chapter

2

Becoming Locally Responsive

SUMMARY

Challenge

As companies expand abroad, responding to multiple local contexts and differentiated needs becomes increasingly complex—and difficult

Analysis

For effective local responsiveness, companies must be able to learn about three key dimensions of the context:

- Cultural (knowing yourself and others)
- Institutional (knowing the socio-political context of where you are)
- Network (knowing whom you talk to)

Solutions

- Cultural models help identify local needs, but use them with care to avoid unhealthy stereotypes
- Start with the home country as a first step towards understanding how institutional contexts influence HRM practices
- Step outside the "comfort zone" as communication quality depends on diversity of information
- Localization starts at the head office and requires sustained commitment
- To go local—adapt ... but don't always play by the local rules

eBay versus Alibaba in China

In March 1998, Meg Whitman was recruited to become the CEO of eBay—three years after the French entrepreneur, Pierre Omidyar, had founded the e-business firm. At the time, eBay had only 50 employees, US$4.7 million in revenues, and operated only in the US. When she stepped down as CEO of the California-based firm ten years later, eBay was present in close to 40 countries and had more than 15,000 employees, approximately 100 million active users, and about $8 billion in annual revenue.[1] By any standards, eBay is a highly successful multinational corporation. However, in spite of its market dominance in many countries around the world, it has struggled to grow in some key markets in Asia.[2]

eBay's entry point to Asia was Japan in 2000. Its business model for Japan, as for all the other international markets it had previously entered successfully, was essentially the same as for the US—notably the user fee structure and no media advertising. Its local Web site was also similar to the company's US version, with no special features to attract and serve local users. However, eBay was not the first mover in the Japanese market. Its US competitor Yahoo had already formed a joint venture with the Japanese Internet company Softbank and invested heavily in an aggressive advertising campaign to promote its services.[3] By the time eBay went online, following the lengthy process of building its 100 percent-owned company from scratch, Yahoo had already built a loyal customer base that eBay was not able to seduce away. Two years after its entry to Japan, eBay pulled out.

As the company looked at other opportunities in Asia, eBay's management was determined to learn from its failure in Japan. Rather than starting from zero, eBay entered Taiwan, Korea, and India through partnerships and partial acquisitions of local firms. This was also the strategy chosen in potentially the biggest market opportunity of all: China. In March 2002, eBay first bought a 33 percent stake and then full control in EachNet, China's first and largest online consumer-to-consumer (C2C) trading site led by a Shanghai native who had graduated from Harvard and developed EachNet with eBay as his model. Within a short time, eBay/EachNet had become the clear market leader for C2C business in China, with a dominant 85 percent market share. EachNet's staff were Chinese, but since its outset it had been modeled on eBay.

However, local competition began to push back very quickly.[4] The biggest challenge came from a start-up formed by Chinese Internet entrepreneur Jack Ma. Ma already had a highly successful business-to-business auction site called Alibaba (in which Softbank from Japan and later Yahoo were major investors). He was concerned that eBay/EachNet would establish a beachhead from which to attack his very profitable B2B activities. So, in 2003, Ma locked up his team for six months in his house to set up his own e-commerce company Taobao ("hunt for treasure") as a direct competitor to eBay. "[eBay and Yahoo] are the sharks in the ocean, and we are the crocodiles in the Yangtze River," said Ma. "When they fight in the Yangtze River, they will be in trouble. The smell of the water is different."[5] Its portal was crowded with multicolored links that appealed to the Chinese user, contrasted with the clean design of eBay/EachNet.

In China as elsewhere, eBay added fees based on the value of a deal to the listing fees that EachNet charged. Taobao did not charge any such fees and Ma promised that his company would not do so for at least three years.[6] Faced with the eBay giant, Taobao's employees were encouraged to "do a handstand" to see the world differently, finding solutions to the tough competition. While eBay's Chinese site had a layout and features similar to those in rest of the world, Taobao presented a site full of popular local features (such as horoscopes). Critically, Taobao developed a new payment system linked to physical delivery of the goods, as Chinese customers did not fully trust the credit card-based systems like PayPal that eBay was using. Taobao—unlike eBay—also allowed the seller and buyer to interact directly. In a society that was still uncomfortable with the Internet, this was an effective way of dealing with issues of trust among people who do not know each other personally. Finally, to build customer confidence, Taobao decided to provide customer service support by telephone, again, not something supplied by eBay.[7]

The challenges of integrating EachNet and eBay further aggravated the latter's problems. Many members of the original EachNet team left the company, feeling that they had been sidelined after the acquisition, when eBay managers from places like Germany and Taiwan were brought in to help with the integration. In order to achieve economies of scale, eBay moved EachNet's Internet platform to its US-based global server, as it had done systematically when integrating other foreign units. In the process, several locally developed design features were removed. Once the site was on the global platform, requests to localize the content of the Chinese site had to be approved from the US. Local employees felt that headquarters "did not listen to them."[8]

Despite following Taobao's example with free product listing, eBay's market share was down to 20 percent by the end of 2006. Although Meg Whitman had promised, after the failure in Japan, that eBay would do a better job in adapting its activities to the local market in China, the company was unable to do so. In December 2006, eBay announced a fresh start, forming a joint venture with Tom Online, a wireless Internet company controlled by Hong Kong tycoon Li Ka Shing.[9] All eBay/EachNet business would be merged into a joint venture managed by Tom Online; only eBay China's global trading remained independent. In 2014, eBay had a 2 percent market share.

In 2014 Alibaba, now the world's largest Internet retailer, prepared to enter the US market by recruiting a former US Treasury chief of staff to help tailor its international strategy. Rather than taking Amazon and eBay head-on in their home territory, the more conservative approach was to allow US retailers such as Nieman Marcus to sell to Chinese consumers.[10] Will Alibaba succeed in the US or fall into the same traps as eBay in China?

OVERVIEW

The story of eBay in Asia provides a vivid example of the potential problems facing multinational corporations that fail to adapt to local demands and competitive conditions. In this chapter we examine how firms respond to the diverse environments they face in international markets. Local responsiveness involves responding to differentiated needs in different markets and to the local context. Companies that focus on responding to local conditions take a *multidomestic* approach to management.

In this chapter we examine how companies can deal with three sources of diversity. They must know themselves and others (cultural diversity), know where they are (institutional diversity), and know whom they talk to (network diversity). Then we discuss how they can localize by attracting and retaining local managers, though surprisingly this all starts at the head office. In conclusion we observe that local responsiveness does not necessarily mean playing by the local rules.

THE IMPORTANCE OF LOCAL RESPONSIVENESS

The managers of subsidiaries in multidomestic firms have targets that they must meet, but they can achieve them in a way that is locally responsive. Local responsiveness represents the capacity to sense and answer to the varied needs of customers and other stakeholders. At the core of the multidomestic strategy is the argument that the capability of responding in a locally appropriate way helps to overcome the "liability of foreignness" that firms may suffer from when entering new markets.[11] This liability comes because foreign companies do not understand the local culture, institutions, and networks. As we have seen in the case of eBay, not knowing how to manage in the unfamiliar environment, and/or not having products and services that fit local requirements, puts foreign companies at a disadvantage compared with their local competitors. Internet companies in particular may fall into the trap of thinking that users all over the world are the same.

Local responsiveness was the route followed early in the internationalization process by companies such as Nestlé and Unilever at the beginning of the twentieth century. In an era when communication and transport were restricted, customer preferences around the world were fragmented. Perhaps more importantly in those days before modern logistics, the cost and delay of shipping goods internationally offset the economies of global mass production for all but a limited range of products. However, as trade barriers decreased and technologies increased our ability to overcome geographic barriers, companies began to feel fewer pressures to be responsive and focused more on capitalizing on economies of scale.

More recently, the market leaders have become more evenly matched on access to capital, know-how, and technology. In a world of increased global connectivity,[12] local responsiveness has acquired additional value as a source of competitive advantage. Even Coca-Cola, which for most of its existence constituted the archetype of a firm pursuing a meganational strategy, felt the need to "rediscover" its own multi-local heritage, triggered by the slow responsiveness of the global headquarters in Atlanta to changing local markets and to food safety incidents around the world.[13]

In the process of "rediscovering" local responsiveness, our understanding of it has also changed. The term "local" used to imply "national," whereas today it means "differentiated." Nations remain important drivers of differentiated needs, but they are by no means the only ones. One of the challenges for multinational companies is to respond to differentiated needs more finely, market by market. In fact, "local" refers to any market that is distinct from others.

In addition, cultural distance remains important in our global era. From the multinational firm's point of view, some regions and markets may be more distant than others.[14] For example, research on foreign companies in Brazil revealed that those coming from countries with strong ties to Brazil (in terms of language and institutional similarity, geographical proximity, colonial history, and immigration) were usually more successful than firms from countries with weaker ties to the country.[15] Also, there is some evidence that firms moving step-by-step to culturally distant countries, after establishing a presence in more proximate countries, are more successful than those that expanded by directly entering distant markets.[16] Given such findings one might urge managers to pay careful attention not just to market opportunities but also to ease of entry in terms of social, cultural, and institutional factors, especially with respect to their impact on human resources.

Business Advantages of Local Responsiveness

A locally responsive company is likely to be more receptive to local trends, emerging needs, and product usage patterns—and therefore less likely to miss subtle market opportunities. By presenting a local face and acting like a domestic firm, the foreign firm may reach a wider customer base and compete more effectively in local labor markets. Responsiveness also includes a firm's business practices, such as the way it handles relationships with suppliers, distributors, and local government, and the approach it takes to people management.

The dimensions of local responsiveness come from a mix of market, organizational, and political considerations (see the box "Business Dimensions of Local Responsiveness").

Business Dimensions of Local Responsiveness

Industry characteristics

In certain business sectors, there is little competitive advantage to be gained from standardizing or coordinating across different subsidiaries. For example, nonbranded foods and small household appliances face weak forces for global integration because of an absence of scale economies. Cement companies, such as Lafarge and CEMEX, engage heavily in local production in every country they have entered. This is largely because the shipping and tariff costs neutralize any cost advantages of centralized sourcing.

Customer needs

Historically, branded packaged goods companies, such as Danone (foods) or Unilever (nondurable goods), have tended to respond to different customer expectations, preferences, or requirements. But even businesses with global formulae, such as McDonald's or Disney, may be forced to modify their offerings to cater to local traditions or expectations. For example, European dining habits forced both Disney's theme park in Paris and McDonald's European franchises to abandon cherished no-alcohol policies applied in the home market.

Local substitutes

Competition from local products or services with different price/performance characteristics may lead a company to local adaptation. Nestlé varies its infant cereal recipes according to local raw materials—in Europe they are made with wheat, in Latin America with maize and sorghum, and in Asia with soy. Whirlpool, contrary to its worldwide policies, introduced a locally manufactured brand of appliances in Eastern Europe to compete against low-priced competition.

Markets and distribution

National differences in market structure and distribution channels can have repercussions on pricing, product positioning or design, promotion, and advertising. For example, the distribution infrastructure, particularly in emerging markets, may require adjustments to product design or packaging in order to cope with the challenges of dust, heat, or bumpy roads.

Host government regulations

Host government concerns—for national development or national security—may force a business to be locally responsive. Petrochemical firms have to build close relationships with national authorities controlling a resource that is critical for economic development. Local content requirements can force a firm into development partnerships with suppliers. Retail practices that are standard in the US, such as opening 24/7, or refunding the price difference on any item sold for less elsewhere, are illegal in Germany.

Conforming to local business practices and developing ties to local authorities are especially important. If a firm becomes a local insider, it is more likely to have a say in the shaping of new policies and regulations and to be invited to play a significant role in industry or trade associations. In this way it can gain valuable information and have a better chance of participating in local deals. As global oil companies like Shell and Exxon recognize, it is important to interact closely with local authorities in the regulated world of petroleum exploration and marketing. However, there are also potential dangers. Being too close to the authorities can create its own risks, for example, if the local government comes under attack for questionable practices.[17]

Another example is from the Internet search industry. For several years Google had a Chinese-language version of its search engine (google.com) that operated outside of China. However, the Chinese government closely monitored the search engine, continuously using a firewall to block access to sites blacklisted by the government and slowing down the search in general. In 2006, Google decided to open up a new Chinese-speaking version in China (google.cn), and the company agreed to adhere to Chinese self-censorship laws and regulations.[18] However, the decision by Google to follow Yahoo and Microsoft in accepting self-censorship in China was heavily criticized in the US.[19] When Google reversed course in 2010 in response to a hacking attack originating in China, announcing that it would no longer censor searches there, the Chinese authorities retaliated. Access to most Google products has been essentially blocked (including Gmail and Google Scholar); whereas a third of all searches in China were on Google in 2009, it had less than 2 percent market share in 2014.

People Challenges of Local Responsiveness

Alongside the business arguments for local responsiveness, there are equally compelling arguments for taking a local orientation in people management. Of all the management domains, people management is generally seen as the most sensitive to local context.[20] Cultural differences are one reason, but by no means the only one. National regulatory pressures are equally if not more important—on workplace representation, employee participation, fiscal incentives for training, acceptable practice when hiring and firing, working hours, and so on.

Some countries regulate employment practices closely, whereas others leave more discretion to the employer. For example, firms in the US can set their own overtime policies and seldom pay professionals for overtime. In Japan such practices are nominally illegal yet not uncommon, but in Germany they would land the company in court. Moreover, HR practices are typically subject to scrutiny by labor unions, whose strength and attitudes to management vary by nation and industry (more about this later in the chapter).

These characteristics make people management more context-specific than accounting, marketing, or manufacturing, which tend to adhere more closely to parent company norms. Because people management tools are context-specific, one response is simply to delegate HR practices entirely to the local subsidiaries—an approach that might be characterized as "When in Rome, do as the Romans." Yet this is too simplistic.

The adjustment of HR practices to the local context is often framed as a Hamlet choice: *to adjust or not to adjust, that is the question.* In fact, people management is not a monolithic domain. For example, research on foreign companies in China shows significant differences in the degree of local responsiveness of recruitment, training, compensation, performance appraisal, and promotion criteria,[21] and we explore reasons for these differences in this chapter. Also, HR practices for rank-and-file employees may correspond more to local norms than practices affecting executives.[22]

Some HR practices are more contextually bound than others. Some can be regarded as high context, others as low context, to borrow from Hall's terminology.[23] Low-context practices are more explicit, based on clear frameworks and applied in a similar fashion across cultures—such as job design criteria and objectives, and measures of employee performance. High-context practices have a stronger dependence on local norms and values, such as conflict resolution, and how objectives are set and performance appraisals conducted.

UNDERSTANDING DIVERSITY

To capitalize on the advantages of responsiveness companies must respond to diversity across countries. In this section, we focus on the sources of diversity across countries and how international firms respond to this diversity in the way they manage people.

We present and discuss three perspectives for understanding diversity. They relate to the cultural differences between the context in which the parent company and its local subsidiary are embedded (know yourself and others), to the institutional configuration of the environment (know where you are), and to the company's way of networking (know whom you talk to).

Know Yourself and Others: The Cultural Perspective

This perspective maintains that the values (i.e., notions of what is desirable) shared by people or members of a social group are at least to some extent shaped by collective beliefs, behavior, and artifacts.[24] Members of a society internalize certain values, beliefs, and behavioral norms that become more or less taken for granted. Culture is believed to influence and thus differentiate management practices across societies as well as other collective groups such as industries and organizations.

From the cultural perspective, attention typically focuses on how the local culture influences the management practices of foreign firms in the country. But the starting point for sensible local responsiveness is recognizing that the parent organization is embedded in the societal culture of its home country. This cultural embeddedness may have an effect on its international strategy, on how the multinational controls and coordinates its foreign units, and on the views held by parent company executives about effective management practices. Simply put, before you try to understand other people as well as the practices and strategies that may be effective abroad, you had better understand yourself. In this chapter we will focus on societal culture, postponing our discussion of organizational culture to Chapter 5.

Mapping Cultural Differences

The most influential body of literature concerning values in international business relates to cultural differences between countries. Its foundation is Hofstede's landmark book *Culture's Consequences*, which describes research conducted 40 years ago grounded in one of the largest databases about workplace values ever analyzed—attitude surveys of 116,000 IBM employees in 53 countries.[25] The study showed that despite IBM's strong integrative culture, national culture played an important role in differentiating work values.

Hofstede identified five "universal" dimensions along which cultures could be compared: individualism/collectivism, power distance, uncertainty avoidance, masculinity/femininity, and long- versus short-term orientation. Hofstede argued that these five dimensions influence the way in which organizations are structured and managed.[26] His quantitative measures of culture gave birth to the notion of "cultural distance" between home and host country and allowed the cultural perspective to infiltrate other fields of international business research. Others showed that there were bigger differences in managerial beliefs among people working for the same company in different nations than among people working for different companies within one nation.[27]

Following a similar line of inquiry, Trompenaars and Hampden-Turner showed the importance of opposing values, such as achievement versus ascription and universalism versus particularism.[28] They identify seven cultural "tensions" (see Table 2-1) that they believe companies (and managers) should be aware of, since these could influence the transferability of management practices across borders.

A multinational team of researchers (GLOBE) conducted another large-scale study of cultural differences, based on data from over 17,000 managers in 62 societies.[29] Partly overlapping with Hofstede's conceptualization of cultural dimensions, the GLOBE project identified nine cultural dimensions along which societies can be ranked.[30] Table 2-2 shows the scores for a number of countries.

GLOBE dimensions, like differences around assertiveness, allow us to understand the problems of interpersonal relations and teamwork when working across cultures. When there is a conflict or a problem that arouses strong feelings, people from some cultures (Israel and the Netherlands, for example)

TABLE 2-1
Seven Cultural Tensions

1. **Universalism versus particularism:** When no code, rule, or law seems to cover an exceptional case, should the most relevant rule be imposed, or should the case be considered on its merits?
2. **Analyzing versus integrating:** Are managers more effective when they break up a problem or situation into parts or integrate the parts into a whole?
3. **Individualism versus communitarianism:** When people reach decisions or make choices, should they consider their own best interests, or should they base their choices on the considerations of the wider team, organization, collectivity, or community to which they belong?
4. **Inner-directed versus outer-directed:** Should managers be guided by internal standards, or should they be flexible and adjust to external signals, demands, and trends?
5. **Sequential versus synchronic view of time:** Should managers get things done as quickly as possible, regardless of the negative impact that their actions may have on others, or should they synchronize efforts so that completion is coordinated and the negative impact minimized?
6. **Achieved versus ascribed status:** Should individuals be judged primarily or solely by their achievements, or by their status, as reflected in age, length of service, or other ascriptions?
7. **Equality versus hierarchy:** Should subordinates be treated as equals and allowed to exercise discretion in decision-making, or should relationships be delimited by hierarchy?

Source: Adapted from C. Hampden-Turner and A. Trompenaars, *Building Cross-Cultural Competence* (New York: Wiley, 2000).

TABLE 2-2
The GLOBE Study on Cultural Practices
(Scale 1–7)

Dimension	US	Germany[A]	France	Sweden	Russia	China	Japan	Brazil	Egypt
Power distance: Extent to which members of a collective expect power to be distributed equally.	4.9	5.3	5.2	4.9	5.5	5.0	5.1	5.3	4.9
Uncertainty avoidance: Degree to which a society, organization, or group relies on social norms, rules, and procedures to alleviate the unpredictability of future events.	4.2	5.2	4.4	5.3	2.9	4.9	4.1	3.6	4.1
Societal collectivism: Degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.	4.2	3.8	3.9	5.2	4.5	4.8	5.2	3.8	4.5
In-group collectivism: Degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.	4.3	4.0	4.4	3.7	5.6	5.8	4.6	5.2	5.6
Performance orientation: Degree to which a collective encourages and rewards group members for performance improvement and excellence.	4.5	4.3	4.1	3.7	3.4	4.5	4.2	4.0	4.3
Assertiveness: Extent to which individuals are assertive, confrontational, and aggressive in their relationships with others.	4.6	4.6	4.1	3.4	3.7	3.8	3.6	4.2	3.9

Future orientation: Extent to which individuals engage in future-oriented behaviors, such as delaying gratification, planning, and investing in the future.	4.2	4.3	3.5	4.4	2.9	3.8	4.3	3.8	3.9
Humane orientation: Degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others.	4.2	3.2	3.4	4.1	3.9	4.4	4.3	3.7	4.7
Gender egalitarianism: Degree to which a collective minimizes gender inequality.	3.3	3.1	3.6	3.8	4.1	3.0	3.2	3.3	2.8

[A] Refers to West Germany (former Federal Republic of Germany)

Source: R. House, P.J. Hanges, M. Javidan, P.W. Dorfman, and V. Gupta (eds.), *Culture, Leadership and Organizations: The GLOBE Study of 62 Societies* (Thousand Oaks, CA: Sage; 2004).

will tend to be direct and assertive in confronting what they see as the issue; others will find this distressingly aggressive, to the point of loss of face (Japan and China). In low-context cultures such as the US, words like “Yes” have a clear meaning, indicating assent. But in high context cultures like Japan, the meaning of a word depends on the context in which it was expressed. When used as a response to a question from an angry superior, “Yes” may mean that “the circumstances give me no choice except to respond in this way.” Indeed, as both GLOBE and Hofstede suggest, there are differences from one culture to another in the extent to which subordinates feel free to challenge their bosses (power distance). Without such understanding, conflict can split the team and undermine performance.[31]

The Cultural Context of Motivational and HRM Theories

The proponents of the cultural perspective on organizations argue that cultural values condition organizational practices. Consider the case of people management. Hofstede argued that the motivation theories dominating management thinking reflect American cultural values, especially individualism.[32] They stress achievement and self-actualization as the ultimate human needs. These assumptions may not hold true in other cultures.

Indeed, one can tease out some of the cultural assumptions underpinning standard HR practices, from selection to socialization.[33] For example, some of the underlying assumptions in the area of performance management have particular resonance in the US—the idea that goals can be set and reached (assuming control over the environment) and that objectives may be given a 6- to 18-month time frame (assuming that time can be managed). Managers and subordinates are expected to engage in a two-way dialogue to agree what has to be done, by when, and how. Again, this assumes that power differences allow this to happen— that employees have the right to input in determining their goals and that they are eager to take responsibility.

Does performance mean the same thing to everyone? Is there an objective best approach to performance management? In the US-influenced rhetoric, performance management is focused on results delivered by the individual. The American advice is: “Begin with an absolute focus on results.”[34] Individual appraisal is crucial for linking results to pay. Contrast this with the Japanese concept of performance management. Toyota focuses on *Kaizen*, or continuous improvement, steered by collective action. *Kaizen* is an umbrella for a variety of processes oriented toward continuous improvement—including statistical tools, total quality management (TQM), suggestion schemes, and small group consultation. Japanese management efforts are directed at supporting and stimulating the efforts of subordinates to improve the processes that generate results, and the time horizon for improvement is longer than in the West. Appraisal focuses on employee skills and efforts (discipline, collaboration, and involvement) that lead to continuous improvement, rather than on short-term results.

In summary, culturists suggest that the development of HRM theories is based on a set of assumptions that are deeply embedded in one culture—the US, where many of the most influential HR scholars and consulting firms are based. This limits the applicability of this template to other cultures. The ultimate expression of this cultural perspective is the memorable description of HRM as "a contemporary manifestation of the American Dream."[35]

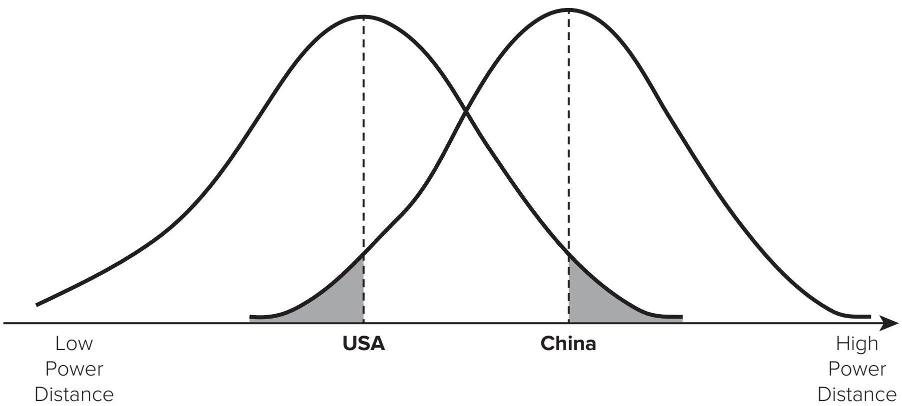
Should Companies Adjust HRM to the Local Culture?

So far we have focused on the influence of the firm's home cultural context on HRM. However, to what extent should the cultural environment of a subsidiary abroad influence local HR practices? Conventional wisdom suggests that national culture matters a great deal. Although we agree that cultural issues are of significance for international HRM, we also believe that it is important to examine critically the assertion that multinationals must adapt to the local national culture.[36]

First, the within-in country differences in values turn out to be substantially larger than the differences between countries. Studies show that the passport explains less than 5 percent of the global variance between individuals.[37]

Second, these studies also point to the considerable overlap in values by individual members of society that can be found even between countries that are culturally distant (see Figure 2-1 for a graphic illustration of this).[38] This means that companies can try to select people in a particular culture who fit with the values of their organization rather than with the typical values of the host nation. For example, in France, Lincoln Electric can recruit and select individuals whose values fit well with Lincoln's famous performance-based

FIGURE 2-1
Distribution of Individual Values in Two Countries



compensation system. In fact, Lincoln has successfully operated in France since 1955 with an HR system that is more like the one it has in its Cleveland plant in the US than those found in local French organizations. This example points to the importance of selection (we discuss this further in Chapter 6).

Third, another assumption behind the culturist argument is that a misfit between national culture and management practice will reduce effectiveness. For example, providing performance feedback that is public will not work in a Chinese culture where maintaining face is extremely important. Indeed, there are numerous stories that testify to the risk of implementing alien HR practices in overseas units. However, there are also examples of foreign and indeed local firms that have successfully introduced HR practices at odds with local values and practices. In Chapter 7 we discuss the case of consumer appliance manufacturer Haier, whose fully transparent performance management system has become famous in China; while controversial, it has helped attract many young employees to join the company.

While the cultural fit argument would lead us to expect that HR managers of different nationalities would have different views about the effectiveness of HR practices, in fact they largely agree on which practices contribute to enhanced firm performance.[39] For instance, HR managers in Japan, China, the US, and the regions of Europe have rated the effectiveness of pay for performance systems almost identically.

Research shows that multinational firms have considerable leeway when deciding which HR practices to implement overseas. It is perhaps more effective to present the HR practices in a way that is compatible with what people perceive to be important in their local culture, as opposed to aligning practices with that culture's average values (see the box "A Commentary on the Culturist Perspective"). For companies trying to adapt their HRM strategies to local needs, it is not enough to focus on cultural values. The cultural lens needs to be supplemented by consideration of institutional factors.

A Commentary on the Culturist Perspective

Cultural explanations hold intuitive appeal for international managers. They supply multiple plausible interpretations for the many difficulties of working with people from different countries. That is both the strength and the weakness of the cultural perspective.

A compelling case can be made for the importance of the cultural perspective in understanding different attitudes toward authority, teamwork, and conflict resolution.[40] However, as discussed above, the cultural perspective tends to overemphasize value differences and neglect the fact that the cultural traits found in a particular country represent only a central tendency.

Successful people management requires knowledge of differences within a culture as well as across cultures. While cultural distance can be a barrier to effective cross-cultural interaction, another substantial barrier is outsiders' lack of comprehension about diversity *within* a given culture. A potential danger of relying on cultural studies (like those of Hofstede, Trompenaars, and the GLOBE team) is that they create a notion of what all people from a certain country are like. We may have stopped stereotyping gender and race; we need to tackle culture with the same determination.

(*Continued*)

A further reason for caution is that cultural stereotypes are mostly rooted in historical beliefs about people from other countries, and while national cultures seem to change slowly, cultural values and practices do co-evolve as societies are transformed. Mainland Chinese society is a case in point. While China has traditionally been a high power distance country,[41] characterized by high in-group collectivism, young urban Chinese exhibit a considerably higher degree of individualism and a more modest level of power distance. They are also more assertive than the previous generation. Human resource practices that were aligned with traditional Chinese values 20 years ago may not be suitable in China today.

Local managers often use culture as an alibi for failing to introduce change, protecting local fiefdoms against interference from the head office. Because culture is impenetrable, it is difficult to argue against these explanations. When the local manager in Thailand tells the head office that "confronting poor performers is not possible here for face saving reasons," there is some truth in the excuse—but it is also an exaggeration. Often, the approach, rather than the objective, has to be altered.

Know Where You Are: The Institutional Perspective

Management have some discretion in whether or not to adapt to cultural differences but less so to institutional differences between countries.[42] As noted earlier, working practices that are acceptable in one country (like working a 50-hour week in the US) may be questionable in another country and illegal in a third (as a 50-hour week would be in Germany, for instance). This reflects social, legal, and political differences that are captured by the institutional perspective on diversity of management practices around the world.[43]

The Ease of Doing Business index, developed by the World Bank, expresses this well. From an institutional perspective, Singapore is currently seen as the easiest country to do business; it is straightforward to start a new business there, register property, get credit, pay taxes, have a contract enforced, and hire and fire employees. Near the bottom of the table is Venezuela. See Table 2-3 for details.

Let us look at the contrasting institutional environments for human resources in two European countries: Denmark (ranked 10th for Ease of Employing Workers) and France (ranked 148 on the same scale). In Denmark, there are few restrictions on hiring a new worker, considerable flexibility about working hours, and few constraints on firing someone (for example, there is no obligatory legal settlement). This is combined with a union environment, which, for more than 100 years, has favored working through agreements with top management rather than strikes. Denmark has a favorable institutional environment where the responsibility for HRM lies with line managers, with the HR function in a weaker advisory role. By contrast, in France, newly hired employees have by law to be given a permanent contract after an initial trial period; this makes it expensive and difficult to fire people. The working week was reduced to 35 hours in 2000, and after that date, employees could not be made to work longer if they did not wish to do so.[44] The French union environment has a long adversary heritage, and the HR function has by law and by tradition a more powerful role in who is hired and in determining employment conditions.

According to the institutional perspective, there are alternative ways of organizing economic activity (for one well-known example of institutionalist reasoning, see the box "Six Successful Configurations of Capitalism"). The key to understanding business behavior in different countries lies in the interrelationships between economic, educational, financial, legal, and political systems. Societal factors strongly influence issues at the core of people management, such as compensation, training, job design, industrial relations, and by extension company performance.

TABLE 2-3
Ranking of 17 Countries on Ease of Doing Business and Ease of Employing Workers

Country	Ease of Doing Business Rank[A]	Rigidity of Employment Index[B]	Firing Costs (weeks of salary)	Ease of Employing Workers[C]
Singapore	1	0	4	1
Denmark	4	10	0	10
Korea	5	45	91	152
United States	7	0	0	1
United Kingdom	8	14	22	28
Germany	14	44	69	142
United Arab Emirates	22	13	84	47
Netherlands	27	42	17	98
Japan	29	17	4	17
France	31	56	32	148
Spain	33	56	56	160
Italy	56	38	11	75
China	90	27	91	159
Indonesia	114	40	108	157
Brazil	120	46	37	121
India	142	30	56	89
Venezuela	182	79	Not possible	180

[A] This overall index averages indicators on 11 topics such as starting a business, getting credit, enforcing contracts, and paying taxes, though Ease of Employing Workers is not included.
[B] This averages three sub-indices on a 0–100 scale: difficulty of hiring, rigidity of hours, and difficulty of firing.
[C] Overall ranking, averaging the rigidity of employment and firing costs indices.
Source: *Doing Business 2015 Report*, World Bank Group (www.doingbusiness.org). Data for the Labor Market (the three last columns) is from the Doing Business 2009 Report. Ranking reported from 17 out of 189 countries.

Six Successful Configurations of Capitalism

As viewed by sociologists, capitalism is not a single economic approach. Researchers suggest that there are at least six successful configurations of capitalism, each distinguished not only by distinctive differences in ownership patterns and business objectives but also by different employment practices that shape and constrain the way in which companies conduct business.[45]

1. The main purpose of the *Anglo-Saxon individualist form*, dominant in North America and the UK, is to provide returns to shareholders (shareholder value). The focus on short- to medium-term returns tends to drive HR practices; employment security is relatively limited and firms rely on fluid labor markets to recruit managers and professionals externally as needed.
2. The stakeholder perspective characterizes the more *communitarian European form* in large organizations. Here social contracts and obligations are important: German firms have, for instance, been characterized as having patient capital, with HR practices based on co-determination of employees and management, long-term employment security, and a fairly high reliance on internal promotions.[46]

(*Continued*)

3. The *European industrial district form* of networked enterprise, based on family ownership (but also involving skilled employees committed to the firm), is found in Italy and Scandinavia. Its aim is to optimize the interests and values of the family owners and senior professional managers associated with the firm.
4. The prime purpose of the *Japanese form* of capitalism, with its institutional cross-shareholding and lack of strong owners, is the stability of the organization. Lifetime employment of core employees and slow promotions are its most visible HR manifestations.
5. The *Korean chaebol* is simultaneously oriented toward retaining the influence of the entrepreneurs and their family successors as well as growth strategies supporting national economic development. While labor relations are often contentious, the emphasis until recently has been on lifetime employment of managers recruited from top Korean universities.[47]
6. The *Chinese capitalist form* is represented by family businesses throughout the Southeast Asian diaspora, and increasingly in mainland China. It exists primarily to serve the ambitions of owners, with trusted long-term employees playing important roles in the firm but with relatively few efforts to build formal HR systems.

This is a reminder that although there has been some convergence toward the Anglo-Saxon model of capitalism in recent decades, we can still identify differences across firms in different institutional environments.

The Institutional "Voids" in Emerging Markets

The institutional perspective is helpful in understanding the problems and opportunities of emerging markets, including the so-called BRIC nations (Brazil, Russia, India, and China). In developed markets, companies rely on an institutional structure that is sometimes taken for granted—highways and roads to distribute goods to consumers; vocational schools and universities that supply skilled technicians, engineers, and managers; and legal systems that protect property and allow for the resolution of disputes. In many emerging countries, this infrastructure is poor, indeed sometimes entirely lacking. There is an "institutional void."[48]

The cost and difficulties of adaptation to these institutional voids—the lack of skills that is pervasive in many emerging countries, the bureaucracy or corruption of the local or national government, and labor market practices that are branded as exploitative and unethical back at home—are such that multinational corporations find these markets difficult and expensive to penetrate.

India is a country with many such voids. The strong information technology industry in India exploits these institutional voids. Tata Consultancy Services, Infosys, and Wipro have become global players in providing software services in part because they know how to select, recruit, and train technicians at low cost from a complex web of schools of varying quality, offering salaries that are lower than multinationals would have to provide.

Multinational companies sometimes have to partner up with local governments and educational institutions to create an ecosystem that fills such a void. An example is Rolls Royce who wanted to build an advanced manufacturing and research facility in Asia to produce aero engines and fan blades. Confronted with the lack of skilled aerospace technicians, they built a partnership with the Singapore Workforce Development Agency, the National Trade Union Employment Agency in Singapore, and local polytechnics to develop the necessary training and qualifications programs. This resulted in a steady stream of recruits with the skills for aerospace manufacturing, providing 500 jobs in 2012, the first year of operations.[49]

Labor Relations Varies with the Context

The role of labor unions is a notable example of how the local institutional context can influence a company's international operations. Wal-Mart is well-known for its strong antiunion stance at home in the US, but its employees in China work under a union contract as required by law and enforced by various administrative practices.[50] Restructuring of Pfizer Japan ran into severe problems, forcing a CEO resignation under pressure from the company union—headed by company managers.[51]

Countries differ radically not only in trade union membership but also in collective bargaining coverage and in union involvement in collective consultation and company communications. In some countries like France, unions have an influence that goes far beyond their formal membership; only 7 percent of employees are union members but 90 percent of enterprises are obliged to adhere to collective agreements where unions have a strong role. In the US, only 11 percent of employees are unionized and 15 percent are covered by collective bargaining agreements, whereas more than three quarters of Scandinavian workers are union members and even more are covered by collective bargaining agreements. In Korea with its confrontational heritage, union membership is less than 10 percent today. In Singapore and Japan 18 percent of employees are covered by collective bargaining, but 80 percent in Australia. Worldwide, trade unions have lost membership during the last 30 years, including in Asia, although they have become stronger in China.

The structure of the unions differs significantly. In many European countries as well as in the US, unions are formed mainly around industry sectors and/or professions. However, in Japan it has been common to have separate unions for each corporation. In some countries, like China, the government only recognizes one union, the All China Federation of Trade Unions (ACFTU). All companies there are expected to have trade unions, and even foreign firms that usually resist unionization—such as Wal-Mart—have unions (and sometimes communist party cells) in their Chinese units. The role of ACFTU has traditionally concentrated on welfare issues, but recently the trade union has become much more involved in negotiations about collective contracts for employees and issues related to layoffs and dispute settlement.

In Europe, works councils are typically required in all but the smallest firms, and the European Works Council Directive covers all companies established in the EU member states. Corporate decisions that influence employees in significant ways must be discussed with the works councils. Although these have limited decision-making power, they often serve as important communication channels and as a sounding body for employees. However, from a management perspective, the obligation to discuss decisions in works councils may lead to delays in the decision-making process.

Some regard the influence of national business systems as declining, pointing to the individualization of HRM practices in Japan, to changes in the Korean *chaebol*, and to what Nobel-Prize economist Joseph Stiglitz called the Anglo-Saxonization of management.[52] Indeed, there has undoubtedly been some convergence of multinationals from different countries on an "Anglo-Saxon" model for people and organizational management.[53] However, this convergence may be more nuanced than it often appears. One investigation into the Anglo-Saxon influence on European multinationals reveals important variations.[54] Though French and German multinationals are adopting Anglo-Saxon practices in the fields of executive compensation, job restructuring, and corporate governance, they do so in a local manner. For example, German preoccupations with long-term orientation and social responsibility have been merged with new concerns for shareholder value and responsiveness, leading to distinctly German ways of responding to the latter. Layoffs through restructuring are more moderate than in Anglo-Saxon countries, accompanied by an emphasis on partnerships and cooperation with the workforce.[55]

Overall, the institutional perspective emphasizes that firms are constrained by their local environments. But again there are dangers in relying excessively on this view (see the box "A Commentary on the Institutional Perspective"). Irrespective of institutional constraints, in an increasingly professional and knowledge-based world, employees and managers are more and more aware of management practices in firms from other countries. Executives everywhere are bombarded daily by press reports on the latest global business and management trends in the US and elsewhere. The idea of cultural or institutional cocoons where firms are prisoners of their own national heritage is less and less true. It all depends on whom you talk to and whom you view as role models—and this leads us to the network perspective on diversity.

A Commentary on the Institutional Perspective

Government regulations, educational systems, and political norms vary from one country to another. We apply the institutional perspective when thinking of foreign countries, but for the multinational firm there is a risk of being blind to the extent to which the home country context puts its mark on people management issues, just as home country cultural values do. As a company internationalizes, it should reflect on the way in which the institutional context of its own home country has shaped its HR strategy and how this influences its approach to people management abroad.

Foreign subsidiaries in fact face dual institutional pressures—from the parent organization and from the local environment—which they need to balance.[56] Executives in these subsidiaries, and particularly HR managers, need strong negotiation skills, particularly if headquarter executives are unaware of these local institutional constraints. Headquarters may take a decision to cut headcount or to introduce new work practices globally, and such actions are strongly constrained by the local environment. Local managers cannot simply refuse to comply; they have to be objective about what is feasible and argue cogently for it.[57]

One of the dangers of the institutional perspective is to exaggerate the strength of local institutional pressures. While labor laws and regulations may indeed restrict the range of possible HR actions, local managers often have taken-for-granted views about what works and what does not with respect to the management of people. There may be strong local professional norms concerning what constitutes appropriate corporate practices. For example, many foreign firms regarded the German market as off limits to takeovers until the British mobile phone operator Vodafone shattered the perception of impenetrability by acquiring Mannesmann. German firms such as Daimler and E.ON have eagerly embraced "shareholder value," reorienting their accounting systems to Anglo-Saxon standards as they entered the US stock exchange. We can also observe an increasing number of Japanese corporations divesting unprofitable units and even laying off employees as they restructure their operations.

In this respect, a number of observers foresee a gradual global shift toward the more market-oriented institutional mechanisms prevailing in the US business system. American commentators, in particular, often feel strongly about the virtues of the free market open economy, resenting the degree of state intervention and regulation that prevails in many parts of Europe and Asia. On the other hand, the 2008/9 global financial crisis, ascribed by many to under-regulation (or poor regulation), has further fueled this debate.

Know Whom You Talk To: The Network Perspective

Beyond similarities in cultural values or institutional context, organizations define themselves by the company they keep. Business is conducted through networks and learning or adaptation is guided by connections. Through their networks, multinational organizations face pressures to conform to so-called best practice, and this is particularly relevant to the HR/personnel domain since professional associations have long played an important role in prescribing what is "best" in people management.

The networks to which a company belongs can make a big difference to what it views as important, as demonstrated in a study on HRM in foreign and local firms in Ecuador. The study showed little transfer of HR techniques between multinationals and local firms. Managers in local Ecuadorian firms compared themselves to other local firms, and the multinationals compared themselves to other multinationals operating in the country. They constituted two separate networks with virtually no overlap—and no transfer of know-how.[58] Indeed, one of the clearest findings in network theory is that people network with others who are similar to them.

It is understandable that multinationals do not learn from local firms in countries where local firms are smaller and perceived as less sophisticated than their own subsidiaries. Why would multinationals cultivate contacts with lower-status players? What could they learn from them? Yet a similar phenomenon is also visible in Japan, where one would expect exchange between Japanese multinationals and locally based foreign subsidiaries. In fact, they are two separate worlds. Foreign companies in Japan pay higher wages than local firms, since their salary surveys compare them only with other foreign firms. Most are not even aware that they are paying this *gaijin* tax (foreigner tax) because they would never think of networking with an indigenous Japanese corporation. Some Japanese managers working for foreign subsidiaries even have their own union, the Foreign Affiliated Managers Association (FAMA). These managers seldom cross over to Japanese multinationals or vice versa.

Learning from Friends When Abroad

Managers working abroad have a particular incentive to build networks with those from other multinationals since they are not sure about how specific HR practices will fit into the local context. Expatriates who are responsible for introducing practices that may be risky, expensive, and hard to reverse are naturally keen to discuss the benefits, or frustrations, that others may have experienced when implementing similar changes. As one network expert puts it: "Adopting innovation entails a risk, an uncertain balance of costs and benefits, and people manage that uncertainty by drawing on others to define a socially acceptable interpretation of the risk."[59] And there is evidence that firms tend to imitate changes previously adopted by network peers.[60]

All this suggests that local adaptation of HR policies and practices may be influenced as much by what other foreign subsidiaries are doing, or what regionally based consultants recommend, as by the experience of local firms or best practices back home. A study of foreign firms operating in Russia highlights this three-way tension. It showed that the HR practices of foreign firms "were more similar to their parent firm's practices *and those of other foreign firms operating in Russia* than to HR practices in local Russian firms" (our italics).[61]

Similarly, in China, while some HR managers we interviewed in multinational firms complained about constantly being contacted by local firms interested in learning more about their approach to HRM, foreign firms seemed to be much less interested in learning about HRM in local Chinese companies.[62]

Sharing the same clubs, sending their children to the same schools, living in the same areas, expatriates from different multinationals quickly develop strong ties, especially in developing countries. Such relationships provide natural channels for sharing useful information about what works and what does not. A firm's choice of HR practices therefore also reflects the information received from networks to which its employees belong.

Global Trends—and Fashions

Of course, firms can also look outside their immediate networks for ideas about what they should do and what may work. Increasingly, organizations have access to a kind of surrogate network in the form of cases gleaned from business professors, consultants, management gurus, and journalists. These fashion setters carry best practices and benchmark information across borders, geographical or industrial.[63] Each proposes new exemplar companies and organizational innovations. Companies are exposed to the routines and practices of key international competitors. What self-respecting international manager has not heard of GE's Workout or Toyota's Production System? In a broad sense these companies and practices become part of an organization's extended network—legitimate sources of comparison.

In the 1980s and early 1990s Japanese management was the rage, only to be replaced by global worship of General Electric and its CEO Jack Welch, and then by Apple and Steve Jobs. Through the business media, new leading edge practices reach a broad audience and converge on a company's executives from several points at once. This can create intense pressure to follow suit in order to maintain the appearance of a "legitimate," "modern," or "progressive" organization, as defined by the reference network. This is plain bandwagon imitation.[64]

Access to what is "in" has been spurred by the rapid rise of social media. Executives in Africa, Asia, or South America may be just as familiar as their European or North American counterparts with the latest innovative practices—or raging controversies. Accenture's decision to abolish annual performance reviews drew instant commentaries from HRM experts around the world. When the *New York Times* published an article critical of Amazon's employment practices in its Seattle headquarters,[65] within hours, hundreds of Chinese bloggers commented on its implications for employment practices in China.

International networks may rapidly spread concepts such as value innovation or 360-degree feedback, but successful adoption means that they have to be worked coherently into the fabric of the firm. Indeed a detailed study on the transfer of Japanese TQM (total quality management) practices to five firms in the US showed that while simplified rhetoric may be necessary to kick-start the process of transfer, successful implementation requires detailed technical attention and adaptation to the specific circumstances of the enterprise.[66] Despite initial skepticism, 360-degree feedback can work well in Asian environments but only if attention is paid to issues like respondent anonymity or the impact of *guanxi*. There may be generic ideas, but there are no generic solutions.

A Commentary on the Network Perspective

As employees around the world have ever-expanding access to a variety of information sources (they are also more mobile and some get part of their education abroad), the network perspective will gain even more importance. Broader networks tend to produce more new ideas. As shown by a survey of 25 innovative entrepreneurs and 3,000 executives who have good track records of managerial innovation, innovators carefully maintain broad networks and take every opportunity to seek out the views of others.[67] We will discuss in Chapter 11 how future innovations are less likely to come from the R&D labs of the home country and more likely to spring from combining knowledge through networks of contacts across the world—and the same could be the case for future HRM practices.

In this context, being connected only to those who think like us may foster blindness to how one can take advantage of new opportunities—especially in emerging markets. There, the trendsetters in organizational practices are often local multinationals—for example, Infosys for talent management, Huawei for operational excellence, Lenovo for M&A execution, or Xiaomi for business model innovation. And there is a whole range of up-and-coming innovative companies in many other markets, still operating below the radar of the global business press but already well-known on the social media.

Most large companies today are still less digitally aware than the average teenager, but this will change, as today's teenagers become tomorrow's new employees. However, with the rapid spread of alternative communication platforms, there is a danger that the fascination with the tool may get ahead of the content. We see an increasing number of HR professionals (prodded by their bosses) investing efforts in chasing the latest apps to connect, monitor, and respond to inputs from the virtual world. While a slow response to a critical social-media message may create long-lasting damage, overreaction can be just as harmful.

In order to remain alert to new opportunities to access information, but at the same time to avoid flash-in-the-pan fashions and preserve consistency and a healthy balance of views, we need to be aware of the ways in which our networks shape our perceptions of reality. Homogenization of perspectives leads to impoverished choices. We need to network widely and not just with those that are similar to us. Interacting with external networks is quickly emerging as an important organizational capability.

Five Influences on Decision-Making in the Multinational Enterprise

Cultural diversity, institutional factors, and the company's informal networks shape the ways in which multinational corporations manage people. Practice depends on the context, and all these factors constitute different sources of contextual influence.

A good way of summarizing the challenges of responding to the diversity of a global world is to point out that there are at least five different influences on international HR practices: the *mother country*; the *mother company* and its distinctive culture and institutionalized practices; the *local cultural and institutional context*; *other foreign firms in the country*; and *other global companies* (see the box "Five Sources of Influence on the Multinational).[68] Earlier in this chapter, we emphasized two in particular: the mother country and the local cultural/institutional context. While internal consistency pushes the multinational toward a particular configuration of policies, work systems, and practices, it is subject to the pushes and pulls of many different forces.

Five Sources of Influence On the Multinational

Country-of-origin effect

HR and other corporate management practices reflect cultural and institutional conditions in the home country, and these practices are then transferred to foreign units. The time perspective of the parent company is a case in point. US firms, where the tenure of top managers depends on annual if not quarterly results reported to shareholders, are likely to have a shorter-term perspective than traditional German firms, where bankers and employee representatives may have a strong influence on the board of directors.[69]

Company-of-origin effect

Companies develop distinctive HR practices that are successful at home and then transfer these to foreign environments. Lincoln Electric's story in the late 1980s illustrates this, though the transfer abroad was less successful. When Cisco recruits a native Brazilian engineer for its operations in that country, it is looking for an engineer who deviates from the hierarchic Brazilian norms, someone who is likely to thrive in its competitive networked culture.

Host country effect

Some firms adopt local isomorphism as a strategy—"Strategy may be global, but everything else is local implementation." Companies that expand internationally through acquisition and alliance are more likely to experience the pressures of local isomorphism than those that grow by setting up greenfield sites.

Foreign firm network effect

In situations of uncertainty about what constitutes best practice, organizations often look at others and then mimic what they do or collectively develop a consensus about what to do. As discussed earlier, we often see that the networks to which foreign firms belong produce common notions about appropriate HR practices.

Global convergence effect

Knowledge today flows easily from one region of the globe to another. International companies compare themselves with others with international experience and model their practices on these. Diffusion of technology and management practices means that national effects become less important than the globalization effect.

The debate about whether management practices around the world, including HR practices, are converging or diverging is not new. Different forces or "effects" exist simultaneously and will continue to do so in the years ahead. While scholars may continue to debate which is more important, companies like Berlin-based Rocket Internet are built on the capability of exploiting all five forces. Rocket International is a tech incubator firm founded in 2007 that launches and grows tech companies at astonishing speed—with 2015 revenues of $5 billion across 110 countries and 35,000 employees. With a culture of sharing knowledge, it spots successful Internet business and replicates them in new markets, often in emerging countries.

IMPLEMENTING LOCALIZATION

As discussed in Chapter 1, companies typically internationalize by sending key people abroad—through expatriates. To be locally responsive, HR practices need to be appropriately adapted to local conditions, but this is not sufficient. Responsiveness typically goes hand in hand with localizing management—how top positions are staffed in overseas units and also the influence of local managers on key decisions.

Our concept of localization goes beyond staffing and retention, equating it with the degree of local responsibility for decision-making. A subsidiary may have only one expatriate, but if that individual takes all decisions of importance, the subsidiary's degree of localization will be low. This will also be the case if a local general manager has to check out every decision with corporate headquarters. On the other hand, a high degree of localization is not synonymous with complete subsidiary autonomy. A high degree of localization simply implies that the local subsidiary managers are responsible for their decisions and live with the consequences of their actions.

Although local responsiveness does not always imply localization—experienced international managers can often be effective representatives of the local voice toward the corporate center; local responsiveness through expatriates is difficult to sustain in the long term. The difficulties facing eBay in China were partly associated with the fact that the company was not able to retain talented Chinese managers. Note that Alibaba recruited a top US executive, a Treasury chief of staff, onto its senior management team to help steer its entry into the US market. Rather than do what observers had expected, taking on Amazon and eBay head-on in their home market, Alibaba's US strategy is to help smaller American businesses to enter and sell in the Chinese market.

Attracting and Developing Local Managers

One key aspect of localization is systematic investment in the recruitment, development, and retention of local employees who can take over the running of local operations. Unilever provides one of the earliest documented examples of this policy in action. Sensitive to the national aspirations of newly independent countries, the company started to replace expatriates with indigenous managers. Known internally as the "ization" policy, it started in the 1930s and 1940s with "Indianization" and "Africanization" of local subsidiaries.[70]

Since then, localization has become part of the corporate mantra for multinational enterprises around the world. Local employees nearly always have a better understanding of the vernacular—the cultural, institutional, and business environment in which the company operates—and they are usually better at managing a local workforce. Localization helps foreign multinationals penetrate the network of personal and business contacts needed to build and consolidate a presence in the country.

Authorities often evaluate foreign firms by their degree of localization, while the media, politicians, and trade union officials also tend to stress the importance of local talent development. Some governments—for example, most of the Gulf states—impose quotas, restrict work permits, or impose fiscal controls on expatriate salaries. Therefore most companies with a long-term commitment to a particular local market will see localization as a necessary step to gain social acceptance and avoid a colonial or ethnocentric image.

Employee commitment and motivation are also influenced by the degree of localization. Unless senior managers can convince local employees that they understand and honestly represent local interests to headquarters so that local employee concerns are given due consideration, they may have difficulty eliciting commitment. Employee commitment is also likely to suffer if decision-making is centralized at corporate headquarters. This was demonstrated in the negative reactions of local managers toward the way eBay integrated the newly acquired EachNet and transferred decision-making authority for many areas to its US headquarters.

Opportunities for growth and advancement are important concerns for local employees—and dissatisfaction with those opportunities is one of the most frequently cited reasons for turnover. Heavy reliance on expatriates is often perceived as blocking promotional avenues for local managers and a sign of the company's lack of trust in them. In contrast, the presence of influential local executives in a subsidiary supplies role models for younger employees and improves recruitment and retention.

Two interrelated problems continue systematically to plague corporate efforts to localize. First, because of high demand and limited supply, competent local managers are often hard to find. Second, once found, they may be hard to retain. These two problems sometimes create a "catch-22" dilemma. If good local managers are going to leave us in any case, why bother to invest time and money in developing them?

Building Local Management

While there are no silver bullets to solve these problems, there are initiatives that many companies can implement, starting with a focus on the attraction and development of local talent (this is discussed further in Chapters 6–8).

1. **Establish a visible presence** In many emerging markets, there may be a genuine scarcity of talent with specific functional or managerial competences, while competition in the labor market is keen. The challenge even for well-known international firms is that they do not enjoy the reputational advantage over their peers that they may have at home.
2. **Adjust selection criteria** Developing a generic set of recruiting criteria is often difficult. For example, we will see in Chapter 8 how KONE, a global elevator company based in Finland, was obliged to modify its global criteria for evaluating potential when facing rapid expansion in China. Selecting on "competencies" may not work in emerging markets. Instead, recruiters may look for candidates with above all the right attitude since functional skills can be developed through on-the-job and off-the-job training.
3. **Sell careers, not just jobs** When talking to prospective recruits, the company should communicate its localization objectives and connect those plans to the career prospects of local managers. When Schlumberger recruits engineers in Russia, they know that they have the same career prospects as those recruited in France or the US and that the performance criteria are the same. A reputation for thorough training and skill development can enhance the outcome of the recruitment efforts.

Because of the difficulties of attracting and retaining experienced managers, some companies choose to "grow their own timber." They take on young recruits, placing more emphasis on their future potential than on their current professional or technical skills. This entails large investments in their training and coaching as well as in international assignments. It may even involve building local training institutions, as many multinational firms have done in China.

Recruiting locals who have graduated abroad is another popular strategy to address the talent gap. However, in some emerging markets such as China, tensions between locals and "pseudo-locals"—returnees with freshly minted foreign MBAs commanding salaries well above market rates—produce the same resentment that used to be provoked by the lavish packages granted to expatriates.

In mature markets, attracting talent is more likely to be a problem of accessing the appropriate labor pool. For example, the number of top-class Japanese managers who can be lured from local corporations to foreign firms is still relatively small (though growing). Many headhunters who service multinationals in Japan find it difficult to spot or access high performers in local firms and therefore limit themselves to searching among executives already in the *gaishikei* (foreign-affiliate) world.

Retaining Local Talent

A disproportionate number of local managers trained to take over expatriate positions never actually fill those posts or only do so briefly. The terms and conditions after training may not measure up to what the external market offers to ambitious and well-trained individuals.[71] While the company expects a return on its training investment, competitors poach the most talented individuals.

Given the length of time that is often needed to develop qualified local managers, which may include investing in basic education that the local system has not provided, retention can be a real challenge. Some multinational firms are obliged to hire at least two local trainees for each former expatriate position.[72] Inevitably, this drives up costs and can create a temporary surplus of skilled managers, allowing rival firms to benefit from the company's development efforts. US automobile companies and German carmakers with US manufacturing sites systematically raid Japanese transplants to capture local talent, weakening the latter's ability to localize. On the other hand, that may be a price worth paying if the company is still able to attract and retain the very best.

Inevitably, compensation features prominently among the mechanisms to retain local talent. Paying above market rates is typical, but market rates are less than transparent in emerging countries. This partly explains the curious fact that the vast majority of companies claim to pay in the top market quartile. However, cash is only one part of the compensation package. Today, retention bonuses, stock options, and restricted shares are just as common in Shanghai as in New York, if not more so. Some companies have introduced even more comprehensive packages, including private health programs, interest free loans, or housing assistance.

As a result, salary costs for capable local staff are high around the world. The lament of a general manager of a Japanese bank in London 15 years ago, as he struggled to retain qualified specialists wooed by European and US institutions in the City—"for us localization is no longer a cheap alternative"[73]—can be heard today nearly in any location where multinationals have a significant presence.

An attractive compensation package is necessary but not enough; there are always other companies that can offer more.[74] The decisive factors may have more to do with career development and involvement in decision-making. The multinational firm has to be prepared to develop and promote talented people more rapidly than it traditionally does at home and to support them with the necessary training and coaching. Mapping the career paths of high potential local candidates is an important signal of the company's commitment to them.[75] Social climate may also be important. Company atmosphere, friendship ties, and social activities, combined with the promise of a stable future in a firm with high local growth prospects, have been observed to be decisive factors in local employee retention.[76]

Localization Starts at the Head Office

Localization is unlikely to be successful if it is only a faddish whim of transient expatriate general managers or regional directors. Systematic recruitment and development of local managers requires a long-term organization-wide effort that transcends the good intentions of individual managers, and this means durable corporate commitment from the top. While the positive or negative outcomes of localization efforts are most visible within the subsidiary operations involved, the core of the problem may actually be far away in the corporate center.

The fundamental bottleneck of localization is often the capacity of corporate headquarters to interact effectively with locally hired executives. For example, in last 20 years we have observed several Japanese multinationals that aggressively recruited capable local staff, recognizing correctly that the weakness of local management was an obstacle to faster global growth. However, within a relatively short period the newly appointed local managers left in frustration because they could not get the job done. What was going on?

Historically, the international growth of Japanese multinationals was coordinated through an informal network of Japanese executives, carefully orchestrated from the center that controlled the critical resources. Although nominally in positions of substantial authority, the newly hired local executives were simply not able to secure the resources necessary to drive the local business forward. They did not have the personal connections or even the language ability to communicate with the head office, which was generally staffed by managers without much, if any, international experience. Only when more global-savvy executives replaced these headquarters managers, as for instance happened at Matsushita during the early 2000s, did localization efforts begin to show results.

Companies that fail to take localization seriously right from the start can find themselves caught up in a fruitless process of serial localization. If, for whatever reason, the newly appointed local managers cannot do the job after the expatriates pull out, the subsidiary's performance will inevitably decline. Then expensive troubleshooters from the outside are sent in to fix the problems, followed by a second wave of managers with a new mandate to localize. The efforts have to start again from scratch but by this time in an atmosphere of increased cynicism locally about the company's commitment (or ability) to get it done.

Similarly, when turnover of local managers is high, companies often become reluctant to invest enough in developing local employees, preferring instead expatriates with a proven commitment to the company; this merely confirms suspicions of a glass ceiling for locals. Expatriate-heavy structures restrict career opportunities for local managers, making it even harder to attract or retain local talent. If this continues through several rounds, the morale and motivation of local employees is bound to suffer.

Building a capable local management team does not happen overnight. It needs preparation.[77] Although the corporate or regional HR function is usually in charge of developing plans for the localization of management, most of the day-to-day responsibility for successful localization rests with expatriates in senior management positions *within the subsidiary*. This means paying as much attention to the role of the expatriates as to the locals, as it is expatriates who ultimately carry out the localization strategy. When assigning this responsibility to expatriates, three areas require close attention: (1) the link to expatriate selection, (2) mandate and timing, and (3) measurements and rewards. These challenges are discussed further in Chapter 9 on steering global mobility.

Localization is important, but anything taken to an extreme can create a pathology. Excessive localization can lead to empire-building and ultimately loss of control by the head office. Put simply, if everyone is local, who is global? Indeed, localization should be viewed as a step on the journey toward transnational management development and not as an end in itself. On the contrary, when the corporation is so local around the world that opportunities for horizontal cross-border mobility are limited, it becomes difficult to develop managers with broad global experience.

THE LIMITS OF RESPONSIVENESS

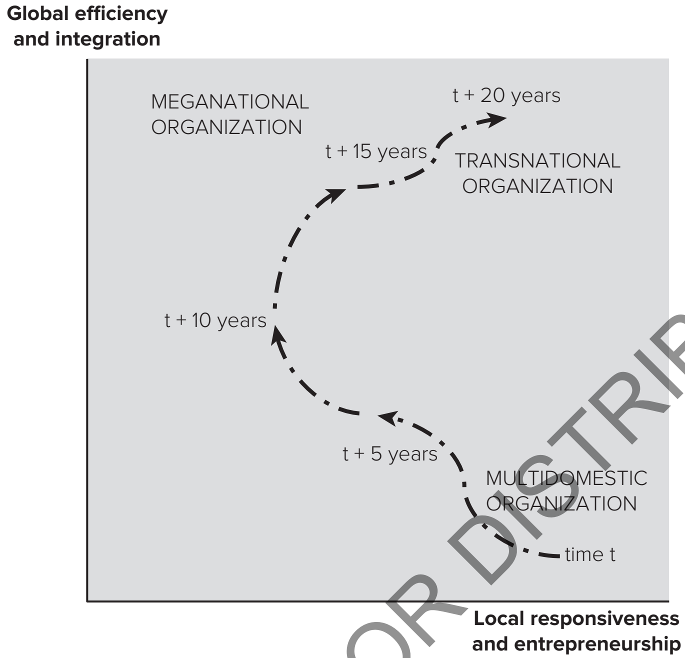
We started this chapter by describing eBay's problems in Asia, attributing them largely to a failure to respond to local circumstances. However, a local responsiveness strategy also has its limits. Indeed, when localization of staff is combined with a decentralized federal structure, it can lead to local fiefdoms and inhibit collaboration. This often results in lost opportunities for the multinational to share best practices and learn across units. It can generate other inefficiencies as well, such as duplication of effort (reinventing the wheel) and resistance to external ideas—the "handmaidens of decentralization," as they have been dubbed.[78]

Just as firms following a meganational strategy (discussed in the next chapter) may fail by blindly applying home strategies and practices to the new environment, so may the multidomestic firm fail by focusing too closely on its local playing field. The ultra-responsive firm may be unable to leverage globally derived knowledge and to lower its costs through global economies of scale. The road to exploiting global economies of scale while trying to maintain local responsiveness—going from a multidomestic to a transnational organization—is a tortuous path involving swings of the pendulum between decentralization and centralization, as perceived by employees.

The Spiral Path to Transnational Organization

Although there is little research on the topic, our experience is that the route from multidomestic to transnational organization, capturing global economies of scale and scope while retaining local responsiveness, is a spiraling and rocky road that typically takes at least ten years.[79] Why does it take so long? Formal structures may change quickly, but changing processes takes more time, and even longer to change the skill sets of key people and mindsets. The route is tortuous, with what managers perceive as swings between global and local.

FIGURE 2-2
Hypothesized Change Path as a Multidomestic Organization Moves to Transnational



Spiraling paths lead to swings in the pendulum. The route is not a linear path from multidomestic to transnational but a spiral path as shown in Figure 2-2.[80] The multidomestic company needs global integration to ward off low-cost rivals; small-scale manufacturing or engineering facilities around the world need to be consolidated, also to speed up responsiveness to technology change; processes need to be standardized to lower costs and avoid duplication. Easy to spell out on paper, but the process of implementation is difficult.

The managers of the most successful units resist what they see as a loss of autonomy and a dangerous swing to centralized bureaucracy, led by home country executives who have little understanding of the local business. These local managers may at best understand with their heads the need for change, but emotionally they feel less commitment. So they proceed with implementation at a snail's pace.

This creates the swings of the pendulum. Parent company executives get frustrated with the slow progress of integration and global cost reduction, resorting to heavy guns and confirming the fears of local managers. The rumor mill spreads nightmare stories from other companies about the problems of introducing global IT systems and of frustrating customers. These get cited as a reason for putting off collaboration on the new global IT system (which would indeed cut out most local IT departments). When under pressure, people prefer to exploit the processes they know well rather than venture into the uncertainty of developing new ones. Some of the best local entrepreneurs leave. New local executives may be recruited, but it takes them time to understand the business.

Changes in managerial roles There are also significant changes in managerial roles as the firm moves from multidomestic to transnational. In a multidomestic organization a key role is that of the country manager, who often has full general management responsibility within the bounds of targets and a strategy negotiated with headquarters. However, the country manager's role changes with transnational development.[81] The general management responsibility disappears, and it is replaced by more complex coordination demands that require sophisticated leadership skills rather than simply the ability to exercise authority. This is often experienced as a demotion from general manager to a local functional role, for example as head of sales, or to an ambiguous role as country "host" manager.

In the multidomestic firm, the career structure for local managers is relatively straightforward; people become a bigger king or queen as they move up. But the leadership career structure in transnational firms involves significant transitions, as we will see in Chapter 8; the role of a country or regional manager requires quite different skills from those of a local business unit manager. For example, new competencies are needed in coordinating without authority and in structuring important but ambiguous strategic tasks.

Some corporations believe that you cannot teach old country managers new tricks, and the more successful they are, the more likely they are to resist—so new people must be brought in. The evidence is not clear. We remember a discussion with an Asian country manager in a multinational corporation that was trying to build more global integration. This change meant that his role had shifted from being the P&L boss to becoming in effect a local sales and marketing manager. Our man experienced the change as a demeaning demotion rather than an opportunity to develop new coordination and leadership skills. "Is this change permanent?" he asked. "Or is it just one of those temporary organizational fads that will blow away?" Having been convinced that the change was real and permanent, he became one of a small minority of Asians in the firm who set out to adapt and develop new skills. Five years later, he was promoted to corporate vice president, heading up all front-end marketing operations across Southeast Asia.

The inpatriation of local managers to the regional or global headquarters is another big step toward transnational organization. To ensure international mobility, Unilever has long had a policy of reserving at least one slot on all management teams in both emerging and developed countries for an expatriate—a European in Asia and an Asian or Latin American in Europe. Traditionally, the risk of local empire building is attenuated at 3M by an informal rule that executives cannot become managing directors in their own country. Promising local managers are appointed as heads of subsidiaries in other countries. This reduces the danger of indigenous managers becoming fixtures for several decades and clogging the career pipeline, and it ensures that local stars gain international exposure.

Regionalization On this spiral path, it is often most practical to find economies of scale first at a regional level, grouping small units into larger units (or regions) so as to improve coordination.[82] The regional headquarters usually assume two roles, *strategy development and implementation* and *providing common administrative services*.[83] In the HR arena, the regional staff often assumes responsibility for leadership development.

It has been argued that the world's major corporations are in fact regionally oriented rather than global in their scope.[84] Competition takes place principally within these regions rather than across the globe. Some suggest that the concept of "transnational" only applies to a small percentage of firms, the vast proportion of multinationals being predominately focused on a region or even a country.

Local Responsiveness Does Not Necessarily Mean Playing by Local Rules

One somewhat paradoxical outcome of successful localization is the recognition that local responsiveness does not always mean playing by local rules. Indeed one of the benefits of localization is that indigenous managers have a better sense of which local rules they can break. Local managers have a better sense of *intracultural* variation—tolerance for differences within a nation. They also tend to have a better awareness of the strengths of cultural values and norms, and the likely effects of breaking them. They also know how flexible national and local institutional structures are.

The transnational ideal is local managers who have been exposed to global methods and practices through their networks and time spent in lead countries, perhaps working with expatriates who are in the local subsidiary to gain international experience. Rather than embracing the local way, they can redefine the boundaries of what is considered "local"—showing smart disrespect. Finding ways to operate that neither mimic local firms nor copy the way multinational corporations do things in other parts of the world may be the seed of innovations that can subsequently benefit the corporation as a whole.

TAKEAWAYS

1. Local responsiveness helps the firm overcome the disadvantages of being an outsider in a country or market with distinctive needs. With increased globalization, local responsiveness is valuable as a source of innovation and competitive differentiation.
2. HR practices are more sensitive to local context than finance, marketing, and other organizational routines. Within HRM, some practices are more sensitive to context than others.
3. The fact that cultural values influence HR practices does not necessarily mean that companies have to adapt to local cultures. There are wide variances in values within any nation, and a number of local employees may indeed find practices that deviate from those of local firms to be attractive.
4. The HR practices of multinationals are shaped by their home country institutional context, and these practices may need adjustment when firms operate in different environments.
5. In many emerging markets, multinationals have to deal with institutional voids—the absence of an institutional infrastructure that supplies firms with qualified personnel and provides a structure for dealing with people-related issues.
6. Networking is important for learning how to adjust and solve local problems, as well as to be aware of emerging trends. Managers skilled in building wide networks can use them to guide how to adapt abroad.

7. Localization means local influence on decision-making, with local managers playing key roles while drawing on inputs from expatriates as well as headquarters and other subsidiaries.
8. Localization of management requires a long-term strategy with commitment at all levels, especially among expatriates, to the development of local successors.
9. The route from a multidomestic to a transnational organization is typically a spiral path that involves swings of the pendulum between decentralization and centralization. Regional organization is often set to mediate the tension.
10. Local responsiveness does not necessarily imply playing by local rules though it does require knowing which rules can be broken, and how. Excessive local responsiveness tends to inhibit collaboration across boundaries, and may be as harmful to performance as excessive centralization.

NOTES

1 "eBay Marketplace Facts", June 30, 2008; Corporate Factsheet, *www.ebay.com.*
2 The caselet builds partly on the IMD teaching case series "Alibaba vs. eBay," IMD-3-1842 to IMD-3-1844, 2007.
3 "How Yahoo! Japan beat eBay at its own game," *Business Week*, June 4, 2001.
4 "An upstart takes on mighty eBay," *Fortune*, November 15, 2004.
5 Jack Ma's speech can be found in the 2012 film *Crocodile in the Yangtze*.
6 "The Taobao offensive," *Red Herring*, June 27, 2005.
7 "eBay's Tom Online deal: Timely lessons for global online company managers," *China Knowledge Wharton*, February 14, 2007.
8 Ibid.
9 Ibid.
10 *Reuters*, 2014. "Alibaba in major initiative to court Chinese consumer for U.S. retailers", www.reuters.com
11 Zaheer, 1995.
12 Friedmann, 2007.
13 As Coca-Cola's new CEO noted in 2000, "In every community, we must remember we do not do business in markets, we do business in societies... [This means making] sure that we stay out of the way of our local people and let them do their jobs" (Daft, D., "Back to Classic Coke," *Financial Times*, March 27, 2000, p. 16). But the company swung the pendulum too far from the global to the local, and then back again, and has been struggling in recent years to get the balance right.
14 One framework of note conceptualizes the "local" in terms of distance from the home country of the multinational. In Ghemawat's CAGE framework, there are four dimensions to distance—cultural, administrative (what we call institutional), geographic, and economic. See Ghemawat (2007).
15 Rangan and Drummond, 2004.
16 Barkema, Bell, and Pennings, 1996.
17 This happened to Shell, which had strong links with the regime of the former Nigerian military leader, General Sani Abacha. Consumers around the world perceived Shell as colluding with a corrupt government, compromising its corporate image.
18 Google has for many years removed links to pro-Nazi Web sites in Germany.
19 Google executives were called into Congressional hearings to defend their actions and many commentators on social media were highly critical of Google. See Thompson, C., "Google's China problems (and China's Google problems)," *New York Times*, April 23, 2006.
20 Rosenzweig and Nohria, 1994; Gooderham, Nordhaug, and Ringdal, 1999; Mayrhofer and Brewster, 2012.

21 Lu and Björkman, 1997. A study on multinationals in Greece reported similar findings (Myloni, Harzing, and Mirza, 2004).
22 Rosenzweig and Nohria, 1994; Goodall and Warner, 1997.
23 Hall and Hall, 1990.
24 In his influential model of culture, Schein (1985) proposes that there are three levels of culture: (1) basic assumptions, (2) values, and (3) surface manifestations, such as artifacts and behavior. Most research on national culture has focused on the values held by individuals in the country in question. However, there are a large number of definitions and conceptualizations of culture, a review of which is beyond the scope of this book.
25 Hofstede, 1991 and 2001.
26 See, for example, the debate in *Journal of International Business Studies*, 2006, issue no. 6.
27 Laurent, 1983; Gerhart and Fang, 2005.
28 See Trompenaars, 1993; Hampden-Turner and Trompenaars, 2000. The work of Trompenaars was strongly influenced by the dilemma (duality) concept of Hampden-Turner.
29 For critical reviews of the GLOBE study, see several articles in *Journal of International Business Studies*, 2006, issue no. 6.
30 House *et al*., 2004.
31 See Meyer (2014) for an interesting and practical culture map, assimilating and building on the work of Hofstede, Trompenaars, and GLOBE. It is built around eight dimensions of culture such as communicating, evaluating, and disagreeing.
32 Hofstede, 1980 and 2001.
33 Schneider, 1988; Schneider and Barsoux, 2003.
34 Ulrich, Zenger, and Smallwood, 1999, p. 171.
35 Guest, 1990.
36 See Holden, Michailova, and Tietze (2015) for articles.
37 Gerhart and Fang, 2005.
38 See Beugelsdijk *et al*. (2015).
39 Stahl, Björkman, *et al*., 2007.
40 See Meyer (2014).
41 Hofstede, 1991.
42 Brewster and Wood, 2012.
43 Wood *et* al., 2012; Wood, Brewster, and Brookes, 2014.
44 Institutional environments are subject to change, and the business community in France has long been lobbying for less restrictive employment practices. Some reforms were launched, but the gap with countries on the top of the list remains wide.
45 Redding, 2001; Whitley, 1992 and 1999; Orrù, 1997. These configurations are also known as "business systems," "industrial orders," or "varieties of capitalism." See Morgan (2007); Wood *et al*. (2012); and Wood, Brewster, and Brookes (2014) for reviews.
46 Koen, 2004.
47 Cho and Pucik, 2005.
48 Khanna and Palepu, 2006 and 2010.
49 Kwan and Siow, 2013.
50 "Unions triumphant at Wal-Mart in China," *International Herald Tribune*, October 13, 2006.
51 "Pfizer to slash Japan costs without job cuts," *Boston.com News*, May 29, 2006.
52 Stiglitz, 2006.
53 Pudelko and Harzing (2007) show that the HR practices in the foreign subsidiaries of German and Japanese multinationals have converged toward dominant US practices.
54 Ferner and Quintanilla, 1998.
55 Ibid., 1998.
56 Rosenzweig and Nohria, 1994; Kostova and Roth, 2002.
57 The consequent importance of negotiation and influence skills for international human resource managers is discussed in Chapter 14.
58 Maria Arias, personal communication.
59 Burt, 1987.
60 Hauschild, 1993; Westphal *et al*., 1997.
61 Fey *et al*., 1999. See also Child and Yan (1998) and Björkman and Lu (1999) who observed the same in joint ventures in China.
62 Björkman *et al*., 2008; Sumelius, Björkman, and Smale, 2008. See also Braun and Warner (2002).
63 Micklethwait and Woolridge, 1996; Abrahamson and Fairchild, 1999.

64 Abrahamson and Fairchild, 1999; Abrahamson and Eisenman, 2008.
65 Kantor, J. and D. Streitfield, "Inside Amazon: Wrestling big ideas in a bruising workplace," *New York Times*, August 15, 2015.
66 Zbaracki, 1998.
67 See Dyer, Gregersen, and Christensen (2008). Among the 25 entrepreneurs they interviewed were Lazeridis, the founder of Research in Motion, David Neeleman of JetBlue, and P&G's AG Laffley. These innovative executives networked externally more widely than their peers, and their innovative ideas typically came from such networks. The same was true for 3,000 surveyed executives, and this has been found to be true for lower-level employees (Morris, Zhong, and Mäkhijä, 2015).
68 Ferner and Quintanilla (1998) discuss four of these; we have added the influence of other international firms in the local context.
69 Loveridge, 1990.
70 Kuin, 1972.
71 Cohen, 1992.
72 Wong and Law, 1999.
73 Terazono, E. "Japanese Banks' Local Feel," *Financial Times*, January 29, 1997.
74 Compensation is discussed in Chapter 7.
75 Wong and Law, 1999.
76 Fey, Engström, and Björkman, 1999.
77 Two separate studies of localization of management in foreign multinationals in China found that the effort spent planning the localization process was positively associated with its outcome (Fryxell, Butler, and Choi, 2004; Law, Wong, and Wang, 2004).
78 Bartlett and Ghoshal, 1989.
79 An exception is the small number of firms, typically in high technology sectors, that are multinational from the time of their origins. See also the "metanational" concept developed by Doz, Santos, and Williamson (2001).
80 Ghoshal and Barlett (1998, 2000) described this pattern of change in multinationals. The *spiral model of change* has been also examined by Mintzberg and Westley (1992), Hampden-Turner (1990a), Brown and Eisenhardt (1998), and Lewis (2000). It can be contrasted with two other models of organizational change. The first is an *evolutionary model* seen in the school of organizational or population ecology (Hannan and Freeman, 1989), which builds on Weick's influential Darwinian model of change processes: variation-selection-retention (Weick, 1979). See also Kimberly and Bouchikhi (1995). By contrast, the Organizational Development movement was built on *transformational assumptions about change* elaborated in the punctuated equilibrium view of change (Tushman, Newman, and Romanelli, 1986). See Pettigrew (2000) for a commentary.
81 See Birkinshaw and Hood (1998) and related research by Birkinshaw.
82 Ghemawat (2007) calls this aggregation.
83 Lasserre and Schütte, 2006; Lasserre, 1996.
84 Rugman and Verbeke, 2004 and 2008.