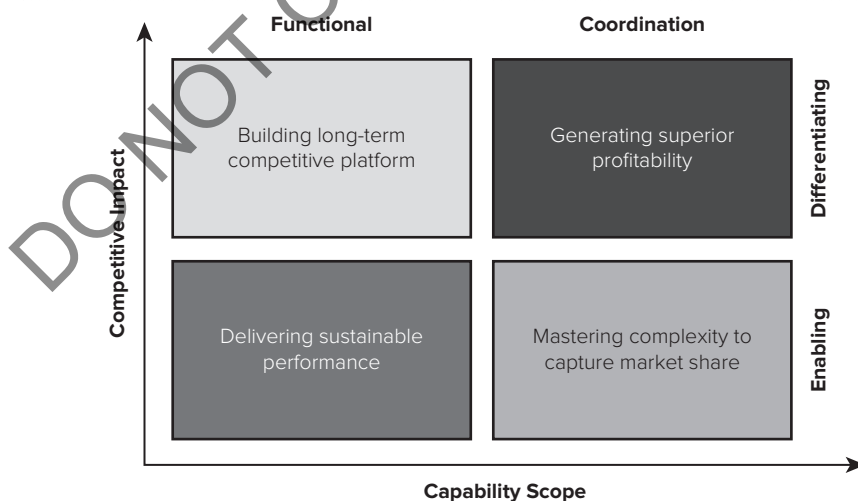

FIGURE 1-2
Organizational Capability Matrix

competitors. Typical coordination capabilities in the automotive parts business are synchronization of global product launches for multiple customers or coordinating overlapping or conflicting commercial and technical tasks.

Implementing Capabilities

Implementing a competitive and robust HR strategy that supports the business requires decision-makers to think ahead about some important questions:

- What are the essential characteristics of the business model?
- What differentiating and enabling organizational capabilities should support the business model?
- What systems will be required to drive these capabilities? And what behaviors?
- What are the implications for the desired social architecture? What people strategies will promote these desired behaviors?

Long-term success is driven far more by consistency and coherence in answering these questions than by the quest for "best practice." A number of firms have tried to copy Lincoln's compensation system but failed. What they have missed is that at Lincoln, the piece-rate system is only one of the tools that drive cost flexibility and productivity. It is the unique bundling of people management and organizational practices that produces the desired effect (see the box above).

Consider another example. Merck KGaA, the world's oldest chemical and pharmaceutical firm with a more than 300-year history, is the global leader in supplying liquid crystal materials for LCD displays.[49] While the display business is highly competitive, Merck is enjoying healthy margins—by superior "customer intimacy"—delivering not just materials but value-adding solutions addressing its customers' needs when and where required. It seems natural, but Merck's R&D and manufacturing operations and related knowledge are concentrated mainly in Germany, and all its key customers are in East Asia. How does the company do it?

Over the last two decades Merck has developed strong country organizations in each of its key markets complementing the core global functions. Key account managers are continuously engaged with customers as well as with the home organization—not in vertical silos, but in cross-sectional teams and virtually across boundaries. The close relationships allow Merck not only to provide its customers with better products and services today but also to predict what they would require in future. The responsibility of the HR function is to ensure that business leaders worldwide learn and internalize the appropriate competencies required to excel in such a complex environment.

The Merck and Lincoln examples illustrate how organizational capabilities help to sustain firm performance. Their HR practices are consistent and have played important roles in building the differentiating and coordination capabilities. However, these examples also raise two other points.

First, HR practices that have a positive impact on firm performance for a particular firm with a particular business model in a particular industry may not do so in other situations. There is no single recipe for success. For instance, Lincoln pays its employees large bonuses based on their individual performance, while Southwest Airlines, which also takes pride in its highly motivated workforce

that outperform its competitors, does not pay any individual bonuses, instead driving commitment through a strong team and customer-oriented culture.

Second, companies in the same industry may differ in both the differentiating organizational capabilities that they pursue and how they strive to strengthen these capabilities through HR and other practices. There is a tendency for firms in the same industry to adopt similar HR practices since the technology of the sector dictates certain enabling capabilities—for example, safety in the airline industry. But the workforce strategy of Ryanair—perhaps the most successful budget airline in Europe—with its emphasis on a contingent workforce and confrontational employee relations, could not be more different from that of Southwest.[50]

Organizational Capabilities in Multinational Firms

In this book, we introduce examples from around the world of successful companies that are able to outperform their competitors in part because of their people management practices: for example, Lincoln Electric in the US, Haier in China, Infosys in India, Merck in Germany, Toyota in Japan, or Schlumberger—with the head office functions distributed around the world. While they deploy very different HR practices, all these companies are clear about which organizational capabilities are needed to support their business model, and they make sure that their HR practices drive the necessary actions and behaviors.

However, as these companies internationalize, the challenge they face is how management practices that successfully support organizational capabilities in one country can be adapted to another. The troubled journey of Lincoln overseas shows how difficult it can be to transfer organizational capabilities abroad—the underlying HR practices do not necessarily travel well to a different environment. Lincoln Electric executives regarded their HR practices as a major source of competitive advantage. Yet these practices generally failed when transferred to the newly acquired units abroad. As an organization expands internationally, culture and institutional context make the issue of how HRM contributes to company performance even more complex.

THE HRM WHEEL

Along with strategy implementation, the concept of organizational capability provides the center point for HRM activities in any business organization. The strategy and intended organizational capabilities should be reflected in the underlying HRM principles and guide the development of distinct HR practices that are supported by different roles played by the HR function, leading in turn to a set of desired organizational outcomes.

We use the metaphor of the "HRM Wheel," presented in Figure 1-3, to capture the dynamic and interdependent relationship between these four elements of HRM in multinational corporations. We will discuss each part of the HRM Wheel in turn, but we will focus in particular on the guiding principles, as these determine to a large degree what kind of HRM architecture will be implemented inside the firm.

FIGURE 1-3
The HRM Wheel
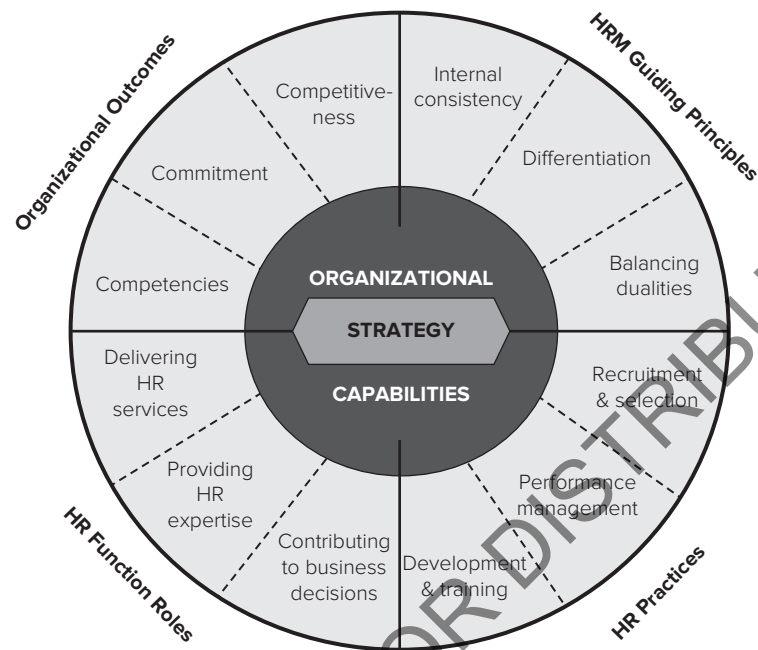
Setting the Guiding Principles

We propose that three guiding principles are at the foundation of HRM in multinational corporations:

- Internal consistency
- Differentiation
- Balancing dualities

The three principles are complementary, although in practice most multinational companies employ them sequentially—starting with consistency, then developing a more differentiated approach, and finally tackling the dualities that become evident in cross-border people management.

Internal Consistency
The principle of internal consistency refers to the way in which the firm's HR practices fit with each other and with the features of the work organization, such as the degree of specialization of work tasks and the extent to which work is organized around teams rather than individuals. For example, if a firm invests a great deal of money in skill development, it should emphasize employee retention through feedback, competitive compensation, and career management; otherwise those valuable employees may be poached by competitors. It should also empower such employees to contribute to the organization and reward them for initiative.[51]

Some form of explicit management philosophy will help ensure this consistency across practices, and such powerful combinations of HR practices lead to a whole that is more than the sum of its parts. Conversely, having a reward system that pays aggressively for individual performance when the work is

organized around teams would constitute what some describe as a "deadly combination" of work practices.[52]

Consistency is important for organizational performance. Let us return to Lincoln Electric to illustrate this point. Lincoln has a highly consistent approach to HRM, and its widely publicized piece-rate and bonus systems are only one part of a finely tuned set of practices that evolved over 50 years.[53] The factory workers view themselves as individual entrepreneurs who are rewarded generously if they perform well. The US plant is basically run by the workers, with only one supervisor per 58 workers.[54] The incentive system goes hand in hand with a belief in the equality of management and employees—no-holds-barred consultative mechanisms, open-door practices, and total transparency about company results. Similar compensation principles apply to executives, managers, and factory workers. The appraisal system has evolved step-by-step over the decades and supports the strategy of the firm: high quality at the lowest possible cost and flexibility to meet changing demand.

In practice, there are three different aspects of consistency to consider. The first is *single-employee consistency*—whether employees experience appraisal, promotion, compensation, and other HRM elements as complementary or conflicting. When staff experience these practices as inconsistent, owing to poor design or conflicting management priorities, performance suffers through loss of motivation, commitment, and initiative.[55] The second aspect is *consistency across employees*—whether employees in similar roles and making the same contribution are treated equally despite differences in gender, ethnic origin, or background (e.g., expatriate vs. local).[56] The third aspect is *temporal consistency* or continuity over time. If practices and policies are constantly changing, there will be confusion and dysfunctional frustration among employees.[57] All three aspects of consistency can be found in Lincoln Electric's US operations.

So far, we have focused on consistency in terms of the content of HR practices—the way in which the firm recruits, selects, develops, and manages the performance of its employees. However, these practices should also display consistent themes or messages, and an explicit management philosophy or value system often supplies the necessary coherence.[58] If the messages picked up by employees through work practices are clear and consistent, a positive effect on employee attitudes and behavior can be expected.[59] But sometimes HRM rhetoric conflicts with the reality that employees perceive, and this can undermine HR's credibility. We have seen an example during our work in Brazil, where some well-intentioned executives championed an HRM philosophy they had learnt in the US and Europe, while local staff typically saw the message as so remote from their reality that the HR function was discredited.[60]

All this highlights the importance of consistency between the espoused HRM strategy and policies, and the actual practices in different parts of the organization. For instance, company executives may state that they have a merit-based pay system. But if the firm does not have valid processes for making sure that employees are in fact paid on merit, the staff may feel unfairly treated, leading to a drop in organizational commitment and effectiveness.[61]

The challenges of achieving a good fit between HRM strategies, policies, and practices are particularly difficult in multinational corporations with operations in different cultures and institutional contexts. While the firm may espouse a worldwide HRM philosophy supported by globally standardized policies, actual practices often reflect the local context and therefore

differ across countries. Local managers often ignore the global philosophy and policies—"Great idea, but unfortunately it does not apply here"—and the result is inconsistency in the deployment of HRM across the organization.

Differentiation

While there are good reasons for emphasizing internal HRM consistency, there is a risk of taking consistency too far. Companies that only focus on building and optimizing a well-integrated set of consistent HR practices run the risk of creating a inflexible system that may be costly and difficult to adapt to changing demands. Therefore, the principle of consistency must go hand in hand with the principle of differentiation.

While differentiation in HR practices due to geographic location receives most attention in the HRM literature—especially when it relates to multinationals—there are actually at least three complementary notions of differentiation that need to be considered:

- Differentiation across employee groups
- Differentiation across subunits (geographies and/or business lines)
- Differentiation from other firms, both multinational and local[62]

First, not all employee groups are equally important for the success of the organization. Firms that apply the same HR practices across all employee groups run the risk of underinvesting in the talent that is crucial for long-term success while overinvesting in people who are easily replaceable. Practices that are appropriate for one part of the workforce may not be optimal for another.

The arguments in favor of differentiating HR practices among employee groups are compelling and in line with what we see in many corporations. One study of Spanish firms concluded that 70 percent used all four modes of employment;[63] another showed that companies did indeed use different combinations of HR practices to manage employee groups that varied in terms of strategic value and uniqueness.[64]

While the benefits of differentiating HR practices between employee groups apply to most organizations, differentiation across subunits is of particular importance to multinational firms. Failure to make sensible adaptations to different environments may be costly, as the Lincoln case shows. The US executives spearheading the company's internationalization believed strongly in the effectiveness of their work practices, and so these were introduced without much adjustment in the newly established or acquired subsidiaries abroad. However, local managers often disagreed with the appropriateness of (for example) worker consultation or autonomy over working hours, while local employees and unions rejected other practices. In some countries, the proposed practices were simply illegal.

Lincoln's approach may seem naïve, but many firms have walked the same path with great enthusiasm. Successful companies, particularly those that have operated unchallenged for long periods of time on home markets, sometimes adopt a universalist approach to HRM when they expand internationally. They find out the hard way that some degree of local differentiation is necessary—which can in turn compromise the consistency of HR practices and necessitate a careful rethink of the company's management approach.

Does this mean that companies must always adapt their practices to fit with the cultural and institutional environment? Is "When in Rome, do as the

Romans do" always a good guideline? Such a conclusion would be as naïve as believing in "the one-best-way."

In our view, the Lincoln story should not be interpreted as implying that reward and appraisal systems that link compensation closely to individual and/or company performance will never work in, say, Germany. After careful analysis, an appropriate conclusion might be that such an approach to HRM might work in Germany: *if* the firm is able to recruit staff who find such a reward system attractive; *if* the work system can be designed to measure individual performance; *if* the compensation system complies with local labor law; *if* appropriate practices can build employee trust in management; and so on.

Some of these *if*s might rule out the use of such a system or render it excessively expensive, but highly variable reward systems may pop up in the most unlikely places if properly implemented.[65] Lincoln's mistake was not that it tried to take its unique approach to people management abroad. When firms globalize it makes sense to build on what makes the company unique and successful in its home country. However, the Lincoln management may have misjudged how different its management approach was from local norms, and how difficult it is to change the behavior of managers and employees in acquired companies who had no experience of the Lincoln Way.[66]

Some HR professionals consider it inappropriate to be different from local firms in a foreign culture. However, having HR practices that are distinctively different can help to recruit and retain local talent who are attracted by the unique features of the multinational. The hallmark of cross-cultural understanding is being able to go beyond rudimentary stereotypes, knowing where one has to conform to the environment and where one can be different. Understanding where to push and where to give in to cultural and institutional considerations—in short, how to balance the two—is part of the global know-how at the core of people management in the transnational corporation.

This brings us to the third and probably most potent aspect of differentiation, focusing on the distinctiveness of the firm's approach to HRM. Sustainable competitive advantage rarely comes from copying others; it invariably comes from being different from other firms. Differentiation stems from how the firm's unique combination of HR practices makes it stand out from other organizations, often in subtle and invisible ways that are embedded in the culture of the enterprise.

While the necessity for competitive differentiation is widely accepted within the fields of strategic management and marketing, its importance has received less attention in HRM. In particular, recruitment, development, and performance management are three HR processes with great potential for creating differentiation. For example, attracting and retaining the right people involves marketing the firm as an employer. Unless the firm stands out from its competitors in the labor market, it is unlikely to appeal to potential employees with the required skills and attitudes. In the Cleveland, Ohio, area where Lincoln Electric's main factory is located, the company's unique work practices are well-known. This enables the company to recruit self-reliant individuals who are attracted by its highly competitive work system. Lincoln's strong employer brand is an important reason why it has been so successful in the US, but it is also one element of its competitive advantage that is not easy to transfer abroad.

Other firms that follow a distinct path to developing competitive capabilities are also known for paying careful attention to recruitment and selection.

Toyota's meticulous assessment of all job candidates from hourly workers to senior executives is legendary.[67] And P&G with its traditional (some might say archaic) emphasis on long-term careers and promotion from within attracts several hundred thousand applicants worldwide. It rigorously selects the less than 1 percent of the applicants that it deems the very best—no apologies there for not being trendy.[68] But in both the P&G and Toyota cases, differentiation also goes hand in hand with consistency, which takes us to the third guiding principle of multinational HRM—balancing dualities.

Balancing Dualities

The importance of balance—deciding how far to focus on one particular goal, issue, or principle at the expense of another—is one of the central messages of this book. We will elaborate more on this issue later in this chapter. Here we limit our scope to the consistency–differentiation duality.

In case of a multinational firm, there are no simple answers to the questions of how, and how far, to adapt HR practices abroad. While differentiation across locations can help the multinational achieve a better fit with the various environments in which it operates, too close alignment of HR practices to each external location (country or region) is likely to lead to a loss of integration—global inefficiencies, lack of learning across units, and problems of control and coordination.

The tension between differentiation on the one hand and the consistency that facilitates integration on the other has traditionally been resolved through structural choices; indeed, differentiation and integration form the fundamental DNA of organizational design.[69] Corporations build their basic structure—traditionally differentiating either by geography (regional structures) or by business (product line structures)—to maintain consistency and coordination within units but allowing differentiation between them. However, the situation of the transnational organization is more complex. It faces multiple pressures for differentiation—on geographic/regional, business, customer or global account, and global project lines—as well as increasing needs for coordination. We discuss the structural choices that companies can use to respond to these pressures for multidimensional organization in Chapter 4.

Multinational firms also use social mechanisms to address this duality of high needs for both differentiation and integration.[70] Relationships between employees from different parts of the corporation help people to understand and deal constructively with the often conflicting goals of local responsiveness, global efficiency, and inter-unit coordination. Additionally, corporations may invest in developing shared values and a global mindset among their employees—that is, a way of thinking that incorporates the dualities and contradictions that they face in their daily work.

Designing Core HR Practices

With the three guiding principles in mind, the next step is to put them in action. Every firm has to cope with a number of basic and vitally important HRM tasks, such as getting the right people into the right place at the right time—attracting, motivating, and retaining people. These are the core tasks of HRM, the facet that is most familiar, and which is dealt with in myriad books on the topic. Organizational performance will suffer if these tasks are not executed well. To guide our discussion, Table 1-2 provides a simple framework summarizing the key HR practices.

We start with a brief introduction to these practices and highlight some of the key challenges that multinationals have to confront. We should point out that with our focus on managers and knowledge workers in multinational firms, we address the important area of labor and industrial relations only briefly in the context of institutional differences among countries. We will discuss many of the specific HR practices in considerable detail later in Chapters 6–9.

Recruitment and Selection

With worldwide skill shortages, companies across the world face the challenge of attracting new employees with the desired skills and competencies. Without an appealing and differentiated employee value proposition, including a set of people management practices that potential job applicants will find attractive, it is difficult for a firm to fight the "war for talent" that characterizes emerging and growing markets in both good and bad times.[71] How can global firms build a strong employer brand in different parts of the world? The importance of brands has long been recognized in global marketing, and contemporary HR thinking about employer branding has clearly been influenced by insights from the field of marketing.[72]

The most suitable people have to be selected on the basis of their fit with the specific vacancy, their future growth potential, and the organization. A variety of selection and assessment methods are used to review external and internal candidates for jobs but with differences in their applicability across cultures and legal contexts. The importance of diversity is increasingly acknowledged in multinational firms across the world, yet most multinationals still staff their top positions with men from the home country and a remaining challenge for most corporations is how to do more than pay mere lip service to diversity.

Another issue for multinationals is whether to develop their own talent or recruit from outside. But regardless of the balance between build and buy, any investment in the selection and development of talent will not be viable unless the company can retain people to profit from the investment. An attractive compensation package and good development opportunities, a sound relationship with the boss, and the possibility of maintaining a healthy work-life balance are just some ways to reduce the attrition of core talent.

Performance Management

Performance management is a process that links the business objectives and strategies of the firm to unit, team, and individual goals and actions through periodic performance appraisals and rewards. It has three successive phases: setting goals and objectives; evaluating and reviewing performance as well as providing feedback; and linking this to rewards and development outcomes. Implementing this process creates a number of challenges for any multinational firm.

Effective goal setting depends on healthy two-way communication between superior and subordinate.[73] Hierarchic and gender differences can make this

TABLE 1-2

Key HR Practices in Multinationals

Recruitment and Selection
- Workforce planning
- Employer branding
- Recruitment
- Selection
- Induction and socialization
- Termination and outplacement

Performance Management and Rewards
- Job evaluation
- Goal setting
- Performance measurement
- Appraisal and feedback
- Compensation and benefits
- Rewards and recognition

Development and Training
- Training (on-the-job and off-the-job)
- Talent assessment and reviews
- Succession planning
- Career management
- Coaching and mentoring
- Leadership development

International Mobility

Communication[A]

Labor and Industrial Relations[A]

[A] In this book, these practices will be considered only in passing.

difficult, varying from one culture to another, as does corporate status (e.g., expatriate vs. local). Similarly, cultural issues may impact the applicability of various performance management tools, such as 360-degree feedback.

Praise may be generally well accepted around the world, though even here there are cultural features—for example distinguishing one individual in a collectivist culture. But multinational firms find dealing with low performance consistently to be difficult. "Maintaining face" is a sensitive issue in some Eastern cultures, while in others legal constraints circumscribe an employer's discretion on performance issues.

More than any other element of the HRM Wheel, performance management puts into stark relief the perennial tensions of global integration versus local adaptation. This is of particular relevance to multinationals, like Lincoln, where the performance management system is one of the core tools to drive its differentiating capabilities.

Development and Training

Developing future global leaders is a high priority for the multinational firm and is usually one of the major strategic preoccupations of top management. But what is a good leader and how can a multinational with many distant operations identify people with leadership potential outside the home country? There are two main difficulties: first, there are significant perceptual differences about what constitutes good leadership among different cultures; and second, the skills needed at senior leadership levels are different from those at lower levels.

People develop most by taking on and learning from challenges. For international leaders, this implies demanding assignments, working outside their domain of functional and geographic expertise. Most new or promoted employees do not immediately have the skills needed for their jobs, so these must be developed through on-the-job learning, coaching, mentoring, or formal training. However, the bigger the challenges that people take on, the higher the likelihood that they will make significant mistakes that can be costly for the firm. Training, coaching, and mentoring should therefore be part of what we call a people risk-management strategy. Furthermore, an increasingly important task for most multinationals is integrating top-down and bottom-up approaches to talent development.

Defining HR Functional Roles

This book is about how multinational corporations can deal with the challenges of global operations and improve their performance through the way they manage their employees. We argue that this task is a joint responsibility of top executives, line managers, and HR managers and professionals, but in this section we will focus mainly on the tasks and roles of the specialized HR function.

The academic HR literature contains several conceptualizations of the tasks and roles of the HR function.[74] We distinguish between the three following roles:

- Contributing to business decisions
- Providing HR expertise
- Delivering HR services

These three roles correspond to the way in which many multinationals organize their HR function. For instance, Unilever structures its HR functional activities into HR services (with Accenture doing much of this work within the scope of a long-term outsourcing agreement), expertise teams, and business partners. P&G initially organized all basic HR tasks into three regional service centers, and later outsourced them to IBM, retaining responsibility for development of HR practices and business support.

We provide a brief overview of these different roles below. In Chapter 14 we will elaborate on each of these roles in more depth and discuss how multinationals can develop the required competencies among their HR professionals.

Contribution to Business Decision-making

The business decision support role describes the activities of HR professionals who work directly with line and top managers on business, organizational, and HR challenges. Those occupying this role typically report to the person in charge of the business unit, with an indirect (dotted line) relationship to the corporate HR department. In contrast to the specialist knowledge of the HR professionals responsible for process and content development, the business decision support role requires broader generalist competence.

A key part of the role is to contribute to strategy discussions by highlighting the people aspects of strategy implementation and capability development. HR professionals should have a seat at the table when these discussions take place—which not always is the case.[75] Senior HR managers also work with senior management on strategically important issues related to organizational design and cohesion, talent management, succession planning, performance management, knowledge and change management, acquisitions, and alliances—strategic challenges we discuss later in this book.

Individuals playing the business decision support role often become natural link pins between business units and the functional centers of expertise in the corporation, as well as the HR service centers. Yet not all this work is strategic. An indispensable part of the role is dealing with more mundane HR operational tasks and helping line managers to resolve employee issues and concerns.

Provision of HR Expertise

The key outcomes of the HR expertise role are HR practices that help the firm maintain and enhance the organizational capabilities needed to execute its business strategy.

Professional knowledge of state-of-the-art HRM is a necessary point of departure for this role. Learning from others is essential—but blind pursuit of the latest best practice is not. Decisions should be based not on trends but on a thorough analysis of what is needed to support the organizational capabilities of the firm. Central to the HR expertise role are the three guiding principles of HRM presented earlier: consistency between HR practices and with other parts of the work organization; differentiation across employee groups and subunits, as well as from other firms; and balancing critical dualities, such as global integration and local responsiveness.

Given the constant pressure to do more with less, organizing HRM process and content development is a challenging task for any multinational firm. The organization of global expertise depends on the structure of the company, but the traditional solution is to have functional experts at headquarters with

a global responsibility for tasks such as talent and performance management. It is essential that these experts have deep international experience, and an awareness of how their home country lens can bias their perceptions. Another solution is to decentralize responsibility for developing policies, processes, and tools to a center of global expertise located in a subsidiary that has particular capabilities in the area in question.

HR Service Delivery

The key task in the HR service delivery role is for core processes to be carried out at low cost and with a desired service level. The interface with HRM process and content development must be managed carefully.

Over the last years, considerable pressure has been put on HR departments to cut costs and reduce the number of personnel involved in administrative tasks. In response, e-HR solutions have been developed that shift much of the transactional work to employees themselves using self-help tools; service centers have been established; and elements of HR have been outsourced.

In firms that have invested in e-HR solutions, employees can obtain online answers to a range of questions about holidays, pensions, regulations, and routine transactions.[76] While investments in standardized HR processes and IT systems can be considerable, they can also enable the introduction of new capabilities, for example facilitating global internal labor markets and cross-border deployment of professional talent.[77]

Shared service centers began to emerge as firms realized that many administrative tasks could be carried out in a more standardized manner, undertaken at a central location in the country, or on a regional basis. A clear trend has been to locate service centers in low-cost settings in Central America, Central and Eastern Europe, and India.

Certain HR processes have been outsourced for many decades; companies rely on headhunters and recruitment firms for recruitment and selection and on business schools for management training programs. The trend toward outsourcing larger parts of HR has continued in recent years, often in combination with a standardization of HR practices across the world. However, firms should obviously keep in-house practices such as leadership development that are strategically important.

Although effective HR service delivery is unlikely to translate into any sustainable competitive advantage, failure to execute these basic services can put the firm at a competitive disadvantage. It is a vital enabling capability, and the importance of efficient, high-quality HR services must not be underestimated in the search for what may seem like more prestigious and high-profile roles for the HR profession.

Focusing on Organizational Outcomes

HR practices, guided by a set of principles and with the HR function playing important roles, ultimately lead to desired organizational outcomes of human resource management—the final element in the HRM Wheel framework outlined in Figure 1-2. We have identified three interwoven critical outcomes:

- Competencies
- Commitment
- Competitiveness

The first outcome focuses on the quality of people in the corporation; the second highlights the attachment of employees to the organization; and the third is focused on long-term business success.

Competencies

The competencies of employees and managers is the first outcome of HRM. Do employees have the knowledge and skills needed for the firm to implement its strategy? The world is full of strategies and business plans that are discounted by analysts and investors who know that the enterprise does not have the human capacity to execute them better and faster than its competitors. To what extent are current and planned HR practices building the employee and leadership competencies needed to develop and retain over time the intended organizational capabilities of the corporation?

The required competencies go beyond the job requirements in ways that are seldom discussed in the traditional HRM literature. Given the importance of coordination in the transnational firm, its HRM activities play important roles in shaping what we call the social architecture of the global organization: its social capital (the structure and strength of social relationships between individuals); the values, behavioral norms, and beliefs of organizational members; and the global mindset that leaders and other members of multinational organizations must display. These three social dimensions are important determinants of the ability of employees to carry out their jobs in a global organization characterized by interdependence. P&G introduced recently a new element to their corporate credo: "Mutual interdependence is a way of life."

Commitment

HR practices, such as performance feedback, coaching and development, and attention to fair process in decision-making,[78] also shape employee attitudes, which may be just as important for firm performance as knowledge and skills. While the literature on organizational behavior deals with many different employee attitudes, which companies often measure using so-called engagement surveys, employee commitment to the organization is particularly relevant.[79] Several studies have confirmed that a high level of affective commitment is associated with better firm performance[80] and individuals who are highly committed are less likely to leave the organization.

The multinational must excel at worldwide implementation or execution of operational strategies and business plans. Execution depends on both good planning and commitment on the part of employees to the decisions that are made. Since most decisions will arouse some degree of resistance, particularly from successful or autonomous units, it is important that the way in which those decisions are reached is seen as fair in order to maintain commitment and loyalty. Indeed, the execution of strategy and business plans is at the heart of strategic human resource management and facilitating the management of change is a vital part of the business decision-making supporting role of HR professionals.

Competitiveness

The ability of the firm to retain its competitiveness over a prolonged period of time is the third organizational outcome of the HRM Wheel. The impact of HRM on firm performance is at the center of a hot debate that has been raging

for some years. Much of this debate has focused on the choice of HR practices. Although there may not be a single best way of managing people, the evidence suggests that having a coherent set of HR practices that promote the development of employee knowledge and skills, social capital and commitment to the organization, and its strategy pays off in most circumstances.[81]

However, one limit of prescriptive viewpoints concerning HR practices is that they are static, whereas our world is highly dynamic. All industries periodically go through cycles of growth and decline, created by fluctuations in supply and demand for their products or services. In 2008/9, we witnessed one of the most dramatic changes in the global economic climate since the Great Depression in the 1930s. In some industries, companies went from booking record profits to suffering record losses in the course of three to four months. In a turbulent environment, sustainable performance depends on being able to cope with these cycles, anticipating the downturn in boom times and building for the future in lean periods.

Paradoxically, the most difficult time to invest in people is during times of growth, when managers are typically scrambling to take advantage of opportunities and are too impatient to invest in long-term global processes. The best time to make these changes and investments is during lean periods—as long as the firm has made sure it has sufficient funds in anticipation of a downturn. Indeed, we suggest that the best metaphor for understanding long-term development of multinational organizations is steering—navigating smoothly between good and harsh times, between global integration and local responsiveness, between short term and long term.

Egil Myklebust, who headed Norsk Hydro for ten years, understood this well. Norsk Hydro was a major Norway-based international company focused on cyclical industries like fertilizers, metals, and oil. Myklebust had known many ups and downs, and he told us that his role as CEO was to cut off the tops and bottom of the cycles. "In the boom times, when everyone is scrambling to launch projects and to hire people, my role is to push for caution and make sure there is ultra-sound justification. Otherwise hasty actions will worsen the downturn that surely lies ahead. And when people are taking the axe in the pits of the downturn, I have to push people to be bold and optimistic; otherwise we won't be in a position to take advantage of the good times ahead."[82]

Dualities and HRM in the Transnational

Myklebust's comment points to the difficulty we have in pinning down the concept of organizational effectiveness: first because organizational effectiveness is a multidimensional concept, and second because those dimensions involve opposites such as short term and long term. There are multiple opposing dimensions underlying our thinking about effectiveness—control and flexibility, internal and external focus, focus on both means and ends.[83] To be effective, an organization must possess attributes that are simultaneously contradictory, even mutually exclusive.

We refer to such opposites as dualities, while others call them paradoxes.[84] They are not either/or choices, the appropriateness of which depends on a particular context, but dualities that must be reconciled or dynamically balanced. Some of the many dualities facing organizations and groups are shown in Table 1-3.

One important insight of duality or paradox theory is that any positive quality taken too far becomes negative or pathological.[85] Instead of trying to maximize something, an organization should try to ensure that it maintains at least a minimal level of attention toward a desirable attribute. For example, an organization requires a minimal degree of consensus but not so much that it will stifle the dissension that is the life blood of innovation; and it needs a minimal degree of contentment, sufficient to ensure that key people remain with the firm, but not so much that arrogance or complacency emerges.

The pace of change has recently highlighted many of the paradoxical features of contemporary business organizations. In the past there were long periods of evolution within an existing product life cycle, alternating with short periods of revolutionary crisis when the technology changed.[86] Fueled by the pressures of globalization, pendulum swings have become more frequent as competition compresses time frames. As product life cycles speed up, as swings between undercapacity and overcapacity shorten, ambidexterity in the sense of doing two disparate things at the same time becomes vital.[87]

In such a world of rapid change, firms have to leverage their existing resources to make profits today and at the same time develop new resources that will be the source of their profits tomorrow. Leverage (called *exploitation* by academics) involves concern for efficiency, execution, production, and short-term success, but excessive focus leads to what has been called "the failure of success." Resource development (or *exploration*) involves innovation, learning, risk-taking, experimentation, and focus on long-term success.[88] However, an excessive focus on development is risky, compromising the survival of the firm. While the transnational firm faces the local–global dilemma, it also faces this exploitation–exploration dilemma.

Steering between Dualities

Opposing forces—such as differentiation and integration, external and internal orientation, hierarchy and network, short term and long term, planning and opportunity, rational analysis and emotional involvement, and change and continuity—can never be reconciled once and for all. They create tensions that must be anticipated and managed.[89]

The navigator is a useful metaphor for understanding how to deal with these tensions.[90] The job of the navigator at the helm of a vessel is to manage a constant but varying tension between the need to maintain a particular course and changing winds and currents. Steered by a skilled navigator, the path of a boat toward its destination is a series of controlled zigzags in response to wind and current. The unskilled helmsman fights to maintain headway, overcorrecting when the boat is blown off course, failing to anticipate the storms and calms that lie ahead. The resulting path is a series of wild zigzags as the boat veers from crisis to crisis.

TABLE 1-3

Some of the Dualities Facing International Firms

Managing today's assets—building tomorrow's assets
- Satisfying customer needs—being ahead of the customer
- Short term—long term
- Exploitation—exploration

Loose—tight
- Opportunistic—planned
- Entrepreneurship—control/accountability
- Flexibility—efficiency

Competition—partnership

Low cost—high value-added

Differentiation—integration
- Decentralization—centralization
- Unit performance—corporate integration
- Individual accountability—team responsibility

Change—continuity
- Speed of responsiveness—care in implementation

Professional—generalist
- Technical logic—business logic

Taking risks—avoiding failures

Task orientation—people orientation

Tensions caused by dualities can lead to virtuous or vicious circles of organizational development.[91] Most firms have to steer between opposing forces like functional excellence and inter-functional coordination, low cost and high flexibility, and mass and niche marketing. Some firms focus on a fixed strategy, for example, aligning the firm to the development of functional excellence. This might lead to initial success. But when that success is threatened by opposing pressures (for example, slow decision-making caused by lack of coordination among functions), leaders often respond by reinforcing what led them to be successful in the first place—increasing the pressure for functional excellence. This may lead to a crisis, where new leadership is brought in to build coordination. The pendulum swings from functional excellence to coordinated teamwork.

In contrast, the leaders of other firms appear to anticipate the need for a change in course, gently steering specialized functions toward greater teamwork before the problems of slow decision-making show up. Alternating between one course and the other, as the Norwegian CEO earlier noted, they steer toward their aims of higher profits and better return on investments in a virtuous spiral of increasing capabilities in both functional excellence and integrated teamwork.[92] Mastering this process is of critical importance to transnational firms.

Dualities and Transnational Management

Understanding dualities is a cornerstone for effective transnational management, since the transnational enterprise is one that can overcome the contradictions between local responsiveness, global efficiency, and exploiting knowledge on a worldwide basis, as Ghoshal and Bartlet noted. There are two particular dualities confronting the transnational enterprise that we highlight in this book—the duality of local responsiveness *and* global efficiency and that of resource exploitation *and* resource exploration.

We discussed already how many so-called multidomestic firms internationalized by decentralizing responsibilities to their subsidiaries and local business units. Decentralization has many advantages, including proximity to customers, a heightened sense of accountability, more local innovation and entrepreneurship, and better employee morale of local staff. But local responsiveness has a shadow side. After initial success, it often leads to reinventing the wheel, duplication of back office functions, slow response to technological change, and costs that cannot compete with globally efficient competitors. These "handmaidens of decentralization," as Bartlett and Ghoshal called them, often prompt firms to swing to centralized control, until bureaucracy, loss of responsiveness, and the inability to retain good people turn the pendulum to decentralization once again.

After several swings, organizations begin to realize that decentralization (local responsiveness) and centralization (global integration) are a duality. Even though there may be an immediate advantage to each approach, a future movement in the direction of the organization must be anticipated. One executive expressed this with apt advice to senior management: "Organize one way, manage the other way." If the structure is currently being decentralized to encourage local responsiveness, senior management attention should be focused on building coordination links across units. If the central functions and control are being beefed up, the focus of attention should be on preventing the loss of local entrepreneurship.[93]

Organizing one way but managing the other way requires a change of thinking among local leaders. While acting as local entrepreneurs, they also need to have a clear understanding of global strategy. Strategic management becomes a process that involves all key leaders around the world, and local managers need to have a global perspective. The role of people in central staff positions, including corporate HR, is not to tell local people what to do or to solve their problems for them—that would be incompatible with the need for local responsiveness. Instead, central staff must act as network leaders, getting people together to face up to common problems.[94]

The challenges of managing dualities are of crucial relevance to HRM. All organizations maintain corporate control and coordination through hierarchy, budgets, rules, and centrally managed processes and procedures. But as the needs for coordination grow, more rules, more control, and more bosses at the center simply will not work; this will only kill local entrepreneurship and drive away good people. These classic tools need to be complemented with more subtle mechanisms of horizontal coordination, such as lateral structures, social architecture, leadership development, performance and knowledge management. These coordination tools are to a large degree the application of HRM.

OUTLINE OF THIS BOOK

The stage having been set here, the two next chapters review the globalization strategies of local responsiveness and global integration in depth. In Chapter 2, we explore what local responsiveness means for HRM by looking at the multidomestic firm, with a particular emphasis on how multinational corporations adapt to the local cultural and institutional context. Chapter 3 focuses on the strategy of global integration through the lens of the meganational enterprise, framing the subsequent discussion of control and coordination mechanisms.

We look at the different methods of coordination. Structural coordination mechanisms examined in Chapter 4 include multidimensional structures, cross-boundary teams, cross-boundary roles and steering groups, as well as virtual teams. Social coordination mechanisms of social capital, shared values, and global mindset are discussed in Chapter 5. The next four chapters (Chapters 6–9) deal with key processes in international HRM: talent acquisition, performance management (including compensation), leadership development, and international mobility.

The next four chapters examine complex people management challenges in global firms: facilitating change through HRM (Chapter 10), knowledge and innovation management (Chapter 11), cross-border merger and acquisition integration (Chapter 12), and managing alliances and joint ventures (Chapter 13).

The final chapter addresses the implications of recent and future developments for HR professionals in multinational firms.

The focus of this book is explicitly on international HRM in large complex multinational firms rather than small or medium-sized enterprises, although a number of issues that we will cover are of direct relevance for a broad spectrum of firms. We will present examples from firms drawn from all regions of the world, including eBay and GE from the US, Toyota from Japan, Haier

and Alibaba from China, European multinationals like Zara, Kone, and Shell, and companies without clear nationalities such as ArcelorMittal and Schlumberger. Each chapter starts with a short case, highlighting the challenges that we will discuss.

As the HR contributions to internationalization increase in importance, the boundaries between the HR function and line management become blurred, as do the boundaries with other management functions, such as strategic planning, information technology, marketing, corporate communication, and operations. Throughout this book, we will be taking a broad managerial perspective, addressing "the manager," regardless of whether that manager works as a line or general manager or as a professional in the HR function. However, from time to time, we will also address challenges that are specific to HR in most firms. The convention that we use is to refer to "HR" whenever we mean the functional domain and "HR practices" when referring to corporate practices in managing people for which the HR function is at least partly responsible. When we talk about human resource management, or HRM, we are adopting a generalist perspective.

TAKEAWAYS

1. Control and coordination of dispersed operations have always been a key challenge for multinational firms; people management is central to how companies have addressed this challenge.

2. Multinational firms have muddled through organizational dilemmas and contradictions, often in a pendulum fashion. The contradictions become apparent as firms are pushed to be both responsive to local needs and globally integrated—a hallmark of the "transnational organization."

3. All multinationals face transnational pressures, but not with equal force. HRM can help firms align local responsiveness with a high degree of global integration.

4. In transnational firms, HRM has increasingly been acknowledged as one of the key tools to implement global business models and build long-term competitive advantage.

5. To add long-term value, people management has to support the development of organizational capabilities that differentiate a multinational from its competitors.

6. The important guiding principles of HRM are internal consistency of human resource management and work practices; differentiation among employee groups, between locations, and from other competitors; and balancing dualities.

7. Every international firm has to cope with a number of basic but vital HRM tasks: attracting and recruiting, managing and rewarding performance, and developing and retaining people. The core HR task—getting the right people into the right place at the right time—is an enabling capacity that must not be neglected.

8. The HR function covers three roles: contributing to business decisions; providing HR expertise; and delivering HR services. Each of these distinct but interrelated roles is important and needs to be staffed by competent HR professionals.

9. Competencies, commitment and competitiveness are the key outcomes of HRM—competencies that underlie organizational capabilities; commitment to the organization as well as to its strategies and plans; and long-term competitiveness.

10. Organizational effectiveness is inherently paradoxical, requiring steering between opposing forces. Two key dualities which need attention are local responsiveness *and* global efficiency, and resource leverage *and* resource development.

NOTES

1 Berg and Fast, 1983; Hastings, 1999; Bartlett and O'Connell, 1998.
2 Siegel and Larson, 2009.
3 Björkman and Galunic, 1999; Björkman, Galunic, and Lockard, 2015; Siegel, 2008; see www.lincolnelectric.com.
4 Moore and Lewis, 1999.
5 Ibid., p. 230.
6 Carlos and Nicholas, 1988. On the other side of the world, southern Chinese clans spread their hold across Southeast Asia in the fourteenth and fifteenth centuries.
7 In academic terms, this is known as "agency problems" and concerns the extent to which self-interested agents will represent their principal's interest in situations where the principal lacks information about what the agent is doing. According to agency theory, principals can invest in collecting information about what the agent is doing or seek to design an incentive system such that the agent is rewarded when pursuing the principal's interests.
8 Wren, 1994.
9 Even by the early 1990s, FDI had only rallied to around 8.5 percent of world output (Jones, G. 1996). The latest data show the stock of outward FDI to be 33.7 percent of global GDP in 2014 (World Investment Report 2015, UNCTAD—available at http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf).
10 Chandler, 1990.
11 Schisgall, 1981.
12 Jones, G. 1996, p. 173.
13 Price Waterhouse and Coopers & Lybrand later merged to form PricewaterhouseCoopers (PwC).
14 Vernon, 1977.
15 FDI refers to investments in units abroad over which the corporation has control, thus excluding purely financial (portfolio) investments.
16 Vernon, 1966; Stopford and Wells, 1972; Johanson and Vahlne, 1977.
17 Ashkenas *et al.*, 1995.
18 Such clusters of critical factors helped particular nations to develop a competitive advantage in certain fields—such as German firms in chemicals or luxury cars, Swiss firms in pharmaceuticals, and US firms in personal computers, software, and movies.
19 At the same time, Chinese outward FDI also increased dramatically. In 2014, Chinese outward FDI was second only to that of the US (World Investment Report 2015, available at http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf).
20 See http://fortune.com/global500/.
21 Bartlett and Ghoshal, 1989. The origins of the aphorism apparently go back to urban planning in 1915, and it is today used by governments as well as business corporations. To this we can add Hedlund's (1986) related concept of *heterarchy* and Prahalad and Doz's (1987) studies on the

multi-focal organization, all of which have origins in Perlmutter's (1969) geocentric organization. See Westney (2014) for an overview of research on the organization of multinational corporations.

22 Doz, Bartlett, and Prahalad, 1981; Doz and Prahalad, 1984, 1986.

23 Bartlett and Ghoshal, 1989.

24 The original company name of Panasonic was Matsushita Electric Works.

25 Since the term is generic, we use "international" when referring to Bartlett and Ghoshal's (1989) use of the term.

26 Although NEC clearly had the grand vision, with its notion of combining computers and communication (long before the emergence of Cisco), it was unable to implement that vision. A big part of the problem is that it was never able to globalize and go where the talent was.

27 A good example of this change is in the pioneering research on corporate strategy of Porter (1980). Porter argued that strategy was choice, and his data showed that there was a clear choice between two generic strategies: cost differentiation (low cost) or market differentiation (customer orientation). As he put it, firms that pursued both low cost and high customer orientation were stuck in the middle—lower on indicators of success such as profitability. But Porter's data had been collected in the 1960s and 1970s, before globalization began to have its impact. By the time that his influential work on strategy was published, corporations were struggling to find ways of doing things better *and* cheaper. It was no longer *either-or* but *both-and*.

28 Ghoshal and Bartlett, 1998, p. 65.

29 Rosenzweig and Nohria, 1994; Björkman and Lu, 2001.

30 See Nohria and Ghoshal (1997) for a classification of the business environments of multinational firms.

31 Martinez and Jarillo, 1989.

32 Edström and Galbraith, 1977.

33 "Three times the number of managers were transferred in Europe at [one company rather than the other], despite their being of the same size, in the same industry, and having nearly identical organization charts" (Edström and Galbraith, 1977, p. 255).

34 Perlmutter, 1969.

35 Ibid., p. 13.

36 Michael Porter (1985), who laid much of the foundations for the field of strategic management, noted that "horizontal strategies"—what was to be more widely known as global integration—are the most important contribution for HRM.

37 See, for example, Pucik (1984a, 1992), Taylor, Beechler, and Napier (1996), De Cieri and Dowling (1999).

38 Cited by Bartlett and Ghoshal (1992).

39 Porter, 1980.

40 Barney, 1991.

41 Boxall, 1996.

42 Grant, 1996, p. 377.

43 The term "dynamic capabilities" is used to describe the firm's ability to create new organizational capabilities in response to changes in the environment (Teece, Pisano, and Shuen, 1997; see Zollo and Winter, 2002, for a slightly different definition).

44 Grant, 1996; see also Ulrich and Lake (1990) for an early HRM-based discussion of organizational capabilities. For a contemporary perspective on organizational capabilities, see Teece (2014).

45 A psychological contract is the (often informal) perceptions of the individual and organization of the employment relationship, including the reciprocal promises and obligations implicit in it (Rousseau, 1995; Guest and Conway, 2002).

46 Barney, 1991.

47 Enabling capabilities is sometimes referred to in the literature as *ordinary* capabilities.

48 The concept of functional and coordination capabilities was developed in collaboration with Robert Diab. For an empirical application see R. Diab and V. Pucik, "Competing on Capabilities: Can China's Auto Parts Companies Become Global Tier-One Suppliers?" *China Europe International Business School Working Paper*, 2015.

49 Merck KGaA holds the global rights to the name and the trademark "MERCK." The exception is North America, where it is represented by the EMD brand, which stands for "Emanuel Merck Darmstadt." US-based Merck & Co., which was a subsidiary of Merck KGaA until it

was expropriated in 1917, holds the rights to the name and the trademark "MERCK" in North America. In the rest of the world the US company operates as MSD, Merck Sharp & Dohme, or MSD Sharp & Dohme.

50 Human Resource Management International Digest, 2007.

51 See Boxall and Purcell (2003) for a presentation and discussion of the "ability, motivation, and opportunity" (AMO) model.

52 Becker *et al.*, 1997.

53 For details on the evolution of Lincoln Electric's approach to HRM, see Berg and Fast (1983) and Björkman and Galunic (1999).

54 Siegel, 2008.

55 Bacon, 1999. Another example is a collection of studies by British researchers on employee experiences with HRM (Mabey, Skinner, and Clark, 1998).

56 It is particularly important that comparable employees in the same location are treated similarly (Baron and Kreps, 1999).

57 Ibid., 1999.

58 See Baron and Kreps (1999) for a detailed discussion of the importance of consistency between HR practices, notably in Chapter 3.

59 Bowen and Ostroff (2004) conceptualize HRM as a signaling system. When HR practices send distinct and consistent messages, employees are motivated to understand and adopt attitudes and behaviors consistent with the strategy and goals of the firm.

60 Tanure, Evans, and Pucik, 2007. Legge (1995) critically elaborates on a long-standing clash between the rhetoric and the reality of HRM in Europe.

61 Kepes and Delery, 2007.

62 There may also be some differentiation across business lines. This fourth aspect of differentiation is particularly relevant when business units differ in the organizational capabilities they use to compete.

63 Gonzáles and Tacorante, 2004. However, it must be noted that the classification of employment types is a considerable challenge in empirical research.

64 Lepak and Snell, 2002.

65 See Chapter 7 for a discussion of this point.

66 Lincoln's management might have done a better job in managing a new approach to people management in the acquired units. We discuss management of change and M&As in Chapters 10 and 12.

67 Liker and Hoseus, 2008.

68 "P&G Leadership Machine," *Fortune*, April 13, 2009, p. 16.

69 This refers to the classic principles of differentiation and integration in organizational design. See Lawrence and Lorsch (1967), Mintzberg (1979), Galbraith (1977), and many other works in this domain.

70 These social mechanisms are discussed in Chapter 5.

71 The consulting firm McKinsey coined the "talent war" expression to capture the reality in many industries (Chambers *et al.*, 1998).

72 Sparrow, Brewster, and Harris, 2004.

73 Lawler (2003a) summarizes the research on this issue.

74 Readers may be familiar with David Ulrich's well-known so-called Four Box Framework (Ulrich, 1997), with two operational and two strategic roles. Ulrich suggests that there are two operational HR roles: that of the "administrative expert" and that of the "employee champion." Our HRM service delivery role incorporates Ulrich's administrative expert role, while our HRM development role contains elements of administrative expert and also elements of Ulrich's strategic/long-term roles of the "strategic partner" and "change agent." Finally, our business support role is closest to Ulrich's strategic partner and change agent but also contains aspects of the employee champion. More recently, Ulrich and Brockbank (2005) identified five roles for the HR function: employee advocate, human capital developer, functional expert, strategic partner, and HR leader.

75 We will return to this question in Chapter 14.

76 Ulrich and Brockbank, 2005.

77 This is discussed in Chapter 8. As we note there, these global open job markets are helping IBM achieve its vision of becoming a globally integrated enterprise.

78 Fair process in decision-making is referred to throughout this book but particularly in connection with managing change in Chapter 10.

79 Psychological empowerment is another important attitude. The individual's perception of being able to decide on and/or influence relevant issues related to his or her own work is one integrated part of psychological empowerment; the feeling of having the necessary knowledge and skills is another. Both academic research (e.g., Spreitzer, 1996) and company anecdotes confirm that psychological empowerment has a positive effect on company performance. For research on affective organizational commitment, see Allen and Meyer (1990).

80 For a review of such studies, see Kuvaas (2008).

81 Huselid (1995), Lepak and Snell (2002), and Guthrie (2001), respectively.

82 By 2009, the name of the company had been changed to Hydro and only the metals industry business had been retained.

83 Quinn and Rohrbaugh, 1983.

84 Evans and Doz, 1989; Evans and Doz, 1992; Evans and Génadry, 1998. See also Smith and Lewis (2011) and Smith (2014).

85 Historians have been well aware of these swings. Indeed Arnold Toynbee's monumental *A Study of History* is built on the insight that the decline of civilizations occurs when a society pursues its success formula to excess (Toynbee, 1946). One of the earliest articles on duality theory, on the theme of organizational seesaws, emphasized this point (Hedberg, Nystrom, and Starbuck, 1976).

86 Greiner, 1972; Tushman and O'Reilly, 1996.

87 Organizational ambidexterity is discussed by O'Reilly and Tushman (2013) and by Birkinshaw and Gupta (2013). We explore this and the related concept of strategic agility in Chapter 10.

88 March, 1991.

89 Evans and Génadry (1998) argue that it is tension between opposites that should be the dependent variable in organizational research.

90 Hampden-Turner, 1990a.

91 Hampden-Turner, 1990b.

92 Evans and Doz, 1989. Similar examples of steering are provided by Brown and Eisenhardt (1997, 1998). They show how successful firms in fast-moving industries steer between the need for semi-structures (clarity of roles, deadlines, and priorities) and improvisation (opportunism and open communication).

93 See Klarner and Raisch (2013) for research on "rhythms of change" in the context of the change–stability duality.

94 The implications for leadership are the subject of more and more frequent study; see Evans (2000) and Lewis, Andriopolous, and Smith (2014), as well as Zhang *et al.* (2015) and Nakarni and Chen (2014) for empirical studies on paradoxical leader behaviors.